INNOVATION IS THE ANSWER

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1 Federal Reserve Statistical Release, Large Commercial Banks, as of Sept. 30, 2017

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FEATURES

COVER STORY
18 INNOVATION IS THE ANSWER
Clayton Christensen's most powerful insight yet may also be his simplest: To find the biggest opportunities in the world, seek out the world's biggest problems. An exclusive interview.
By Dan Bigman and Wayne Cooper

SPECIAL REPORT: TALENT IN 2019
30 WORKING THE PROBLEM
Need great people? (And who doesn't?) We reached out to CEOs across the nation and found 20 off-the-beaten-path ideas—from hiring felons to doing instant interviews—to help you get the talent you want in 2019.
By Dale Buss

38 CEO OUTLOOK 2019
We debriefed CEOs grappling with the threat of disruption and a dearth of ready talent about their strategies for 2019. Here's what they had to say.
By Dale Buss

48 THE BATTLE FOR THE SOUL OF WORK
Silicon Valley disrupted the idea of what a great American company should be. It's time to reassess.
By Dan Lyons

54 LEARN IN
How smart companies approach continuous education.
By Russ Banham

TOOLBOX
62 TECH WITHOUT TEARS
Looking to speed up your firm's technology metabolism but scared of a pricey acquisition? Here are a few good alternatives.
By Russ Banham

COVER PHOTO BY DANA SMITH
EDITOR'S NOTE
The Facebook Flaw

LEADERS
9 Humor Your Board
Patrick Lencioni on CEO-Board Relations

10 Law Brief
Anything Goes AGs

12 Crash Course
Divide and Conquer

14 Black Swans
Scandal Inc.

16 On Leadership
Voices, Choices

REGIONAL REPORT
The Southwest
With its urban areas on the upswing, the nation's southwestern corner is alluring for the tech and financial sectors.
By Craig Guillot

LAST WORD
The AARs have It
The U.S. Army's most powerful weapon? Its ability to learn from mistakes. Here's how they do it, and how your organization can, too.
Dr. Robert Ivey
When discussing confidential board matters, security matters.

Jim Thompson

1:22 PM

Can you send me our Q4 projections?

1:22 PM

Here you go, just remember this is still confidential.

Q4_Projections.xlsx

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CEO OUTLOOK SLUMPS INTO 2019

Insights from the Chief Executive Group’s CEO Confidence Index, a widely followed monthly poll of CEOs and discussion topics from the Chief Executive Network (CEN), our nationwide membership organization that helps C-Suite executives improve their effectiveness and gain competitive advantage (ChiefExecutiveNetwork.com).

Highlights From Our Research

- Our preliminary December reading of CEO confidence in business conditions 12 months out continued its downward trend, ending the year with a rating of 6.6 out of 10.
- This is 14 percent lower than where the index was at the start of 2018—and the lowest it has been since October 2016 on the eve of the presidential election.
- Confidence in current conditions was 7.5/10 in December, down 6 percent from the beginning of 2018.
- CEOs say a cooling economy, rising interest rates and uncertainty related to trade with China are the primary reasons for the increased concern.
- The proportion of CEOs who anticipate increasing capex over the coming 12 months was 51 percent in December compared to 68 percent just one month prior. This number is the lowest it has been all year. Some 60 percent of CEOs still say they plan to add to their workforce in 2019, compared to 54 percent last month.
- Among CEOs surveyed, 80 percent continue to expect an increase in revenues (vs 76 percent in November) and 71 percent expect an increase in profits (vs 72 percent in November).

CEOs’ outlook for business conditions over the next 12 months, rated on a one-to-10 scale.

Top CEN Discussion Topics During the Last 90 Days

CEOs in the Network chose these topics for discussion most often:

- More effectively executing my strategic plan. What major factors should be considered/planning for going forward?
- 1-3 year economic forecast. Will we see a slowdown in the near future, and what can we do to minimize the impact of that to our business?
- Preparing workforce for the future. Automation, technological, human and machine collaboration etc.
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THE FACEBOOK FLAW

IF THERE’S ONE TAKEAWAY FROM THE RECENT NEWS ABOUT Facebook that pretty much everyone should be able to agree on, it’s this: A CEO having imperial control over a public company is a terrible idea.

Not just for investors, the board, employees or customers—but for the CEO themselves.

Through Facebook’s dual-class share structure, Mark Zuckerberg controls the company with unassailable 60 percent authority. Shares can go up, shares can go down (and down and down) but there is nothing and no one that can override him. It should have been a concern since before the 2012 IPO, but a moonshot stock price and cries of “change the world” have a way of slathering over cracks in a foundation.

Business, when played best, is a team sport. No one—not even someone smart enough to start Facebook—is smart enough to see around all the twists and turns that come from running an enterprise of such sheer complexity, scale and centrality to society. The world’s best-run companies—not the fastest-growing companies—but those that are built to outlast any one leader, have lots of guardrails and plenty of accountability.

Not Facebook. What Zuckerberg says goes—right into the grave. That’s right: He can even name a successor to take control of the company in case of his death (Don’t believe me? See pages 20-21 of Facebook’s S1.)

So what happens when Zuckerberg gets it wrong? We’re getting a pretty good idea right now, after Zuckerberg and his right-hand, Sheryl Sandberg, stuck to their flawed assumptions about the business and botched a series of key strategic and tactical decisions as a result. Along the way, they brushed aside the views of others—from their board and members of their executive team—who might have helped. To paraphrase their now-famous mantra, they moved fast, and things got broken.

CEOs making mistakes are pretty common, of course. They’re human. But in Menlo Park, California, center of the global-social-media-industrial complex, there’s a difference: A) The stakes for society are enormous; and B) There’s nothing anyone can do about it.

Maybe activists will bang their pots and pans, ISS will give the company a thumbs down and a divided Congress will make threats and call a hell of an entertaining hearing (or worse: they could actually try their hand at regulating—a scary thought). But at the end of the day, the only one who matters, the only vote that counts, is Zuckerberg’s.

Facebook has always been a pure-play bet on one brilliant Harvard dropout and his vision of connecting the world’s people in exchange for permission to mine and monetize their intimate personal information. Investors, customers, lawmakers and employees were good with that as long as the profits were popping, the cat pics were posting (without eroding global democracy too much) and the options remained in the money.

And now? Like everything else at Facebook, that depends on Zuckerberg, and Zuckerberg alone. He deserved better. —Dan Bigman, Editor
CEO 1000
THE LIFE CYCLE OF THE CEO
MANAGING THE ENTRY PHASE EFFECTIVELY
BY GREGORY JANICK, PARTNER, PRACTICE LEADER, LEADING TRANSFORMATIONAL CHANGE, RHR INTERNATIONAL

This is the third in a series addressing the imperatives and challenges CEOs face through the entire spectrum of the role—from preparation for the job to exit.

CEO SUCCESSION GETS THE HEADLINES. Identifying and placing the “right” executive in the role brings optimism, and is often reflected in the stock price of publicly traded companies. But the real success of the CEO succession process is not just contingent on identifying the best candidate to shepherd the company going forward. Success depends on handling the transition and integration into the role effectively. There are a number of challenges that must be met to accelerate the integration of new CEOs and allow them to thrive early on. Here’s a look at the key issues, and some strategies for tackling them:

Board-CEO Partnership. Clarity on performance objectives helps to make an explicit connection between critical issues and the new CEO’s focus. Prior to Day 1, the board and CEO should agree on what good looks like in terms of performance and translate that agreement into specific performance objectives and agree on how they will monitor and track progress against objectives. Alignment and clarity on objectives help set up an effective board-CEO partnership and allow for more open and constructive strategic discussions in the boardroom.

Revising Strategy. Most CEOs want the autonomy to react and make decisions as needed, and don’t want unnecessary interference from the board. The board’s fiduciary duty is implicitly tied to strategy, and boards no longer want to be merely a rubber stamp to strategic decisions. Alleviate unwanted churn between board meetings by being explicit about strategic decision rights with the new CEO. Identifying the handful of topics that need proper board discussion before decisions are made helps a new CEO understand what issues to bring to board meetings—and what they can handle alone.

Senior Team Performance and Strategic Execution. Team members passed over for the CEO role or loyal to the outgoing CEO may not be on board with the new CEO’s leadership and direction. Senior team members energized by the new CEO and support the shift in direction may not have the skills or capabilities required for success. In both situations, the sooner the new CEO builds an aligned, high-performing team, the better off the organization will be.

A new CEO must also shape the operating culture appropriately to accelerate adoption, coordination, and performance. Defining new ways of thinking, behaving and working together by examining the strengths and gaps of how work gets done (the operating culture) can facilitate strategic execution.

Early Wins. A new CEO has the added pressure of meeting expectations of investors and analysts. Although a shift in strategy may be the appropriate move long term, any dips in short-term performance are likely to be magnified. It is important for a new CEO to achieve some quick wins that signal the revised strategy is working or that progress is being made on the most critical issues identified by the board. The board can help in this regard by understanding what drives investor confidence. Specifically, the “early wins” that investors look for are subtle in nature: Does the new CEO have a grasp of the company’s challenges and opportunities? Is there a clear vision and strategic plan? Coaching the CEO to find different ways to communicate this information to the street can ease the external pressure and strengthen the partnership that forms between board and CEO during the transition.

CEO transitions can be fraught with unexpected challenges and pitfalls. Setting the new CEO up for success can be the difference in the first year’s performance. Positive momentum in the first year in terms of company performance is likely to reinforce support for bigger or broader changes that may be needed in the future. The message is clear: CEO succession is much more than finding the “right” leader—supporting an effective integration of the new CEO is equally important.
HUMOR YOUR BOARD

Want a healthy relationship with your directors? Stop trying to please them, says Patrick Lencioni, and ‘humor them’ instead. Here’s what he means, and why it works.

BY DAN BIGMAN

YOU KNOW THE STORY. Wunderkind 20-something Stanford dropout Elizabeth Holmes comes up with a napkin sketch for tech to revolutionize blood testing. Her very Valley goal: Total disruption of the healthcare industry. With the aid of an all-star board that included Donald Lucas, the VC who mentored Larry Ellison and helped take Oracle public, as well as Channing Robertson, the star of Stanford’s prestigious School of Engineering, she drums up tens of millions from investors.

But instead of changing the world, her high-flying technology company Theranos drowns in a toxic stew of fudged data, attacks on whistleblowers and tech that just doesn’t pan out as hyped. Investors in the privately held company lose everything. She’s charged with fraud. Cue the usual cries of “Where was the board?”—which included former secretaries of state George Schultz and Henry Kissinger, attorney David Boies, former Wells Fargo Chairman and CEO Richard Kovacevich and now-U.S. Defense Secretary James Mattis.

While it’s hard to top the Theranos board for pathetic performance, they aren’t the only ones facing questions about their oversight lately. From Elon Musk to “Papa” John Schnatter to Les Moonves, Travis Kalanick and so on, it’s a mean season of CEO self destruction and board dysfunction. The sheer squishiness of board-CEO relations—a morass of personality, ethics, ego and so on—can make it one of the most fraught relationships in business. It’s also, perhaps, the most important one for the success of any company.
That’s why we figured it was worth recapping part of our conversation with Patrick Lencioni that didn’t make it into our recent cover story. For more than 25 years, Lencioni has been one of corporate America’s go-to thinkers on teams and leadership. From his groundbreaking *The Five Dysfunctions of a Team* to his latest work, *The Advantage*, Lencioni has long written that it’s the usual grab-bag of human faults and frailties—greed, fear, insecurity, ego—that make or break leadership teams and companies. And that absolutely includes CEOs and their boards.

“Your job is to listen to what your board is saying, filter out what’s important and to—I say this because it’s kind of controversial—almost humor them at times because what they really want you to do is make your company really sound and successful, not to make them happy. Because they will go, ‘Oh yeah, that guy did everything I asked him to do. The company didn’t work, we’re going to fire him. But he did what I asked him to do.’”

Why do many CEOs fall into this trap? Because they’re human, says Lencioni. You have worked your whole life and finally become a CEO, and up until that point you always had a person above you in the food chain who you could turn to for approval.

“You become the CEO and that’s gone, and it really is lonely.”

CEOs find themselves looking for somebody to tell them that they did a good job and often try to please their board as a result, says Lencioni. “They want kudos and it’s a dangerous thing because a board cannot possibly know all the nuances of your business, and that’s not their job.”

It also leads to deeper dysfunction for the whole company. CEOs will get together with their teams and rehearse and plan what they’ll tell the board—rather than a blunt, honest assessment of the state of the business. That’s neither good for the CEO, who ends up wasting time on messaging, nor is it useful to the board, who doesn’t actually get the unvarnished sense of the business that they need.

He tells the story of Alan Mulally’s preparation for his first board meeting after taking the reins at Ford: “Most people do board meetings like they’re preparing for the king or queen of England to come, you know?” Not Mulally, says Lencioni.

Hearing that his team had reserved two full days to prep for the board, he told them to take those meetings off the calendar. “I’m just gonna do what I just did at our staff meeting,” Mulally told them, according to Lencioni. “I’ll just go through it with them, I don’t need to prepare.”

“There’s far too much trying to please the board,” says Lencioni. “What you should really do is give the board access to the things that matter most at their level. Is your team functional? Are you all on the same page? Do your employees know what’s important here? And do you have just enough structure in place? I want to see your hiring profile, I want to see your firing profile, I want to know how you manage your people, I want to know how you have your meetings.”

As for boards, Lencioni urges them to go beyond the usual fiduciary mandates and SEC checkboxes and dig into the leadership of the organization. He’s not calling for micromanagement. He’s calling for observation and understanding. “What the board needs to do is figure out how to see the artifacts of great teamwork,” he says.

“Are we seeing people on the executive team talking to one another, or to us, and saying things that they wouldn’t say to one another in meetings?”

The problem, he says, is that many boards—even truly independent ones—don’t see the signals of approaching disaster or even know how to see them.

“What they should be doing, in addition to making sure [management is] not doing something grossly illegal financially and protecting them in that way governance-wise,” he says, “looking at ‘is this a healthy organization?’”

“‘Their job,’ says Lencioni, ‘is to make sure that your team really is one.’”
THERE'S AN OLD STORY ABOUT A
Southern cop pulling over a motorist with
out-of-state plates. When asked why, the
cop shrugs and says: “If I follow you long
enough, I’m gonna get you for something.”

In New York, that cop is the attorney gen-
eral. And the AG’s most pow-
erful weapon is
the Martin Act,
a Swiss Army
knife of statutes
that allows
New York’s top
prosecutor to subpoena documents, grill
executives and bring charges against com-
panies for “any deception, misrepresenta-
tion, concealment, suppression, fraud, false
pretense or false promise.”

That’s a pretty broad mandate, perfect-
ly suited for an AG who wants to attack a
politically unpopular company—or an entire
industry. Former New York AG Elliot Spitzer
used the Martin Act to go after American
International Group’s pugnacious former
chairman, Maurice “Hank” Greenberg, as
well as Salomon Smith Barney and Merrill
Lynch. Soon after Spitzer let fly with a press
release in April 2002 calling Merrill’s behav-
or a “shocking betrayal of trust by one of
Wall Street’s most trusted names,” the stock
shed $11 billion in value.

Now ExxonMobil is in the crosshairs. And
the convoluted history of New York’s investi-
gation of the oil giant demonstrates how an
overly broad law in the hands of a relentless
AG can leave a company in the same position
as a driver with New York plates in a small
Alabama town.

Acting New York AG Barbara Underwood
filed suit on Oct. 24, accusing ExxonMobil of
misleading investors by publicly disclosing a
“proxy cost” of future taxes on carbon emis-
sions but using much lower costs in internal
evaluations of oil and gas projects.

“These deviations between Exxon’s public
representations and its internal Corporate
Plan had a material impact on Exxon’s in-
vestment decisions and business planning,”
AG Underwood said in the 97-page com-
plaint filed in state court in New York.

What the complaint didn’t mention was
that this was a 180-degree shift from the
original premise of the probe started by Un-
derwood’s predecessor, Eric Schneiderman,
who was forced to resign in May 2018 after
being accused, like his predecessor Elliot
Spitzer, of sexual improprieties. Schneider-
man fired off his first salvo of subpoenas
at ExxonMobil the evening of Nov. 4, 2015,
with news mysteriously appearing in The
New York Times the next morning. His theory
then was that ExxonMobil was publicly
downplaying the costs of global warming
while using much higher internal estimates.

Three years, hundreds of thousands of
pages of documents and scores of witness
interrogations later, the theory flipped. Now
ExxonMobil was telling the truth to the
public and lying to itself. The AG’s revelation
made no impression on investors: ExxonMo-
bil shares went up the day the suit was filed
and rose more than 6 percent within a week.

ExxonMobil says this is because the AG’s
suit is based on a complete misunderstand-
ing of oil and gas accounting. Reserves are
valued on a project-specific basis using a
complex equation that includes the expect-
ed future price of hydrocarbons, which is
driven partly by estimates of the impact of
future carbon taxes—the proxy cost the AG
says ExxonMobil ignored. A separate set of
calculations estimates future operating costs
for each project, ExxonMobil says, using
only known or reasonably expected tax and
regulatory expenses. It’s a more conserva-
tive approach than the AG would prefer,
but avoids wide swings in reported value
due to changes in the political environment.
For New York’s cop on the securities beat,
apparently, that’s fraud. For investors, so far
at least, it’s just good business.
A GREATER TRAJECTORY.

Every journey starts somewhere. Marilynn Hewson’s journey began at The University of Alabama, learning principles of business strategy and leadership. She’s been climbing ever since.

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CRASH COURSE | JENNIFER PELLET

DIVIDE AND CONQUER

A co-CEO leadership structure is a recipe for disaster—or is it?

WHEN SALESFORCE ANNOUNCED transitioning to a co-CEO structure, critics were quick to point out the problems inherent to a division of power—tension, decision paralysis, discord within the ranks and more. Plus, if dividing the role were wise, surely more than a handful of Fortune 500 companies (American Financial Group, Oracle, KKR and Whole Foods) would be doing it.

Yet, clearly co-leadership can work. Salesforce has continued to deliver since CEO Marc Benioff anointed Keith Block his co-chief in April of 2018, and plenty of small and mid-sized companies thrive under dual leadership. We recently talked with Peter Mace and Greg Hodges, co-CEOs at employee benefits services provider Hodges-Mace, about leading as a duo.

Why did you choose this structure? And were you at all concerned about its viability?

Greg Hodges: We were about four years into working together when we felt that we had enough customers, employees and work that we needed to divide and conquer. Early on, someone had told us the only thing worse than two partners is three. But we’re on the same page most of the time, and when we’re not, it doesn’t take a lot of effort to get there.

Peter Mace: Looking back, knowing how many businesses fail and partnerships break up, it amazes me how well we’ve done considering that we didn’t spend a lot of time vetting each other. It was definitely a gut decision.... But at the same time, we did know that we both had good work ethics and similar goals as far as defining success for the company.

How do you divvy up responsibilities?

Hodges: We both knew the business inside out and probably could have divided the work a number of different ways, but in the end, I took on sales and he took operations, and that worked out well. Having separate roles gives each of us the autonomy to make decisions in our area without having to get consensus on every topic. Then we collaborate on big decisions. Also, I feel accountable to Peter to do my job well and I think he feels the same way. It’s like two parents trying to raise a great, happy kid.

You worked in a more traditional hierarchy. What issues unique to this co-CEO structure have you experienced?

Mace: There are definitely times when you just want to make a decision, be done with it and move on without having to run it past someone else. But if you find the right partner who can serve as a trusted sounding board, two heads are better than one.

How do you ensure that your 300-plus employees get a cohesive message from the CEO office?

Hodges: We do companywide meetings where we both talk about the business and we also provide updates that via e-mail. One of us will write those and the other will proof it. That helps us make sure that we hit the key messages and that our collective voice is captured in every communication.

What would you tell leaders going into a co-CEO structure about how to make it work?

Mace: The number one culprit for things going south is when one person is putting in more effort than the other. Second, you need to be aligned with what you’re trying to accomplish. And third, you need to check your ego at the door.

Has an employee ever tried to play one of you off the other?

Hodges: If a situation like that ever comes up, we will compare notes and put the kibosh on it pretty quickly. Anyone who has worked with us for more than a day or two knows there are no secrets between us.
Creating Value Through Divestiture: The Devil is in the Details

MANY COMPANIES MAKE THE MISTAKE OF ASSUMING that divestitures are simply acquisitions in reverse. In fact, divestitures are often more complex than acquisitions and generally take place under much tighter deadline pressures.

Investors reward companies for making good divestment decisions. They understand that carve-outs can enable companies to focus on their core businesses and give sellers new resources with which to pursue growth strategies. And that will produce better shareholder returns.

Yet not all carve-outs go as efficiently as they could, further distracting AND costing the core business.

**Developing a Winning Divestiture Strategy**

What differentiates divestiture winners from laggards?

The companies that excel at divestitures take a systematic and proactive planning and carve-out approach to minimize disruption to their business. These approaches are informed by the defined business strategy, such as improving product mix, expanding into new geographies, or building new enterprise capability, to maximize returns.

Importantly, smart sellers don't make the mistake of starving the business units they plan to divest. Instead, they invest the time, talent, and resources to help those businesses demonstrate they can reach their full potential, which helps attract bidders and ensures the divestitures command the best possible price.

**Better Options for Technological Disentanglement**

In almost all carve-out scenarios, reasonable divestors will have concerns about the challenges they may face disentangling and unwinding the technology footprint of their business operations. By addressing these potential obstacles early on, sellers can broaden their pool of potential buyers and make sure divestitures go as smoothly (and profitably) as possible.

One traditional approach is for the seller to offer a Transitional Services Agreement ("TSA") to the buyer of the divested business, while the buyer readinesses their resources and technology platforms for the acquired company. The scope and duration of TSA services are dependent upon the size and nature of the carve out, such as an asset sale, spin off, or joint venture.

Unfortunately, TSAs can turn into giant headaches for the divesting company. In many cases, sellers vastly underestimate the time, costs, and ongoing entanglements associated with providing the IT support services spelled out in the TSA.

To avoid this pitfall, three alternative paths exist for divesting companies:

- Sellers can bundle all the required processes and platforms into the divested entity ahead of time so that they don't have to provide any ongoing support once the deal is done. This avoids TSA headaches entirely although it requires investments.
- Sellers can offer to provide IT services to the divested entity through a standard service contract that treats the divested unit like any other external customer. This works when the seller is organized to provide this type of service.
- The simplest, easiest, and most cost-effective option for many sellers might be to engage a managed services firm to accelerate the transition process and provide ongoing service management to the buyer. Most managed services firms are accustomed to working on multi-year delivery contracts. However, many cannot provide the speed that both divesting and acquiring organizations require.

Fortunately, new solutions for divestitures have emerged to deliver TSA-ready advisory and platform services to the sellers (and buyers) from due diligence right through to closeout. These solutions can help divesting companies avoid the costs, distractions, and headaches of typical TSA agreements.
BLACK SWANS | JEFF CUNNINGHAM

SCANDAL INC.

2018 WAS THE YEAR THAT “corporate scandal” turned into a business. There were several foreshocks from United Airlines and Starbucks, two great companies that fell into the grasp of mass outrage after employees took it upon themselves to evict people from the premises—or a plane, in the case of United. Starbucks had to close down for a day of training and United’s stock dropped $7 billion. But these incidents were self-inflicted, the sort of thing that could happen to anyone. What the scandalmonger industry wanted was a clear validation point, the kind that would prove scandal could be created from thin air and bring down a giant.

That came about in a rare instance of Amazon CEO Jeff Bezos failing to spot a turn signal. In January, Bezos was busy fitting together his jigsaw puzzle of fulfillment centers that power Amazon Prime. Amazon often locates these in the heartland. The company has taken ghost towns suffering from joblessness and crime and restored them with solid wages and healthcare benefits. It is one of the reasons it employs over 600,000 people today, making it the second-largest employer in the U.S.

Around the same time, a small-time Ohio labor activist with a vendange against John Kasich, Ohio’s Governor and an Amazon booster, issued a brazen press release targeted at its board and labor donors. The occasion was Bezos being named the world’s richest man, and the activist drummed up the charge that 700 of Amazon’s warehouse employees were on food stamps.

Mainstream media fell all over itself. The articles lifted the “research,” which turned out to be hypothesized or fictitious. In fact, Amazon’s wage and benefit practices were among the highest of their kind, better than those of the companies where the journalists were employed. But that made no difference.

The scandal created a social media avalanche of 40 million views. Ordinarily thoughtful publications screeched, “Why is Bezos so rich and his employees so poor?” It wasn’t just the usual anti-business screeds like Salon.com and Slate either, but wealth-worshippers like CNBC and Business Insider.

The Twitterverse lit up. Lawyers lined up to sue. Humanitarian activists joined the fray, screaming that the Seattle giant was immoral. The scandal turned into a goldmine for anti-business crusaders. Then, finally, Senator Bernie Sanders, never one to miss an opportunity to denigrate business, tweeted that Amazon’s poor were creating a burden for the government.

That was the tipping point. All it took was a 10-person labor activist with an e-mail account, bogus research, Twitter and the media’s connivance to upend a trillion dollar company whose only mistake was job creation. I know from Amazon employees that Bezos was beside himself. What does it mean for the business community if the world’s most powerful, most intelligent and richest CEO could be blindsided so easily?

It means business leaders should be on the alert that scandal pays off in many ways that may have nothing to do with the facts. Amazon proved that the scandalmongers aren’t out to win a debate on poverty. There is much more profit to be made from a public thrashing that plays to the entire scandal universe of activists, lawyers, politicians and the media.

Only two remedies can effectively put out the flames of bogus charges. First, be sure your team’s leadership meets the highest possible standard in ethical matters. Second, have a well-trained counter insurgency operation. These should be true believers in the company’s mission who are willing to step up to the plate on social media to fight an unsavory enemy.
What do football coach BILL WALSH, restauranteur ALICE WATERS, television executive LORNE MICHAELS, technology CEO LARRY ELLISON, and fashion pioneer RALPH LAUREN have in common?

According to acclaimed Prof. Sydney Finkelstein, they are all SUPERBOSSES: exceptional leaders who find, nurture, and inspire employees.

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—DANIEL H. PINK, author of To Sell Is Human and Drive

SYDNEY FINKELSTEIN is the Steven Roth Professor of Management at the Tuck School of Business at Dartmouth College and the director of Tuck's Center for Leadership. He is a consultant and speaker to senior executives around the globe, as well as an executive coach, focusing on talent development, corporate governance, learning from mistakes, and strategies for growth. He has published eight previous books, including the Wall Street Journal bestseller Why Smart Executives Fail. He is listed in Thinkers50, the world’s most prestigious ranking of leadership gurus.
RECENTLY, JPMORGAN’S Jamie Dimon and Blackstone’s Steve Schwarzman pulled out of a major Saudi showcase conference in the aftermath of the implication of Saudi leadership involvement in the murder of a Washington Post columnist. These and other business leaders have found a voice, filling a void left by political leaders, but the stances vary widely depending on values, courage and character.

**The Champions** are valued-driven leaders who take a courageous and independent stand on principles. Ken Frazier of Merck, Bob Iger of Disney, Paul Polman of Unilever and Meg Whitman of HP promptly condemned President Trump’s equivocation of the characters of violent hate-promoting Nazi rioters with those of peaceful protestors following Charlottesville. Frazier told me, “I had to take a stand in support of basic American values. Each business leader has to think about his or her legacy and that requires proactive steps.” He informed his board that he was leaving the President’s Advisory Council out of personal conscience, but that the company’s values were their decision.

Similarly, Ed Stack, the CEO of Dick’s Sporting Goods, didn’t await a referendum before pledging to stop selling assault-style weapons and high-capacity magazines and to require age limits for gun purchases and call for universal background checks. “The Parkland murders of kids had a profound effect,” he said. “I hadn’t cried so much since my mother passed away. We failed our kids and I am pissed—we sold the shooter his gun.” Delta, Walmart and UPS soon instituted parallel policies.

**The Stewards** follow only after widely shared sentiment emerges. These CEOs feel that they have custodial duties and should not inject their personal values into decisions that impact others’ investments. For example, Larry Fink explained BlackRock’s withdrawal from the Riyadh Summit as a “hard decision,” stating: “It is a good example of the social pressures impacting companies. We do business with families, the kingdom and the government. We have been there 15 years. We don’t know who was responsible for the murder. We are dealing with family offices and the social security funds—our future business with them is something I am not ashamed of.”

His defense of BlackRock’s anomalous passive ownership of major gun manufacturers in its index funds was similar: “We have clients who are pro-gun and anti-gun—so we give them funds with choices.”

**The Pretenders** display gross inconsistency between their words and their deeds. The sharpest examples of this are in the tech sector. Facebook’s Mark Zuckerberg and Sheryl “Lean in” Sandberg suppressed covert infiltration of the 2016 presidential campaign—while denying there was any such risk. In 2007, Yahoo’s Jerry Yang proclaimed, “We’re all focused on protecting and promoting free expression and privacy,” even as his company revealed the identities of Chinese dissidents later imprisoned by the government. In 2016, Apple’s Tim Cook famously refused to help the FBI crack the encryption of a terrorist’s government-owned phone. Yet, in 2018, Cook dutifully complied with far more intrusive new Chinese cybersecurity laws.

An argument can be made for caution when making business decisions based on principles. As Conference Board CEO Steve Odland, former CEO of Office Depot, warns, “By supporting one aspect of politics, you’re by definition going against some of your other constituents. You have to be very careful as a CEO.”

Yet, there are times when what might be best for the bottom line is simply not acceptable. Today’s leaders need to know the difference—and have the courage and conviction to act. As Robert Frost advised: “Freedom lies in being bold.”
War for Talent on a Local Level—The Case for Collaboration

THE TERM "WAR FOR TALENT" is one that is used broadly and loosely by CEOs and business leaders across industries, and an ever-expanding set of geographies. Unemployment rates across the U.S. are now at 3.7%* and most established economies are experiencing talent shortages.** Rare are the opportunities to pioneer new locations, recruit ready-to-work employees, or teach large, untapped workforces how to produce and transport goods, service customers, develop products, or efficiently manage a company’s back and middle office. For many, the fundamental question for CEOs as they fashion and refine their global footprint has shifted from "Where is next?" to "How do we successfully cohabit with incumbents?"

The War for Talent implies that the front lines of talent sourcing are battlegrounds where there can be only limited victors. The truth from the field suggests otherwise. Most communities demonstrating highly successful (measured in terms of inward investment) and competitive talent environments are characterized by an acceptance that a rising tide lifts all boats. A mutually supportive, communicative business community typically results in success for the majority of incumbent employers, rather than a binary environment characterized by “winners and losers.”

Deloitte has observed that many successful locations and their business communities share information and resources. In such locations, new entrants are viewed, within reason, as an opportunity to improve the quality of the local workforce, rather than a potentially predatory presence. One red flag commonly observed when conducting field evaluation in unhealthy talent markets, is the unwillingness of incumbent employers in a prospect community to share experiences and perspectives on operating environment. This suggests an operating environment beset by unhealthy suspicion, defensive posturing, and lack of communication. A pay and benefits war, exacerbated by lack of information and community, may offer short term benefits to both employers and employees, but risks making a location unsustainable, and in danger of closure.

Experience suggests that CEOs should mandate their local business leaders proactively seek to shape the local talent pipeline to meet their needs. They could help influence state and local authorities who, in turn, can influence the pipeline of talent flowing into an industry via the refinement of educational curricula, from high school, through technical school and on into university programming. Leveraging the weight of the business community to not only help shape the education system but drive interest in a specific sector or employment sector can serve to open the recruitment aperture by encouraging more individuals to enter the industry.

The ability to be an influencer in the talent market is not driven purely by a company’s pay and benefits policy; rather, it is the broader industry’s ability to aggregate and communicate its talent needs to those responsible for its development that enables agenda-setting leadership. Questions that CEOs should challenge their critical site leaders to answer:

1. What talent strategies are working or have failed incumbents or new entrants in the past? How are we responding?
2. Are we leveraging local industry expertise, or are we operating in a vacuum?
3. Is the local industry community leveraging scale of demand to influence the talent pipeline?
4. Is the business community sufficiently engaged in influencing the education system with an eye to producing enough of tomorrow’s talent?

CEOs should encourage their local leadership to materially engage at the local level with other business leaders, both existing and prospective, and state and local authorities alike. The ultimate goal can be achieved by leveraging scale, common goals and shared expertise to develop solutions for today’s and tomorrow’s talent challenges. In the war for talent, being on an island is not the place to be.

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*Bureau of Labor Statistics—September 2018

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INNOVATION IS THE ANSWER

Clayton Christensen’s most powerful insight yet may also be his simplest: To find the biggest opportunities in the world, seek out the world’s biggest problems. An exclusive interview.

BY DAN BIGMAN AND WAYNE COOPER

Know it or not, like it or not, no single business thinker of the past 50 years has had as much impact on the day-to-day way you run your business than Clayton Christensen. With his seminal 1997 work *The Innovator’s Dilemma*, he diagnosed one of the most intractable problems in all of capitalism: Why do great companies die? What actually happens to them?

The answer, as almost everyone reading this probably knows, was what he termed “disruptive innovation,” the theory that fleeter companies targeting the low-end of markets from software to steel find cheaper, more effective ways of getting customers what they want—and derail their ossified, high-end competitors in the process.

This key insight spawned an entirely new way of looking at competition and served as the intellectual underpinning—sometimes misguided—of the “disruption revolution” fueling Silicon Valley. It would be enough for anyone to dine out on for an entire career, but Christensen continued to develop and refine his thinking over the next 20 years. With his latest work, *The Prosperity Paradox*, co-authored by Efosa Ojomo and Karen Dillon, he’s turned his study of innovation on the largest, most intractable problem in the world: creating prosperity.

His solution is simple, profound and right in front of your face: See big problems as big opportunities. Look for the intersection of non-consumption and what he calls “jobs that must be done.” Then create products—and processes—that serve those needs. By doing so, you’ll harness what he terms “market-creating innovation”—by far the most profitable, disruptive force in business (think electric light, iPhones and the Model T).

Bonus: You’ll help a lot of people, too.

Christensen recently welcomed us to his cozy office at Harvard Business School, where he’s taught since 1992. It’s chockablock with books and mementos of a career enmeshed in the study of how business actually gets done. Our favorite: a chime made of rebar, commemorating his deep-dive into the inner workings of the steel industry. “I’ve learned a lot about the world through rebar,” he chuckles.

Slowed by cancer and a stroke (which forced him to re-learn English from scratch),
Christensen is buoyed by his deep Mormon faith and an unending curiosity about other people. He starts the interview by asking us about our backgrounds. With anyone else, it'd seem like studied salesmanship. But not with Christensen. He listens, his eyes focused and glistening with feeling. He's humbled. He's happy. He's learning something new. Ten minutes later, we finally get around to asking him our first question. What follows are excerpts from the conversation with Christensen and his co-author Efosa Ojomo, edited for length and clarity:

Right now there’s a lot of debate in the U.S. about capitalism and its place in our society. With this book you come down on the side of business as a force for good, a force for change. What’s your case for capitalism in the current moment?

Clay Christensen: Well, I’m ashamed to say I can’t remember where I was sitting when we had the insight. But we realized this concept of you can push solutions to the problem of what’s going on in the emerging world or you can make it happen by jumping ahead. Capitalism jumps ahead of the problem. It comes around the problem and just pulls it in, and it fills a [need].

Efosa Ojomo: [Clay’s] theories were leading us. We didn’t necessarily want to write a book about business or capitalism. We just looked at the theories and said, “What does the theory have to say?” There is a way the world works and there’s a way I want the world to work. And those are two very different things.

The first time I went back to Nigeria—which is where I’m from—after being in America for eight years, I visited a village, it was very poor, didn’t have access to water. Women at the banks of a river washing clothes walked miles to get there and would have to walk miles back to the village.

Instantly I said, “The solution is a well.” So I pushed a well into the community. I raised money from France, we built a well, we were happy and excited. Then I came back to America. A few months later the well broke down. I couldn’t do anything about it. What I learned is, that’s how I wanted the world to work. You see a problem, you help people, you fix it. But there wasn’t any mechanism, there wasn’t any ownership or organization around the well, and so it just stayed broken.

Christensen: One of the theories that we teach here is the theory of interdependence and modularity. You can’t solve part of the problem if you’re not prepared to answer the whole problem. So Dell, for example, is

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on the end of modularity and to play in that
game you just had to have one of each of the
components in a personal computer and Dell
could go into his dorm room and assemble
and then he just made it available to anybody.

He had the U.S. Postal Service, and he
could put his arms around the whole prob-
lem, and that's actually very important. If
you just do part of the theory, you can't solve
the problem, you have to be interdependent.
Thank goodness we have this theory of inter-
dependence and modularity. You've got to put
your arms around that whole problem.

I was on the board of Tata Consultancy
Services and they spent a lot of money to help a
lot of people. They had built a school and paid
people to support the school. But at the end of
the process the graduates didn't have a job....

I realized that the whole world wants to
put their money to solve the problem in the
emerging world, but it's an interdependent
problem, and democracy, for all of its virtue,
couldn't put arms around the problem. One
day, we were here trying to solve the issue in
this conference room, and [we hit on] the idea
that the world is trying to push solutions,
and instead, what we need is to pull solu-
tions. It's a very important idea.

**So how do governments encourage innova-
tion, or is that really not their role?**

**Christensen:** The government can't get on
that side of the problem and pull the solu-
tion in, the government has to stand behind
the problem, push it. And the government
can't put its arms around the problem. Only
capitalism can do that. That's not what we
intended to see as we started. One of the key
ideas came from the noodle story.

**Ojomo:** Thirty years ago, it's 1988, Nigeria is
a military regime, very poor, a lot poorer than
we are today, 80 percent living in poverty, no
infrastructure, I mean the country was just
struggling. Many people were running away
from Nigeria. These guys, these two brothers,
look at it and say, “People need to eat, they're
having a lot of babies, they need to figure out
how to feed their kids. I think we can sell
noodles in this country.” Mind you, noodles
are not part of the staple food, so [people]
don't know what it is and think its worms.
But they're convinced that they see what we
call non-consumption: people don't have
access to food.

To create the market, to Clay's point, they
had to wrap their arms around everything.
They couldn't just bring noodles in and take it
to the stores and have people buy it. We didn't
have stores so they had to build retail stores.
We didn't have distribution so they had to
build one of the big distribution companies in
the country. We didn't have access to electricity,
at least the majority of people, so they had to
build power plants for their factories and their
offices. Water, water treatment, the same thing.

We studied the role of government, and
it's fairly obvious when you think about it. If
the government funds schools, roads, water,
things like that, society would be better off.
We didn't feel we needed to write a book
about that. Instead, what we're trying to
get at is, how do we get governments to get
there? If you look at some of the chapters, the
evolution of governments has looked pretty
similar, maybe not identical but quite similar.
When you have countries that are very poor,
the governments look pretty similar. They're
not good for the people, crony capitalism and
so on and so forth. As people become more
prosperous, as these market-creating innova-
tions happen, the relationship between gov-
ernments and the people starts to change and
it becomes less parasitic and more symbiotic.

**One of the issues being wrestled with on
Wall Street right now is short-termism.
They're going to say, “I've got to build a**
port in order to sell a noodle?" Has innovation been dampened down by the lack of patient capital?

**Christensen:** Yes. The way you frame it, exactly.

**Ojomo:** I think the categorization of innovation, the three types of innovation, helps. Wall Street is optimized to go after efficiency innovations.

We use the word innovation, right? Innovation, it's flashy, it's nice, but you know, [Clay] had this insight, he said, “There are three types of innovation.” There are market-creating innovations. These are the innovations that make products simple and affordable so that many more people could have access to them. Fifty years ago, we couldn't afford computers, now you have a very powerful computer recording this. Now, that innovation creates new markets, it goes after non-consumption, and it's really the foundation of economic development.

Then you have sustaining innovations, and sustaining innovations make good products better. But from an economic development standpoint, they're substituting the character. You buy the iPhone X, you don't buy the iPhone 6. You don't need a whole new plant to build a newer version iPhone. The last are efficiency innovations, and these are innovations that help us do more with less.

Market-creating innovations require capital when you're creating the market, any market: Ford Model T, new smartphones, not now but the new ones before when there was no market. Mobile phones in Africa, when they were creating the market, you needed capital.

**With sustaining innovations, you can sell similar products with higher margins. You get a nicer camera and you improve operation somewhat and you get higher margins that keep your company vibrant.**

**Christensen:** But the insight on this is that this type of [sustaining] innovation doesn't create jobs. And almost all of the innovation you see when you drive and walk around are sustaining innovations, they make good products better but they don't create jobs. The efficiency innovations—we haven't really talked in our research about efficiency innovation before. I just never thought deeply about it. Innovations that help you do more with less. People in Africa get ticked off at Shell Oil because... every time they make an oil well, they squeeze and they don't create jobs. Their purpose is to eliminate jobs.

We puzzled about why would China have such a vibrant society as a communist dictator-led society and the Russians just struggle to grow? When you look at it from these fronts, there's almost no market-creating innovation going on in Russia. In China, there's somebody doing market-creating innovations on every corner.

We saw Mexico. Why are they just forever impoverished? Then we realized that that's the same problem. Ford can go to Mexico and build a plant and it's an efficiency innovation. They're not creating new cars, they're
WHY WOULD CHINA HAVE SUCH A VIBRANT SOCIETY AND THE RUSSIANS JUST STRUGGLE TO GROW? THERE’S ALMOST NO MARKET-CREATING INNOVATION GOING ON IN RUSSIA.

creating a limb and trying to eliminate cost. Then if somebody creates another plant in Guatemala or in Nigeria, they’re efficiency innovations. So they will shut down the one in Mexico and move this to Vietnam. And we complain that they’re not creating jobs.

Tesla is a sustaining innovation, trying to compete against BMW and Porsche and so on. God bless them if they think they can beat the best at this game of cars. The theory says go down to the bottom of the market—and that’s where you’ll see electric cars emerging.

When you go to Beijing next, go outside the front door and walk for 50 yards left or right and over that distance you will see one or two electric cars. They don’t look like a Tesla. They’re narrow. These are delivery cars running on narrow streets.

Go up and put your hands on one. It’s plastic, and it cost about $4,000. That’s where the theory says the electric car will start: at the bottom of the market, and go up. So if I wanted to create growth in Mexico and I’m on Wall Street and I have all that money, I would go to either Mexico or Nigeria and start [making] one of these little cars.

What do CEOs do so that they can start to focus on these bigger opportunities, these market-creating innovations?

Christensen: Well, remember that we’re going after non-consumption first. In the process of allocating resources in a corporation, just remember that the corporation is organized to prevent disruption to occur because we’re going after non-consumption. Try to figure out where in this place that we live is there non-consumption going on and where do people have a job to do?

Ojomo: There’s a company in Rwanda that saw an opportunity where most people would not. About 80 percent of people in the country don’t have access to cement floors, they can’t afford it. So instead of looking at that and saying, “These guys are poor, they can’t afford it,” they looked at it through the lens of non-consumption and said, “Look at how much of this cement they’re not consuming.” They knew there was an opportunity there. So they’ve developed these earthen floors that are very similar to cement floors but at about a quarter of the cost, and now they’re creating a new market for affordable flooring that is not just in Rwanda, it has now spread to Uganda and they are looking to go into Kenya.

Christensen: I never thought about cement as being high-end. But it turns out that it’s actually very costly there to get cement. A capital-intensive effort.

Ojomo: So they’re using a completely different product. It’s clay, a composite product that they were able to create out of a lab at Stanford. It’s not cement at all, but it’s hard, it does the job of cement, but it’s not cement.

Christensen: If you go back in any history that we’ve studied, always it’s, ‘This solution was the simplest solution and at the bottom of the market.” Then we could go up.

What mistakes do you see company leaders make that get in the way of having these insights and seeking out these real market-making innovations?

Christensen: They don’t think through all the other steps in the process that need to be in place in order for it to be viable. In the noodle story, they had to go upmarket to provide the right kind of wheat and then you turn around and go downmarket: “Where will we get the trucks? Where can we overcome dishonesty? Where are we going to get the roads?” Almost always innovation is successful at the point of innovation that we’re looking at—but it fails a step above and a step below.
EVERYBODY, INCLUDING ME, WANTS TO FIND A HOLY GRAIL. ‘SHOW US A COMPANY THAT HAS DONE THIS OVER AND OVER AGAIN.’ THERE ARE VERY FEW AND IT’S EPHEMERAL.

CEOs and boards tend to have data-driven processes for allocating capital and resources. So when looking at market-creating opportunities where it’s non-consumption and the data doesn’t exist, do they have to adjust their decision-making process to reflect that? Do they need to recognize it will involve more risk and there won’t be enough data and adjust their process?

Christensen: That’s right—and it’s the process that needs to be changed. In the history of retailing, Marshall Field’s was the first retailer. The way they were structured, they turned their capital three times every year and they had to generate gross margins of 40 percent to cover their capital. They earned 120 percent return on capital invested in inventory, and that’s their model. Field’s, Macy’s, that’s their model.

Then Sears comes in and their business model was a catalog company. Their model allowed them to serve the market with 4x returns and they could achieve 30 percent return on capital invested in inventory, so they earned 120 percent return on capital invested. And then Kmart and Walmart came along and they could turn their inventory over faster. They targeted the low-end and their margins were 20 percent and that meant that they had to turn the inventory over six times. So they earned 30 percent six times every year so they got 120 percent return.

Then Amazon came in with who knows what kind of margins, but they turned the inventory. Anyway, that’s the simple model. So a board of directors, the stupid thing to do would be to say, “We have to reduce turns, have a target.” That’s not the way it works. There’s a process by which the profit formula is implemented. The board has to think of themselves as they own this but they need to view these other options so that we can achieve this.

What advice would you have given to the Sears board of directors to prevent their demise? What could their CEO and/or their board, what should they have done?

Christensen: Well, number one, they should take the time to study the good theory about this problem. We actually wrote a piece about this when Sears was right at the top of their game, recognizing that Kmart and Walmart are already going to disrupt them from the bottom of the market and they would have to set up a different business company in order to survive.

Dayton Hudson set up a completely separate organization in Minneapolis and they called it Target. As they separated it out, and as the old one, Dayton Hudson, hit its demise going after the top of the market, from the bottom of the market came Target and so they’ve been very successful. The board of directors needs to understand both that there is an economic model that they are responsible for—and they hold themselves to the wrong model, I think. Wall Street, when it holds itself to the wrong model, they teach a board the wrong thing.

So how do CEOs and boards build this?

Christensen: Everybody, including me, wants to find a Holy Grail. “Show us a company that has done this over and over again.” There are very few and it’s ephemeral. IBM, they had a mainframe, and then they had a workstation, and then a personal computer. IBM made their mainframes in Poughkeepsie, New York and the mini-computers in Rochester, Minnesota. In Poughkeepsie they generated gross margins of 60 percent. [Rochester] had a gross margin of 45 percent. Then the personal computer that they made in Florida had a different profit model of 25 percent.

Then the smartphone. Do any of you guys have an IBM smartphone? Find a smartphone made by IBM.
What happened?
Christensen: The board started focusing on [returns]. They wouldn’t create a different business model that had a different profit formula.

What are some of the things you can be doing to prevent this from happening to you?
Christensen: Well, I’m coming at you from an academic perspective, which has its limits, but if I were a CEO, I’d take my board somewhere on an island in the Great Salt Lake or something once a year and talk about these principles and report to them on where each of these are: “Where’s disruption happening?” “We need to grow, how are we gonna do it at that level?” precisely because of the ossification.

You think, “We’ve got to get these returns,” and then you think, “We have to do it in this way.” And when you say, “It has to be done in this way,” then you’re dead. So I’d figure out a way to get people together, teach them the models, not one model but multiple models, just what’s the job to be done? Come to that every year to be sure that we’re organized in the right way.

Is there a good example of a way to structure the lifeboat?
Christensen: Yeah. I would say on this that Intuit is run by a CEO, Scott Cook, who understands this stuff better than I do. They’ve done Quickbooks and TurboTax and a number of other organizations that they set up separately to give the flexibility.

If I were a doctoral student again, I’d go to Microsoft. The CEO, [Steve Ballmer], he couldn’t see the disruption. Yet, they had enough cash and profit that they could try a new model and another new model. Within about five years they figured out that things are going up to the cloud whether we want to get on that bus or not. I think that they would say that the theory got deep enough in their minds that they actually didn’t sort of need to kill themselves. In contrast, IBM, their model is so…it’s a sad story, but it doesn’t have to be sad.

You’re fundamentally optimistic about humankind and where we are. What is it that makes you optimistic that there are solutions to be found, that there are new innovations that can continue to change the world?
Christensen: Personally, I have a propensity to try to figure out the causal mechanism behind good phenomena. One day, just on my own, I decided that God doesn’t hire accountants in heaven. What I mean by that is you and I have finite minds and we have to hire accountants to calculate what the invoices coming in and going out need to be and are we winning or losing on gross margins. We have to hire accountants because we have limited minds, we can’t keep all of the detail in our minds at once. We get a sense of hierarchy. So people who are presiding over bigger numbers tend to be viewed as more important than people who preside over smaller numbers. That’s the way we’ve organized our lives.

I realized that God has an infinite mind and because God has an infinite mind he doesn’t have to aggregate people into numbers. For me, that has just been a driving, truly a driving insight, that God does not have to aggregate people but rather, at the level of individual people, God can understand completely what’s going on in this world, he has an infinite mind. Therefore, I better get busy and figure out how I will measure my life so that at the end of my life when God looks at what I accomplished, it will always be assessed at the level of individual people.

My hope is that if that’s the way you think about life, then you as a manager are in a marvelous position. Because every day, I go home from work and think about how could I help the people who work for me to become good people that day?

The innovation in the middle of that stuff is really important to help people become better people because you always want to give them more opportunities. If you believe in God, then you have to go through this logic about how God will assess my life. I think it makes me...it drives me to be a better manager.

God flattens the hierarchy?
Christensen: Yeah. Exactly.
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CEO Base Salary by Number of Employees

Median Senior HR Executive Bonus as a Percentage of Salary by Company Ownership Type

SAMPLE CHART #53

SAMPLE CHART #90

CEOS AND SENIOR EXECUTIVES SAY...

“As a firm that works extensively with privately held companies, we seek to find the most appropriate resources for our clients. We have been thrilled with the data—and the perspective—of the Chief Executive Group Survey.”

KATE EVERT Founder and President, Commonwealth HR Consulting

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DOUGLAS NICHOLS CEO, Aerion Corporation

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Element Bars

CEO Jonathan Miller

staffs his production line with ex-inmates.
WORKING THE PROBLEM

Need great people? (And who doesn’t?) We reached out to CEOs across the nation and found 20 off-the-beaten-path ideas—from hiring felons to doing instant interviews—to help you get the talent you want in 2019.

BY DALE BUSS

Providence St. Joseph Health System CEO Rod Hochman spearheaded creation of an entire new School of Health Professions at the University of Providence in Great Falls, Montana, which used to be a tiny liberal-arts school affiliated with the Catholic faith-based organization.

Trevor Gile repurposes washed-out car salespeople as sales have cooled and trains them to become repair advisors in the over-stressed service departments of his family’s two Motorcars of Cleveland dealerships in Ohio.

And in Chicago, CEO Jonathan Miller is willing to tap into the local pool of idle ex-inmates to staff production lines at his company, Element Bars, which makes nutrition bars.

“If you look for passion and a willingness to learn, you tend to find better people than those you have to fit into a box,” Miller says. “Because my box is bigger, I’ve had fewer challenges in the current employment market.”

By now, thousands of CEOs can identify with the urgency felt by these chiefs, because they well know that there are about 700,000 fewer unemployed Americans these days than there are jobs. This extreme shortage of able-bodied potential employees has set up an economy-wide game of musical chairs that CEOs experience viscerally, because they can’t afford to lose it. Solving, or at least easing that labor crunch, has risen to the top of nearly every CEO’s priority list, demanding their unprecedented creativity in attracting qualified or trainable workers right now—and testing their strategic capabilities for keeping people far into the future.

Here are 20 creative ways CEOs and their companies are finding and hooking new employees in the most challenging environment in memory:
Become missional. In-demand millennials famously want their work to mean something sublime. Some CEOs interpret that desire as simply demanding interesting tasks and dangle what their company can offer in that regard.

“We’ve got an embarrassment of riches when it comes to challenging, exciting work with some of the greatest tech teams in the world, such as Google and Microsoft,” says David Morken, CEO of Bandwidth, a software outfit in Raleigh, North Carolina, that raised $100 million for scaling up in a 2018 IPO.

Pat Pasterick says he lures young workers to his Fort Wayne, Indiana-based architectural-engineering company, Design Collaborative, with transcendent incentives such as 10 percent time off for community work of their choice. “We don’t lose a lot of people,” Pasterick says. “It’s great for your company to do cool events, and that matters, but at the end of the day, we all want to think what we did made a difference.”

Welcome ex-convicts. Tapping into marginal populations can involve more than re-imagining roles for existing employees as Gile, the Cleveland car dealer, has done. More CEOs like Element’s Miller are endorsing the recruitment of ex-convicts, for instance.

Also in metro Chicago, two of the six employees of Tom Decker’s company, Chicago Green Insulation, have criminal backgrounds. In an attempt to vet real baddies, he gives a prospective hire with a prison record a tryout of five, eight-hour paid shifts—then employees vote on whether to hire the newcomer.

Transplant immigrants. While immigration remains a flaming political issue, desperate employers continue to find ways to incorporate legal—and presumably many illegal—immigrants into their workforces.

At a Grede Foundries plant in Reedsburg, Wisconsin, for example, the company recently hired dozens of legal immigrants from Haiti to work grueling jobs because the company couldn’t find enough willing workers locally, according to industry sources. That was despite high barriers for these itinerant workers, such as finding enough lodging and Spanish speakers in the rural town of 10,000 people. (Parent company American Axle didn’t return phone calls seeking comment.)

Enlist the autistic population. Autistic Americans comprise an underutilized group with high potential for performing many jobs, autism advocates and employment experts say. Microsoft and SAP are among companies that recently committed to start hiring employees who fall on the autism spectrum.

Such hires often require workspace modifications such as switching out LED lights for bright fluorescents and being more careful about changing company routines, which can unnerv them.

But employers might be surprised by the payoff. "People with autism tend to be highly intelligent and highly focused workers, along with loyal employees," says Rob Wilson, president of consultants Employco USA.

What Companies Are Doing

In a tough labor market, the tough get creative. With businesses facing the lowest jobless rate since December 1969, we asked business leaders about the practices they’ve implemented to attract and retain talent. Here’s what they said.

Which of the following strategies and programs has your company adopted? (Select all that apply.)

<table>
<thead>
<tr>
<th>Strategy/Program</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible hours</td>
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<tr>
<td>A remote office policy</td>
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<tr>
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<tr>
<td>Collaboration app/Cloud-based network</td>
<td>27%</td>
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<tr>
<td>Corporate social responsibility program</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Chief Executive poll of 232 CEOs, November 2018
Maintain a high bar... It may seem counterintuitive, but amid their desperation for good workers, some CEOs are maintaining or even raising their employment standards instead of lowering them—because a good long-term fit is more important to them than immediate relief.

HighTower Treasury Partners, for instance, conducts a bi-annual “wealth management symposium” for a couple dozen local college students that orient them to the profession they believe they’re interested in. “The worst thing is to hire someone and only then realize they’re sitting in front of a screen six to eight hours a day and can get restless,” says Rich Saperstein, managing director of the New York City financial management firm. “They also realize our industry doesn’t conduct itself by text message. We end up getting better-matched employees.”

...Or lower the bar: Hasbro, the giant toy maker, divided four marketing jobs designed for business-school grads with MBAs into eight lower-level positions and then dropped any college requirement for the jobs, after its standard for the earlier position was at least a two-year degree.

Make snap judgments. Boeing is among the increasing number of employers who are hiring sight-unseen, extending offers after only phone interviews for people in some entry-level positions.

At Sendik’s they’re a bit pickier. The small chain of grocery stores in metro Milwaukee hosts “Instant Interview Days” at its headquarters and at some of its 17 stores, during which it pledges to meet on the spot with every single person who comes in off the street inquiring about a job. Sendik’s ended up hiring about two dozen people from one of its last such events, in September, for which it interviewed 180 individuals.

“We’ve found that once you have a candidate, you have a sense of urgency to hire them as soon as possible,” says Cara Olson, human resources director. “These events increase our chances of success because these people could be interviewing with another company that afternoon.”

Pay more. Sendik’s also pursues job candidates with increasing bonuses, such as $3,000 upon hiring a new deli manager. That tactic, of course, is representative of rising wages and salaries across the economy, and CEOs must be willing to pay the price.

“The one way we’re going to solve the tightest labor market for trucking in the past 50 years is to pay drivers more,” says Don Duseke, CEO of Dallas-based Duseke Inc., a leading flatbed operator. “If we pay our truck drivers $80,000 or $100,000 a year, we won’t have a shortage of drivers.”

Get generous with benefits. Many companies are getting not only more generous but also more creative with benefits to attract incremental interest from job candidates.

Noodles & Co., a Broomfield, Colorado-based fast-casual chain of more than 400 restaurants, has just added an enhanced layer of time off for new moms that goes beyond paid maternity leave. Noodles’ “phase-out, phase-in” program allows expectant and postpartum moms to work an 80-percent schedule for a month before and a month after maternity leave.

Meanwhile, Emerson Electric, a major diversified manufacturer based in St. Louis, has improved its own family-leave program while the federal government dithers with the possibility of requiring companies to do so.

Acquire talent in chunks. Short on talent? Just buy another company that has one. This is a strategy being followed by more CEOs, including Rob Hrabe, chief and co-founder of VRC Metal Systems, a Rapid City, South Dakota-based manufacturer that has been trailblazing a cutting-edge “cold-spray” welding technique. He wants to push the $18-million company to a $100-million enterprise within the next five years, but he needs much more engineering talent to do it.

"People with autism tend to be highly intelligent and highly focused workers, along with loyal employees.”

—ROB WILSON, PRESIDENT, EMPLOYCO
“So we’re actually going after acquisitions just because of the senior engineering talent they have in thermal-spray [welding] and other industries,” Hrabe says.

**Go to schools.** More CEOs aren’t waiting for the educational system to teach and disgorge workers that companies need now—they’re plunging right into colleges, universities and even high schools to look for early talent, provide resources and even influence overhauling curricula specific to their employment needs.

VRC Metal Systems, for example, works with a half-dozen universities spread across the country to get grants for cold-spray research, then buys the equipment for the schools, helps them train engineers and then hires a few each year.

Emerson devotes millions of dollars to funding scholarships that are waiting upon graduation for hundreds of high-school juniors. They fund community college programs that provide technology training that preps students for jobs at the company’s nearby facilities.

And when Braidy Industries CEO Craig Bouchard was ready to commit to building a new, $1.6-billion aluminum-rolling mill in Ashland, Kentucky—good for a projected 600 high-paying jobs beginning in 2019—he asked Kentucky Gov. Matt Bevin for “a favor:” have the state develop a new, two-year materials-science and metallurgy degree that could be awarded in Ashland. Its initial class of 140 students is in its first year of instruction.

Metova, a cybersecurity company based in Little Rock, Arkansas, has been able to enlist the University of West Florida and the University of Central Arkansas to help it develop a new program called the Florida Cyber Range that soon will begin churning out highly qualified technologists for high-security digital work that is often for the U.S. Department of Defense.

“We’ve found time and again that the practical application of the skills we need, coming out of existing college programs, is lacking,” explains CEO Josh Smith. “So our purpose is to create a more qualified workforce and certification paths that will actually create the workforce we need where no one else has been.”

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**Find Another Gig**

Despite all the buzz about the flexibility and cost efficiency gig economy workers can offer, 66 percent of CEOs surveyed have no intention of participating in the gig economy.

**No Gigs Here**

How likely is your company to transition toward the “gig economy” model?

- 44% We have fully embraced and adopted it
- 10% We have begun transitioning to it
- 22% We considered it but opted against it
- 15% We will likely transition to it, but have not yet put a plan in motion
- 9% N/A, it can’t be applied to our industry/business model

**Top 3 Reasons Not to Go Gig**

Which of the following do you believe is the greatest disadvantage of the gig economy for employers?

- 87% Dedication/commitment to company
- 77% Reliability of workers
- 56% Difficulty competing for talent

Source: Chief Executive poll of 232 CEOs, November 2018
‘Badasses’ Wanted

How one North Carolina fintech uses star talent to get star talent.

PrecisionLender CEO Carl Ryden’s strategy for attracting and keeping highly coveted digital-tech workers at a fintech company is simple: hire only “badasses” and treat them really, really well.

The decade-old outfit based in Cary, North Carolina, has grown quickly over the past few years, to eight-digit annual revenues and about 180 employees at the end of 2018 from about 100 people just two years earlier, on its way to what Ryden projects will be a $100 million company by 2021.

“Badasses want to work with badasses, and when you put in a process that shows people how much you value talent and value people who are truly exceptional, they want to be a part of that,” he says. “And when you make an offer to them, smart people say, ‘This is the process that’s going to hire all the people I’m going to work with, my peers, whom I’ll count on.’ And they have faith in that process.”

Even potential star workers all have to run the gauntlet of PrecisionLender’s demanding hiring process, including their carefully analyzed answers to the question: “Tell us a time when you received a ‘Wow!’ customer experience.”

Yet, amid the company’s massive need for new employees, Ryden says his high standards are one reason PrecisionLender posted a 97 percent retention rate in 2017. “The best developers will probably change jobs four times in their lives; the really crappy developers will probably change jobs 20 times,” he says.

Once they’re in the door, PrecisionLender treats its employees like the stars Ryden says they are, providing not only generous pay but also stress-management services through a licensed therapist, wellness workshops in the office, encouragement to get out of the office and enjoy “extracurriculars” and eight weeks of paid time off.

“We moved to eight weeks,” he says, “because earlier we went from four weeks to unlimited time. But people took less time than when they had four weeks. I think it was psychological: they felt guilty.”

Make the commute easier. Protolabs CEO Vicki Holt decided to locate an entire new plant in Brooklyn Park, Minnesota, largely because it was smack on a public bus route that would allow easy transportation for future workers.

“We can tap a new labor pool and make it easier for them to get there with public transportation,” Holt says about the plant where the small-batch manufacturer plans to grow its workforce eventually to about 400 people. “It’s important for new team members, and we don’t have great public transportation to our [other] plant. And people don’t like to commute a real long way.”

Network digitally. A big part of being able to hire young workers is understanding where they hang out, digitally speaking, and going there. So Cape Cod Five Cents Savings Bank, for instance, set up a private group for its young employees on LinkedIn through which they communicate with their friends who aren’t bank employees and try to recruit them.

Boost internships. The bank also has gotten good immediate results after elevating its summer internships to paid positions beginning two years ago. There were 28 interns at Cape Cod Five Cents in 2017 and 45 of them in 2018, each making $15 an hour—and boosting current bank operations while also developing as potential new employees after graduation.

“They now have full-time jobs doing full-time work that our staff otherwise would have to do, in branches and in special projects in residential and commercial lending, even in IT, and other areas,” says Laura Newstead, executive vice president and chief human resources officer of the Harwich Port, Massachusetts-based company.

Expand apprenticeships. Manufacturing and technical companies keep expanding apprenticeship opportunities as they try to work down younger and younger into the stream of potential new employees, often working with government funding to make them more robust.

In Connecticut, for instance, companies that are part of its huge contingent of de-
“We’ve worked with the state on forming a customized program for our needs, which means welders and tube benders.”

—CHRIS DIPENTIMA, PRESIDENT, PEGASUS MANUFACTURING

Defense and aerospace contractors are taking advantage of the state’s dramatic expansion of what had been a significantly underutilized apprenticeship program. “We’ve worked with the state on forming a customized program for our needs, which means welders and tube benders,” says Chris DiPentima, president of Pegasus Manufacturing, a division of Leggett & Platt Aerospace that makes components for air frames and engines. “Now we have a unique pipeline we didn’t have five years ago.”

**Being fun.** Graduating millennials and, now, members of Generation Z come out of college with the full expectation of working somewhere fun, no matter what the job or industry. And while it’s become mere table stakes, providing such an environment is important to attracting young workers.

So at Neuworks Mechanical, a Fort Collins, Colorado-based contractor that employs 75 plumbers but needs 15 or 20 more, there’s a pool table, ping-pong table and Kegerator. The company even hosts outdoor bluegrass concerts as well as indoor events that can fit as many as 100 people in its 12,000-square-foot facility.

“You can also can have a beer with your manager and talk in a more candid light than if you’re out in the field and frustrated and can’t talk with anyone,” says COO Travis Slisher.

**Hire veterans.** More and more companies are committing to the idea of hiring U.S. military veterans not out of just patriotism or altruism but also because they’re finding that vets typically are fantastic employees.

Jaguar Land Rover North America, for example, has placed about 300 military veterans as service technicians with owners of the brand’s 200 or so U.S. dealers, with plans to hire 120 to 140 a year going forward. Already, 14 percent of all of its technicians are vets.

“They have not only the technical expertise but the right mindset,” David Wolfe, director of retailer training and recognition. “Their experience in the military gives them a level of discipline that’s required for jobs like this, and they embody the team spirit we require. It’s been a great pathway for us to fill some gaps in technician needs.”

**Ply your location.** Companies on the coasts can offer au courant urban environments and ocean views, but CEOs just about anywhere can find ways to make their locale appeal to sufficient numbers of candidates. In Fort Wayne, for example, Pasterick plays up the city’s burgeoning downtown redevelopment—and a reasonable cost of living that the coasts can’t match.

**Use more automation.** This may seem like a version of giving up on finding flesh-and-blood workers, but manufacturers, distributors and others are leveraging increasingly capable new technologies to create productive human-machine relationships that actually can enhance the appeal of many jobs.

At the Toyota Motor factory in Princeton, Indiana, for instance, Plant Manager Millie Marshall is overseeing installation of dozens of new, mobile “collaborative robots” that will operate amongst the human workers assembling a new SUV in a facility expansion in 2019 that will boost employment by 400 people.

“We’re not eliminating people, just helping them to do more and become more efficient with these robots,” she says.

**Look to the (far) future.** While scrambling for workers now, and for the next few years, many CEOs also are becoming more deliberate about planting seeds for far-future harvests of workers.

Whirleraft Group, a contract aerospace and defense manufacturer in Eastford, Connecticut, for instance, works with other local manufacturers on programs to reach school kids as young as the junior-high level “to get the word out there that it’s not your father’s manufacturing environment any more,” says Co-Executive Chairman Colin Cooper. “We outreach to parents as well as students.”
Data breaches and cyber attacks have proliferated over the past few years, stressing the harsh reality that NO COMPANY is safe from this modern threat.

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CEO OUTLOOK 2019

We debriefed CEOs grappling with the threat of disruption and a dearth of ready talent about their strategies for 2019. Here’s what they had to say.

BY DALE BUSS
Two concerns are at the top of many CEOs' lists for 2019: digital disruption and a historic labor squeeze. These issues are combining to produce an undisputed No. 1 priority for many business chiefs in the new year: finding, keeping, training and deploying workers and managers who can succeed in the digital era.

Thousands of CEOs in dozens of legacy industries have seen the pixels on the wall: Adjust to the perils and possibilities of digital transformation of their companies, or risk falling behind.

So while the CEOs we talked to for this story remain optimistic about the economy in 2019 (see sidebar, p. 42), their focus is on using today's prosperity to fashion their companies into digital powerhouses that are viable five, 10 and 20 years from now.

CEOs we spoke with agreed that the challenge will be recruiting and retaining technically savvy talent, as well as unleashing digital technologies that can help employees in their legacy roles and, in turn, leveraging legacy knowledge to bolster the company on its digital path.

As Avanade CEO Adam Warby puts it: “How do we balance acquiring new people and new skills as well as help existing people to move their skills into the new world?” Getting the answer right will be critical for his tech consultancy company. “That’s why the talent agenda is very much at the forefront for me,” he says.

Chief Executive talked with CEOs across company sizes, verticals and geographies about how they’re grappling with the digital transformation of their workforces in 2019. They’re dealing with issues such as ensuring digital capabilities in their leaders, managing distributed and mobile workforces, harnessing Big Data analytics and balancing generational strengths in technology versus legacy knowledge.

Here are a dozen snapshots:

**2019 CEO Outlook Roster**

**Barbara Humpton**
CEO, Salmans, USA

**Bob Burke**
CEO, RepairClinic

**John Schlifske**
CEO, Northwestern Mutual Life Insurance

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**Seeking a “Digital Quotient” in Leaders**

Barbara Humpton, CEO, Siemens USA

Based in Washington, D.C., the U.S. arm of the German industrial giant faces digital disruption across its fast-changing and varied verticals, which range from power generation to industrial automation to medical diagnosis.

**“We’re now changing the way we analyze leaders from just the classic evaluation of who’s ready now, which looks at their IQ and their [emotional intelligence]. One thing we’re doing overtly now is talking about what their ‘digital quotient’ is—something they’ll need in the digital age. If people have leadership qualities, we really want to defer to those people who’ve shown the most inclination to get involved in the digital economy, give them a learning ground to round out all of their skills and get them ready to lead in the future.”**

**[Also] we’re saying, why not have, in essence, venture-capital behavior inside the corporation? So for the second year in 2019, we are giving employees around the world the chance to bring forward their digital ideas in a Shark Tank-style pitch. We also have a venture-capital arm in Silicon Valley that is making investments in digital startups. We need to have people who are catalysts and connect the startups to corporate capabilities.”**

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**Why not have venture capital behavior inside the corporation?”**

—BARBARA HUMPTON, CEO, SIEMENS USA
Harnessing a Distributed Digital Workforce

Bob Burke, CEO, RepairClinic

The old business of supplying parts to consumers to repair household machines has gone digital, and the Canton Township, Michigan-based company, part of Burke America Parts Group, is overhauling its e-commerce platform.

“WE ARE PUTTING IN MACHINE learning to help consumers search for parts on our digital platform, and we are also building content in this space. We’ve invested 100,000 man-hours in our digital transformation in the last two years, and we’ve got 30 to 35 contractors working on this in addition to 10 to 15 people working on it full-time out of our 175 to 200 employees.

“The issue is finding a team, and talent. Finding a developer who wants to work in Canton, Michigan, is difficult, so you have to adapt to finding a developer somewhere in the country who wants to work four to six hours a day on some days of the week. And where someone is based goes by

where the skill set is, not where our distribution or call center is. The key is using Slack, so you can talk with people and keep them focused.”

Recasting the Customer Experience

John Schlifske, CEO, Northwestern Mutual Life Insurance

The Milwaukee-headquartered financial giant is moving to an “always-on platform, requiring a vast expansion of its digital capabilities and favoring technical expertise that’s not the forte of its legacy home-office people.

“We HAVE TO BUILD AN exceptional customer experience that’s based on a digital platform. It’s meant to be a complement to a human financial advisor, not a replacement. We’re moving to what we call a Planning Experience, which is dynamic, 24x7, constantly updated and constantly telling you how your investments are doing with a wellness score.

“So we’re really shifting the kind of people we’re hiring from the old model of

The Digital Talent Gap

The demand for virtually every technological skill is far outpacing supply.

<table>
<thead>
<tr>
<th>Skill</th>
<th>Employer: Demand for skill is high in my organization today</th>
<th>Employee: Proficiency-level of skill</th>
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<td>39%</td>
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Source: The Digital Talent Gap, 2017, Cappelli and LinkedIn
a lot of lawyers and investment professionals and actuaries and CPAs. Now half of our open jobs are digital-tech jobs. And we can’t simply retrain our investment analysts and send them on a two-week course on programming.”

**Learning to Learn**

Vicki Holt, CEO, Protolabs

*Digital is the DNA of this Maple Plain, Minnesota-based company that produces rapid custom prototypes and low-volume parts for manufacturers but is seeking ways to keep Protolabs at the forefront of a rapidly changing market.*

“We’ve created the new role of chief learning officer, which we’re in the process of filling. It’s going to allow us to make sure we’re developing the right curricula, as employees help to determine what they need to stay on top to be effective.

“It’s a very strategic role, because this person has to be able to work with each of the members of the senior leadership team, and to make sure we’ve got the right eyes and ears out there for the latest technologies in software and IoT, and to make sure our employees stay at the leading edge of where they need to be.”

**Enabling Mobile Healthcare Professionals**

Nick Westfall, CEO, VITAS Healthcare

*Based in Miami, the company has 12,000 employees in 47 locations across the country, caring for 18,000 hospice patients on any given day. This requires an ever-expanding ability to communicate on a mobile basis.*

“In 2016, we realized our future depended on retaining high-quality caregivers and allowing them to be physically present at the bedside with patients and families. But to be able to do that while improving our employees’ overall experience, we needed to make a multi-year investment in digitizing our workforce.

“Since then we’ve deployed mobile devices to our field staff. We developed a proprietary mobile-admissions app so our people could do more personal interaction and not be at their laptop, typing. We created the industry’s first mobile platform for full management of prescription orders. And we enacted emergency-messaging capabilities so we can get in touch with our employees and they can let us know if they are OK or need help, which really came in handy when hurricanes and wildfires have come through.

“All of this differentiates us from other hospice companies that are all trying to source the best people. Whatever we can do to create a more attractive employment offering, that’s what we’re going to do, and a lot of it starts with these pieces of digitization and benefits that come to employees because of them.”

**Staffing a Data Analytic Push**

Tom Linebarger, CEO, Cummins

*Engineers comprise about half the workforce of the Columbus, Indiana-based leader in diesel engines. Now the company is harnessing data produced by onboard computers to improve its products and become more valuable to customers.*

“We’re increasingly using big-data analytics and deploying that across our engineering, for more wisely designing and improving our products. Half our people are engineers, and in understanding information and IT, broadly speaking, our folks are reasonably sophisticated. But big-data analytics isn’t what we all learned in school, and now we’re...**
doing wide-scale deployment with it. “Our people are in the acceptance phase. Our leaders accept that we need to use big-data analytics, and there’s a relatively strong core of people who know how to use it. Everyone knows we’re going to do it and understands that it needs to be done, but we have work to do.”

“So in 2019 our large-scale quality-improvement plan will deploy a number of pilots with analytics. We just finished a big one with our heavy-duty engine group and now we’re moving it across several other engine groups, in our operating plan to push out deployment in engineering over the next three to five years.”

**Bringing Lean to the News Business**

Chris Ripley, CEO, Sinclair Broadcast Group

*America’s largest TV-station operator has more than 8,400 employees providing local news across the U.S. Based in Hunt Valley, Maryland, its ongoing digitization covers news gathering, production, marketing and sales.*

“WE'RE ALWAYS SEEKING to reduce the amount of human intervention that’s needed. We’re taking lean-manufacturing, kaizen principles and applying them to every step that occurs in a newsroom: How do you reduce non-value added steps so that production flows to multiple outputs and platforms, not just to a [TV] newscast?”

“And on our marketing and sales side, we’re also going through a step-by-step: What does a salesperson or marketing consultant do every single day? How do we either digitize it, if it’s not digitized, or automate it to make it more efficient? We’ve switched our whole ERP system to be cloud-based and just rolled out a brand new CRM.

“We're giving the salesforce the ability to work while mobile so they can be out of the office more. And we're giving them a bunch of new products to sell, not just spot

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**IS AMERICA RECESSION BOUND?**

**ON THE ASSUMPTION THAT** political gridlock in Washington retards big policy changes for the next couple of years, the CEOs we talked to for this story tended to be optimistic about the economy for at least 2019.

“Corporate profits look strong, consumer spending is picking up, and all leading indicators that could portend recession are still in positive territory,” says John Schlifke, CEO of Northwestern Mutual Life Insurance.

Ira Robbins, CEO of Valley National Bank says, “Customers have wonderful cash flow and we’re finally beginning to see some wage growth, which is important for the standard of living across our country.”

Siemens’s Barbara Humpton believes that the effects of business tax cuts in late 2017 will evidence themselves more strongly in corporate investment in 2019 than they did in 2018, when spending by more confident consumers carried economic growth.

“Companies now have the capital to invest in modernizing their own infrastructure,” she says.

Still, recession is on business leaders’ radars. Like most CEOs, Chris Ripley worries about “some sort of macroeconomic disruption that can’t be predicted.” But the CEO of Sinclair Broadcast Group says, “If the yield curve is inverted this year, and short-term rates continue to go up, that probably means a recession in 2020 or 2021.”

And Protolabs CEO Vicki Holt worries that, in addition to rising interest rates, “a lack of labor could begin to slow down economic growth. So could rising inflation. And we’ve got to get resolution of some of these trade issues.”

Indeed, trade issues loom large, and CEOs look for 2019 to continue the Trump administration’s tariff tussles with problematic partners such as China. “This is the last time in our history we’ll be able to make a legitimate stand economically against China on the subject of intellectual property,” says John Fish, CEO of Suffolk Construction.
TV ads, but also AdWords, social sites, our website and over-the-top targeted advertising not just on our air but on other people’s products as well.”

**Differentiating with a Human Touch**

Ira Robbins, President and CEO, Valley National Bank

The regional bank holding company headquartered in Wayne, New Jersey, has witnessed a revolution waged by “fintech” startups that provide quick online mortgage application and approval, fighting back with Valley’s people.

“We’ve applied fintech to the pain points and gone totally paperless in our residential-mortgage operation, and we’ve cut our approval time down by one-third compared with a year and a half ago. We used to have four or five people looking at each loan; now it’s an automated process. Updates are now totally transparent to customers, on their phones.

“But we understand how our customers want to interact with us, not just how a fintech company says they want to interact with the industry. So we can also layer relationships in with tech to provide a wonderful experience.

“We train our people and spend a lot of time making sure our relationship managers ask the right questions. If you’re asking the right questions, specific to each individual situation, then you’re providing a solution that fintech isn’t going to want to go after because they pursue commoditization. If you provide qualified, talented people and ask the right questions, and overlay that with fintech, this is an opportunity for us.”

**Creating Unity in a Remote Workforce**

Jaja Okigwe, CEO and President, First Choice Health

Based in Seattle, the company is a health-benefits administrator that is owned by hospitals and physicians, serving nearly 600,000 members throughout the West with its 200 employees, many of whom are telecommuters.

“**WE MADE THE DECISION** a number of years ago to drive telecommuters to close to 30 percent of our workforce today, up from just a fraction. At that level, as an employer it becomes challenging to try to establish a common theme for the company. So we have online town halls, virtual meetings and other things that you might see in companies that are more dot-com. We’ve gone 100 percent Skype. We’re using technology to help people feel like they’re sitting in the next cube even though they’re not.

“But we also need them to come into the home office. So we’re making it easier for them with ‘hotel’ cubes where they can come and plug in easily. We’re also looking at setting up smaller satellite offices where they can come in for a set period of time and go out again. And when we have our annual holiday party, first we devote the whole morning to department meetings and encourage everyone to come in for them. Then we party in the afternoon. Doing both, they’re more likely to come in.”

**Nurturing a Digital Culture**

Adam Warby, CEO, Avanade

This Microsoft-Accenture joint venture based in Seattle helps companies confront the digital era, growing by about 15 percent and adding 3,000 people in 2017. But digital transformation still has its challenges.

“**MY EXECUTIVE LEADERSHIP** group is the top 240 people in the company. I talk with or engage them once a month
over Skype. The last time we had a physical meeting was [mid-2017]. We look for simplistic ways to advance our digital culture, to encourage people to contribute and have conversations digitally.

“An example: In a digital meeting, you actually want to encourage chatter in the background because it shows engagement and encourages commentary. At a physical meeting, you’d be asking people not to chat in the front of the room because it’s distracting.

“One way that we keep people is to regularly articulate and update our vision for being the leading digital innovator for the Microsoft ecosystem. We’re clear that we have both ambition and innovation to be digital, and the tie between digital and innovation is very important.”

**Humanizing the Big-Data Revolution**

*John Fish, CEO, Suffolk Construction*

The Boston-based contractor tries to be on the cutting edge of digitization of a traditional industry and is entering the second phase of a three-phase strategy for technologically transforming its workforce to spark a new era of growth.

“We’ve been able to introduce an adaptive culture in phase one, getting people to understand that leveraging technology and innovation can be a huge competitive advantage.

“Phase two is the big-data strategy we introduced [in 2017] to create a clean data ‘lake,’ and using it will be foundational to any new investment in digital technology. For instance, we can invest in software for facial recognition on construction projects that can identify unsafe behavior on the job through video, where we can rectify it fast. And we can create a virtual-reality twin of a project that is much better than the old-fashioned way of building a scale model.

“We also are leveraging our four generations in digital formulas to staff job sites. And we are reverse mentoring, where millennials help our boomers with technology skills, and the boomers on staff provide them with the benefits of their construction experience. Never before have we had this thoughtful exchange of currency; it’s always gone one way.”

**Connecting Domain Know-How with Digital Possibilities**

*Jeff Simmons, CEO, Elanco*

The former animal-health unit of Eli Lilly went public in 2018 to unleash its business from big pharma. The Greenfield, Indiana-based concern improves the health of food livestock and of pets at a time when both businesses are booming.

“We’re turning our data to knowledge. We’re holders of some of the largest databases in the world on poultry and cattle disease and productivity, and on the overall optimization of an animal’s health. We also know how to administer products. And turning to the other side of our business, we have to be more connected with the end user. It’s not just with a big food company but also using IoT to be connected to a Brazilian cattle farm and to veterinary clinics.

“So we need to be able to blend that college graduate who comes here with a love for agriculture and the animal-health space and a basic knowledge of it with someone who’s agile enough to understand that knowledge gets outdated in two years. The sweet spot is people who love our cause and can connect digital with that need and are ready to jump in.”
Chief Executive

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TODAY, ALL INVESTORS are “activists,” increasingly impatient with companies that deliver subpar shareholder returns compared to their industry peers. Yet, few corporations have been able to sustain superior shareholder returns for any length of time. In fact, over the last 30 years, only two percent of Fortune 500 companies have been able to deliver shareholder returns in the top quartile of their industries for any consecutive five-year period.

However, there are CEOs who have defied this trend, delivering shareholder returns far in excess of their peers, over extended periods of time and, in some cases, for more than one company during their careers. These leaders will tell you that sustaining superior shareholder returns has less to do with specific products or strategies and more to do with how a company is managed and governed. In particular, how a company:
1) Defines winning and measures success
2) Determines where and how to compete
3) Drives the corporate agenda
4) Allocates resources
5) Creates an activist culture

They recognize it is impossible for an entire organization to keep rowing in the same direction without a single definition of winning and consistent criterion for evaluating strategy and resource allocation decisions. Yet, most companies pursue multiple and sometimes conflicting performance goals that lead to inconsistent decision making and subpar performance.

The ultimate objective of any publicly traded company should be to deliver superior shareholder returns over time. While revenue, earnings per share and return on capital are important measures of performance, it is the growth in cash flow and economic profit* per share that drives shareholder value.

Winning is defined in both the customer and capital markets. To sustain superior shareholder returns companies must generate greater:
• Customer Value: by doing a better job than the competition in satisfying customer needs; and
• Shareholder Value: by increasing their share of economic profits.

When companies do so, they build a reinvestment advantage that leads to sustainable competitive advantage and superior shareholder returns over time.

Where and How to Compete

Over 100 percent of the shareholder value of most corporations is generated by less than 40 percent of employed capital, while 25 to 35 percent of employed capital is actually destroying shareholder value.

Most businesses focus on large and growing markets. However, market profits are always highly concentrated, by product category, geographic region, channel and customer segment. Typical performance reports do not measure fully-loaded economic profit contribution at these granular segment levels. As a result, management views

Apple's Mobile Model
Targeting share of market profits rather than share of the handset market enabled Apple to deliver superior value.

All successful organizations have one thing in common: they are unambiguous about their ultimate objective and how they will measure performance.

* Notes: Economic Profit is after-tax earnings less a charge for capital employed. Companies with negative profits not shown on profit graph (Motorola/Lenovo, Sony, Xiaomi, Oppo, Vivo, TCL, ZTE); Samsung includes adjustment for $2.28 one-time write-downs in 2Q and 3Q 2014. Excluding adjustments, Samsung economic profits in 2014 would be negative. Total shareholder returns are for the period 2007-2017 except Motorola which is 2007-2014. Sources: Canaccord, Asymco. Company Reports, FactSet, Galt Analysis
all revenues as “good” and all costs as “bad,” while the balance sheet receives little attention. Management teams that understand where and why economic profits are concentrated can unlock significant shareholder value by better focusing their strategies and resources on growing profitable segments while fixing or withdrawing resources from consistently unprofitable ones.

Consider the history of the mobile phone market. While most competitors were focused on gaining share of global handsets, Apple focused on capturing a leading share of economic profits. They reinvested those profits to build an ecosystem of applications and services that improved competitive position and generated additional economic profit growth. As a result, Apple has sustained superior shareholder returns. (See charts.)

Managing to an Explicit Value Improvement Agenda

“Risk diversification and risk minimization does not come from putting my chips all over the board. It comes from focusing my chips in the places where I have a decisive competitive advantage.” —Warren Buffett, Chairman, Berkshire Hathaway

Outperforming investor expectations is a never-ending task since those expectations always increase as performance improves. Continuing to meet rising expectations requires a constant focus on the limited number of decisions and actions that will have a material impact on economic profit growth and shareholder value.

Jim Kilts, who as chief executive led turnarounds at Kraft Foods, Nabisco and Gillette, calls this “doing what matters.” As Jim states, “Experience teaches you that nothing gets done when you try to do too much.” Shareholder value contribution is always highly concentrated, and so too are the opportunities to materially improve shareholder value. Leaders who consistently deliver superior shareholder returns manage to an explicit list of high value-at-stake issues and opportunities. They use this “value improvement agenda” to keep their organizations focused on the handful of things that will significantly increase their companies’ intrinsic value.

Proactive Reallocation of Resources

Sustainable improvement in economic profit growth requires continual reallocation of resources away from business strategies that do not create value and toward those that do.

In addition to pursuing a prioritized agenda of highest value-at-stake opportunities, companies must also differentially allocate resources. Too often, investment dollars are spread among businesses in proportion to their existing capital base. That may seem “fair,” but economically it makes little sense. Resources should be differentially allocated to the businesses that will create the most value, while withdrawing resources from value-consuming businesses.

Creating an Activist Culture

“The surest way to avoid shareholder activists is to do their job for them.” —Travis Engen, former Chief Executive, IIT Industries and Alcan Aluminum

The best CEOs often think about their companies like activist investors—they seek to maximize economic profit and cash flow over time and deliver higher returns than investors could achieve from putting their money elsewhere. Activist CEOs take a direct role in seeing that traditional views about the business are challenged in order to arrive at the value maximizing strategy. They also recognize that shareholder value is impacted by the daily decisions and actions of hundreds, if not thousands of managers across their organization.

These executives appreciate that one of their primary responsibilities is to instill throughout the company a set of beliefs and behaviors that are aligned with the long-term interests of the company’s shareholders. They recognize that the ability to sustain superior performance is the result of an organizational advantage. These leaders work to build the organizational capabilities and establish the governance conditions that align management and shareholder interests, thus creating a culture of entrepreneurial owners throughout the corporation.

How the Directors Can Help

Effective CEOs appreciate that the level of strategic and organizational change needed to achieve and sustain superior shareholder returns cannot be accomplished without the understanding and support of their boards. For this reason, those CEOs devote meaningful effort to discussing these concepts with their directors. They actively involve their boards in reviewing the highest value-at-stake issues and opportunities facing the company, the strategic and organizational alternatives they are considering and what will be required to implement these changes. In doing so, these chief executives have enabled their directors to be much more effective representatives of the company’s shareholders.

The Authors

Scott Gillis, Lee Mergy and Joe Shalleck are co-founders of Galt & Company. Galt helps Fortune 500 Companies develop the strategies and organizational capabilities to achieve and sustain superior shareholder returns. The firm has been associated with several of the more notable corporate transformations of the last two decades.
THE BATTLE FOR THE SOUL OF WORK

Silicon Valley disrupted the idea of what a great American company should be. It’s time to reassess.

BY DAN LYONS

FOR MOST OF 2017, I WAS TRAVELING AROUND THE COUNTRY AND occasionally abroad, attending conferences and sometimes giving speeches. It was a crazy, tumultuous year. Trump was president. The stock market was booming. Yet famous CEOs were getting fired, retailers were vanishing like Spinal Tap drummers, and even some of the world’s biggest companies were choked with fear. Stories kept popping up saying that in this way or that, Silicon Valley was starting to look the way it did in 1999 and 2000, right before the dotcom crash. Income inequality kept getting worse, and no one seemed to care.

In May 2017, I attended a conference in New York called TechCrunch Disrupt, which was, as expected, mostly awful. On one side of a big hall there was something called “Startup Alley,” where desperate startup founders with generally terrible ideas had paid a thousand bucks to rent a booth in hopes of being discovered by a venture capitalist. On the other side was an auditorium where startup bros assembled in panels to talk about the new economy. My favorite was a 40-year-old former IBM management consultant, a guy with a law degree and an MBA, who now had launched a company to sell sneakers online and thus had arrived dressed like a teenage skateboard kid: funky T-shirt over a white, long underwear shirt, backward
baseball cap, ankle-high red sneakers left untied, a giant ring on one hand and, on his left wrist, a huge watch and a groovy-dude braided leather bracelet. TechCrunch Disrupt encapsulated everything that had gone wrong with the new economy—the bros and fake bros, the bullshit, the scammers, the hordes of people who wanted to cash in and get rich, by any means necessary.

But two extraordinary things happened at this show. First, Steve Case, the founder of AOL, got up and talked about Revolution LLC, his investment firm, which seeks out companies in cities like Detroit, Cleveland, Columbus and Indianapolis. Case had been traveling around in a bus, holding pitch competitions, spraying money into those forgotten cities, hoping to spark local entrepreneurship and tap into idle workforces. “We’ve been destroying jobs in the heartland, and we’re not focusing on putting up money to fund entrepreneurs in those places,” Case said. “Rise of the Rest!” was the name of his bus tour, and that would be the name for a $150 million seed fund he announced later in the year.

The second extraordinary thing I saw was a talk by Dan Teran, the CEO of a gig-economy startup called Managed by Q, which provides cleaning crews for offices. Teran had defied the conventional wisdom of Silicon Valley by categorizing all of his workers as employees with full benefits, rather than forcing them to work as contractors. Teran was onstage with Oisin Hanrahan, the CEO of Handy, a rival cleaning company, which categorizes workers as contractors. They debated—politely—the relative merits of each approach. Teran was far more convincing. What’s more, he was the first person from the new-economy world I’d ever heard talk about wanting to take care of employees and provide good jobs for people.

**INTO THE DARK VALLEY**

After the conference I tracked him down. Once I found Teran, I started finding others like him. It turns out that a quiet movement has been taking shape, led by people who see how things have gone wrong and believe that business might be the solution. Business could be a way to make money but also a way to transform society and lift people out of poverty. Each person I met introduced me to others, and so my journey into the world of work took an unexpected turn, and one that left me feeling uplifted and hopeful.

These people work in different fields, but they subscribe to what UK business professor Sally Rumbles described to me in an interview as the “no-shit-Sherlock school of management.” As she put it: “If you treat people the way you’d like to be treated, if you praise them, and thank them, what a surprise! They do a good job on the whole.”

That sounds like common sense. Yet, unfortunately, the idea that a company might be good to its employees has become so unusual that some people do not even think it is possible. Recently, at a party, I was talking to a veteran tech CEO who has started and run several successful software companies. He asked me what I was working on, and when I told him I was writing a book about companies that treat workers well, he dismissed the idea as unrealistic: “You can’t do any of that stuff when you’re a venture-funded company,” he said. The
venture capitalist investors would not allow it. Once you go public, Wall Street won’t tolerate it, either.

For half a century, bankers and venture capitalists have been told that they are the only ones who matter, that companies exist solely to deliver the biggest possible return to them. That’s the gospel of shareholder capitalism, the doctrine created by Milton Friedman. In the second dotcom boom that doctrine has been pushed to new extremes by companies that have adopted a grow-at-all-costs, investors-take-all business model. It has been great for VCs and oligarchs, but everyone else gets shortchanged:

CUSTOMERS get “minimum viable products” (translation: shoddy stuff) from companies whose mantra is “move fast and break things.” Internet companies spy on customers, invade their privacy, and sell their data. For companies like Facebook, the users are the product. We exist only to be packaged up and sold to advertisers.

COMMUNITIES should benefit when they are home to the headquarters of wealthy corporations, but instead communities get shortchanged as tech giants dodge taxes, finding ways to stash their enormous profits overseas in offshore accounts.

EMPLOYEES should be happy and prosperous but instead get overworked in stressful work environments with toxic cultures. They face bias, discrimination and sexual harassment, along with vanishing benefits and a new compact that provides no security and turns jobs into gigs.

The grow-at-all-costs business model makes employees miserable, and it does this almost by design. Worse, the model doesn’t really work, at least not if you’re trying to produce a healthy, profitable organization that can sustain itself. Some of the unicorn startups that have gone public in recent years seem less like companies than like investment vehicles, little wagons that venture capitalists slap together and roll down into the public markets, then fetch back loaded with gold. Unfortunately, these wobbly little wagons have a tendency to blow up. Zynga, maker of cheesy Facebook games, went public in 2011, but within months its business went south. Zynga’s stock price collapsed from $13 to $3 and has remained at about that level ever since. Zynga remains in business, but I suspect its best days are behind it.

In 2017, I made a list of 60 tech companies that had gone public since 2011. Fifty of them had never made a profit. Some new companies lose incredible amounts of money. In 2017, Spotify lost $1.5 billion, Snap lost $3 billion, and Uber lost $4.5 billion. Yet, as of early 2018, Spotify founder Daniel Ek and Snap founder Evan Spiegel are each worth about $2.5 billion. Kalanick, the founder of Uber, who made such a mess that his own board tossed him out, nevertheless reportedly has a net worth approaching $5 billion. Where else on earth can you run a company that loses billions of dollars—and become a billionaire yourself by doing this?

My fear is that in their desire to imitate Silicon Valley tech companies, companies from other industries will adopt its methods and mores, including its new compact with labor and its high-stress, anti-worker philosophy.

If you’re trying to build a company that can remain in business for 50 or 100 years, you should do exactly the opposite. Recent
academic research suggests that the way to build a truly successful company—one that outcompetes its rivals, turns a profit, and remains in business—is to treat your employees extremely well.

**BE A GREAT PLACE TO WORK**

In a study of low-cost retailers, Zeynep Ton, a professor at the MIT Sloan School of Management, found that the most successful companies were not the ones who cut labor costs to the bone. The best companies “invest heavily in their employees. They view their workforce as a valuable asset to be enhanced, not as a big, scary expense to be kept under tight control,” Ton writes in *The Good Jobs Strategy*, a book that explains her research into model companies like Costco, Starbucks, UPS and Toyota. In her research, Ton found that the winning companies paid more than their rivals. They also overstaffed, hiring more people than they needed, so that they would create a little slack in the system.

You might also extract lessons from companies whose employees remain happy over time. Once a year, *Fortune* magazine teams up with a research organization, Great Place to Work, to produce a list of the 100 best employers in the United States. Over the past 20 years a few companies have made the list every year. *Fortune* calls them “the Legends.” They include Cisco and SAS Institute from tech; REI and Nordstrom from retailing; TDIndustries in construction; Goldman Sachs in banking; Marriott and Four Seasons from the hotel business; and Wegmans and Publix, the supermarket chains.

What common DNA do they share? These companies operate in very different industries, and for the most part they have little in common with one another, except for two things: they are all incredibly successful, and they treat their employees exceptionally well. This doesn’t mean putting out Ping-Pong tables and free candy, or running kooky New Age team-building games. Rather, this means paid sabbaticals, on-site childcare and reimbursement for college tuition.

All of the Legends extend health benefits to part-time workers. Some even provide part-timers with perks like paid time off for sick days, vacations, and holidays. The lesson? Skip the Ping-Pong and the New Age guff about mission statements and culture codes, and give people things they actually value.

Notably, most of the Legends are not publicly traded. They are privately held or owned by employees. If there exists a connection between being publicly traded and having unhappy workers, it is probably because IPOs enrich a few people at the top but don’t do much for everyone else, and because once you go public Wall Street starts pushing management to take stuff away from employees in order to boost returns to investors.

Also, most of the Legends are old. Eight of the ten mentioned above were founded before 1962. The youngest, Cisco, was founded in 1984. Maybe some old-time virtues still make sense, even in the new economy. “These companies are able to change and evolve, but they have their values baked in, and they live up to them,” says Ed Frauenheim, director of research at Great Place to Work, which is based in Oakland, California.

**BATTLE FOR THE SOUL OF WORK**

Great Place to Work has been sifting through its annual data to identify traits that consistently great companies share, and boiled it down to these: “Trust, pride and camaraderie,” Frauenheim says, reciting it like a mantra. Great Place to Work doesn’t just do research. It’s also an advocacy group. The organization now has branches in 58 countries and has a mission to help companies improve labor standards and workplace practices. There are lots of techniques and initiatives, but the short version is this: be good to people. Heck, be great to people. The payoff: “You get the
best work out of people when you treat them with respect.

Lately the organization has been turning its attention to tech companies in Silicon Valley and San Francisco. They’ve noticed the same distressing trends that I have: the short-term tour of duty and new compact in Reid Hoffman’s The Alliance; the team-not-a-family approach that Patty McCord of Netflix touts. Tech companies believe that their extreme version of shareholder capitalism will produce better returns. The companies are their laboratories. Workers are their lab rats. Whether they are correct remains to be seen. As Frauenheim puts it, “There’s an experiment playing out.”

Two opposing worldviews are vying for the soul of the corporation. On one side are oligarchs like Hoffman and HR mavens like McCord. On the other side are people like Frauenheim and his colleagues at Great Place to Work, who believe that companies do better when they treat workers well, and, as Whole Foods Market founder John Mackey puts it in his book Conscious Capitalism, that “business can elevate humanity.”

To be sure, work is changing. People no longer want to spend their whole lives working at the same company, and companies can no longer provide lifetime employment. Companies want more flexibility, an organization that draws more on a contingent workforce that can be dialed up or down as needs change.

“But even if you have non-traditional employees,” Frauenheim says, “people still want a foundation of trust. They need a sense that they’re being cared for; that the company is looking out for your best interest, that they’re not going to cut you at a moment’s notice.” This isn’t just about being kind for the sake of being kind. “Companies that create a consistently great workplace race ahead of their competitors,” Frauenheim insists.

**CHANGE THE WORLD. SERIOUSLY.**

That said, it’s also about being kind. And what’s wrong with that? Why should anyone need to make a business case for following the Golden Rule? We’re talking about pretty basic stuff, like treating fellow human beings with dignity and respect, and not discriminating against people because of their race, age or gender. Are investors and business owners so far lost to humanity that the only way to get them to behave ethically and morally is to prove to them that this will make them a little bit richer?

Some companies don’t need the business argument. Some do the right thing just because it’s the right thing. They pay employees more than they have to and provide great benefits. If that means the company makes a little less profit, the founder becomes a little less rich, and the investors receive a slightly smaller return, then so be it.

For two seasons I worked as a writer on the HBO comedy series “Silicon Valley.” A running joke on that show was about how tech founders always talked about “changing the world” and “putting a dent in the universe,” and “making the world a better place.” We were kind of cynical about it, and rightly so, because most of the techies who talked like that were full of shit.

Companies really can make the world a better place, just not in the way that Silicon Valley thinks of it. Tech moguls tend to think that changing the world and making the world a better place mean making an app that has millions of users or a company that generates billions of dollars in sales.

But you don’t have to touch millions of lives or make billions of dollars to change the world. If you employ 10 people, and they all get health insurance and a decent wage and feel happy at work—then you just made the world a better place. If you pay taxes and help build schools and feed kids, you just made the world a better place.

How’s that for a disruptive idea? 🔥

Dan Lyons is the New York Times bestselling author of Disrupted: My Misadventure in the Start-Up Bubble. Previously, he was a staff writer on the first two seasons of the Emmy-winning HBO series “Silicon Valley,” an editor at Newsweek and the creator of “The Secret Diary of Steve Jobs” (AKA “Fake Steve Jobs”).
LEARN IN

Out-of-the-box approaches for better employee education

BY RUSS BANHAM

School days, school daze. Many CEOs are rethinking their expenditures on traditional executive development programs. It’s not that an MBA from a marquee institution has lost its value, it’s just that quantifying the impact on business outcomes is elusive. Sure, employees come away from the experience with enhanced knowledge, but applying it to business needs doesn’t happen overnight, given entrenched management structures and the demands of today’s fast-changing global business environment.

No surprise, then, that many companies are taking a fresh look. Led by CEOs who are firm believers in the value of continuous education, such organizations are sponsoring a wide range of internal programs customized to specific business needs and goals. Like more traditional Exec Ed, the programs are intended to fill skills gaps, but they’re also designed to produce more tangible results. By developing more perceptive and engaged employees, the programs improve productivity, reduce turnover rates, burnish a reputation as an employee-centric business and offer the opportunity to explore new business concepts inspired by employees’ exposure to new ideas and thinking.

These innovative approaches are many and diverse. They include highly
collaborative seminars using psychotherapy techniques like role playing; routine international postings and cross-discipline assignments to broaden employee understanding of operations across the enterprise; onsite leadership conferences led by influential speakers outside the realm of business; cross-mentorship programs involving different generations of employees; and peer networks that facilitate networking, interaction and learning between participants, to cite a few.

“Education comes in many different ways,” says Therese Tucker, founder and CEO of BlackLine, a Los Angeles-based publicly traded provider of financial and accounting automation software. “We’re doing the traditional things like supporting the continuing education credits of

Other CEOs riding herd on novel education approaches include Gaurav Dhillon, co-founder and CEO of SnapLogic, a provider of data integration technology solutions; and Tom Wheelwright, who heads up WealthAbility, a Tempe, Arizona-based provider of wealth attainment strategies. Both are fans of conventional MBA programs and non-degree granting courses within business schools, but they also advocate for nontraditional continuous learning opportunities.

**CROSS-GENERATIONAL COLLABORATION**

At SnapLogic, CEO Gaurav Dhillon is a big believer in the value of cross-mentorship, where older and younger employees advise one another on their respective areas of expertise. “These days, there’s plenty for Millennials and Generation Z to teach.

“Generationally, younger people are more adept in their use of technology and multi-tasking; it just goes with the territory,” says Dhillon. “They can text and listen to you at the same time. Older people in the workforce, on the other hand, have patience and prioritization capabilities—judgment that can only arrive after years of experience, including hard experiences. There’s great value in cross-mentorship programs in which each generation’s unique abilities come together.”

Wheelwright at WealthAbility also values employee education programs focused on ways that encourage more enjoyable and effective collaborations, as opposed to filling skills gaps on an employee-by-employee basis. “I’m a big believer in seminars where everyone participates as a member of a team,” he says.

Each year, the firm sponsors a two-and-one-half-day leadership seminar focused on personal development. “I remember a new hire here who dreaded having to go to the seminar, thinking it would be another lecture with flip charts,” says Wheelwright. “She was in horror at the thought of having to spend eight hours stuck in a room. However, once it was over, she said she couldn’t wait for tomorrow.”

“We put a lot of effort into internal programs focused on leadership. Not only am I very passionate about leadership development, I’m a certified instructor on the subject.”
FOCUS ON PEOPLE, NOT JOBS

BLACKLINE CEO THERESE TUCKER pursues a people-centric approach to her company’s executive education priorities. The first woman to launch and run a $2.5 billion-plus public company based on software products she coded herself, Tucker is a programmer at heart. She developed an automated solution for account reconciliations, making accounting work more efficient and less manually burdensome.

This humanism is a company hallmark. Tucker favors potluck internal meetings for which her diverse staff of mostly millennials bring bagels and veggie dips to munch on while conjuring new ways to make customers’ lives easier and more productive. “Food is a great equalizer; it makes people feel like they’re home with their families,” says Tucker.

Not surprisingly, her ideas on executive education are equally nontraditional. “We do all the conventional things other companies do, but I’ve been thinking a lot lately about different ways to expand employee experiences,” she says. “One of the programs we’re still putting together is a unique twist on the usual ‘study abroad’ program. We’re offering employees the opportunity to leave their current jobs in the 10 countries we now operate in to stretch their wings in another country with a different job.”

There are two reasons why the program makes sense, she noted. For one thing, it broadens the experiences of employees. On these assignments, which are planned to last anywhere from a few months up to a year, they will have the opportunity to absorb another country’s culture, business practices, legal and regulatory regimes and economic challenges and opportunities.

The second reason has more to do with BlackLine. “When the employees return home, they’ll bring with them a better appreciation of the work performed by colleagues abroad,” says Tucker. “Not only do they gain a broader perspective of the company itself, they are able to combat what we call ‘remote syndrome’—the feeling people who aren’t located at the home office have that they are less important.”

Tucker also promotes the value of employees assuming jobs outside their traditional roles across the enterprise. “I’m very interested in creating connections and bridges between different employee groups, where they can learn about each other’s work by actually taking on these responsibilities for short periods,” she says. “They learn new things, which helps them become more engaged to their betterment and the company’s.”

Her newest idea is to sponsor a seminar she calls “Cultural Day,” at which an employee who has worked abroad for a period of time leads a talk on the region’s differences. “I’d rather have someone who has just spent a year in Russia telling me what the experience was like, as opposed to taking a class on the country’s market opportunities or challenges,” Tucker says.

Her point resonates. Few people really want to go back to school, despite the added knowledge in the offering. But they value new experiences that make working more interesting and meaningful—and the more they like what they do, the better they will be in performing it.
“Nobody enjoys sitting in a room taking copious notes as some ‘talking head’ instructor lectures on some esoteric subject.”

Wheelwright leads the annual seminar, which involves role playing and other collaborative exercises drawn from Robert Kiyosaki, founder of the Rich Dad Co., a private financial education organization. Kiyosaki is the author of the Rich Dad Poor Dad series of personal finance books, which have sold more than 27 million copies worldwide. In 1985, he acquired Erhard Seminars Training and rebranded the controversial company as a business education firm focused on leadership. He and Wheelwright have collaborated on a book and are close friends.

“Robert’s seminars are not the usual ‘rah rah’ Tony Robbins stuff, not that there is anything wrong with that,” says Wheelwright. “Instead, his seminars are more transformational than instructional, more geared to getting people to engage with others in creative expression. We use his role-playing techniques to get employees to open up and freely express their wildest business ideas. Research indicates that people who participate in such exercises retain up to 90 percent of the experience after two weeks. This compares to 50 percent when engaging in discussions and 20 percent in instructional, lecture-type classes.”

While he encourages the workforce to pursue outside professional education opportunities and the attainment of an MBA, not all academic institutions provide worthwhile programs, Wheelwright says. “Since we’re in the wealth education and accounting business, we employ several CPAs who have to take 80 hours of continuing education classes every two years, which we fund in full,” he noted. “But nobody enjoys sitting in a room taking copious notes as some ‘talking-head’ instructor lectures on some esoteric subject, with a 50-slide PowerPoint presentation of bullet points in the background.”

Wheelwright also advocates the “per-

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**CLASSROOM OPTIONAL**

Many companies augment traditional business education programs with innovative approaches that can help companies inspire employees, address skill gaps and introduce new perspectives on an ongoing basis:

**Leadership training seminars.**
In most urban centers, top experts come to town to host seminars that get people out of their seats to role-play mock business circumstances, like what to do when a competitor brings out a disruptive new product.

**Cross-mentorship programs.**
These harness the learnings of older employees who mentor younger ones, with a quid pro quo of getting some needed technology refreshers in return.

**Peer networks.**
Executives develop relationships and share benchmarks, best practices and advice in facilitated groups that meet in person several times a year and virtually as needed.

**Temporary assignments abroad.**
Employees absorb the nuances of a geographic market’s unique culture, laws, regulations and business practices by spending time at a company office or facility in a foreign country.

**Cross-discipline job opportunities.**
By taking on diverse positions across an enterprise for a short period of time, employees really learn the ropes, helping them become future leaders.

**Open-door gatherings.**
People from up and down the corporate rungs come together as equals to share their experiences and ideas. Game-changing innovations are not confined to senior leadership ranks. The goal is to inspire all employees to bring their most brilliant musings to work. —RB
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sonal replenishment” benefits afforded by sabbaticals. The company provides a paid, one-month sabbatical to employees, which can be added to their vacation time to “really unwind,” he adds, calling sabbaticals a “crucial way to achieve better work-life balance. Employees who remain here while

“My philosophy of executive development is to hire technically competent people and then get them thinking about change management.”

their colleagues are on a sabbatical are told not to bother them unless the issue is critical. We don’t want them to feel stress while they’re away. We want them to rest their minds, absorb new experiences and come back with fresh perspectives.”

FINDING STELLAR SEMINARS
Johnston at QBE North America is a proponent of seminar training—if they’re the right fit. Prior to becoming the insurer’s CEO in May 2016, he was president of the $6 billion U.S. casualty division of the large international Insurer AIG, which he previously served as COO. During his time with AIG, he took a series of leadership seminars taught by Professors Jack Weber and Carol Weber (they’re married) at the University of Virginia’s Darden Graduate School of Business. “It was the most impactful course I’ve taken in my entire career,” he says.

Both the The Wall Street Journal and Financial Times rated the leadership seminars number one in terms of teaching quality and impact among all other university-based leadership development programs. Not only did the seminars give Johnston keen insights into people performance management, they inspired him to become a seminar instructor. “I’ve got a certificate hiding around here somewhere,” he says.

Johnston prefers seminars that take employees out of their comfort zones rather than those designed purely to increase technical competencies. “I have nothing against executive MBA programs, but they tend to dwell on business-as-usual instruction as opposed to looking outside one’s technical competency to grasp what is really going on in the world, in terms of innovative technologies, processes and new business structures,” he explains. “My philosophy of executive development is to hire technically competent people and then get them thinking about change management. I’m a passionate believer that to become an effective leader in today’s disruptive market environment, you need to develop people equipped to handle change and innovate.”

At QBE, this process begins the day a new hire attends the onboarding orientation. “The minute they come through the front door, we put them through a pretty rigorous leadership profile, in which we assess their leadership competency and cultural fit,” he explains. “This tells us where they need to improve and how we should go about it, through seminars for the most part.”

To spread institutional knowledge and stimulate the development of novel ideas, Johnston hosts a monthly morning coffee klatch with a random selection of employees from across the business, everyone from senior executives to administrative assistants. He asks the same question at every gathering—“What can we do to make the company better?”

“Since I’ve arrived here, I’d say half the things we’ve implemented literally came from the ideas that percolated at those morning sessions,” Johnston says.

Ultimately, it’s that idea-generating power that justifies devoting time and resources to executive education. Continuous learning can be a powerful tool in any CEO’s arsenal, particularly when grappling with the single biggest challenge facing leaders today—the need to reinvent their businesses on an ongoing basis.  

Rus Barham is a Pulitzer-nominated journalist and author who writes frequently for Chief Executive.
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Tech Without Tears

Need to speed up your firm's technology metabolism? Scared of a pricey acquisition? Some alternatives. **BY RUSS BANHAM**

Acquiring technology is one of the hottest trends in M&A. Apprehensive over inferior mobile and online platforms, inefficient processes and frightful visions of becoming irrelevant, both tech and non-tech organizations are looking to leapfrog the innovation curve by acquiring proficiency in A.I., robotics, predictive analytics, machine learning, blockchain, natural language processing, image recognition software and the Internet of Things (IoT).

“You can look across literally every industry out there today and see both old-guard companies and new age businesses acquiring tech startups, from auto companies buying autonomous vehicle software providers to retailers buying e-commerce portals,” says Jason Flegel, partner and leader of Deloitte's technology, media and telecom practice. “Unequivocally, this is a major M&A trend with real lasting power.”

A recent survey conducted by *Chief Executive* with Tata Consultancy Services found 72 percent of CEO respondents considering either a merger, acquisition or divestiture in the next three years. Top drivers include new products or services, new markets and new business models. Since 2010, more than 21,800 tech startup exits—or points at which investors like VCs sell their stakes in a firm—have been tracked worldwide, representing a total deal value of about $1.2 trillion.

“Large technology companies have acquired smaller tech companies for years, but what is really eye-opening is the extraordinary number of non-tech companies closing deals,” says Marc Suidan, leader of PwC’s technology, media and telecom deals practice.

The result? Sky-high valuations, of course. Elvir Causevic, managing director and co-head of global investment bank Houlihan Lokey’s tech advisory practice, says the tech startups that come to the firm to represent their sale “are looking for astronomical valuations relative to historical multiples.”

He’s not kidding. 3-D printer maker Desktop Metal, for instance, took 1.79 years from
founding to reach $1 billion, whereas autonomous driving startup Zoox took two and one-half years. Electronic scooter maker Bird jumped from a $400 million valuation to $1.2 billion in under three months.

Further clouding the picture is the tightening debt market. Cheap debt and ample private equity fueled the run in M&A. With rates rising and recent instability in the equity markets, the window for funding is narrowing and not every midsize buyer will be able to buy what it wants.

Luckily, there are other ways to round out your transformations. “Assuming the board and senior management identify what they need and why, they can generally get it in a joint venture or partnership, a licensing deal, or by poaching technology skill sets,” says Robert Hartwig, a professor of finance at the University of South Carolina’s Darla Moore School of Business. “M&A is not the only path toward digital and data transformation.”

Here are three examples of such alternatives, which serve as a prudent counterbalance to risky M&A transactions.

A LICENSE TO LICENSE
Like many midsized companies, W.L. Gore & Associates must compete against larger business entities to acquire innovative startups. The 60-year-old global materials science company is circumventing this obstacle by licensing the patent for a groundbreaking technology.

Gore is primarily known for its GORE-TEX waterproof, breathable fabric membrane, but it also creates medical devices and products for the aerospace, pharmaceutical and mobile electronics industries. While it pursues traditional acquisitions, joint ventures and venture capital investments as part of its external growth strategy, the company also engages in novel patent licensing deals.

“Startups in the medical device space are very high-priced right now relative to historical multiples,” says Paul Fischer, who leads Gore’s corporate development organization. “We’re challenged in acquiring these organizations by larger publicly traded companies that can use their equity to purchase these companies. We need to deploy other creative strategies.”

By licensing an inventor’s patent on a breakthrough technology, Gore avoids the typical pitfalls of an acquisition, chief among them the cultural integration issues. The license also can be exploited to serve different needs. “We can use it to make things, but we can also use it to prevent others from making things,” Fischer says.

With regard to this defensive use, he explains that by owning the patent for a period of time, Gore can block a competitor from moving forward with a new product using the particular technology in its market space, or thwart the aims of a potential market entrant planning to do the same thing. “Patent
licensing has become a large piece of our overall growth strategy,” says Fischer.

The drawbacks are relatively minor. While most patents can be licensed on a 20-year basis, some may require specific use restrictions. “Most times you can license it for whatever you want to use it for; but not always,” says Fischer. Another issue is whether the license provides exclusive use or non-exclusive use of the patent. In the latter case, other companies can also license the patent, limiting its effectiveness as a market barrier. “Universities that develop technologies that accept government research funding can’t provide exclusive licenses,” Fischer notes.

Still, there is more for CEOs to gain than lose from considering patent licensing as a means toward digital and data transformation. While a patent creates an effective market barrier, no company should license a patent it doesn’t expect to actually use.

“Thomas Jefferson opined that inventors of a patent should be incentivized for the betterment of society,” Fischer says. “If you keep it in the drawer, you’re squandering its value.”

**INVEST, LEARN AND BUY (MAYBE)**

Long disparaged as technology laggards, insurance companies are transforming operations from top to bottom using a variety of innovative digital and data technologies. In cases where these tools are not built in-house, they’re obtained from the more than 1,500 insurance technology startups that have sprouted like mushrooms over the past 10 years.

These nimble InsurTech startups seek to either compete against traditional insurers, sell to them, or be acquired by them. For insurers that opt to buy a startup, one way to lessen the risk of a failed deal is to invest in the company first, by way of forging a close partnership. This is the strategy of American Family Insurance (AmFam), a large, 90-year-old mutual insurance company providing property, casualty, health and life insurance products.

In 2014, AmFam launched a separate venture capital fund called American Family Ventures to scout promising investments in early-stage startups. Armed initially with a $50 million war chest, the fund eyeballs InsurTech startups from the seed capital phase through the Series B round, the point where investors take bigger stakes right before the company starts to scale.

“Our approach is to invest in these companies to build a strong relationship, give them some work and, if the time is right, at some point to consider an acquisition,” says Dan Reed, managing director of American Family Ventures. “If we get to this stage, it’s just a much easier conversation to have since we already know them well, and vice versa.”

While most of the fund’s investments don’t culminate in an acquisition, they nonetheless serve the purpose of providing access to innovative technologies that can be used in underwriting, claims management or other parts of the insurance value chain. A case in point is the fund’s investment in Hover, a startup with a machine learning application that homeowners use to assess damage to their property.

Once a homeowner clicks on the Hover app, they’re asked to take pictures of the damage. The tool then stitches together these images into a highly accurate 3-D model that includes accurate measurements for claims purposes. “We invested $4 million in the company, giving us a headstart for our own needs and theirs,” says Reed.

In scrutinizing startups, the fund looks for insurance innovators in product distribution, predictive analytics and the Internet of Things (such as developers of home automation and autonomous vehicle systems). Most investments result in the fund receiving 5 percent to 10 percent of equity in the startup.

Some investments turn into acquisitions. In 2013, the fund invested $5 million in Networked Insights, a startup that ingested social media posts on a massive scale. Using
Natural Language Processing, a form of machine learning, the tool provides unique insights into customer experiences for marketing purposes.

“After we made the investment, we became one of their largest customers. I spent time on their board and helped them raise more money,” says Reed. “As they continued to build out their capabilities, they became a more meaningful partner to us.”

AmFam acquired the company last year, which is now part of its new digital transformation division.

Investments have been made in 54 startups since the fund’s launch. “Ten of these companies have been sold to the likes of Google, Amazon and Apple, providing good returns,” says Reed.

As for the remainder of its investments, the returns are measured in enhanced efficiencies and customer-focused innovations. Says Reed, “The ideas we’re getting from these companies are worth more than what we’ve invested.”

**LOCKING UP A JOINT VENTURE**

Accuform, a developer and distributor of workplace safety signs, tags and labels, has acquired companies in the past. But when CEO Wayne Johnson wanted to develop a high-tech new product, he opted to take a different path. Accuform already offered lockout/tagout systems that ensure dangerous machines are properly shut off before employees service and maintain the equipment. Johnson’s idea was to create a digital locking system that would provide maintenance teams with real-time data over the Internet about the status of equipment repairs. “Electronic locks have been around for some time now, but nobody had designed one specifically for the safety applications of lockout/tagout,” he says.

He learned this fact by scouring the Internet for evidence of a small startup tech company actually making such locks, thinking of a possible acquisition. None surfaced. Lacking the tech resources to design the product in-house, he spoke with a friend who had recently sold his startup technology business and was looking for another venture to stick his teeth into. “I told him my idea and he was intrigued,” Johnson says. “He understood both safety and technology and happened to know a design group in Taiwan that could develop the Internet-enabled software inside the lock.”

The two men met with representatives of the Taiwanese company. This past summer the three parties inked a joint venture to make the novel electronic lockout-tagout system, which Accuform would brand and market. The Taiwan-based company is a silent partner in the deal. “We put together an MOU (Memo of Understanding) where we’d share in the design and development costs and split the eventual revenues,” explains Johnson.

The partners established a one-year deadline to bring the product to market in summer 2019. The Taiwan-based technology provider is in charge of design and development and will manufacture the product in Taiwan and ship it to Accuform in Brooksville, Florida. The other two partners are in charge of sales and marketing in North America and globally.

The design is now completed, and a prototype is ready for testing. Once the tests conclude, Accuform will reach out to the Occupational Safety and Health Administration (OSHA) for regulatory approval. Since the agency’s current standards don’t address an electronic lockout-tagout. The system is designed for user access via an electronic key as opposed to a traditional metal key that goes into a padlock,” Johnson explains. “It works just fine, and we have no qualms. We just need OSHA’s buyoff, which may involve some additional tinkering.”

From Johnson’s perspective, the arrangement is far more palatable than buying a company outright and attempting the messy business of integration. “From a risk standpoint, [acquisitions] are a much bigger bet than simply partnering up,” says Johnson. “A JV is much simpler and less risky.”
CARE AND FEEDING OF YOUR NEW TECH DARLING

Given the failure rate of many mergers, CEOs should be wary of overconfident estimations of top line “synergies.” This is particularly a problem if the buyer and seller are as different as day and night.

Such is the case when an old guard manufacturer, industrial concern or retailer acquires a tech start-up populated by highly creative millennials collaborating into the wee hours. “While all companies should approach the acquisition of a tech startup with a fair degree of skepticism and reserve, this is especially the case when a non-tech company is the acquirer, given the cultural differences,” says Robert Hartwig, a professor of finance at the University of South Carolina’s Darla Moore School of Business.

He pointed to the post-transaction issues that arose following Walmart acquisition of Jet in 2016. “Jet’s young employees reportedly did some of their best creative work after-hours over a few beers,” says Hartwig. “Walmart subsequently banned alcohol at the office, resulting in the two cultures clashing.”

“The reason a lot of tech startups succeed is their atypical culture,” says Harsha Madanavvar, managing director and partner at global consultancy L.E.K. Consulting, where he leads the firm’s technology, telecom and private equity practice. “If you buy a startup with a few dozen smart, innovative people who thrive in an open environment and then force them into an authority matrix with bureaucratic layers of approval, they’ll become disconnected and shut down. There goes the deal’s value.”

People who work at a tech startup buzz to the thrill of creating something new and meaningful. Free from the constraints of traditional corporate bureaucracies, they are able to challenge customary norms of business. Take that away, and they’ll seek to find it elsewhere. “People at a tech startup are less interested in the financial part of an acquisition than in their continuing ability to control their own destiny,” says Barak Ravid, managing director and co-head of EY-Parthenon’s global technology, media and telecommunications practice.

Keeping the startup intact and at arms length is one way to address the problem. This was the decision Ultimate Software made upon its 2016 acquisition of Kanjyova, a leading workforce intelligence and analytics platform. In integrating Kanjyova’s product line into its suite of cloud-based human capital management solutions, Ultimate retained the startup’s personnel and its San Francisco office as its West Coast hub. “We were a tiny 30-person company and their executive team treated us like we were IBM,” says Armen Berjikly, senior director of growth strategy at Weston, Florida-based Ultimate Software.

To nurture a personal connection between the companies, Ultimate Software’s CEO Scott Scherr and senior executive team traveled to San Francisco to spend time with those 30 employees, plus interns. “Scott created a comfortable familiarity, making the integration seamless,” says Berjikly.

Another factor in the deal’s success was openness about what was happening from the get-go. “In most acquisitions, few people other than the target company’s CEO and senior leaders are aware of the deal; when everyone finds out, it’s shocking information,” Berjikly says.

This combination of empathy and openness offset the anxiety that permeates many acquisitions. It also addressed the risk of people fleeing the combined company for bureaucratic reasons. “Some acquirers have this ‘know it all’ bravado that humbles the startup, sucking the spirit out of its people,” Berjikly explains. “It’s not uncommon for the acquirer to say ‘we think you’re great, and we love your innovations, but now do things our way.”

Ultimate took a different tack. “Ultimate understood a ‘people first’ culture was crucial,” says Berjikly. “We were assured we’d be able to retain the freedom to operate in the ways that had made us successful. An acquirer maximizes value from the bottom up, not the top down.”
With its urban areas on the upswing, the nation’s southwestern corner is alluring for the tech and financial sectors. **By Craig Guillot**

**The Southwest Continues to**

attract businesses with a strong workforce, business-friendly environment and a high quality of life. The proximity to the West Coast coupled with the lower costs are also making it an alternative for many tech and finance companies. Several cities here, including Salt Lake City, Phoenix, Austin and San Antonio, are among the fastest-growing in the country.

**1 Texas**

**Expanding Metro Areas Driving the Lone Star State**

Texas is only getting bigger. Several Texas counties were among the top 10 largest population-gaining counties in the country in 2017, and the Dallas-Fort Worth-Arlington metro area’s population growth of 146,000 residents was the largest of any metro area in the U.S., according to the Census Bureau. It’s being driven by and fueling new economic growth, says Bryan Daniel, executive director of the Governor’s Office of Economic Development and Tourism. “It’s pretty exciting from an economic standpoint. We have multiple of these metro areas in the state, and they could all compete nationally on their own,” Daniel says.

There has been a diverse range of expansions across the state. In November 2017, Liberty Mutual Insurance opened a one-million-square foot campus in Plano that will support 5,000 jobs. Gartner announced an expansion of its Austin operations in December 2017, and Cognizant opened a delivery center in Irving in August 2018.

Many companies, including those in energy services and in financial services, in Texas are spinning traditional industries into new technologies. “We’re seeing technology from some pretty traditional industries being applied to other things and creating new opportunities. A lot is being driven by the [talented] workforce,” Daniel says.

One major benefit of that relatively
ARIZONA

Driverless vehicles are welcome in Arizona, where the autonomous vehicle company Waymo performs more road testing than anywhere else in the country.

young workforce is that it gives companies a sense of “longevity” that they’ll still have the talent they need in the future, says Daniel. And while the Lone Star State is already known for its business-friendly environment, the stability also gives companies trust in long-term investments. “There’s no state overreach in changing the rules once the game has begun. We lay it out upfront and companies know what they need to do, and they’re able to build that into their bottom line,” Daniel says.

A NEW PROVING GROUND FOR AUTONOMOUS VEHICLES AND FINTECH

Phoenix is now “America’s proving ground” for autonomous vehicles, says Chris Camacho, president and CEO of the Greater Phoenix Economic Council.

In March 2018, Gov. Doug Ducey issued a new executive order clarifying that driverless vehicles are allowed on Arizona roadways. More than 600 autonomous vehicles already operate across the state. In May, Waymo, formerly the Google self-driving car project, entered a deal to acquire up to 60,000 vehicles from Fiat Chrysler. And in August, it expanded its footprint in Chandler to prepare for the debut of what may become a national public ride service.

In October 2018, the state launched the Institute for Automated Mobility, a consortium focused on autonomous vehicle research, policy and safety. This open regulatory environment, along with the strong pool of engineering talent, offers a perfect location for autonomous vehicle growth and development, Camacho says. “It’s the kind of pioneering attitude of Arizona being a place where companies can come here and test with minimal regulatory oversight,” he adds.

In March 2018, Arizona also became the first state to adopt a “regulatory sandbox” for fintech, blockchain and cryptocurrency companies. The program allows companies to test their products for up to two years and service as many as 10,000 customers before requiring formal licensure. Roughly three dozen companies, including Voya, State Farm, Farmers Insurance, Charles Schwab and Northern Trust have shifted operations to greater Phoenix in the past three years. “There’s this immense level of activity going on in new/emerging technology spaces tied to autonomous vehicles, blockchain, fintech,” Camacho says. “We’re becoming a hub for many of these things.”

UTAH

EXPANDING THE SILICON SLOPES

Utah’s economy has experienced strong growth in recent years, and several projects are expected to carry that momentum through 2020. The $3.6 billion expansion of the Salt Lake City International Airport, one of the largest of its kind in the country, hit the halfway mark in November 2018. A study by GSBS Consulting found the ripple effect of the project alone would inject $5.5 billion into the local economy and create more than 3,300 jobs per year. The new expanded facilities will also accommodate more direct domestic and international flights.

More than 4,000 acres of undeveloped land adjacent to the airport and at the crossroads of I-80, I-15 and railroads, are also attracting the interest of investors. The state is developing an inland port meant to help alleviate some of the pressures off coastal ports and give manufacturers and distributors more accessible logistics, as well as the ability to go through customs in Salt Lake City. “We’re going to have tremendous opportunity for companies to locate where they can take advantage of the logistics and what the port will offer,” says Val Hale, executive director of economic development.

The final piece of the puzzle is the relocation of the Utah State Prison. Built in 1951 at a time when the area was sparsely populated, its relocation by 2020 will open up 700 more acres of prime real estate in the heart of the Silicon Slopes.

Several high-profile transactions have
ARKANSAS

Headquartered in Little Rock, Bank OZK is a powerhouse lender in construction and one of several financial services players fueling the state’s economy. SAP announced an agreement to acquire Provo-based Qualtrics for $8 billion. Local companies Domo and Pluralsight also went public in 2018. Adobe also announced in July 2017 that it would invest an additional $90 million to build a new facility in Salt Lake City and double its workforce. “The airport expansion, the inland port and the prison site are all coming online at the same time,” Hale says. “It could be a huge boost to our economy.”

NEW MEXICO

NEW NATIONAL MEDIA HUB IN THE SOUTHWEST

The world’s largest media company is bringing new excitement to the Land of Enchantment. In October 2018, Netflix announced the acquisition of Albuquerque Studios and committed nearly $1 billion in spending over 10 years as part of its incentive package. The deal is expected to create more than 1,000 film and television production jobs per year.

The deal is a result of targeted incentives and diversification initiatives instituted in recent years, says Matt Geisel, cabinet secretary of the economic development department for New Mexico. The state scored its first big win in 2016 when Facebook started constructing its $1 billion data center at Los Lunas. The Netflix deal is expected to continue the momentum. “It really speaks to the power and importance of playing the long game of economic development,” Geisel says. “We always stayed committed and focused on it and now look what it’s producing.”

New Mexico is also growing an innovation ecosystem with state-level tools and initiatives in partnership with three national labs and research institutions, including the University of New Mexico, New Mexico State and New Mexico Tech. The Innovation Vouchers program offers micro-grants for nascent technologists, entrepreneurs and startups to help overcome business development barriers. “There’s a lot of velocity in the innovation space and a strong level of excitement with the community really rallying around entrepreneurs,” Geisel says.

ARKANSAS

SPREADING ECONOMIC GROWTH STATE-WIDE

Officials in Arkansas are trying to spread economic growth beyond Little Rock and the northeastern part of the state, says Mike Preston, executive director of the Arkansas Economic Development Commission. In March 2018, Gov. Asa Hutchinson announced the Competitive Communities Initiative to help expand economic development organizations and funding to foster the workforce and product readiness. “While things are going great in the state, we don’t want to rest on our laurels and pat ourselves on the back for too long,” Preston says. “We want to be ready for the next project with each of our communities at the height of their competitiveness.”

One of the fastest-growing sectors in Arkansas is financial services, Preston says. Little Rock-headquartered Bank OZK has grown to be the largest construction lender in the country with more than 3,000 employees and 250 locations in 10 states. Homegrown financial technology company FIS has also experienced strong growth and now has annual revenues of more than $8.7 billion and 52,000 employees around the world. “The momentum in financial services here is pretty exciting and these companies are staying [in Arkansas] as they grow,” Preston says.

The momentum is also boosting the state’s fintech scene. The VC Fintech Accelerator program works with early-stage fintech ventures to grant monetary investments along with in-depth mentoring and feedback from FIS executive leadership and leading financial institutions. The third
round of the program accepted 10 startups from 281 applications from 47 countries. “A lot of them are smaller businesses with anywhere from two to thirty employees, but these startups could someday grow into the next FIS or Bank OZK,” Preston says.

COLORADO
THE GREAT OUTDOORS AND GREAT ECONOMIC OPPORTUNITIES
A state report released in October 2018 found the value of Colorado’s outdoor recreation industry has doubled over the past five years to $62.5 billion and now supports more than 11,000 jobs. Colorado opened its Outdoor Recreation Industry Office in 2015 to help economize outdoor companies and in January 2018, Denver hosted its first Outdoor Retailer trade show, the largest of its kind in the world.

VF Corporation, the parent company of brands like JanSport, The North Face and Smartwool, announced in August 2018 it will move its headquarters and at least 800 high-paying jobs to Denver in 2019. “It really comes down to alignment,” says Sam Bailey, vice president of economic development at Metro Denver Economic Development Corporation. “We have worked to align what has broadly been known as our state’s ethos and recreation and converted it to a business asset.”

The Denver metro area has been upgrading its infrastructure to accommodate growth. In June 2018, Denver International Airport broke ground on a $1.5 billion gate expansion to extend all three concourses. A new development district adjacent to the airport is set for an estimated $110 million in spending with new office buildings, smart infrastructure and amenities that could attract an estimated 10,000 people per day. “It’s not just for the deal today, it is for the company’s connectivity that they are going to need in the future,” says Bailey. “For our entire region to be more global in that sense.”

OKLAHOMA
NEW HEIGHTS IN AEROSPACE
Recent investments are keeping aerospace as a driving economic force in the Sooner State, says Deby Snodgrass, executive director of the Oklahoma Department of Commerce. A recent report by the Oklahoma Aeronautics Commission found the sector is now the second-largest in the state with an annual impact of more than $43 billion.

New investments and expansions are being announced. In August 2018, Valkyrie Systems Aerospace (VSA) announced it would bring its aircraft manufacturing and flight operations to Oklahoma City and create at least 352 high-paying jobs in the next five years. Kratos Defense & Security Solutions cut the ribbon on a 100,000-square foot unmanned aircraft production facility in November 2018. “Today, Oklahoma is home to five military installations and claims the largest commercial and defense MROs in the world,” Snodgrass says.

There have been notable investments in other sectors as well. Paper manufacturer Sofidel Group announced in March 2018 a $360 million, 1.8 million-square-foot plant in Inola. Alfa Laval, a Swedish manufacturer of spiral and air-cooled heat exchangers, announced in late-2017 a facility expansion and 150 new jobs in Broken Arrow.

One challenge the Sooner State now faces is ensuring they have to talent to support continued expansions, Snodgrass says. To help address the issue, the state pioneered the Aerospace Engineer Tax Credit, which offers an annual $5,000 tax credit to newly hired engineers for five years. Aerospace companies hiring engineers also receive a tax credit equal to five percent of the compensation paid.
THE AARs HAVE IT

IN THE 1980S, THE U.S. ARMY FACED a major task to rebuild its forces into cohesive fighting units in the wake of the Vietnam War. Wracked by drug abuse, racial strife, poor morale and a decline in confidence, the 200-year-old U.S. Army embarked on a widespread rebuilding effort to change its culture. To help, they instituted an innovative method of reaping the "lessons learned" from training exercises: The After-Action Review.

It represented a shift away from the preeminence of rank and established doctrinal methods. AARs called for generals and colonels to listen to lieutenants and sergeants about how and why battles were won or lost. The results astounded even skeptics.

How to AAR

AARs can be formal or informal. Major initiatives require formal AARs with careful planning, preparation and execution. During the planning phase, the team leader sets the time and place for the AAR and identifies a facilitator and recorder.

Facilitators are critical. Typically respected members of the organization, they are not directly involved in the activity under review. The recorder, meanwhile, captures the lessons learned and changes for future operations. He or she then disseminates these results throughout the organization.

Careful preparation is also key. The team leader will review the goal of the operation, gather the facts on what actually occurred and disseminate them to the team. He or she makes every effort to include AAR participants from all levels of the activity under review to gain diverse insights.

Lastly, the team meets to, with the help of the facilitator, answer four questions: what was the goal, what happened, why did it happen and how do we do it differently?

Experienced facilitators become adept in "peeling the onion" of an activity, bringing all the factors that impacted the initiative's outcome to light in a constructive manner.

The team must engage in a focused, frank and inclusive discussion. Together, they identify three critical actions that contributed to positive results and should be continued, and three that hindered the operation and should be eliminated. Lastly, they agree on three changes in procedure, process or policy to improve future performance.

What's Most Important

Successful implementation requires one more essential element: The courage to be honest. For several years, I taught a class on AAR at the University of St. Thomas in Houston to students employed in small businesses, large energy corporations and entrepreneurial ventures.

When I asked how many believed that the AAR could improve productivity and promote a collaborative culture, nearly everyone raised their hands. But when I—reminding them that I was a guest lecturer who did not impact their grades—asked how many would like to see the AAR implemented at their organizations, less than half raised their hands. Why? Their response: "Do you really expect us to be honest in this kind of a review, especially if we are examining a failed initiative? We would never risk making such an admission in front of our peers or superiors."

My next question typically brought about a thoughtful silence: "Do you really want to remain in an organization in which you cannot be truthful?"

It's a good reminder of the most important part of the AAR process: It becomes even more rewarding when the leader admits that his or her guidance to the team lacked clarity, provided too few resources or failed to allow sufficient time for the project. Team members will quickly follow with their own shortcomings and insights when they observe their leader's humility. And the organization will grow as a result.

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Dr. Robert Ivany (Major General, U.S. Army retired) was Commandant of the U.S. Army War College and president of the University of St. Thomas in Houston, Texas. He is currently a faculty member of the Thayer Leader Development Group at West Point.
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