Creating Real Value with Judy Samuelson

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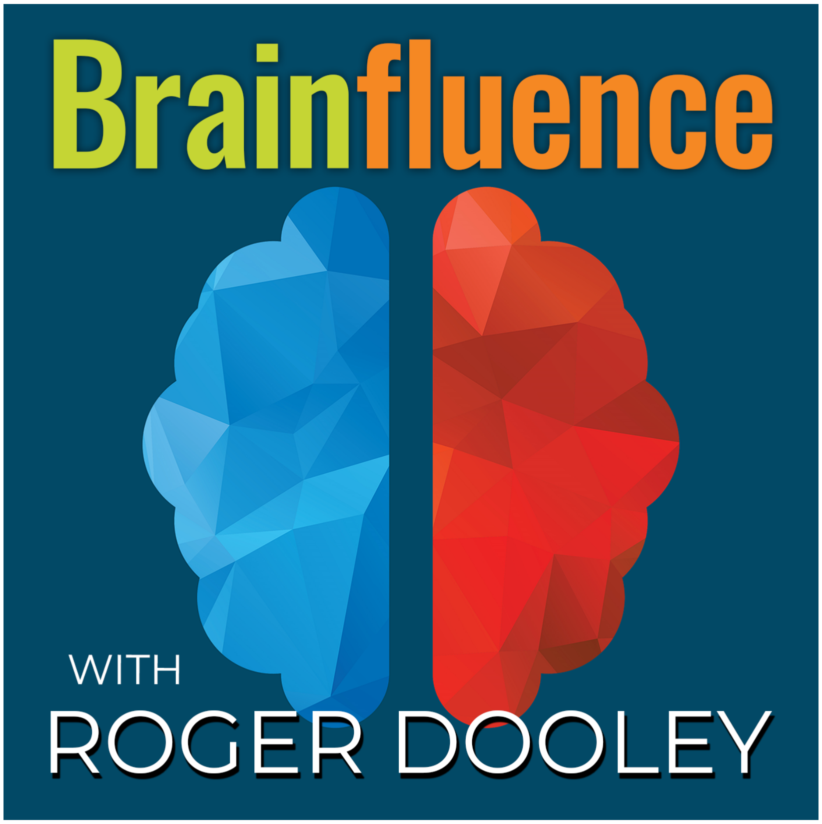

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The Brainfluence Podcast with Roger Dooley

http://www.RogerDooley.com/podcast

Creating Real Value with Judy Samuelson

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Welcome to Brainfluence, where author and international keynote speaker Roger Dooley has weekly conversations with thought leaders and world class experts. Every episode shows you how to improve your business with advice based on science or data.

Roger's new book, *Friction,* is published by McGraw Hill and is now available at Amazon, Barnes & Noble, and bookstores everywhere. Dr Robert Cialdini described the book as, "Blinding insight," and Nobel winner Dr. Richard Claimer said, "Reading Friction will arm any manager with a mental can of WD40."

To learn more, go to RogerDooley.com/Friction, or just visit the book seller of your choice.

Now, here's Roger.

Roger Dooley: Welcome to Brainfluence, I'm Roger Dooley.

Today's guest is a bit of a departure from our usual roster of marketing-thought leaders and human behavior experts, but she brings a message that will resonate with any business person who's trying to achieve long-term success. Judy Samuelson is a vice president at the Aspen Institute, and is founder and executive director of their business and society program. For 10 years, Judy has been trying to disrupt Milton Friedman's narrative about corporate purpose and create a focus on building long-term value. She previously ran the Ford Foundation's Office of Program-Related Investments. Judy's new book is, The Six New Rules of Business: Creating Real Value in a Changing World. Welcome to the show, Judy.

Judy Samuelson: Nice to be here, Roger. Thanks for having me.

Roger Dooley: Now, Judy for starters can you explain a little bit about what the Aspen Institute is and does?

Judy Samuelson: It depends on what part of it you touch. It's a significant organization. There are probably 50 different programs that are housed within the Aspen Institute. I think of it as doing two things. One, it through dialogue addresses long-term systemic problems, freeing people to cross different points of view and life experience to wrestle with the problems and define the solution space and help communities move forward. And then it's also very much about leadership development, identifying change agents inside institutions to drive toward institutional change, and better equipping them with both the courage and conviction to drive change. So, our work is about business and it's about aligning business decision-making for the longterm health of society. And we work through both leadership development and dialogue on this quest.

Roger Dooley: One thing that was unusual about your bio, Judy, was that you talk about disrupting Milton Friedman's narrative, and that's not something you usually see in a bio. I'm curious, I'm sure that our listeners and viewers know that Milton Friedman was a famous Nobel Prize winning economist, but explains a little bit more about why he is important to your mission.

Judy Samuelson: Well, exactly 50 years ago, this last September, he pinned an article in the New York Times Magazine that went viral, whatever we would have called going viral 50 years ago, it went viral. And it literally went viral in the sense that it grabbed the attention of scholars who worked in business management, and thinkers who were trying to figure out how do we get to a better place in business? We're talking about the US now, we're trying to see US corporations facing more global competition, felt a little bit like they were losing their way, or we economists would say they were too fat or not somehow continuing to move at the pace of growth as we had witnessed since the close of World War II. And so, it was a reckoning, shareholders weren't happy. And Milton Friedman's concept was basically put profit at the center of the enterprise. It's a single-objective function. Think about shareholder-value maximization, and everybody will benefit in the long haul, but stay focused very on the singular objective of profit maximization or shareholder-value creation.

So the reason it's important to our work is it... Ultimately, single-objective functions don't end up well, whether it's shareholders who you're focused, even on consumers, to the extent of closing out the other critical inputs to the health of the enterprise. Successful companies are more complex than that. And as I write about capital, financial capital is no longer the scarce resource. It's really culture, it's the value of employees, it's all of these intangible assets that really drive the valuation of firms where financial capital is no longer as scarce as it was when Milton Friedman was writing. And so the idea of somehow orienting the company around shareholders as being the most valuable "stakeholder" is in fact an invitation to externalize costs onto other critical parts of the puzzle. So that's why we've been working to disrupt shareholder primacy for a long period of time, and the needle has moved on that.

Roger Dooley: Yeah, I should point out to our audience that despite your last name, you are not related to Paul Samuelson. I verified that one before we began recording, but you are apparently carrying on the work of Friedman's nemesis. I wonder though, when we talk about shareholder value and profits, I'm wondering if really what we're talking about is more of a timeframe difference, because certainly seeing how attempts to maximize short-term profits can lead to disastrous results for organizations. And I'm thinking things like Wells Fargo's scandal, which I would never would have anticipated in a million years, in a company owned by Warren Buffett, that there would be this systemic-corrupt practice going on, just astonishing to me. And there are certainly any number of other examples, when you talk about Enron as being a very bad actor in the book, rightly so. But in just about every, these companies were not really trying to build what I considered to be a valuable company, they were trying to maximize this year's profits or this quarter's profits, or maybe next, or get something-

Judy Samuelson: Or managed the stock price.

Roger Dooley: Bonus next year. Yeah.

Judy Samuelson: Manage the stock price, which is consistent with how we reward leaders. And that's not surprising that that's front and center for them. You remind me of... This was many years ago when my father was still alive. And he was driving me to the airport after visiting my parents for a weekend. And he goes, "What's this thing you're doing now?" And I tried to talk about it, and sustainability and yada, yada and companies and how important they are to have them at the table. And I was getting all wound up in trying to figure out how do I get through to this then 80-something-year-old. And he stopped and goes, "Aren't you really just saying companies ought to take a long-term view?" Yeah, that's what we're saying. If you're really oriented to long-term value creation, you start to see the lines converge between the health of the enterprise, if you want to define the health of the enterprise as inside the gate, or it only extend to the enterprise itself.

But the line start to converge on that with all of these other things that are absolutely critical to the ecosystem of the enterprise, whether it's access to natural resources, whether it's the license to operate in whatever community you choose to land your business and would like to be able to operate from. These things, that's where the lines converge. That's why we always... You talk about that company's seventh generation, that's all about sustainable products. They named that out of this notion, that Native American ideal of the Iroquois, that you need to be always thinking seven generations out, and thinking about decisions, how do they land for people who are going to be coming after you? And if business leaders had the incentive and the presence of mind and the ability to stay focused on that, we wouldn't have a problem.

Roger Dooley: I think it depends on who you believe your investor to be. If you think your investor is Warren Buffett, you have a different strategy than if it's Carl Icahn, where if Carl Icahn sees a pile of cash on your balance sheet, he's going to try and figure out how he can distribute part of that to himself and the other shareholders, where Warren Buffett really is concerned typically about building the long-term value of that company, that year after year, it's going to be worth a little bit more, maybe not in a linear fashion, but it's very different approach, I think. And I think to some degree, we've turned our CEOs into more Carl Icahn-type owners, simply because they're given options or shares and a probably short fuse. And they could make a lot of money if they produce short-term results. And it's probably many, there aren't necessarily short term thinkers, but good grief, if you can make tens of millions of dollars by making something happen in the next 12 months, chances are you going to try and make that happen.

Judy Samuelson: Well, and as long as the stock is the single loudest signal, the pay package, that will continue to happen. I do write about that as being... This is a time of remarkable change and there are forces that are driving business forward and let's take account of those, but there are things that are holding us back, and the design of C-suite pay is one of them.

Roger Dooley: Well, I think too, you have a great sentence in the book, "The duty of the directors is to ensure the health of the enterprise." And to me, it's such a simple statement, but it encompasses so much of what we're talking about. And I guess I tend to look at things a little bit more, maybe not from a global view in terms of, well, how is this company benefiting society? But I think that the same kind of short-term action and thinking affects customer experience and employee experience negatively, there are so many things that companies could do to improve customer experience, which is going to be important for the longterm health of the enterprise, but they don't do it because that's expensive. And we see that, I think probably there's a great example in the airline industry.

You talk about the wonderful examples set by Southwest Airlines and Herb Kelleher, where they do take that view of focusing on the customer, focusing on the employee and then letting the shareholders go along for the ride, and contrast that with the other big US carriers, where they're constantly trying to squeeze more seats onto the airplane, cram people in more, actually making for a worse customer experience, at least for their basic products. And often don't treat their employees all that well too. To me, that's-

Judy Samuelson: Well, but there's another great example of that today. It's not just Southwest, although I do write about Southwest, and they are classic example of a company... Herb Kelleher, who built that company, he understood that the heart of his success was really to focus on the employee and their wellbeing and their spirit of engagement and they're then what we would expect, which is superior customer service and a fun experience flying. That was the notion that he put forward. But Delta came around, coming out of bankruptcy years back now, they created a profit-sharing plan that was remarkable where everyone participated, from the grounds crew to the pilot, and really changed the idea within that enterprise about who matters. And they touched on the culture and rebuilt the culture in a way that has allowed them to produce superior results now.

We'll see what happens when we come out of this period of time where nobody's making money in the airline business, but they're staying their course and doing important investment during this period to increase their ability to maximize the benefit of enterprise after we come out of it. So, it is about the enterprise, the corporations, the board's responsibility legally is to the health of the enterprise. The end of the corporation in the US owns itself, it is not owned by the shareholders. The shareholders own shares of stock with important but limited rights. And they're all over the map. They are not aligned with one way of view. You mentioned Warren Buffett, and what a great example. And of course he has fostered many copycats and many funds that operate with a Warren Buffett-esque approach to value creation and long-term investment, but we've got a lot of other investors.

You mentioned hot Carl Icahn. A lot of the noise in the system is very much about short-term thinking. And so, even though we're living in an age where there's a lot of conversation about impact investing and social-responsible investing of different kinds, that system is not really designed to move us forward. We're much better off focusing in on employees who are as a group aligned with the longterm health of the enterprise. There's much more harmony between what employees are looking for and what looks like a robust strategy and ability to see both risk and opportunity for the company.

Roger Dooley: Yeah, I'd add to that too, that in the last rankings I saw customer experience ratings, Delta was significantly better than American and United. They ranked up much higher and they are also, even coming through the pandemic, they have been doing things like blocking the middle seat for much longer than their competitors, which as a flyer, I have not flown in a year, so probably not the person to ask, but I would certainly feel much more comfortable flying with the middle seat vacant under these conditions than sitting 18 inches away from a person I don't know, or don't know where they've been. So, Delta really seems to be changing their focus. And

I've been a United 1K for years and years, but with this reset with the pandemic, I've been considering, "Gee, should I really switched to Delta perhaps," just based on the kind of thing you're talking about, because if you're going to jump, you know how those golden handcuffs work, it's not so easy to change airlines, but this would be certainly the time to do it if you were going to-

You also talk about how employees can be your allies in a changing world. And I think that's a conundrum, in the US at least, where when we tend to of unions as highly adversarial, where they will protect even bad employee behaviors simply because that is their job. And I guess maybe the most extreme example is some of the recent revelations about police unions. But I think even in the industrial world, we do see that, that they are generally not trying to improve the company's results or productivity, they are simply advocating for their members' financial interests. And that to me, it has the almost same kind of downside as the company advocating for its own financial interests, if you're not looking for that one from health.

Judy Samuelson: I wouldn't stereotype labor unions any more than any other particular organization, but the old rule was that employees are a cost of operation. And as the stock market wants you to, minimize all costs, make sure that... So every time, you a company announces either a pay raise or during the pandemic, the desire to continue to pay a pandemic premium, the stock price goes down. Google says, "We're going to add 15,000 employees," the stock price goes down. Walmart says, "We're going to raise wages," stock price goes down. These things are not in harmony. They don't tend to last very long, that's a short-term reaction to those things, but employees today are not a cost of operation, they are the company. And if there's anything the pandemic has shown us, it's shown us this human side of enterprises and who matters most in terms of staying at the complex work of delivering goods and services, it's the employees, they're the ones that are taking the risk.

And they're the ones that take the most risk, not investors, about the long-term health of the enterprise. And so, employees today are your allies. They in fact are in an unusual situation, partly because of the change of generations, and millennials flooding into the higher responsibility in the workplace, but it's probably always been the case. Employees are in the best position to see the risk to the enterprise and also the opportunities. If we harken back to the conversation about quality management, which hit its peak in the United States in the '90s, the idea is that you empower employees because they're the closest to the action on the factory floor. They're best equipped to say what... Give them the power to say, "We need to stop production because we see something that's wrong."

Think about the O-ring disaster, the Challenger. Or think about, of course, this horrible years now that we've been living through with a daily amount of Boeing and the tragedies that ensued because of their unwillingness to listen and stop and pause and say, "These airplanes are not ready." And so, that's a real... I call it accountability from the cafeteria. Employees because of their adept use of social media, their greater willingness to play a bridge between the issues that they think about that are connected to the health of the community in which they reside or the planetary health that they relate to, and to a much greater degree, the generations that maybe have come before, they in fact are the best equipped to identify risk. And then of course, to also see where the opportunity is in building an enterprise, it really speaks to these questions for which the employees are passionate, and increasingly CEOs are asked to mirror that sentiment and also show leadership in these domains. That's a game changer, that has changed tremendously in the last decade and will continue to do so.

Roger Dooley: Mm-hmm (affirmative). How do you resolve a conflict? One example you cite in the book, Judy, that I was wondering about was Amazon and their facial recognition technology, which employees protested that Amazon was offering this to government agencies. I think there could be an argument there that, okay, some people find facial recognition scary, but you could have other people saying, "Well hey, for our national security, it's important that Homeland Security have this, that we can identify potential terrorists or criminals entering the country," and this sort of thing. But there's more of an emotional reaction by employees saying, "Well hey, this is bad. It could be abused by police departments," for example. How do you sort out this kind of conflict where you can't necessarily agree?

Judy Samuelson: You treat it like any other business problem. You listen deeply, you bring people together who can help you understand different perspectives and who will help you see the things that you can't easily see. And I think employees, we can no more generalize about employees than we can any other category, but it is helpful to have employees who are willing to speak to risks that typically would not be seen by the company that is eager to sell a product. That is added value because then you can get into the nuance of what works and what doesn't work. And we certainly have seen it at Amazon, we've certainly seen it at Facebook where it was the employees who were willing to drill down into these questions about interference in elections, back to the 2016 election, and were the ones to bring that forward.

The executives didn't necessarily want to hear from them, but they were the ones to raise it. This most recent moment in the wake of January 6th, where companies essentially hit the pause button on political spending in the US. They did that because their employees started raising the questions. That is another example of, is this complicated, is there only one way to do things? No, but hitting the pause button in response to the employee's concern that corporation's money was actually contributing to the denial of the election results and to things that the employees, by and large, think are out of sync with the values of the enterprise and the health of the country. So employees can think about these things together, but they can also be a bellwether for, "What are we facing as we move outside of the gate and make sure that we're operating in a robust way, vis-a-vis our license to operate?"

Roger Dooley: Are there any good examples of us companies that have a good partnership with their employees? Companies in Europe often have employees, sometimes they're legally required to, have employees sitting on their board. That is not the case here in the US. And I think that many US managers or executives would kind of look askance at that practice, but are there some good role models in the US?

Judy Samuelson: Well, I certainly would elevate Levi Strauss as a great role model. Levi's has been up and down as it has matured and ultimately moved off shore, like all of the other garment companies, or textile companies in order to stay alive, to make sure that their cost structure was consistent with the cost structure of the industry as it evolved into global operations. And I think because Levi has been a family-owned enterprise for most of its long now life, dating back to the 1800s in California, I think that they always had a generous attitude toward employees and workers. And I think what we've seen today in the current management of Levi Strauss under Chip Bergh, he came in both to resurrect the brand in some respects and invest in the brand and reset some of the protocols and assumptions about operations.

And they moved through that period, but they also unleashed because they are a employee-centric enterprise, and one that is eager to hear from others, and can embrace innovation that emanates from the employees. And so they just hit it out of the park, time and again overtaking the next move that allows them to elevate practices on their industry, whether it's about human rights or labor standards, or environmental costs of operation and how to reduce water usage and reduce use of chemicals in distressing denim and all of these myriad ways in which any complex global enterprise is both potentially deeply influential, but also has great cause without being very attuned to what those are and how to manage through them. So, I think there's a lot of examples, but that one definitely comes to mind.

Roger Dooley: How do you see automation fitting into this? Because of late, we've had a lot of debate about minimum wage laws and just in general, what wages should be. And it seems certainly probable that if some companies are suddenly paying their workers a lot more, then automation will become more affordable. And there are other thinkers, I've had Tom Peters on the show a few times, and he really feels like there is an automation apocalypse coming for, now white-collar employees, not just factory workers being replaced by robots. What is the value-creation approach to using automation?

Judy Samuelson: I don't know what the value-creation approaches is using automation, but I do think that there's a need to step back and reflect on, "What's our philosophy here? What are we really advancing? And what makes sense for our enterprise and beyond our enterprise? What are the ethics of this question that will take us into understanding what are the unintended consequences here that we need to be attuned to?" I think there's a host of questions that a thoughtful business would engage in as we start to replace more laborers with machines. So I think there's a lot of questions that are relevant here, but it speaks to the larger question of what's the philosophy of the enterprise toward work? When I got out of college, there were two responsibilities of companies, pay taxes and create jobs.

Neither of those can be taken for granted today. Taxes has been viewed as a cost center, just a cost to reduce or eliminate if possible. And the job creation question is up for grabs. We have so many companies... Somebody told me recently, I think this is documentable, that half of Google's real employees are contractors. That force them rotate them through, you don't have permanence because if you were then you'd be tripping the federal law in terms of what's considered an employee, what's considered a contractor. There's obviously a lot of foaming about this, but taking a job and putting somebody on contract is removing them from the security and the benefits and the opportunity for advancement and skill development, that simply doesn't happen when you're siloed into an intermittent contract relationship around delivery of a very specific skill or knowledge.

That's a big question as well. It's not just about automation, it's about what's the nature of work and what matters to the ecosystem of who we are? What has to be true in order for this company to flourish over the long haul? That has to go beyond the dollar-and-cents measure of success inside the company.

Roger Dooley: It seems like a lot of the questions that you're raising, Judy, are a matter of percentage too, where you're talking about contract employees. If a big profitable company has fewer than half of its employees, for example as being real employees and the rest are all contractors, that seems kind of extreme. On the other hand, I could see a well-run corporation having some percentage. I don't know what the number is, 5%, 10% as contractors because they're operating at the fringe on those projects that may not have a long life, or they're doing tasks or work that aren't necessarily part of the company's long-term mission, or they're in a highly-uncertain environment, and all these things why you might have a contractor.

But another example, I think is the resources that a company devotes to, say, non-profit activities. And you give a wonderful example of Merck in there who has funded for decades now, I guess, at least one drug that makes the company no money, but it cures a very tragic disease, and the company simply taking it upon itself since nobody else was willing to take on this role of saying, "We're going to make and distribute this drug," which I think is certainly admirable. I would imagine though, there has to be, again, a percentage. Merck could not say suddenly, "Well, we're going to devote two thirds of our efforts to orphan drugs," because then the company itself would not be viable, they'd be destroying long-term value. So how do you make that balance?

Judy Samuelson: Of course not. And when Roy Vagelos, who was the CEO of Merck when they made this decision, the disease is river blindness, which is found in river valleys in Africa and beyond, horrible disease, and the drug is Mectizan, and is the secure for river blindness, what he understood, this wasn't about charity or philanthropy for him, what he understood is that, "How can I continue to expect the best scientists to come and work with us? Those who are most committed to human health and who want to work through science and drug discovery to make a real difference in the world? How do I expect to continue to employ those people if we end up with a drug that doesn't actually have any commercial value, but it's lifesaving." So he was investing in what he understood to be at the heart of a successful enterprise. And it wasn't the first or last time that Merck made a decision like that.

I don't mean that they're all about charity, but understanding what's required to build goodwill with your employees and also with the communities in which you operate. So, Merck's a good operator in that respect and has been.

Roger Dooley: Mm-hmm (affirmative). And I think you bring up too, the importance of a company's purpose, what are we in business for? And once you define that, I think it's important to... I see so many corporate mission statements that are just gobbledygook, that really don't provide any real guidance to people. And most importantly, they talk about whether it's putting the customer first, putting the employees first, but they don't really guide the behavior of the executives who end up making decisions to make this quarter's profits or this year's profits. And in the case of Merck, you're saying that investing in this drug was consistent with purpose. And not only that, the purpose of it's people who are joining the company in part, not just to earn a paycheck, but to help cure diseases. And so, there was a good resonance there, but so many companies, I think, lack that.

Judy Samuelson: Employees don't get out of bed in the morning to make the shareholders more money. They get out of bed in the morning because they're interested in what they do or they care about the product or they care about the professional services they're providing through, be it good customer relations or whatever their role is, that is the heart of the enterprise. Smart managers understand that and they're managing to that in new ways.

Roger Dooley: Judy, what's your take on Amazon? It seems they are an interesting study in conflict because on the one hand, Jeff Bezos has pretty much said, "I don't look at the share price. Don't really care about that. If shareholders want to join me for the ride, that's great, but I'm managing this business for its longterm potential," and he's very customer focused. From an employee standpoint, it seems to me, not being part of the company, but it's a mixed bag where they've been exemplary in some of their training programs and the education for workers, even outside their field. They've been a leader in increasing wages for their delivery workers and warehouse workers and such. At the same time, one does get the impression that they are in that labor as one of the inputs to the whole process mode. What's your take on them?

Judy Samuelson: I said at the beginning that single-objective functions don't really work very well for globally-complex, significant enterprises. And I think that's what's really going on at Amazon. I mean, yes, they said, "Come along for the ride." And of course, what a ride, I wish I had owned some of that stock. On the other hand, if you're driving specifically to customer experience, customers ultimately rebound, as Amazon has proven, to price and convenience. And so we are all watching Amazon, it has rapidly become, I think our second largest private employer in the United States after Walmart. And probably is on track at some point to be larger than Walmart. If you're focusing just on the customer experience, like any other single objective, you tend to externalize costs onto these other pieces of the puzzle.

And so, yes, shareholders have done very well, but when Amazon wanted to... Had identified New York City as one of its second cities that it wanted to replicate a corporate headquarters in, New York pulled the plug on it, because they basically felt that this wasn't necessarily an enterprise that they wanted to invest much in given what Amazon needed to extract in order to get New York City to commit to them. You don't want that either. That's not helpful. Of course, they're buying warehouses all over

New York, it's been reported widely in the press, and they decided they didn't need to go down this route.

But Amazon's an interesting case. I think it's revealed for all of us, maybe some aspects of consumerism that are not a long-term healthy driver of success for other concerns that we might have. On the other hand, they are a globally-significant enterprise, and by targeting Amazon, by their own employees in this case, but also by others, we've started to see significant change. And I think we will get to a point where we look back and see Amazon as having been an important contributor to the redefinition of the responsibility of corporations when it comes to climate change.

They're not the only brand who have been targeted, that is a classic way to move forward for NGOs that have a bigger point to make, that are the representative of scarce resource or an existential crisis like climate. So Amazon's a great case example.

Roger Dooley: Mm-hmm (affirmative). Oh, that's probably a pretty good place to wrap up, Judy. Where can our audience members find you and your ideas online?

Judy Samuelson: Well, you can always find me through the Aspen Institute, but the book has found at judysamuelson.com. And you can obviously Google to find the book and find out more about it. You can buy it on Amazon, you can also find it at your local bookstore if you want to order it through them. So, it's basically available wherever books are sold.

Roger Dooley: Great. Well, we will link to your website, your books, and any other resources that we spoke about on the show notes page at rogerdooley.com/podcast, where we'll have the audio, video and text versions of this conversation. Judy, thanks so much for being on the show.

Judy Samuelson: Thank you so much. I've enjoyed it very much.

Thank you for tuning into this episode of Brainfluence. To find more episodes like this one, and to access all of Roger's online writing and resources, the best starting point is RogerDooley.com.

And remember, Roger's new book, *Friction*, is now available at Amazon, Barnes and Noble, and book sellers everywhere. Bestselling author Dan Pink calls it, "An important read," and Wharton Professor Dr. Joana Berger said, "You'll understand Friction's power and how to harness it."

For more information or for links to Amazon and other sellers, go to RogerDooley.com/Friction.