

J. Michael Locke

Musings

#114: Musing February 20, 2021

Readers of the Musings know of my angst and dislike for the social media companies. Great quote from NYT article by Robert Frank: *"The algorithms that choose individual-specific content are crafted to maximize the time people spend on the platform. As the developers concede, Facebook's algorithms are addictive by design and exploit negative emotional triggers. Platform addiction drives earnings, and hate speech, lies and conspiracy theories reliability boost addiction."* IMO, the solution is regulation eliminating data aggregation to then sell to advertisers. Make them go to a subscription business model. #deletefacebook

An interesting byproduct of our digital world is the elimination of the "three ways to value" taught in business school. I was taught a company could really create value by focusing on one of three things: product innovation (ex. Apple), operational excellence (ex. UPS) or customer intimacy (ex. Ritz Carlton). In the digital world, Amazon has used its operational excellence around data and analytics to create a more customer intimate offering with relevant recommendations. I think smaller/local businesses are going to have to really lean into customer intimacy and service as they won't be able to match prices of the larger technology-intensive operators.

I received lots of feedback on my comments on Bitcoin from enthusiasts and detractors. Everyone is struggling to understand it. Some more of my understanding. Bitcoin was launched in 2009 by a pseudonymous person named Satoshi Nakamoto. The maximum number of Bitcoins that can be created is 21 million under the original cryptocurrency design. Lots of money and computing power is necessary to "mine" (which is the process of solving complex mathematical puzzles) new Bitcoin. Thanks to David Rintz for the link to an interesting tutorial here: [how-are-bitcoin-created](#). So what you have is a digital currency (no actual coins/bills) operating without government or bank involvement.

There appears to be a consensus that the future will depend on how governments respond. One reader pointed out that the Mitch Daniels' Op-Ed on runaway government spending and the ultimate inflation actually reinforces the window for Bitcoin. The US dollar got detached from gold decades ago so has no anchor of value whereas Bitcoin has a finite supply. Per one friend: *"Bitcoin, as incomprehensible it is to many, is programmed to allow the release of just enough bitcoins via mining to grow the supply a couple percentage points per year. That's the key to currency stability."* Broad acceptability is a hindrance but more companies are getting on board.

Here is a bull versus bear argument from CIBC:

Bitcoin advocates say:

- *Bitcoin is digital "gold." It's a scarce asset with fixed supply, and the underlying blockchain technology helps cement it as a legitimate store of value.*
- *Investment demand has accelerated for Bitcoin, greatly outstripping its limited supply.*

- *Major companies—PayPal, J.P. Morgan, Tesla, BlackRock, PayPal, J.P. Morgan, Tesla, BlackRock—have started using Bitcoin and/or blockchain, giving investors confidence for its long-term potential.*
- *Outside the US, more countries are recognizing Bitcoin as a valid financial entity and are creating regulations for its use.*
- *Bitcoin could be an effective hedge against the threat of runaway inflation and government debt when the global economy recovers.*

Bitcoin skeptics argue:

- *Bitcoin is highly volatile and too unstable to be a reliable store of value. Bitcoin crashed six times between March and December in 2017, fell 83% in 2018, and surged to a record-high of \$41,958 (from \$8,000) in less than one month in early January 2021.*
- *Bitcoin has existed since 2009, and its usage is still limited. While blockchain technology is beneficial in helping institutions manage financial transfers, Bitcoin itself is not a widely accepted medium of exchange.*
- *Unlike dollars, which are backed by the full faith and credit of the US government, Bitcoin isn't backed by any established central authority.*
- *Bitcoin is drawing the ire of environmentalists. Annual electricity use to mine new Bitcoin equals that of Chile, a nation of 20 million people. One Bitcoin transaction uses the same amount of power as 436,000 credit card transactions processed by Visa.*
- *The Bitcoin brand could be tarnished by its use in high-profile illegal activities, like ransomware attacks and money laundering profile illegal activities, like ransomware attacks and money laundering.*

I have written about how wealth disparity is ripping at our societal cohesion and to watch the momentum for a “wealth tax.” Here is the latest from the State of Washington: [jeff-bezos-would-owe-2-billion-in-state-taxes-under-washington-wealth-tax](#). Bezos’ limited philanthropic activities (limited in terms of his overall wealth) makes him an easy target. With great wealth comes responsibility and the billionaire crowd must “give back” like Bill Gates. Interestingly, Bezos’ ex-wife (Mackenzie Scott) has been enormously generous in her giving post-divorce --- \$5 billion last year. She also is “going direct” or “embracing dispersion” (as Scott Galloway would call it) by bypassing the historical infrastructure around large giving. [mackenzie-scott-charitable-giving](#)

The SPAC craze continues. Special Purpose Acquisition Companies (SPACs) are just pools of capital – blank check companies. Individuals/sponsors/promoters raise money from public investors in an IPO without an operating business! They promise to buy a promising private company within two years and that is what the shareholder will own part of. A colleague recently focused me on the fact that the money is put in trust before a private company is bought and investor gets like 50 basis points or so (0.5% for the nonfinancial crowd – 1% is 100 basis points) so you can park money there and get it back. The sponsors/founding investors front the transaction fees of going public in exchange for the promote, so that is their bet. For private companies discussing an IPO, it is an end-around the traditional IPO process dictated by the SEC with all kinds of rules and takes lots of time. Here is a good overview article about what is going on: [when-spacs-attack-a-new-force-is-invading-wall-street](#)

I guess lots of kids share my fatigue at looking at themselves on videocalls. [the-latest-remote-learning-battle-requiring-kids-to-keep-cameras-on](#)

A lot of readers have joined along this journey. I am going to start republishing some of my favorite old musings after my initials each week.

Jml

4/1 Musings: Leader as Coach

Please remember that you are free to forward, send a name you want added or request to be removed from this list.

I will never forget my first memo as a CEO. My mentor Bob King returned the draft with one change over and over again – crossing out “I” and putting in “we.” He said “I never want to hear you say I again, you don’t do anything, the team does it.”

There has never been a more critical time to have a great team. As a CEO, building that team is your #1 job. You are not a player on the field, you are the coach on the sidelines. Your job is to identify, attract, grow and retain talent. Your job is to figure out who should play what position. When interviewing folks, I often go to the whiteboard and draw the standard triangle org chart with CEO on top but then flip it and put CEO at bottom. IMO, the job is to create an environment for your “team members” (never use the word subordinate) to excel and they in turn to do the same so the person at the “bottom” of the org chart is the person at the “top” of the value creation pyramid. They are the ones interacting with the customer on the phone, in the store, on the campus or in today’s world, on zoom.

Successful coaches are great leaders. For real football fans, Sir Alec Ferguson is a hero (record setting manager of Manchester United). Sir Alec has written a good book on leadership that’s worth a read (<https://www.amazon.com/Leading-Learning-Years-Manchester-United/dp/0316268100>). His keys to leadership were laid out in an October 2013 HBR article <https://hbr.org/2013/10/fergusons-formula>):

1. Start with the foundation: Invest in young talent and inspire them to be better
2. Set High Standards – and hold everyone to them: Everyone seeking to do better
3. Encourage as much as possible but be candid about shortfalls
4. Rely on the power of observation
5. Never stop adapting

As to #2, it can become cultural. Many of my colleagues know TIGBINTY. Someone would preface a presentation of results by saying “***This is good but it’s not there yet***” as they knew the follow-up questions would be about how to improve and be even better.

Personally, I recommend you spend an extraordinary amount of time “selling” employment at your organizations. Talented professionals are scarce (even in the future 20% unemployment world). They have choices. Why should they work with you? I always share with prospective team members that interviews are “match making” exercises and not “selection” exercises. Is the organization and its culture the right place for the individual to grow, develop and excel? If you can develop a “learning mindset” where every individual is trying to get better every day, the whole organization becomes a learning “organism” which will grow and excel. Almost like organizational AI.

A last few thoughts. The CHRO must report to the CEO and not the CFO. Second, hire competitive, ambitious people. I believe in hiring “people” rather than a robot-like set of competencies. What is their life story? Have they shown ambition? Personally, I am a big fan of hiring athletes especially of

dynamic team sports. The midfielder in soccer doesn't necessarily score a lot, but they must understand the field, the opposition, their teammates position and constantly adjust (no parental bias due to our DePauw midfielder Skip). Isn't that what you have to do in today's business world?

Be Safe. As they said in the movie The Blind Side (we are all watching a lot of movies right now), "the team is your family Michael....are you going to protect your family?" No different in a business.

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