Leadership Lessons

An Interview with James D. Robinson III, General Partner and Co-Founder, RRE Ventures

James D. Robinson III

EDITORS' NOTE *Jim Robinson also sits on the private boards of a number of portfolio companies, including Avant, CoverHound, Fast Performance and NerdWallet. Additionally, he serves as President of J. D. Robinson, Inc. He was Chairman and Chief Executive Officer of American Express Company from 1977 to 1993 and Non-Executive Chairman of Bristol-Myers Squibb from 2005 to 2008, where he sat on the board from 1979 to 2008. Previously, Robinson held several executive positions within American Express, was a general partner with White, Weld & Co., and served as Assistant to the Chairman and President of Morgan Guaranty Trust Company. He also served from 1975 to 2015 as a director of The Coca-Cola Company. He has served on the board of Memorial Sloan-Kettering Cancer Center since 1970 including as Honorary Chairman; he is an Honorary Trustee of The Brookings Institution; and Chairman Emeritus of the Partnership for New York City and the World Travel & Tourism Council. Robinson holds an M.B.A. from Harvard Business School and a B.S. from Georgia Institute of Technology.*

COMPANY BRIEF *Since its founding in 1994, RRE Ventures (rre.com) has worked alongside talented management teams and has helped to build industry-leading companies. The firm now manages $1.8 billion in assets dedicated to investment in early-stage technology companies. RRE's investment professionals focus on rapidly growing markets in the information technology, software, communications, and financial services industries, and back entrepreneurs and management teams that possess vision, industry knowledge and discipline.*

You created RRE with a clear interest in investing in emerging technology companies. When you look at RRE today, has it developed how you had envisioned?

I started RRE with my son, Jim, and Stuart Ellman 25 years ago, which is longer than I was with American Express.

We focus on the early stage venture business. For me, that is an exciting part of the world around us primarily because technology drives change. Throughout my life, I have been fascinated by the dynamics of change and watching the extent to which people, companies and countries respond to change or fail to respond to change.

Most often, we have a bell-shaped curve with those that lead change and then we have a bunch in the middle and then there is the tail that resists change until they are irrelevant.

The companies we deal with are not all aimed at disrupting, but they're aimed at the enterprise or network level, or the consumer level, of using new technologies brought about by the digital world to do things better, cheaper and faster.

Is change more difficult once companies reach a certain size or is it more about having a culture that is adaptable and employees who aren't afraid of change?

I would look at the umbrella of change. It should apply to big, small and medium companies as well as to governments, etc.

Knowing when to change is the challenge that a CEO or board faces. Knowing how to change gets into the details, because entities can have a lot of legacy systems and people around who want to keep things the way they have been.

That is fine – we have to respect the history that created the platform we're now dealing with. One of the big concerns, however, is that any management must watch out for the arrogance of success because that sets them up for failure.

Big companies have the silos of the product people, the P&L managers, the corporate staff, compliance, finance, PR, HR, so the question of accountability and who has the authority to decide change is confused.

An organization needs to make decisions and to execute. Any of the few big decisions that can change the dynamics of the company are things I want to get involved with and see if my instincts and thinking says it is a sensible thing to do and that the timing is right.

Even as successful as Amazon is, they have to worry about how to avoid a slowdown in the gears because of the organization structure, the authorities and the matrix of the organization.

Change and keeping an innovative spirit as part of the DNA in a big company can only happen from the top down. We have to worry about it like weeds in the lawn – they come up every day so we have to be on guard to make sure they don't strangle what we're trying to accomplish.

In a smaller company, change sometimes rears its head in a different fashion.

A number of companies, including some we have started, go out to do X and after nine months, they figure the market isn't interested in X so they change into Y.

Then several months later, they figure that Y isn't it either but, in the process, they have learned a lot and figure it has to be Z – sometimes this can be a superb moment of change that leads to great success.

The dynamics are different than in the big companies because of the size of the organization.

Even so, somebody has to have the authority to make the decision to make change or not to make it.

When you look at opportunities, is it more about the product, solution and innovation that can happen within that space or is it more about the people and management team?

I think it has to be both. The bets we're making, particularly in the A round and B round bets, require that we believe in the individual and team and their passion. We think they have enough domain experience to not do stupid things that aren't going to work, and it is the package of those things together that leads to success.

Often, in a number of our companies, at a certain point, we change the CEO. More often than not, this is because the CEO, who is the founder, realizes that he or she is having to spend time on managing a lot of people and it isn't as much fun as being in the laboratory or creating a new product or being at the point of sale.

When we say, should this be a fine cottage industry company or something big and important, they almost always say the latter and they want to find someone who can take it to that level and they go back to the lab.

When you look at where the world is today, one issue that many leaders in the U.S. are concerned about is income inequality and the separation of haves and have nots. How concerned are you about this and what can be done to bridge this gap?

I'm very concerned about it because the middle class and the gap between the haves and have lesses is continuing to grow. This is not something the government alone can address.

We see the progressive viewpoint is to let the government do it. The government is never going to do anything, except in rare circumstances, with the efficiency the private sector can.

The other side of that coin, however, is that managements, particularly at the big companies, have to take a different viewpoint on the issue of who the stakeholders are. When the focus shifted to the shareholder, I think this was a dangerous risk, because it has been a part of allowing the income gap to grow. It's interesting to look at all of the anger at the concept of raising the minimum wage.

Whether it ought to be $12 or $15, should it be mandated by government? Companies should realize that we're talking about their employees, the communities around them, where their customers live and work – they should want that group of employees to have money to be able to spend and help the local community grow along with their own income.

It's not that the government is forcing them to do this; it has to be seen as taking a step in leadership that will make employees even more loyal and be greater supporters of the company. Pay based on performance and delivery is appropriate and that needs to apply to the broader employee base as well.

Over the past few decades or so, the compensation of senior management has gone way up and that of the employee base has gone flat or up a few percentage points. That is ridiculous because we want our employees to have the money to invest in their communities, to save and to spend. When that happens, the communities do well.

This requires a different perspective. The CEOs must give serious thought to whether their cash compensation is way out of line. Should they take a smaller percentage to make more available to the employees?

It can be stock purchase plans with stock purchase being at a discount with matching amounts or other approaches for broad-based rewards. These are good ways to engage the employees as part of the company and its success. Stock options probably mean the most to the top 20 or so – they're the ones that can make the difference there.

I would separate stock performance from the cash compensation, which has become too big.

I would redistribute that in a way that answers the question, "Are we really increasing the take-home pay of our employees so they can be even better members of the community?" If they are, they're going to be even better employees of the company.

Are you optimistic that CEOs will address this issue?

It probably takes a number of dynamics to get their attention and, by that, I mean that many of the CEOs recognize that this is a problem, but they don't want the government telling them how much to pay employees.

Then they should decide, but they should do so with a different thinking cap on than has been used traditionally.

They are part of the income inequality equation. What are they going to do to show some leadership to change it, at least for their own employees, and hopefully the communities around them and the customers they're selling to?

Is there a role for government in trying to drive this or is this going to have to come from the private sector?

There is always going to be a role for government, but simply focusing on legislating a $15 minimum wage is what will happen if they don't see the problem being addressed in a significant enough way.

My view is to get the C-suite into the game and figure out whether it's in their best interests to start doing things differently. They need to adopt a number of measures that were common practice years ago, like profit sharing and stock purchase plans, which have been cut out as they strive to expand margins and quarterly guidance.

Why isn't that happening when CEOs know how critical this issue is to the future of the country?

They shrug and say it's political, and there's nothing they can do, but there is something they can do. It can happen one by one by leaders showing what an intelligent policy looks like.

I can guarantee it's not what has been happening for the past few decades where every year the C-suite salaries and bonuses and the other perks go up and with generous options on top of it.

I'm not knocking options or restricted stock, particularly those that are performance based and not just time based, but all the tools of incenting employees have, for the most part, gone to the most senior people in the company. Those that have been at a company for a long time will have the low option prices and that builds and builds as new awards are made. Those programs have gotten out of hand and there are CEOs who recognize this and are toughening up on it. That is great to see.

This is a major problem because community after community being disenfranchised. That is what leads to some of the ideas by the progressives gaining traction.

The concern I have with that is that almost none of the progressives have ever created real private sector jobs and they cannot run a successful country without those.

Has globalization played a role in the divide?

Yes, from the standpoint of goods from China and Mexico coming in. We didn't need new trade agreements – we just needed to use the policing mechanism in the existing ones to make a difference.

Is Trump right in challenging unfair trade in some of the practices in China? Yes, and those will get better.

However, we want the world to also show economic growth, and I'm talking not just the industrial world, but also the developing world.

It's a good thing if countries in Africa see income levels rising. Coca-Cola committed to hiring five million women in Africa by 2020 and putting them into a position where they can earn money in their communities. They are being provided with containers that are converted into both digital hubs as well as water purification centers.

The individual actions of a number of companies, such as Bristol Myers Squibb, in terms of building medical facilities, are examples that can make a difference.

The problem in some of those countries is the corruption factor to deal with and the testosterone of leadership. We can't solve all of those issues, but we want to work with those who have the vision. We know that central planned economies do not work. Market-oriented economies work, but there has to be respect for law and order and for the legal system and the judiciary system to work in a transparent and fair way.

If those are in place, you are going to attract investment dollars and with those you can build. The private sector needs to be a major part of that rather than just the government sector.

If you look at the many challenges that the world faces today, is it difficult to be optimistic and is the U.S. still the leader in the world in setting the standard?

Some of the diplomatic principles of the world order since World War II have been frayed by personalities. If we step back and evaluate what is the best world for us to live in, it's one in which we're doing very well and our neighbors are doing very well; one where remote countries are doing well and not raising Jihadists because, with no jobs, that is the only thing they can do.

That is not going to be driven from the U.S. In my view, it has always been that the examples of what works successfully in the U.S., hopefully, will be copied by other countries. The solution is not going to come from our being the ugly American preaching; it's going to come from our being a successful dynamic country with income levels rising at the middle-class level. ●

