

The Institute for Research in Marketing at
the Carlson School of Management,
With the assistance of
The United States Department of Commerce,
Presents a forum on

Innovation
Drivers and Impediments

July 28, 2008

Moderated by: Carlos M. Gutierrez,
Secretary of the U.S. Department of Commerce
And
Rajesh K. Chandy, Carlson School of
Management

Panelists: George Buckley, 3M;
William Hawkins, Medtronic;
Marilyn Carlson Nelson, Carlson Companies

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1 Alison Davis-Blake: Well, good afternoon,
2 everyone, and welcome to the CEO Forum on
3 Innovation.

4 I'm Alison Davis-Blake, the Dean of the
5 Carlson School of Management, and I'm very
6 pleased to host all of you both here and in
7 our overflow seating in the Honeywell
8 Auditorium for this remarkable dialogue of
9 innovation.

10 I'd like to extend our special welcome to
11 United States Secretary of Commerce, Carlos
12 Gutierrez, and to also our CEO and chairman
13 panelists; Charles Buckley of 3M, Marilyn
14 Carlson Nelson of Carlson Companies, and Bill
15 Hawkins of Medtronic.

16 Our greetings also today to University of
17 Minnesota Provost Tom Sullivan who's joined
18 us here today, our Institute for Research and
19 Mmarketing advisory board members, our
20 alumni, and so many members of the business
21 community that I see here today.

22 Thank you all for joining us for what I think
23 will be a very simulating event.

24 It's fitting, I think, that this forum today
25 takes place in Minnesota for three reasons.

1 First, this is a state that's really known
2 for innovation in so many fields, including
3 computers and information technology, the
4 medical and health care industries and, of
5 course, the food industry, just to name a
6 few.

7 Second, as you know, the city is home to 19
8 Fortune 500 Company headquarters, as well as
9 to very many mid-sized, small and
10 entrepreneurial firms, and many of those
11 entrepreneurial firms have been started by
12 our own University of Minnesota alumni.

13 Some of those firms indeed have garnered
14 their initial visible and resources from the
15 Minnesota Business Plan Competition that's
16 held here on campus each year and
17 co-sponsored by the Carlson School of
18 Management.

19 And the third reason, I think, that it's very
20 fitting that we hold this forum here in
21 Minnesota is that this is a state and a city
22 where there's a very committed and engaged
23 relationship between the university,
24 government and the business community that's
25 exemplified by our panelists, and that's

1 something they'll discuss today.

2 It's events like this one today that embody
3 the mission of the Carlson School and the
4 University to ensure that there are close
5 connections between university research and
6 the world of practice.

7 And as one of our school's primary arms of
8 public engagement, the Institute for Research
9 in Marketing, that put together and sponsored
10 this event, helps continue our long tradition
11 of developing new knowledge and by connecting
12 practitioners with faculty.

13 You may have heard and read in the newspaper
14 that the University of Minnesota has embarked
15 on a series of initiatives to become one of
16 the top three public universities in the
17 world, and we here at the Carlson School are
18 committed to that goal, and events like this
19 are indeed part of that goal.

20 Our faculty has expertise that aligns with
21 the innovation needs of our local and global
22 Twin Cities community, and that will assist
23 us in achieving that goal.

24 Our students are actively working with
25 researchers and companies to both develop and

1 commercialize new products.

2 You can read more about our faculty research
3 on innovation and how firms can connect with
4 faculty to develop talent and change through
5 our world-class executive education program
6 in the brochure on innovation that you have
7 at your seats.

8 Now let me turn to introducing one of the
9 moderators of today's session: Rajesh
10 Chandy.

11 Dr. Chandy is well known in the field of
12 innovation, having served as a member of the
13 U.S. Department of Commerce Measuring
14 Innovation in the 21st Century Economic
15 Advisory Committee.

16 He holds a Jay M. Dean chair in Marketing
17 here at the Carlson School and is co-director
18 for the Institute on Marketing.

19 He is an expert in innovation, and his
20 research in publications on innovation have
21 received numerous awards.

22 He was recently profiled in "Fortune"
23 magazine who described his findings as, "an
24 unorthodox and bracing set of management
25 principles."

1 So I think he's a very fitting person to
2 moderate the CEO/Chairman dialogue, and it's
3 my pleasure again to thank all of you for
4 being here today and to turn the microphone
5 over to our co-moderator, Dr. Rajesh
6 Chandy.

7 [Applause]

8 Dr. Chandy: Thank you, Alison, and thank
9 you.

10 Welcome to the Carlson School.

11 We're delighted and honored to welcome each
12 of you, and it is my honor to introduce
13 Secretary of Commerce Carlos Gutierrez to the
14 audience today.

15 Before I do that, I have a few quick
16 administrative announcements.

17 Part of my role as co-moderator is to say
18 such thing as no Blackberries, no phones;
19 please turn them off, please.

20 Just check if you could, your phones, your
21 Blackberries and switch them off so we'll
22 have a continuous discussion, number one.

23 Number two, partway through this discussion,
24 we'll have a question-and-answer section, and
25 at your seats, you'll find cards on which you

1 are welcome to ask a question to our
2 distinguished panel today, so we'll spend a
3 significant part of our time today also
4 responding -- the panel will respond to
5 questions you may have.

6 And about an hour in, we'll seek out some of
7 your questions and, again, a little after,
8 we'll seek out some of your questions, as
9 well, about an hour and a half in, we'll get
10 into the Q-and-A mode.

11 Finally, administrative announcement, at the
12 end of our meeting today -- our forum today,
13 at about 3:00, we'll have a reception outside
14 in the atrium of the Carlson School building
15 and we would be delighted to have you there
16 and mingle and chat and so on.

17 With that, it is, as I said, my honor to
18 invite -- to introduce Secretary of Commerce
19 Carlos Gutierrez, the 35th Secretary of
20 the United States Commerce Department, and
21 Mr. Gutierrez serves as the voice of
22 business in the U.S. government.

23 Now, some of you are from commerce and know
24 exactly what's happening in commerce.

25 Many, I suspect, don't know quite the reach

1 of the Commerce Department and the wide scope
2 of the activities at the Commerce Department,
3 all centered around business and the economy.
4 It touches our lives in so many ways so if
5 you -- many of you are innovators and
6 inventors yourselves.
7 If you've taken out a patent or a trademark,
8 the Department of Commerce has touched you
9 because U.S. Patent and Trademark Office is
10 part of the Department of Commerce.
11 If you checked the weather lately, and in
12 Minnesota, we like to check the weather quite
13 often, then you've interacted with the
14 Commerce Department because the Weather
15 Service, the N.O.A., National Oceanographic
16 and Atmospheric Department is part of the
17 Department of Commerce.
18 If you checked the time lately, the Commerce
19 Department is actually one of the agencies
20 that keeps the official U.S. time because the
21 N.I.S.D., National Institute of Standards and
22 Technology -- thank you, Patricia -- is part
23 of the Department of Commerce, as well.
24 If you've stood up and been counted, well,
25 the Census Bureau is part of the Department

1 of Commerce.

2 Actually, whether or not you want to stand up
3 and be counted, they'll count you.

4 If you've engaged in exports or imports, the
5 Commerce Department is the lead agency in
6 U.S. trade, so leading an agency of such
7 complexity and scope requires a deep
8 understanding of how businesses actually
9 work, and we're fortunate to have in our
10 Secretary a leader who truly understands how
11 businesses work from experience.

12 Mr. Gutierrez, until he joined government
13 service, was part of -- was Chairman and CEO
14 of the Kellogg Company, and his story is
15 truly quite an inspiration.

16 He started out -- well, he was born in
17 Havana, Cuba, and came as a child to the
18 United States.

19 As he once put it, he learned English from
20 bellhops in a hotel in Miami, and started
21 with the Kellogg Company in Mexico, some say
22 driving trucks.

23 He started as a sales and marketing trainee
24 at the Kellogg Company, and in ten years, he
25 headed the Mexican operations for Kellogg.

1 In 15 years after that, he was Chairman and
2 CEO of Kellogg, the youngest ever Chairman
3 and CEO of that company in its 100-odd year
4 history.

5 So he comes to this position with a vast
6 amount of experience in this area, and it is,
7 therefore, quite fitting that he's here --
8 and I know that innovation is a core part of
9 his vision for the U.S. government and our
10 country, as a whole.

11 And I've had the honor of serving on
12 Mr. Gutierrez's committee on measuring
13 innovation in our economy.

14 So we're just thrilled to have you here,
15 Mr. Secretary.

16 And ladies and gentlemen, please welcome the
17 U.S. Secretary of Commerce, Carlos Gutierrez.

18 [Applause]

19 Secretary Gutierrez: Thank you, Rajesh.

20 As he was talking about my background, I was
21 looking out in the audience and wondering if
22 anyone was here from General Mills.

23 [Laughter]

24 Secretary Gutierrez: We -- of course, in my
25 previous role, we competed with General Mills

1 and, believe me, it's very appropriate that
2 we have a forum on innovation in Minneapolis,
3 especially in the food industry because they
4 are one of the great innovators in the food
5 industry, and they've been at it for a long
6 time so it's something they do extremely
7 well, as I know these other two companies --
8 three companies do.

9 Just a bit of background.

10 Several years ago, in one of the State of the
11 Union addresses, the President announced what
12 we call the American Competitive Initiative,
13 and as everyone knows, and you all know, the
14 world has become somewhat more competitive
15 than it was 15, 20 years ago.

16 We like to talk about that today, we have
17 three billion new consumers but we also have
18 three billion new competitors, and unlike any
19 other time that I can remember, everyone is
20 involved in business.

21 Everyone is involved in trying to grow their
22 economy and trying to attract jobs, trying to
23 trying to attract investment, trying to gain
24 access to markets, so unquestionably, this is
25 a time of great competition.

1 And as we worry about, you know, the more
2 competitive world, we still look back and we
3 say, you know, the big innovations, the big
4 ideas that change markets still come out of
5 the U.S.

6 Whether that be in technology or whether that
7 be in services or whether that be in the
8 cinema industry or in book publishing, you
9 make music, you name it, the U.S. is still
10 pretty much where the big ideas come from.

11 The question is, how do we keep that going?

12 So one of the things we decided to did a
13 couple of years ago is we all talk about
14 innovation but we realize we know very little
15 about how to measure it, especially at the
16 macroeconomic level.

17 At the micro level, I'm sure all these
18 companies measure innovation as we once did
19 in my previous job, sales coming from
20 innovation, sales coming from new products
21 launched over the last three years.

22 I mean, a lot of ways to measure it inside of
23 a corporation, but at the macroeconomic
24 level, we weren't measuring it at all.

25 So we had this idea that perhaps one day in

1 the future, we could have innovation metrics
2 almost like we have a G.D.P. metric or we
3 have an unemployment metric or we have a
4 manufacturing metric, and so we got together
5 an advisory committee with the task of
6 developing a metric, not policy oriented but
7 just how do we measure innovation so that in
8 the future, we can get a sense of whether
9 innovation is driving our growth or whether
10 innovation is actually slumping our economy,
11 and that was the idea of getting this
12 advisory committee.

13 These two gentlemen are on the committee and
14 Rajesh is on the committee.

15 The committee has developed its
16 recommendations and we're actually in the
17 process of bringing those to life and we
18 should have a first crack at this sometime
19 next year.

20 And what we also decided to do after the
21 committee presented recommendations is to go
22 out and have forums to talk about policy.

23 How does the government impact innovation
24 from a policy standpoint?

25 This is the second of those forums, the first

1 one we had was in Kansas city; actually,
2 fascinating, very interesting.
3 I found that, you know, people in Washington
4 believe that they impact innovation more than
5 they actually do.
6 But in the private sector, in companies, I
7 think people realize that the government
8 impacts it a lot more than they think it
9 does, so somewhere in the middle I think is
10 the right place.
11 So if I could just start.
12 I'll just start and kick it off and start
13 with George Buckley.
14 If I could just pose a question, and let me
15 just -- I'm sure that you know these are
16 three -- you know our three guests but if I
17 could give you a sense of the innovation
18 power that we have on this panel.
19 George Buckley, Chairman, President, CEO of
20 3M Corporation -- and 3M, as I recall, was
21 one of the companies that we always
22 benchmarked in terms of innovation process,
23 in terms of how do we get a pipeline going --
24 has been chairman since 2006, serves on the
25 board of Black and Decker, Archer Daniels

1 Midland Company, and also on the University
2 of Minnesota, St. Paul.

3 I'll also introduce some of our other guests
4 as we go along but, George, to the point I
5 just made, I often get the question of what
6 are you doing in Washington?

7 What is the Bush Administration doing to
8 improve innovation?

9 And so a question for you is, what is the
10 role of government as you think about your
11 innovation pipeline, your new products, your
12 ability to grow; what is the role of
13 government in an innovation process at a
14 company level?

15 George Buckley: Well, what I would like is
16 really three things.

17 I think, you know, the pulse of innovation is
18 one piece of the puzzle to do with American
19 competitiveness.

20 From my perspective, what I would like to see
21 is -- what I believe is that there are really
22 only three ways in the world in which to
23 create new wealth through innovation.

24 They are manufacturing, agriculture and
25 minerals extraction.

1 So what I would like the government to do is
2 try to find ways to encourage those
3 activities.

4 I have to beg forgiveness from Marilyn, I
5 don't believe that service companies or
6 service businesses creates new wealth, I
7 think they're circulating wealth from one
8 pocket to another, so being a manufacturing
9 person...

10 [Laughter]

11 Dr. Chandy: What's your position?

12 Marilyn Carlson Nelson: Not only
13 circulating.

14 Redistribution of wealth.

15 [Laughter]

16 George Buckley: So I think that
17 fundamentally we need to encourage those
18 three things.

19 Perhaps we just have one last point here, we
20 need to try to find a way to make America
21 prosperous, because if we worry about
22 security, then prosperity must come before
23 security.

24 So my advice would be to try to find a way to
25 continue to encourage these three creation

1 mechanisms and to do it so that we ensure
2 prosperity and, therefore, implicitly, ensure
3 security.

4 Dr. Chandy: Marilyn, do you have a
5 perspective on service innovation and wealth
6 creation?

7 [Chuckles]

8 Marilyn Carlson Nelson: Well, I suppose it's
9 pretty broad-based prosperity.

10 We're going to impact security in the
11 positive way, and for those of us
12 particularly in the travel business who
13 are -- took 750 million passengers last year,
14 I assume that some we carried were those
15 wealth-creators that we moved around helping
16 them to facilitate their wealth creation.

17 We can come back to the service industry, but
18 I think that the partnering and collaborating
19 ultimately is the key for all of us so we'll
20 talk more.

21 I think the fact that more than one in ten
22 groups is created, we do create probably
23 enough jobs to provide demand for some of the
24 innovation, as well.

25 So we're looking forward to partnering with

1 you in the wealth creation and its
2 distribution, broad distribution.

3 [Chuckles]

4 Secretary Gutierrez: I just realized 3M is
5 manufacturing, mining --

6 George Buckley: Minnesota Mining and
7 Manufacturing.

8 [Laughter]

9 Secretary Gutierrez: Right.

10 George Buckley: We don't have agriculture in
11 the name yet.

12 Secretary Gutierrez: By the way, Marilyn
13 Carlson, I'm proud to say, is Chairman of
14 Carlson Companies, and until recently served
15 as the president of that company, and she is
16 the chairperson of our travel term advisory
17 board at the Commerce Department and always
18 very innovative, always adding value,
19 creating value, and I appreciate your
20 service.

21 Also sits on the board of ExxonMobil and the
22 Mayo Clinic Foundation.

23 So thank you, Marilyn.

24 Dr. Chandy: Bill, you wanted to say
25 something?

1 Bill Hawkins: Yes, in terms of what the
2 government can do to really address this
3 issue of innovation.

4 First of all, when you talk about innovation,
5 you talk about risk and you're talking about
6 the ability to manage risk and to create an
7 environment that encourages the appropriate
8 use of risk.

9 One of the things that the government has
10 done in the past and still does today is in
11 setting tax policies, and one thing I think
12 has worked very well in our country has been
13 tax policies around capital gains that have
14 encouraged people to be able to make
15 investments, or to, you know, entrepreneurs
16 to engage in things that may take some time
17 but at the end of the day, if they're
18 successful, the opportunity to be able to
19 enjoy some of the rewards for taking the
20 risk.

21 So regulations are another thing that
22 there's, again, this fine balance of making
23 sure that we have appropriate regulations
24 which, you know, enable people to do the
25 right thing but also make sure that there's

1 boundaries that we don't cross that line such
2 that we put the public at some type of a
3 risk.

4 So I think there are a number of things that
5 really -- where the government plays a key
6 role in creating an environment that will
7 encourage or will impede innovation.

8 Secretary Gutierrez: I should say that
9 Bill's predecessor and Chairman of Medtronic
10 is also on our Innovation Metrics Advisory
11 Board and Bill, of course, is President, CEO
12 of Medtronic.

13 In terms of innovation, this is one of the
14 things that continues to make us a great
15 economy is our leadership in health care and
16 our leadership in health technology.

17 But, you know, going back to services, we all
18 think of innovation as something very
19 physical, something we can manufacture.

20 How do you think about service innovation?

21 What kind of guidelines do you give your
22 people, and can you point to a couple of
23 examples just to be able to broaden the scope
24 of how we think about it?

25 And to your point, I mean, services are, you

1 know, 70% of our economy, so we're talking
2 about a big part of our future.

3 Marilyn Carlson Nelson: Let me begin by
4 saying how wonderful it is to have you here
5 in Minnesota.

6 Secondly, how wonderful it is to have you
7 here at the Carlson School, named after my
8 father.

9 [Laughter]

10 And I have a suspicion that when you walked
11 by his bust out there, that he nodded.

12 [Laughter]

13 So, that said, let me talk for a minute about
14 the environment in which the services
15 operate.

16 Obviously, in a peaceful world, that the
17 services are responsive to the customer.

18 The customer really drives innovation.

19 The ability to interface with the customer in
20 new ways that the internet is allowing us,
21 allowing our customers to become a part of
22 this service, design service offerings and
23 service products.

24 In our restaurant business, T.G.I. Fridays,
25 for example, at one point, we emailed a

1 couple million of our most frequent Friday's
2 customers to ask them some questions about
3 the manual, and we had over a 25% response
4 rate with people who were that engaged in
5 whether or not potato skins stay on the menu.

6 [Laughter]

7 But -- so that we must remember that the
8 customer focus and that somehow the
9 interchange with the customer, that is now
10 really -- that's an extreme example but we
11 all know there are examples like Legos where
12 there are customers who have designed their
13 Lego pieces that have brought Lego back into
14 the arena of competitive offerings.

15 The -- but I think that the question that
16 we're dealing with here about how the
17 services and the government and some of the
18 public issues interface is a very interesting
19 one, and one example in restaurants might --
20 in terms of innovation, this question of
21 obesity.

22 As we became more and more aware of the costs
23 of obesity as a national crisis, then the
24 discussion about trans fats, so innovation in
25 the restaurant was working with people like

1 Cargill here in Minnesota to develop product,
2 food product that had the appropriate
3 nutrients, that had the right mouth feel, the
4 right crunch, all the things that make food
5 satisfying but make it healthier.

6 Then we redesigned menus to include more
7 choice and did something that may not be like
8 mining but was innovative in the services in
9 that we decided that the super-sizing of
10 America was in part the competition of making
11 plates larger, portions larger, and that it
12 was certainly a vicious kind of circle in
13 terms of the issues at stake.

14 So we became first with a lot of attention,
15 because our competitors thought it was
16 extremely risky, to introduce a smaller
17 plate, right portion, right price, with the
18 concept that people would want choice and
19 that in this environment might, in fact.

20 It was an innovation.

21 Did it add value to make it us more
22 competitive? Did it help to us stay in
23 business and create more jobs in casual
24 dining?

25 Yes.

1 Did it also try to work on a public policy
2 issue with a kind of creative response that
3 could -- from the private sector, yes.
4 I think -- but I would like to, if I could,
5 just segue into something.
6 I've read quite a bit about the research that
7 the Carlson School Institute for Marketing
8 has done, and they've -- in doing their
9 analysis of environments that are conducive
10 to innovation, the studies have shown that
11 culture is very important and we've all, I
12 think, envied both the Medtronic and 3M
13 culture through the years, as you said,
14 Mr. Secretary, for this innovative culture.
15 One of the things that I'm finding in all of
16 our businesses, whether it's travel, whether
17 it's hotels or restaurants or marketing
18 services, that this question of risk -- that
19 cultures that are willing to accept a certain
20 tolerance for risk have the highest
21 opportunity to be innovative.
22 And we can go back to 9/11 and we can -- and
23 perhaps maybe later we will, discuss Sarbanes
24 Oxley, discuss what that did, even for a
25 private company, to boards of directors and

1 the sense of how much risk should we take,
2 how much risk is appropriate for a company to
3 take on behalf of share owners, but even
4 putting Sarbanes Oxley aside, that we now
5 have looked at risk in a much more granular
6 way.

7 We look at operational risk, we look at
8 financial risk and we look at geopolitical
9 risk, and then, of course, there is a risk of
10 innovating and risk of not innovating.

11 Right now, for so many of us in this country,
12 operational risk is a big issue.

13 The cost of energy, the cost of food has put
14 business models at risk.

15 We can work to become more productive as fast
16 as we can.

17 We can look to take costs out but these are
18 serious, I believe, barriers to releasing us,
19 our time and our energy to be much more
20 productive.

21 I think that the food-fuel question is
22 concerning us even in terms of what the
23 geopolitical risks will be, and so I would
24 like to call for innovation in how the
25 private sector and the public sector work

1 together to solve these problems.

2 These are complex problems that have
3 implications that I'm not sure we've even
4 dreamt of.

5 We have 100 towns and cities that are not
6 going to have any air -- any more air service
7 between now and the end of this year, and
8 possibly another 150.

9 Well, you know, we may not be creating value
10 but, in fact, we are moving around and
11 allowing people to facilitate the value
12 creation, and I think that this kind of
13 environment really requires that of all of
14 us.

15 We can't ask you to solve it and we can't
16 solve it ourselves but we need to find
17 structures and ways that we can collaborate,
18 and ways that we can be creative that are
19 unprecedented because the problems we face
20 are unprecedented.

21 Secretary Gutierrez: Thank you. George.

22 George Buckley: I would like to make a point
23 on the taxation, if I can.

24 I think it was Culver that said the auto
25 taxation is to pluck the maximum amount of

1 feathers from the goose with the least amount
2 of squawking.

3 [Laughter]

4 And that's essentially what taxation does, I
5 suppose.

6 But I think that sometimes different groups,
7 government among them, make the mistake of
8 thinking that the companies are taxpayers.

9 In point of fact, companies are
10 tax-collectors, and we're how investors look
11 at us.

12 They care not whether we're in an environment
13 that has high tax or low tax, they want an
14 after-tax return on investment.

15 So when the investment choices are made,
16 there is a natural disadvantage to those
17 companies that are in high-tax locations,
18 like the United States, is point number one,
19 I would make.

20 The second point I would make is to pick up
21 on Bill's point about risk.

22 Bill made the point very effectively about
23 how the government took some innovative
24 steps, I think good steps on reducing the
25 taxation on dividends in particular, but the

1 same argument applies to companies.

2 In the State of Minnesota, for example, the
3 tax rate here is 41.4%, six-tenths of a point
4 behind Japan.

5 And if you want to kill innovation, if you
6 want to kill risk-taking, if you want to kill
7 investment, then by all means take most of
8 the money away from the people that are
9 making it, and it's a lot harder to make it
10 than it is to count it.

11 So I would argue, Mr. Secretary, that we
12 have to create an environment in this country
13 where, however it is we get there, if we want
14 to encourage growth, we want to encourage
15 prosperity, we want to encourage investment
16 in the United States, we have to strive
17 toward a system which reduces taxes in this
18 country or otherwise, we're going to kill the
19 goose that's laying the golden egg, speaking
20 of goose.

21 Dr. Chandy: Let me start by introducing
22 you, also, to the 3M Auditorium.

23 I don't know if you realize that.

24 [Laughter]

25 [Inaudible]

1 George Buckley: My pockets feel empty.

2 Dr. Chandy: The flip side of the tax
3 issue, some argue, is things like -- as it
4 relates to innovation is things like R & D
5 take credit.

6 Is there a role for that?

7 George Buckley: Yes.

8 We obviously have to be careful in what we
9 put together, that is, it is useful and
10 effective in delivering the value we think
11 we're paying for as taxpayers.

12 But fundamentally I'm supportive of anything
13 that encourages R & D, because even though
14 the connection between input and output,
15 money spent on R & D and the delivered
16 product is not always immediate, it's not
17 always clear that a dollar spent here
18 produces five dollars there, but,
19 nevertheless, in the end, if you create an
20 environment where R & D is possible, can be
21 paid for, can be encouraged, can be
22 stimulated, in the end, in the serendipitous
23 process of invention -- it's not a continuous
24 process, that's why we stopped Six Sigma in
25 that area of operations.

1 It is a bit of a happenstance process but,
2 nevertheless, I do firmly believe if you
3 spend more money on it, in the end you'll get
4 bigger results, so I'm all for it.

5 Dr. Chandy: So things Marilyn mentioned,
6 food, engineering, so on --

7 George Buckley: She's right.

8 Secretary Gutierrez: You know, there's some
9 communities around the country that have had
10 a lot of success in building public and
11 private partnerships and getting academia
12 involved, and actually having some funding
13 from the private sector so it becomes like a
14 laboratory for new ideas.

15 Is that something that is useful in your type
16 of business, those types of partnerships?

17 Marilyn Carlson Nelson: We've actually done
18 that in Minnesota.

19 We have something called the Itasca Project.

20 I was hoping the governor would be here to
21 share that with you but it's -- it's an
22 interesting model, I think, Mr. Secretary,
23 because what it really was formed for was to
24 bring the president of the university, the
25 mayors of the city, the governors of the --

1 governor, business leadership together to
2 address innovation around next generation
3 infrastructure because the issue was that the
4 short-term nature of both the elective
5 political process and the marketplace was
6 such that even our N.G.O.s were caught in a
7 cycle of shorter-term thinking, and the big
8 infrastructure questions, the question of
9 travel and transport in the cities to make
10 our region competitive, the question of
11 really looking from the outside in at how to
12 deal with our education system, which has --
13 our state is very proud of the fact that we
14 have one of the highest graduation rates and
15 highest S.A.T.-type scores in the country,
16 but we discovered we have a growing and very
17 serious gap, which is not unlike many of the
18 other major metropolitan areas, but
19 surprised, I think, even our own community.
20 So we came together with that model, not to
21 create another organization but, in fact, to
22 come together to envision the future and then
23 to try to look at change management and
24 communication with the electorate, so that we
25 could actually convince today's voters to

1 vote in ways that would enhance their
2 children and their children's opportunity in
3 this region.

4 And I would -- I'm glad you asked about it
5 because, certainly, we're aware with things
6 like the airport -- air control system and
7 others, that these are big infrastructure
8 issues for the country and perhaps similar
9 kind of collaboratives could be a model.

10 Other cities are doing this, as well, I
11 think.

12 Secretary Gutierrez: We've had -- I'm sorry,
13 go ahead.

14 Bill Hawkins: Go ahead.

15 Secretary Gutierrez: We've had a
16 longstanding discussion at the federal
17 government and with Congress, of course,
18 about the role of the federal government
19 and -- whether it's research and development
20 or whether the government should do more
21 research and let the private sector do
22 development because reality is that we do a
23 little bit of both, and it strikes me that we
24 may be duplicating.

25 I don't know if you have -- how do you think

1 about the difference between basic research
2 and product development and...

3 Bill Hawkins: Well, I think research is
4 really the idea generation and kind of the
5 proof of concept.

6 The development is a different phase where
7 there is more ingredients, like risk capital,
8 that needs to come into place and leadership
9 that's actually going to commit themselves
10 beyond just the project itself but, really,
11 to the whole bigger part of getting something
12 not just to the market but really getting it
13 to standard of care.

14 But just to build on Marilyn's remarks
15 about -- I think it's worked in our industry,
16 in some cases very well.

17 We have historically worked well with
18 N.I.H. on a number of areas of mutual
19 interest.

20 We have a project right now in trying to look
21 at how we can help people who have had a
22 stroke, people -- some patients who have had
23 a stroke, they can't swallow and that's, in
24 fact, one of the reasons that a lot of people
25 who have strokes end up dying is because they

1 can't eat because their muscles have
2 atrophied, and we're working with N.I.H. on a
3 product that builds off our pacemaker
4 technology platform that enables you to
5 potentially pace the muscle in the throat to
6 restore the function to be able to swallow.
7 That's a good example of one of the areas of
8 collaboration.

9 I think some of the work, the monies that
10 were dedicated to try to solve some of the
11 real problems in cancer, and most recently
12 even some of the state initiatives, like it
13 was in California on stem cells, all that
14 will, I think, foster a lot of ideas and
15 people wanting to take risk and really, I
16 think, ultimately push forward our ability to
17 really innovate this country.

18 Dr. Chandy: On that, Marilyn mentioned the
19 roll of collaboration.

20 Medtronic would like -- one of the reasons we
21 like Medtronic a lot, the university actually
22 had a role in the founding of the company.

23 Bill: Absolutely.

24 Dr. Chandy: Dr. Lillehei and... Now, do
25 you see that close collaboration between

1 industry and universities, for instance --
2 and often universities are funded by local
3 government, among others -- is changing?
4 Is that increasing, decreasing; what do you
5 see as trends?
6 Bill Hawkins: First of all, the point about
7 collaboration is absolutely critical.
8 Again, we just celebrated the 50th
9 anniversary of the pacemaker which, as Rajesh
10 said, was a terrific example of where a
11 physician, Dr. Walton Lillehei, along with
12 a young engineer, Earl Bakken, back in 1957,
13 realized the need for a temporary heart
14 machine for patients who suffered a heart
15 block.
16 And that was the genesis of how Medtronic was
17 formed.
18 Today, if you look at our industry, the way I
19 characterize our industry is a little
20 different from the pharmaceutical business.
21 We talk about, you know, from bedside to
22 bench to bedside.
23 Now, the pharmaceutical business you may say
24 is more bench to bedside but our whole
25 industry is predicated on this ability to be

1 able to work in a very close way with the
2 clinical community.
3 I would like to sit here and tell you that
4 Medtronic has had all the great ideas but the
5 reality is, if you look at the angioplasty,
6 if you look at the fields of implantability,
7 defibrillators, the field of deep brain
8 stimulation, these are all ideas that
9 physicians have had that we were smart enough
10 to be next to them and realize that this was
11 really something that there was a big
12 clinical need for, and a commercial
13 opportunity, and it's then, you know, our
14 ability to put capital at risk and to take --
15 you know, and to go through what now is
16 becoming increasingly protracted times to get
17 products to the marketplace, to ultimately
18 get it to the marketplace and then make the
19 investment to move it to standard of care.
20 But I am concerned that this ability for us
21 to collaborate is at risk, and there is a
22 growing unfortunate distrust in the public's
23 eyes that perhaps the pharmaceutical business
24 is and the medical device industries have
25 gotten maybe too close to the medical

1 community, and there's some forces at play
2 and regulations that are being proposed that
3 it potentially could separate and really make
4 it hard for physicians to want to work with
5 medical device companies for fear of their
6 reputations being at stake.

7 So I think we have to be very careful in that
8 either there is a role for regulation, there
9 is a role for oversight but we cannot, you
10 know, destroy, you know, this -- this whole
11 critical dimension of innovation which is the
12 ability for us to work with universities, to
13 work with the clinical community, to work
14 with people in other areas to really bring
15 the best ideas and bring them forward to a
16 commercial product.

17 George Buckley: If I could add something, I
18 think on your question, Mr. Secretary, of
19 why should the government be involved.

20 Clearly there are some things only the
21 government has the money and the skill to do.
22 Particle physics, for example, would be one
23 example often done in collaboration with
24 universities.

25 For those sorts of basic elements of

1 research, there's probably nobody else but
2 the government can afford to fund them.
3 On the other hand, there would be things that
4 the government may pick off, which are
5 strategic necessity, that it can either do
6 alone in its labs or encourage industry or
7 universities, for that matter, to do research
8 on it.
9 I think there is a role there.
10 I don't necessarily know what all those
11 things are but the key here is innovation is
12 innovation, defense of innovation is
13 something new, and something new comes from
14 delivering essentially an unmet need in the
15 marketplace, and so we find -- sounds like
16 Bill finds, also -- that while we may have a
17 scientific idea back in our labs, we often
18 do, but where the best innovation, certainly
19 the fastest innovation seems to come from is
20 where we listen to customers, where we're
21 engaging in customers, at least trying to
22 find out what their problems are, that we
23 don't necessarily realize what they are, and
24 we realize have a product or a science that
25 can be applied to it, or with a small -- one

1 or two more building blocks, it could be
2 converted to the customer's needs.

3 So innovation, I think, for the most part, is
4 best done at the marketplace by listening to
5 the customers' unmet needs.

6 Dr. Chandy: You're each heads of
7 organizations that are remarkably global,
8 The Carlson Companies are in 200 companies or
9 so -- I didn't realize there were that many
10 countries -- and 3M, again, you get more than
11 a majority, 60% of your revenues from outside
12 the country.

13 The United States and Medtronic, my dad in
14 India has a Medtronic product inside him.
15 So it's truly a global company.

16 Now, we saw some of the potential patterns
17 and movement that you alluded to, George, so
18 to the extent other countries have tax rates
19 that are somehow advantageous or regulations
20 that are less -- somewhat less constraining,
21 being leaders of global corporations, how
22 else does -- how does that impact innovation
23 today in your companies?

24 The fact that you're global.

25 Bill Hawkins: Well, maybe I'll start.

1 Again, I think there are certain things like,
2 you know, R & D tax credits which make a
3 difference because in my business, we spend
4 about 10% of our sales dollars on R & D,
5 which is about four times the amount that the
6 country spends on R & D, and we spent -- I
7 think if you look at our industry, our
8 industry in the aggregate spends about 4.5%.
9 We spend -- we'll spend this year \$1.3
10 billion on R & D, and I will tell you that,
11 again, the cost for us to get products to the
12 marketplace is changing, it's escalating at a
13 pretty traumatic rate.
14 So we have to be much smarter and we need to
15 make sure that we are working closely with
16 the government to ensure that we have the
17 most efficient, least burdensome way to get
18 our products to the marketplace.
19 We are now, more so than ever, seeing
20 emerging competition coming out of countries
21 like China.
22 In fact, we just announced a joint venture
23 with a Chinese company and I will tell that
24 you that company in part got its start
25 because of the government, that really,

1 basically kind of helped to fund, you know,
2 some of their research and development.

3 Dr. Chandy: And your industry is one
4 where -- the device industry is one where the
5 U.S. really dominates.

6 Bill Hawkins: You're right.

7 Again, I talk about -- I made this comment to
8 Rajesh, one of the things I'm very proud of,
9 if you think about what -- one of our
10 country's core competencies is the life
11 sciences industry.

12 If you look at the innovation that is in
13 practice today, most of it really has come
14 out of the U.S.

15 Now, some of the ideas may emanate from
16 outside the U.S. but it's -- you know, we've
17 created an environment, historically, that
18 has facilitated us taking risk and
19 encouraging us to really try new things and
20 we've done that.

21 And today, I mean, in the medical device
22 world, I mean, you think about the companies
23 that are really the leaders around the world,
24 it's the Medtronic, the St. Jude's, the
25 Baxters, the Beck and Dickinsons, the

1 Bards, it's the American -- it's -- you
2 know, a number of companies.

3 You can't name, really, that many companies
4 outside the U.S.

5 I mean, there are some exceptions, Smith and
6 Nephews and the Synthes and the Terumos, but
7 only a handful.

8 The primary engine has been here in the U.S.
9 but that's changing and there are forces at
10 play that, if we don't manage them correctly,
11 will alter that landscape and I think it's
12 not a good thing.

13 George Buckley: I would like to add
14 something to what Bill said; a good question
15 you asked, Rajesh, that triggers this.

16 I'm going to give you a little sound bite
17 here that I use inside our company, and I say
18 that we're engaged in a global war, a global
19 competitive war, and the winner gets to have
20 your job.

21 And so we have to put that sort of concept
22 into an American context, both in terms of
23 work-life balance issues, taxation issues,
24 those things have to be thought about, and
25 how do we stay competitive relative to those

1 countries whose cultures have a different set
2 of values and are prepared to do different
3 things than we are.

4 The thing the government, I think, needs to
5 do -- there are some things that government
6 should do and there are some things that
7 government should not do.

8 Let me give you an example of some things a
9 government should not do.

10 By the way, our government doesn't do this
11 but some other governments do.

12 One is a notable European country where
13 when -- when their companies face these giant
14 global competitive forces, they put
15 impediments in the way of these companies
16 moving away from their country, and they make
17 it very, very expensive for companies to
18 disengage from that nation to -- tell -- to
19 try to find survival a mission for them and
20 try to keep the entire company at bay.

21 What we forget -- and there is a parallel to
22 this in the United States, but what we forget
23 is that barest exit today or barest entry
24 tomorrow, because when I make a choice of
25 where to invest, invest in country A, B, C,

1 D, or E, if I have a choice of investing in a
2 high-taxed, high-regulation country at one
3 extreme, versus a lower-taxed,
4 lower-regulation country at the other
5 extreme, then you know where my investment
6 dollars are going to go.

7 So in the job creation, competitive
8 landscape, we are competing both in terms of
9 effort we have to put in, we are competing in
10 terms of the way we're prepared to
11 incentivize and encourage and support
12 business innovation, and for us -- Bill has
13 one advantage that we at 3M don't have fully
14 and that is, there are no barriers to entry,
15 for the most part, in the areas that we
16 participate in, and so it's a level playing
17 field.

18 And what I would like the United States
19 government in particular to do for me,
20 because I don't want to have to kick uphill
21 all the time, playing with the rain and wind
22 in my face.

23 So when I'm competing with China, competing
24 with Japan, competing with India, I want to
25 compete on a level playing field.

1 I want to have reciprocity.

2 I want to have fair trade, not free trade.

3 I want to have the same rules for them as
4 apply to me.

5 So I want to have the same rules importing
6 products into our country as they have for
7 importing products into our country.

8 So all I ask for is fair reciprocity.

9 The last thing I will say and then I'll close
10 my comments here, if we're expected to
11 compete on a global stage with giant,
12 massively capable global competitors, then we
13 need access to global talent.

14 And so I would encourage or plead, perhaps,
15 the government to give us a sensible
16 immigration policy where talent can flow to
17 this country where the need is, where the
18 creativity exists, where the environment for
19 doing something with this -- the capital
20 environment exists for doing something with
21 this.

22 Please don't tie our arms behind our back and
23 make us kick uphill, against the wind with
24 one arm tied behind our back.

25 Marilyn Carlson Nelson: I'm so pleased the

1 question of talent has come up because it
2 goes both to our -- [inaudible] system and
3 immigration policies, as well, and they're
4 certainly impacting all of us in all of our
5 businesses, and I know that that's something
6 that the Secretary has been working hard on,
7 looking at how to help us to both improve
8 that so that we get students coming here
9 again, and then, also, our ability to keep
10 the brilliant scientists from all over the
11 world once they graduate because they're the
12 people who have been working in our companies
13 and helping us to be globally competitive.
14 Just as a sidebar, it's interesting as a
15 private company to go back to some of the
16 environment around Sarbanes Oxley and the
17 costs, the burdensome costs of some of that
18 regulation in the United States but it's
19 impacted us in a very interesting way.
20 One of our businesses has become very, very
21 large and the question is whether, in order
22 to access the capital markets, we should
23 consider taking one subsidiary public, and
24 for a private company, that's a very big
25 decision.

1 As we went through the due diligence to
2 decide whether or not to do it, much to my
3 amazement, American investment bankers were
4 suggesting that we do it anywhere but in the
5 United States.

6 [Audience chuckling]

7 Marilyn Carlson Nelson: And it was just
8 really an issue, and I actually called a
9 meeting not just of our board but I went to
10 the family and I said, how would we feel
11 about this.

12 I mean, as having enjoyed America as a place,
13 an entrepreneurial place and where Curt came
14 here from -- you know, his family from Sweden
15 in order to have this brilliant
16 entrepreneurial future and to take risk, and
17 suddenly we get a part of his company to a
18 place where we're being told that the burden
19 of all this expense on a service industry
20 with the kind of margins we have is so great,
21 that we have to take this public on the
22 Euronext or somewhere else, and it's just --
23 it's an object lesson.

24 It's difficult -- we made a decision not to
25 do it, not to take it public but that's a

1 startling fact and a very concerning one,
2 that we just really -- I can't think of
3 anything worse.

4 We have the same 404 -- burden of 404 and so
5 on, really helped to create the private
6 equity industry because people were taking
7 huge companies private in order to just save
8 that margin of burden that they had, you
9 know, before, and this in itself has opened
10 up many businesses to being purchased by, you
11 know, some of the large wealth funds around
12 the world.

13 So it is an issue that even for a private
14 company, to urge us to give a second thought
15 to somehow relying on some of us to apply
16 some kind of integrity to leadership that
17 will not need to be externally regulated in
18 order for to us accept some risk and compete.
19 Secretary Gutierrez: now, Rajesh, just in the
20 last minutes, an informal conversation, we've
21 heard about what really drives the
22 environment.

23 Tax policy, energy policy, trade policy,
24 immigration policy, and then your point,
25 which I think is very important, is

1 regulatory policy which I think goes to the
2 heart of what is the role of government, and
3 someone mentioned about the trust level and
4 regulation and why that starts.

5 Maybe this is a good time to turn it over to
6 the audience and get questions from -- from
7 them.

8 Dr. Chandy: I think the cards are coming
9 in that way and while we get the question,
10 can I ask just a follow-up and we'll collect
11 that.

12 Marilyn, you mentioned being a private
13 company, a family-owned company, and that
14 allows you to, I would think, look -- look
15 really long term and invest in the long term
16 for innovation and other things.

17 Bill, George, you're with publicly held
18 firms, better or worse, and, Bill, let me
19 start with you.

20 The kind of investments necessary and the
21 risk-taking necessary in an industry like
22 yours in the medical industry, those
23 investments don't pay off for a while.

24 I'm sure that's true at 3M, as well, but
25 especially they're given in the medical

1 industry given the clinical trials and so on.
2 How does being part of -- being part of --
3 leading a publicly held firm impact your
4 decisions on risk, on innovation, R & D, et
5 cetera?

6 Bill Hawkins: Well, I mean, obviously it
7 affects us in many different ways.

8 We've already talked about the S.OX
9 implication, just the cost of operating in
10 the U.S., that's clearly a factor but, again,
11 I mentioned this whole concept of reputation
12 and, you know, as a public company, we are,
13 you know -- obviously a lot of what we do is
14 open to the public, and one of the issues
15 that I'm dealing with right now has to do
16 with the -- you know, the whole tort reform
17 or the whole legal infrastructure in this
18 country, and we -- unfortunately, we're in a
19 highly regulated industry.

20 You know, we make devices which are designed
21 to try to help restore people to a full life,
22 okay, and there's no question that what we
23 do -- I mean, there's risk in the products
24 that we make.

25 I mean, in fact, I have here on my little

1 shelf here some show-and-tell but one of the
2 products that I think is probably one of the
3 medical miracles is the implantable cardio
4 defibrillator.

5 This is a device that is for patients who
6 have been diagnosed to be at risk for sudden
7 cardiac death and these are for patients who
8 have died, lucky to have a second chance.

9 We put in this device, and essentially it
10 monitors your heart rate, and if you were to
11 end up in arrhythmia, it would shock you back
12 to a normal sinus rhythm and save your life.
13 But I can tell you that the -- unfortunately,
14 the environment that we operate in, you know,
15 one of the things that we have to be very
16 mindful of is just, you know, anything that
17 goes wrong and -- whether it's even our own
18 doing, you know, puts us at inordinate legal
19 risk, and it does weigh on our thinking
20 about, you know, how we should be bringing
21 products to the marketplace, and in some
22 cases, it's -- what's happening is it's --
23 the public, I think, has lost a little bit of
24 a perspective on the whole risk versus
25 benefit tradeoff, and the idea that we

1 could -- of trying to develop a device that
2 would never, ever fail, it's --
3 unfortunately, it's not real but in some --
4 wanting us to try to do that is taking longer
5 and longer for us to go through the
6 regulatory process and the clinical trial
7 process, and what's happening is we're not
8 seeing the advances in technology.

9 In fact, you know, this is our first
10 generation implantable defibrillator, okay?

11 [Laughter]

12 This was a device developed 15 years ago, 20
13 years ago, and this device compared to this
14 device, I mean, first of all, this has a
15 radio built into it, it telemeters
16 information in it so the physician knows
17 what's going on in your heart,
18 This device lasted for a year, this one lasts
19 for seven years.

20 This is so much more advanced than this but
21 what concerns me now is there's forces at
22 play in the legal world that, you know, are
23 making it harder and harder for us to bring
24 forth, you know, these ideas for fear if
25 something does happen, you know, the legal

1 exposure we have.

2 There's one company I know that I used to
3 work at that ended up paying \$23 billion to
4 lawyers for class action lawsuits related to
5 a product that -- you know, that was designed
6 with the best intentions, I can tell you
7 that, I was there.

8 But things happen and so where that \$23
9 billion could have gone into R & D, it's now,
10 you know, gone into other...

11 Dr. Chandy: Marilyn wants to say
12 something, and, George, you want to say
13 something, life as the CEO of a public firm?

14 George: I would like to pick up three points
15 and I'll try to do them briefly.

16 First of all, the point that Bill is making,
17 I'm going to use an example of the tobacco
18 industry.

19 I've never worked for the tobacco industry,
20 I've never smoked, I never will, I don't like
21 it so I'm not in any way trying to defend
22 these people.

23 But I would like you to think about what went
24 on in tobacco.

25 There are only three parties in this

1 particular -- that little story.

2 There are the smokers, the tobacco

3 manufacturers, and there are the lawyers and

4 attorneys general who are trying to get money

5 out of this group.

6 All it is is really a pass-through scheme

7 because, as I said earlier when I said that

8 groups sometimes make mistakes that companies

9 are taxpayers, they're not the same as tax

10 collectors, the same thing with settlement.

11 Companies are not settlement payers, they're

12 settlement collectors.

13 Because who do you think the lawyers are

14 going to get their money from?

15 From the company.

16 And where do you think the company is going

17 to get their money from?

18 From the smokers.

19 So being British, you love irony and here you

20 have...

21 [Laughter]

22 Here you have this group who's saying this

23 thing and then taxing them, and because of

24 the way the ball works in this country, you

25 have the absurd -- in fact, you mostly have

1 the utterly absurd situation where the
2 lawyers get 50, 60, 70% of the settlement and
3 lawyers might get 8 billion and the smokers
4 get two coupons for a pad on the arm.

5 That's what happens in America.

6 That's the system that we have built, that we
7 continue to maintain, and it's the same going
8 back now to the life of a person in a public
9 company.

10 I won't ask the Secretary to answer this
11 question but I'm sure as a person in
12 government, he wonders why I ever accepted
13 this job.

14 As a person...

15 [Audience chuckles]

16 As a person in a private company, you want
17 the same thing, it's quite interesting for me
18 to note, in another sense of irony, that we
19 have hedge fund managers.

20 Three of them, I think, this year were paid
21 more than \$1 billion in compensation, \$1
22 billion in compensation.

23 I don't know where this is adding any value.

24 And picking up lastly on Sarbanes Oxley, if
25 Sarbanes Oxley had been in place in 1825, the

1 United States would not be the United States
2 today.

3 Because this country was born from
4 risk-taking, from entrepreneurship, from
5 investments, from people trying different
6 ideas, and what Sarbanes Oxley appears to do,
7 at least to me as a hopefully innocent
8 bystander, is it seems to do two things.

9 Number one, that if there is enough
10 disclosure, I can eliminate all risk.

11 Well, in what is essentially a risky
12 enterprise, global commerce.

13 And secondly, that I learned my value system
14 from a statute book.

15 I learned my value system on the end of my
16 grandmother's shoe when I was 7 years old.

17 [Audience chuckles]

18 George Buckley: So -- and so imagine the --
19 what can happen to someone like myself or to
20 Bill,

21 I can be put in prison for 40 years, in
22 federal prison, without right to parole for a
23 mistake that somebody makes in Australia that
24 I have no idea.

25 And so this -- this is the -- so when you're

1 trying to assess whether the kind of jobs
2 that we do or the kind of talent you're
3 trying to attract to a public key is
4 really -- are the jobs really worth it, these
5 are the things that go in your mind, and as
6 Marilyn said, when she's making an assessment
7 of whether they should go public on the U.S.
8 law or another country's law, in most cases,
9 if you had free choice, you wouldn't do it
10 under U.S. law.

11 That's a plain and simple fact.

12 Marilyn Carlson Nelson: Just quickly, aside
13 from saying you might like a company as a
14 public company but you don't like services
15 that well.

16 [Laughter]

17 George: Talking about...

18 [Audio Unintelligible]

19 Marilyn Carlson Nelson: Quickly, your
20 question, very quickly, I heard you ask the
21 public companies but it's true in a private
22 company, too, the return on investment, the
23 time it takes, the competitive environment,
24 the quick followers, do you get the kind
25 of -- sort of first kind of first mover

1 advantage that allows the payback, you know,
2 the answer is no.

3 And so what's happening is we need to
4 continue to support small business in this
5 country.

6 Small business is the one that -- that's how
7 it's happening, Medtronic will look for the
8 latest investment.

9 Often, if they've already been through
10 clinicals, that's the time your distribution
11 system, your power to bring it to market,
12 your ability to integrate it with your
13 product set is the best.

14 Even for us in our Carlson Marketing, Carlson
15 Travel, one of the things that we do is
16 process innovate on behalf of our clients,
17 and that means we're looking for technologies
18 that allow to us do more, to understand
19 better in realtime what the consumer wants,
20 understand what's happening.

21 Those are little pieces of information that
22 we can pull together to serve our markets but
23 they're coming, often, from small businesses,
24 so this country needs to nuture those small
25 businesses, help us to get funding to them

1 and make sure that they aren't so burdened
2 with regulations and costs, and people with
3 their health care costs, that they can't
4 provide the valuable service that they're
5 providing because they're key to our
6 competitiveness and our innovation.

7 Secretary Gutierrez: I heard someone say the
8 other day that 50% of all new jobs are
9 created by companies that are less than five
10 years old.

11 So, you know, it's all about small
12 businesses, and, you know, people think that
13 our economy is about big, multinationals.
14 Eventually small businesses become big
15 multinationals as yours probably did, but all
16 about ideas and entrepreneurship.

17 Do you want to start out?

18 Dr. Chandy: Several things actually that
19 are consistent with our conversation.

20 You know, some -- I love this quote about
21 innovation.

22 Innovation is the art of seeing change as an
23 opportunity rather than a threat, and a
24 number of the questions actually relate to
25 that theme, so here's one.

1 Are national crises like the rising cost of
2 fuel and energy good for innovation, such as
3 developing a demand for hydro cars, hydrogen
4 cars, hybrid cars, and also alternative
5 sources of fuel like wind [inaudible] --
6 solar and wind?

7 Marilyn Carlson Nelson: I would say, in many
8 cases, a crisis -- we always talk about the
9 Chinese character, crisis and opportunity,
10 There's no question, but, remember, the one
11 thing about the free market system is that it
12 is blind.

13 It does adjust, it doesn't worry about
14 whether the U.S. is more competitive or
15 whether many people lose their jobs or
16 dislocation or what happens to the banks or
17 what happens to the mortgage.

18 It moves, so I think what we're talking about
19 is how do we mitigate some of the negative
20 aspects of that kind of change at the same
21 time that we can enhance the probability of
22 innovative success that will make us more
23 competitive.

24 Dr. Chandy: If I could add a different
25 question someone else had on that theme.

1 Given that, given what you know, Marilyn,
2 about, well, this is a global economy,
3 therefore, many people can respond to crisis,
4 is there a role for government intervention?
5 In other words, is the problem so
6 all-encompassing that it's bigger, quotes,
7 than what corporate innovation and individual
8 companies can conquer?
9 George Buckley: There was an interesting
10 article in the "Wall Street Journal," I think
11 it was -- Tuesday, Roger, Monday -- written
12 by the chairman of Gulf Oil who said --
13 essentially his message was the following.
14 There are two culprits in this particular
15 problem; the Democrats because they limited
16 the supply side by having the
17 environmentalists take over -- essentially
18 take over control of where we could produce
19 oil, and the Republicans who didn't encourage
20 conservation.
21 And I think both are true, it was a good
22 point.
23 But going back to your point about is this an
24 opportunity, is this -- will this produce
25 innovation, I think the answer is yes.

1 The old classic, necessity is the mother of
2 invention.
3 I think you're absolutely right.
4 It's just another form, another force that
5 can lead innovation.
6 In this particular case, it's a market
7 innovation that we talked about market need
8 and industry, I think, will respond to it.
9 But I think that -- I don't want to be in any
10 way Pollyanna-ish about this but we have a
11 phrase in our company, that the solution to
12 high prices are high prices.
13 [Chuckling]
14 Because what always happens is this, it helps
15 to control demand and actually spurs
16 innovation, it spurs production, it spurs the
17 very things that will reduce prices, and I've
18 learned in life that usually the -- my best
19 hopes and worst fears never come true because
20 they have these sort of self-leveling forces.
21 I'm not advocating, you know, laissez-faire,
22 let's not care, I'm not advocating that at
23 all, but I'm advocating that essentially we
24 will deliver solutions to this problem
25 because market forces will help us do so and

1 I think that's what will happen.

2 Secretary Gutierrez: I think it's a great
3 example of having a rhythm to -- in your
4 business report, you talked about merging
5 business opportunities which I assume don't
6 change every six months.

7 When oil was at \$15 a barrel, you know, we
8 were -- we had a -- we were very relaxed
9 about it.

10 Now that it's 140, people want a solution
11 tomorrow and, invariably, as you know in
12 business, if you want a solution to a
13 long-term problem tomorrow, you're going to
14 make some big mistakes.

15 So, you know, part of the solution is staying
16 on an agenda regardless of what may be
17 happening in the immediate term.

18 I have some questions here that all add up
19 to, you know, corporate culture, how do you
20 create a corporate culture that supports
21 innovation.

22 Interesting question, how do you integrate
23 ideas from the outside, insights from the
24 outside into your organization?

25 So how do you encourage your people to accept

1 ideas from the outside and then,
2 specifically, you mentioned, George, that you
3 took out Six Sigma because that was standing
4 in the way of innovation.

5 What other strategies do you employ to foster
6 innovation?

7 A very broad question about culture.

8 George BUckley: In our particular case,
9 there are many.

10 We have a number of things that I'll just
11 offer to people for their thought.

12 You cannot -- first of all, let's set down an
13 idea market here.

14 Innovation and, really, invention, perhaps
15 more so than innovation, is a discontinuous
16 process and you cannot use techniques on it
17 that are designed to manage continuous
18 processes like Six Sigma, and that's why we
19 took it out.

20 You cannot invent, at least not easily --
21 there are examples which would perhaps
22 disprove my theory but, as a general rule,
23 you cannot invent an atmosphere of control,
24 overbearing management.

25 There has to be a spirit of freedom and

1 entrepreneurship and a desire to take risk
2 and realizing it when it comes around.
3 Otherwise, you can't invent, you can't do
4 something that's different that somebody has
5 never done before, so there has to be a
6 spirit at some level of freedom.
7 There has to be a celebration of excitement
8 in the break-through of new ideas where all
9 will share in it.
10 What you often find -- Roger and myself, a
11 gentlemen at the front here, were speaking to
12 a university recently and talking to the
13 leader of that university about how does
14 he -- how does he get the university to work
15 more collaboratively and so on, so forth.
16 The thing that we have in our company that
17 you often don't have in university is we
18 don't have a publish or perish mentality and
19 we share all intellectual properties.
20 It's common property across our company.
21 So one division, if they invent something,
22 it's common property for everyone in our
23 company.
24 So you just go to the pantry and see what's
25 there to use as-- in your mix of innovation.

1 And then the last thing I'll say on this,
2 just to let other people comment here, is we
3 grant our researchers 15% free time and so --
4 I mean, theoretically they could go off and
5 work on plasma power rocket motors but, of
6 course, peer pressure prevents that.

7 They work on the kind of stuff that 3M is
8 interested in.

9 So we give them that amount of freedom and we
10 have found, in many cases -- and this is not
11 just odd cases -- the famed Post-It Note came
12 from one of those kind of programs where
13 somebody had an idea and the company had no
14 interest in it.

15 We were absolutely convinced nobody would
16 ever make any money out of little sticky
17 things that you put in a book or whatever,
18 and the system, if it would have just been
19 the management leading that, Post-It Notes
20 would have never got invented.

21 So freedom, a spirit of sharing where the
22 importance of the company is more important
23 than the importance of the individual, these
24 sorts of things are the kind of ingredients
25 that we have in our company.

1 And then my final comment is, I characterize
2 3M as more like an organism than an
3 organization.

4 Sort of a cross-linking of ideas and the
5 sharing of ideas that it's just a wonderful
6 process to behold in the company.

7 Never seen anything like it in my life.

8 The only thing I've ever seen like it in my
9 life and is a joy to behold.

10 Secretary Gutierrez: Bill, Marilyn?

11 Do you have anything to add?

12 Bill Hawkins: Just a couple of comments.

13 I agree with George's remarks.

14 Innovation is a discontinuous process, it's
15 not something that you can necessarily put on
16 a Gantt chart and try to monitor in a
17 systematic way.

18 I think it comes down to the culture.

19 It starts with me in terms of people respect
20 what you respect.

21 For our industry and for our business -- and
22 I talked about this already -- so much of our
23 sort of the innovation occurs in the
24 collaboration.

25 It's outside the walls of our company, it's

1 really in the labs, it's at the bedside, it's
2 interacting with customers, it's listening,
3 it's extracting ideas, it's determining,
4 really, where are the big unmet clinical
5 needs.

6 And then it's the insight and wisdom to know
7 that internally, where you start, and then
8 how do you get the ball rolling, and then the
9 courage in the organization for people to
10 then bring something forward that's outside
11 what may be in the operating plant and begin
12 to sort of build support, and be able to see
13 it grow from just an idea to ultimately gets
14 funding and then it becomes the next big
15 project and then, you know, it's away we go.

16 And you look at Medtronic -- in fact, our
17 recently published annual report, one of the
18 things that we highlighted was just the
19 history of innovation that we have, and
20 there's kind of a time table that speaks to
21 just all the firsts that we have really been
22 at the -- that we've brought forth to the
23 market, beginning with the pacemaker to some
24 of the work on the heart valves to
25 neurostimulation for pain, and deep brain

1 stimulation for movement disorders and --
2 but, again, it's hard to -- it really does
3 sound a little bit cliché-ish, but it comes
4 down to the culture, comes down to really
5 what it is that we -- what the questions that
6 we ask, the interest that leadership
7 displays, and then the ability and the
8 willingness for you to create an environment
9 internally for people to take some risk and
10 get the ball rolling.

11 Dr. Chandy: Before we have Marilyn discuss
12 her notes, because I know this is something
13 that's dear to your heart, Marilyn, but let
14 me ask Bill to -- could you also elaborate on
15 something you mentioned which is looking
16 outside the company for ideas.

17 George talked about the value of looking
18 throughout the organization and
19 cross-fertilization, cross-pollination.

20 You mentioned bedside and looking outside
21 the -- can you point to one or two or three
22 things that you do as a company, or
23 strategies or actions or activities that help
24 you look outside the company?

25 Bill Hawkins: We encourage our people to get

1 out of Minneapolis and spend time in the
2 field working with physicians and people at
3 all levels, not just the sales organization
4 but we encourage engineers, we encourage
5 marketing people.

6 We really encourage people to get out, spend
7 time with, you know, people who are on the
8 front line, the thought leaders who are out
9 there, really on the forefront of doing some
10 kind of creative and innovative research in
11 different fields in which we have an
12 interest.

13 So it's really the idea that people will --
14 you know, will get outside.

15 We also pride ourselves in staying very
16 connected to the venture community.

17 A lot of innovation that occurs, some of it
18 is the ideas that we pick up, and then we
19 will take the risk internally and try to
20 bring it to the marketplace, but I like to
21 think -- we're proud of the fact that we're
22 not anything in a drum and we're willing to
23 acknowledge there is a small company here in
24 the Twin Cities or somewhere else that has
25 really taken -- has taken early risk and has

1 brought forth a concept, and then we'll --
2 you know, we'll -- we're not shameless in
3 terms of using our capital to find a way to
4 bring them on board and integrating them into
5 Medtronic.

6 Dr. Chandy: Implicitly, there is a sort of
7 15% policy, as well, that you spend time --
8 Bill Hawkins: Oh, absolutely.

9 Marilyn Carlson Nelson: I read a McKenzie
10 study once that said they looked at
11 breakthrough teams, teams that actually did
12 come up with sort of the discontinuity in
13 terms of innovation, and that they looked,
14 ran analyses and regressions to try to decide
15 what they had in common, and the only thing
16 they were able to find out, really, that they
17 had in common wasn't the size of the team
18 or -- it was that the team had bonded to the
19 point that they cared as much about each
20 other's success as they did about their own.
21 And I've always found that really interesting
22 in creating environments of trust and sort of
23 where you have enough competition but you
24 also have this sense of collaboration; to
25 your point, caring about the company more

1 than self, at which point people can listen
2 to each other's ideas and process them, and
3 it's not a winner take all, it's all win and
4 that's a different environment.

5 That would be one piece.

6 The second is teams.

7 I think that teams have become very important
8 to all of us, that there is a complexity.

9 We need the deep, deeper than ever expertise
10 but we also need people who can connect the
11 dots.

12 This learning organization, or the pantry as
13 you call it, the question was then there must
14 be some people who are better than others who
15 can see connections between those things and
16 come up with the next big idea.

17 My concern is that in our academic
18 institutions, we've moved both away from the
19 liberal arts which provide some of that
20 broader foundation, and then we've
21 specialized to the point where it feels to me
22 we need to open that funnel back up, and
23 we've been trying here at the Carlson School
24 and the Humphrey Institute, as well -- I know
25 they're doing it at Harvard between Kennedy

1 and the Business School -- to take people who
2 are going to become leaders in public policy,
3 or aspire to, and people who want to be
4 leaders in the corporate world, in some
5 cases, N.G.O. leadership, and learn each
6 other's languages, learn what it means to
7 present value and opportunity and how you
8 measure risk-benefit so that we have people
9 who can sort of integrate and synthesize the
10 social issues, the political issues, the
11 environmental issues, the business issues and
12 still have the courage to make leaps forward
13 and make change.

14 And I just hope that -- some of why I think
15 we're facing that is so many of our siloed
16 and specialist kind of organizations were
17 actually built for a different century, a
18 different time and with different
19 capabilities, and somehow trying to be able
20 to break out of that and trying to find a way
21 to build these teams that opens us up to each
22 other's knowledge is a challenge for us, but
23 we need to try to address it.

24 Secretary Gutierrez: Just to build on that,
25 you talked about creativity and being

1 broader.

2 And the subject of education, which a couple
3 of questions have come up, again, our
4 inclination to find quick, one-liner answers
5 to problems.

6 Today what you hear a lot about in education
7 is math and science, so that's all we need to
8 do is, you know, let's improve math and
9 science but we know it's a lot more complex
10 than that.

11 We know there's creativity, liberal arts, and
12 what makes us such an incredibly innovative
13 society is that we have everything from
14 liberal arts to math and science.

15 We also have the problem of immigration.

16 We don't have enough -- traditionally, this
17 is the company where the best minds have
18 wanted to come to.

19 Whether it's during World War II -- like I
20 say that the irony of World War II was the
21 way we won was by using immigrants who came
22 from Europe, fleeing the war.

23 I mean, it just -- and our history is one of
24 immigrants coming to help our society.

25 We don't have enough.

1 Can you talk about what you use as benchmarks
2 for education?

3 How important is it?

4 How do you see a government role?

5 And just one last statistic here,
6 unemployment was 5.5%.

7 People without a college degree,
8 unemployment, well over seven.

9 People with a college degree, unemployment in
10 the twos.

11 So more than ever, your ability to get a job,
12 a good-paying job is about education.

13 Any thoughts?

14 Bill Hawkins: Well, the question about --
15 for us, as a technology-driven company, we
16 are dependent on the broad range of
17 skill-based individuals, you know, that
18 some -- obviously, the math and sciences but
19 I think to Marilyn's point, no longer is it
20 about just a single function.

21 It's really -- more and more, our success is
22 the ability to facilitate interdisciplinary
23 sort of teamwork that -- where we engage sort
24 of people who bring different ideas together
25 that really make kind of the whole greater

1 than the sum of the parts, and so, you know,
2 we are -- you know, we obviously look to
3 universities and -- you know, on a global
4 basis to source talent.

5 We have a number of different programs
6 where -- we have intern programs to give
7 people the opportunity to get to know us and
8 for us to get to know them.

9 And again, these are global programs.

10 We don't today -- we are still more
11 U.S.-focused than we are outside the U.S. but
12 that's changing as we recognize that, you
13 know, we do 35% of our business outside the
14 U.S., and there is a huge opportunity for us
15 to expand that.

16 So we know we've got to do more on the global
17 leadership talent development, and whether
18 that's bringing people from outside the U.S.
19 or making sure we help people who we have
20 here in the U.S. to appreciate a global
21 mindset.

22 But then the responsibility we have
23 internally; once we have the people in, it's
24 not just you bring them in and you expect
25 them to know what they need to know.

1 A lot of what we invest in is different means
2 of giving people different reasons to do
3 things, to be able to compete in this global
4 landscape.

5 So it's a dynamic process that -- you know,
6 of bringing people in, developing them and
7 making sure that once we have them in, that
8 they're working in a way that brings most
9 value out of them.

10 Dr. Chandy: Seems collaboration comes out
11 on that.

12 A question on that, new technologies, Web
13 2.0, for example, are allowing for
14 collaboration, networks of individuals and
15 communities coming together but -- both
16 within and outside the organization.

17 That -- you can use these tools for new idea
18 generation, better adoption of products, et
19 cetera.

20 Do you see a role for these or do you use
21 these internally, externally?

22 Is that a role -- especially when you're a --
23 are these web-based tools relevant?

24 That's the question.

25 Bill Hawkins: Well, we do take advantage of

1 all the different technologies today, and
2 whether it's the new video conferencing
3 capabilities, the abilities to share data
4 files -- I mean, you know, we are -- I would
5 say that we're best in class in the 24/7 R &
6 D but there's some -- we do in some areas,
7 again, not as much as other companies do,
8 where they're able to take advantage of
9 people outside the U.S. or India on a time
10 cycle that is at -- you know, appropriately
11 out of phase, and then you can have people
12 literally working on one project straight
13 through, I mean, 24 hours and ultimately
14 reduce the time it takes the product to get
15 to the marketplace.

16 Yeah, there is a lot of neat tools and cables
17 we have.

18 We're constantly sort of evaluating and
19 integrating and using to -- again, to ensure
20 that we can stay competitive in, as we talked
21 about all afternoon, an increasingly
22 competitive landscape.

23 Marilyn Carlson Nelson: I would like to go
24 back to the Secretary's question about
25 education.

1 We got off that too easily, I think, for kind
2 of what might be a crisis that the country
3 faces.

4 I know in your report, you talked a lot about
5 factors of production, and in the service
6 business, the human resource is a factor of
7 production.

8 And if we have suppliers who send us fruits
9 or vegetables that aren't fit to serve, we
10 send them back and don't use that supplier.
11 We, in the services, need human resource to
12 come with some level of education and, even
13 in some of the entry-level jobs, it's
14 unknown, even the higher -- those that we
15 expect to hire into more sophisticated roles,
16 and I think that at Carlson, we've taken it
17 very seriously.

18 We obviously care deeply about the university
19 and have been active in trying to help the
20 university interact better with the community
21 as well as building every capability here,
22 but we've also been focused on what to do
23 about the public schools -- you know, engaged
24 in what's happening in our public schools,
25 bringing in charter schools, K.I.P., bringing

1 in Teach for America, working in how to
2 stimulate change in the public schools.
3 But my concern, Mr. Secretary, is, again,
4 if our executives were sharing executives or
5 collaborating, that is something that
6 historically was a public sector question.
7 We're doing it philanthropically, we're doing
8 it realtime with our executive talent, so
9 that is a long-term investment.
10 But it diverts us, in a way, from, you know,
11 the competing specifically today, and I
12 don't -- it's not that anyone objects to
13 that, it's just that this question of what
14 has which role -- you've been asking that a
15 lot, what is government's role, what is
16 business's role, and there's someplace around
17 national standards someplace where there is a
18 tension between what business should take on
19 and what we really -- even if we have the
20 instinct to help, can't take on completely.
21 We can't have a totally private sector
22 education system and still be competing from
23 all these other activities that are, and it's
24 a concern I think we're facing in terms of
25 our desire to make sure we have the feeder

1 system that gives us -- and the best possible
2 opportunity to compete and create a quality
3 of life.

4 Secretary Gutierrez: There's been a big
5 debate about the No Child Left Behind -- for
6 those of you who are aware of the acronyms,
7 NCLB.

8 Part of it is creating standards and creating
9 accountability and ensuring that every school
10 is somehow accountable for better results.
11 And there's been a lot of discussion about
12 it.

13 The amazing thing, to your point, the
14 impressive thing, it is working, the
15 accountability and a commitment to results
16 are actually yielding better test results
17 among children which, until now, has been the
18 measurement, but George, you want to say
19 something?

20 George Buckley: On the subject of education,
21 I'm sure I'm aligned with most of the people
22 certainly in the front of the room and
23 hopefully in the rest of the world.
24 We have let education standards slip.
25 I happen to be an engineer so I wouldn't find

1 too much wrong with mathematics, mathematics
2 and more mathematics.

3 If I'm going to get something, that would be
4 history, history, history in my case.

5 So we have let educational standards slip and
6 we have let accountability slip, I think,
7 over the years.

8 Hopefully these initiatives that you speak
9 of, Mr. Secretary, will bring that back.

10 How we have responded to this, ourselves, not
11 being necessarily always able to tap into the
12 talent we want, we've begun to
13 internationalize our talent.

14 We have sent, shall we say, emissaries during
15 St. Patrick's off to different places,
16 metaphorically speaking, and they have
17 established communities in China, in India,
18 in France, in Germany, and these countries
19 have become centers of excellence in those
20 particular areas.

21 Because we couldn't always get the talent
22 here, didn't have it here, didn't have the
23 inclination, it seems, here, we have to go
24 overseas.

25 So that's how we've handled the issue of

1 perhaps not always being able to get the
2 visas we need for talented people but, in the
3 end, there are different people that explain
4 this in different ways.

5 Clearly, competition on the world stage not
6 only about one thing, not only about cost,
7 talent, technologies, a matter of different
8 things, a lot of different competitive
9 platforms that are needed.

10 But still fundamentally in the end, you need
11 access to talent.

12 We need access to talent -- whether we come
13 through the United States or access it
14 overseas, in many ways it doesn't matter to
15 us but we do need access to talent because
16 the people that we're fighting against have
17 that talent and -- you know, no matter who it
18 is that you do, our competition can just
19 about invest as much capital in the
20 manufacturing plant as we do.

21 They can invest as much in manufacturing --
22 in marketing as we do.

23 They can invest as much even in technology as
24 we do, but, in the end, the thing that
25 separates the best from the rest are the

1 people you hire and how you lead multi -- so
2 we need access to really good people,
3 otherwise this will all be lost.

4 Dr. Chandy: On that point, another
5 question.

6 Please give us an update from the front of
7 the economic war going on globally.

8 That's a reference to a quote from you,
9 George, but I think a question more
10 generally.

11 Who are our adversaries?

12 Where do we stand in the competition?

13 Please identify the battlefield, the
14 companies, the technologies, the product
15 areas.

16 [Laughter]

17 Bill Hawkins: Well, look, it's hard to add
18 anything already, to some degree.

19 I think we are in a battle with China.

20 I think we're going to be -- we're not in my
21 industry so much today in a battle with India
22 but I think we will be.

23 There is a tremendous amount of -- there are
24 smart people there.

25 They have an infrastructure that supports

1 people doing things at a different cost
2 structure than what we can do, and, you know,
3 they -- there are certain barriers to entry
4 in our industry that make it more than just a
5 cost, but cost is not insignificant.

6 But you were talking about the education in
7 China.

8 I forget exactly the number but they're
9 minting out engineers, hundreds of thousands
10 of engineers a year -- some people have said
11 it's four times what we have here in the U.S.
12 I think you have to peel back the layers of
13 the onion and see what kind of engineers
14 they're producing but, nonetheless, there is
15 a big focus in China and some of the Asian
16 markets to really take on our industry and
17 our country and different global battles.

18 So I'm very mindful of what's happening in
19 China, what's happening in Japan, what's
20 happening in India in particular because
21 there's more -- I'm seeing more and more
22 companies begin to emerge that today are
23 small but in five or ten years could be
24 formidable competitors.

25 George Buckley: I think it's -- it would be

1 short-sighted to single out any one nation
2 but if I was to single out any one nation, it
3 is China, and I would like the people in this
4 room who can think back over a number of
5 years and think back when they bought a
6 calculator.

7 I remember buying my first Hewlett Packard
8 21-C, I bought it at a mall in Detroit.

9 I don't remember what it cost me, \$150 or
10 something.

11 It was made in the United States.

12 The next one I bought was made in Singapore,
13 exactly the same design, and that the next
14 one was made in Malaysia and the last one I
15 bought was made in China.

16 If you look at the rise of China and think
17 perhaps 50 years ago, 20 years ago, what we
18 brought in from China was straw hats and
19 plastic buckets and spades.

20 And today it's ever-increasingly advanced
21 technology that we are transferring that
22 capability -- we are teaching them, they are
23 learning, and they're very good students, and
24 if you don't think they're going to be
25 producing these advanced technologies that

1 Bill has to compete with, or Bill makes, or
2 the things that 3M makes or the things that
3 Borne makes, you're very much mistaken.
4 They're coming, they're right around the
5 corner, and unless we can find a way to
6 compete effectively against them, we'll be
7 the ones making the straw hats.

8 Marilyn Carlson Nelson: At the risk of
9 sounding like Pogo, it may be to some extent
10 the enemy, if that was one of the questions,
11 is ourselves and we have allowed ourselves to
12 get into a gridlock situation, where we don't
13 allow anyone to lead, to make decisions, and
14 we are pretty quick to hold others
15 accountable rather than ourselves about
16 sacrificing the short term for the longer
17 term.

18 So because I happen to believe that we have
19 everything it takes to be extraordinarily
20 competitive if we could just somehow
21 collaborate with each other and sort of
22 believe in ourselves and trust ourselves
23 again.

24 But if I had to say outside of that kind of
25 philosophical statement, I would probably say

1 the sovereign wealth funds, and I think the
2 transfer of wealth that's going on with
3 energy is the biggest single concern that I
4 see.

5 I see that kind of wealth in the Middle East,
6 where people are -- where it's -- for
7 example, someone can put together a
8 university but they can take the most
9 reputedly finest department in every
10 discipline and put just that department --
11 invite just that department to come and be
12 part of a university.

13 This is -- and so where would a young person
14 in the world want to go to school if you can
15 find a place that has the most competitive
16 department from every university in the
17 world.

18 I think that the wealth funds that are making
19 it sort of very comfortable and profitable
20 and motivating companies like yours to locate
21 there, that will be just kind of pulling away
22 from the center.

23 So it does feel that -- coming back again to
24 this energy crisis, that some kind of shorter
25 term energy policy and then longer term

1 policy for us is probably as fundamental as
2 anything else we've talked about in order to
3 retain the control and the wealth of the
4 assets, both human and financial, that we
5 have in this country.

6 Secretary Gutierrez: Got a couple questions
7 here on people, maybe we can combine them.

8 I've got one question that will put the
9 CEOs on the spot, which is always a good
10 thing to do.

11 Marilyn Carlson Nelson: For an ex-CEO.

12 [Laughter]

13 Secretary Gutierrez: But just a comment on
14 China, and there's no question about it,
15 China is the emerging economy in the world,
16 and if you had to point to one place, it is
17 all about China, and they are manufacturing
18 things at a lower cost than we were, and in
19 many ways, they were replicating things that
20 we were able to do.

21 The key challenge for China is what are they
22 creating and are they innovating and, in the
23 end, it does highlight that the economy and
24 the companies that will succeed are those who
25 don't just know how to make things after

1 somebody else has created them but who is
2 actually innovating, who is creating new
3 ideas.

4 People, a question here about how do you
5 ensure that creative personality can get
6 ahead in your company?

7 Very often in corporate cultures, it's not
8 the creative types that may be as organized
9 or as productive.

10 During slowdowns, companies cut R & D so they
11 may be cutting people -- they may be cutting
12 people who would bid on the company for a
13 while, they may be cutting programs that rely
14 on continuity, and I'll say the second part
15 of that question to put you on the spot.

16 The third question is, what is the role of
17 the CEO in innovation?

18 So you have organizations, you have R & D
19 department; what does the CEO do?

20 And then the tough questions for the CEOs,
21 instead of cutting R & D expenditures, why
22 don't you cut CEO compensation?

23 [Laughter]

24 [Crowd ooohs]

25 Secretary Gutierrez: that was a real

1 question.

2 [Laughter]

3 Bill Hawkins: George, do you want to go
4 first?

5 George Buckley: Why not cut hedge row
6 compensation first.

7 Because you could cut three CEOs for the
8 hedge fund people that went last year.

9 And I'm not being defensive.

10 [Laughter]

11 Secretary Gutierrez: And I think a lot of
12 people don't see the value a CEO creates in
13 the innovation process and they take it for
14 granted.

15 George Buckley: I think if I can have a go
16 at this one -- the CEO is the -- he's the
17 spiritual leader in innovation.

18 I don't know if I've managed to yet achieve
19 that sort of lofty role at 3M but, certainly,
20 the people that work at 3M know my absolute
21 passion, my absolute commitment, my absolute
22 devotion to this because I really do agree
23 with the concept that, look, we do need low
24 cost but low cost alone won't do it.

25 We do need technology but technology alone

1 won't do it.

2 We do need great distribution but
3 distribution alone won't do it, and so on, so
4 forth.

5 We could go through a number of different
6 competitive platforms.

7 But in the end, we have to be able to run
8 this race to be able to make new things
9 faster than the competition.

10 And also we can innovate, then we will be
11 overtaken, and all those clichés, those --
12 even if you sit on the road less-traveled, if
13 you sit in the middle of it, you will get run
14 over, eventually, if you don't move over.

15 So bringing it right back now to this issue
16 of innovation.

17 Somehow we have got to create -- as a
18 society, as a country, as companies, we have
19 to create excitement around innovation
20 because as long as we don't throw the other
21 stuff out of the window -- because you cannot
22 throw the other stuff out on the window,
23 talking about the drugs and the costs and
24 the -- you need that, too, but even those
25 things can get in the way.

1 We were speaking at a management meeting last
2 week that I don't think we can do internet
3 marketing and sell directly over the
4 internet.

5 And my point back to my colleagues was the
6 people that don't have distribution, where do
7 you think they're going to go for their
8 distribution.

9 That's where they're going to go, that's your
10 Achille's heel, that's their back door, your
11 back door.

12 So you cannot just shut off because, like you
13 say, you have the connectivity issues.

14 And if you don't think this can happen, I
15 would like to remind people of three of the
16 great iconic entrepreneurial and innovative
17 companies in the world.

18 Lucent, that was really Bell Labs, Kodak and
19 Xerox who are today a shadow of their former
20 selves.

21 You know, I can't always point the exact
22 reason why they are.

23 Perhaps maybe less than they once were but
24 they don't innovate, it appears to me, as
25 much as they once did, but even then, if we

1 just innovate but don't commercialize, that
2 won't work either.
3 It has to be the flow of an idea through to a
4 commercial product that brings in the
5 customer.
6 That's the innovation process, going from the
7 very start of the ideation to the very point
8 where someone comes to a store and pays good
9 money to buy the idea.
10 That's what clearly we have to continue to
11 encourage.
12 Otherwise, otherwise we're going to face a
13 much tougher future than the one we have
14 today.
15 Bill Hawkins: Just a couple of comments.
16 I mean, look, in terms of the role of CEO,
17 look, we're the -- I'm to some degree kind of
18 the Chief Innovation Officer.
19 In my case, I grew up in this industry, spent
20 30-plus years and I feel very privileged
21 because I've worked in some really cool
22 technology areas and have been down a number
23 of different paths, and feel very privileged
24 to have the chance to now run Medtronic
25 and -- first of all, I love -- again, there's

1 nobody who appreciates more the value of
2 innovation than me, and if you just look at
3 how we recently restructured our leadership
4 team, I have now a person who heads up
5 strategy innovation, I have a Chief
6 Technology Officer, you know, I have all the
7 different business units reporting directly
8 to me.

9 I'm an engineer.

10 I can tell you, again, a lot of the culture
11 is a reflection of what you do and what
12 questions you ask, what interest you have,
13 what you communicate, and so, I mean, if you
14 come to one of our CEO briefings, you would
15 hear that we're -- you know, we're getting
16 people excited about the recent launch of
17 Endeavor, and the things we're doing in
18 epilepsy, and things we're doing in the
19 diabetes world with continuous glucose
20 monitoring, so that's -- again, it comes down
21 to just what it is that you talk about, what
22 it is that you monitor, just what it is that
23 you communicate.

24 Again, you've talked about our annual report,
25 read our annual report.

1 I think you would get excited about just some
2 of the things that we're doing and the things
3 we're going to do to make a difference in
4 people's lives.

5 So I think, again, that's the role of, you
6 know, a leader.

7 It's to be that champion, if you will, that
8 cheerleader for what we're trying to do.

9 Marilyn Carlson Nelson: One, I think that
10 many studies show that diversity in your
11 environment actually improves creativity and
12 I think that, to some extent, we've worked
13 at -- with that in mind trying to become more
14 diverse.

15 We have 40% of our executives now are women
16 which is more than in most environments, and
17 there are many scientific environments and
18 engineering environments that have more and
19 more women.

20 It's no longer a reason not to have them
21 there.

22 But I think the meritocracy, which is your
23 first question, how do you make sure these
24 people stay, it is hard.

25 Especially when you say in the downturn --

1 it's a silly quote but always stuck with
2 me -- that as there's pressure on
3 organizations, there is a quote from Lauren
4 Eisler that said, "In the desert, it's hard
5 to tell the difference between the voice of
6 God and the voice of the devil," and there is
7 something about creative people that are
8 often sort of rogue voices.

9 I mean, they're at a time when everybody is
10 sort of intense, they come in with maybe an
11 off-the-wall idea and you do have to have an
12 environment that hears them and processes it.
13 And I don't think there's any one easy way to
14 necessarily say that you can create that
15 trust is a big piece.

16 What we haven't mentioned -- we've mentioned
17 executive comp but I think we haven't
18 mentioned comp systems, and I think that
19 the -- between the short-term nature of the
20 marketplace and the pressure on quarterly
21 earnings and the performance orientation,
22 that the short-term incentives tend to,
23 unless you're awfully good at it, outweigh
24 the longer term incentives.

25 There's more risk, you know, whether your

1 long-term incentives are going to pay off,
2 and one of the advantages in a private
3 company is at least if you do sort of make a
4 misstep and you fail, or you step up and put
5 in some kind of next generation technology
6 that takes a while to really integrate, you
7 at least aren't having to declare every
8 quarter, you know, how you're coming or what
9 happened, et cetera, and I think that the
10 comp system is important, and the reward and
11 recognition system and the ability to create
12 teams and reward and recognize teams with
13 some kind of special comp.
14 Very few companies, as they look at the
15 various comp levels, pull somebody up who is
16 a special individual contributor and put them
17 in an incentive plan if they're not at the
18 right level, and somehow, in terms of
19 retention, I have seen a couple of companies
20 that I thought were brilliant about that.
21 They recognized some unique talent and, you
22 know, had a group of people that they were
23 willing to put in, even though they didn't
24 sort of fit in the stratification of when and
25 how much you participate in option plans or

1 restricted chairs or whatever, and I think
2 that those kind of ways to recognize talent,
3 at whatever age or stage in the organization,
4 are valuable.

5 Dr. Chandy: I see -- on that question, I
6 see at least two themes emerging, one is in
7 setting -- CEOs setting the right mindset
8 in the organization, and also the role of
9 setting incentives and the reward systems.

10 Let me put in a bit of a plug because I think
11 we're running out of time.

12 There is a brochure on your desks about
13 innovation because there is a ton of work
14 happening at the Carlson School on
15 innovation.

16 A number of our faculty are here, they're
17 leaders in that field, and on those two
18 topics can I quickly mention -- and
19 Mr. Secretary, I'll end with a question to
20 you, but some of our colleagues have looked
21 at CEO mindsets as measured by the language
22 they use, so the language we use actually
23 provides a window into the way we think,
24 large literature in cycle and linguistics and
25 stuff, so what we did, we went out -- as Bill

1 and George suggested, we went out and looked
2 at CEO speeches, reports, letters, et cetera,
3 and -- and coded these and, in particular, we
4 looked at a -- something called "Future
5 Focus, the extent to which the CEOs think
6 about the future or talk about the future."
7 By the way, people have followed CEOs
8 around and they've actually looked to see
9 what percentage of their time is spent on the
10 future, setting an agenda for the future.
11 Turns out it's about 3% to 4%.
12 These people here are exceptions to that rule
13 but 3% to 4%, so we looked at the extent to
14 which CEOs used words like will, shall,
15 can, ought.
16 Turns out in the English language, these few
17 words actually refer to future-oriented
18 sentences.
19 Turns out just the language that is used,
20 will, can, ought, shall, may, et cetera,
21 predicts innovation in these companies far
22 into the future.
23 So you can actually predict innovation, and
24 that brochure talks about some of the
25 research.

1 The other part about incentives, in these
2 companies, we see -- the Indian companies we
3 see have something we called asymmetric
4 incentives.

5 The rewards -- the punishment for failure is
6 substantially smaller than the reward for
7 success.

8 So the employees within these companies say,
9 it's a risky thing.

10 I know if I fail, I may have my wings clipped
11 a bit but I know that over time, I can gain
12 my credibility of my resources and I'll try
13 again, and I know the rewards will be so much
14 greater.

15 You can see a lot more on that in some of the
16 materials we have out there and later on
17 during our conversation.

18 Mr. Secretary, I want to end with a
19 question for you and that is, what do you
20 think, based on your observation over the
21 last four years as Secretary, is the
22 number -- and right now, actually, is the
23 number one issue facing the Commerce
24 Department today to help U.S. businesses
25 succeed?

1 Secretary Gutierrez: Now I'm on the spot.
2 I thought I'd -- one of the things that we --
3 that we can do is getting information to
4 businesses quicker and getting more
5 information about our economy quicker.
6 We have some of the people here who do it.
7 We know a lot about our agricultural sector
8 because that's how we started, and we know
9 all about cotton and how we developed the
10 first cotton bubble and how that burst.
11 And we know a little bit more about
12 manufacturing but not as much as we should,
13 and we know very little about services, even
14 though services are at least 70% of our
15 economy.
16 So the information is always behind the
17 reality, and in many cases, that's part of
18 what we do for a living; whether it be
19 census, the economic department, whether it
20 be P.T.O., we give people tools that they can
21 do what they do best.
22 I just want to say, just -- perhaps as a way
23 to turning it back to the CEOs, I felt
24 comfortable in putting the CEOs on the spot
25 because one thing I have learned in my 3.5

1 years in government is just how difficult the
2 job of a CEO really is.

3 In government, very often, results are
4 measured in conceptual ways, sometimes it's
5 form over substance, sometimes it's how
6 you're perceived, sometimes it's how -- you
7 know, the rules aren't as clear cut.

8 When you're CEO, you could feel conceptually
9 great and you can have great form, but in the
10 end, how are your numbers.

11 And every quarter you're on the spot and
12 every quarter you're up for a tremendous
13 amount of criticism, and, at the same time,
14 you have to have a view of where you're going
15 long term.

16 So it truly is a tremendous juggling act that
17 has become clearer to me as I've gone from a
18 private sector to the public sector.

19 So I want to say that, you know, in the end,
20 what happens in our economy is very much what
21 happens in the private sector.

22 And it shocks me sometimes when I hear
23 complaints made about business and the people
24 who lead businesses, and taxes and, you know,
25 the multi-national companies, and I don't

1 know how you can be for jobs and not be for
2 the private sector, and we are at a time
3 today when it's fashionable to rely on
4 regulation because we're in one of those
5 tough parts of the business cycle.
6 Ironically, the more regulation we have, the
7 more there is room for disruption.
8 Someone mentioned here before the concept of
9 trust and how you have to trust your
10 employees, you have to trust your process,
11 and you have to trust innovation, and it
12 seems to me that what's become clear to me in
13 the public sector is that we in government
14 have to trust the magic of the private sector
15 and the magic of entrepreneurship and the
16 magic of innovation.
17 Somebody wrote down on a piece of paper that
18 Bill Gates' father said that had Bill Gates'
19 invented what he invented in any other
20 country, Microsoft wouldn't have been born
21 because that magic only takes place in this
22 country, and in Washington, we sometimes
23 forget that and we need to be reminded.
24 I'll turn it over to the CEOs to have the
25 last word.

1 Bill.

2 Bill Hawkins: Well, first of all, thank you.

3 It was -- this is a very topical topic.

4 This is the life blood of what we do.

5 I have tremendous optimism that we will

6 collectively find a way to ensure that we

7 create an environment that encourages

8 innovation.

9 Again, I come back to the pride that I feel

10 for what our industry has done for this

11 community, what it's done for this country,

12 what it's done for the world, and I think our

13 best days are ahead of us.

14 So I'm pleased that we're having this

15 conversation because we can't take things for

16 granted these days.

17 I think we have to work together, the public

18 and the private sector, to ensure that we can

19 do the things that -- some of the things that

20 we've done in the past and make improvements

21 going forward so that we can have the next

22 Microsoft, the next Medtronic, the next

23 Google, the next company that's going to

24 really move us forward, so I'm excited.

25 George Buckley: And for me, I'm also

1 appreciative of being given the chance to
2 come speak about this stuff.

3 I feel very passionate about it.

4 I've tried to control myself here sometimes
5 and, really, it's -- it's something that I
6 think at a personal level, it's inside a lot
7 of people in the United States.

8 This country was built from people coming
9 together who are strivers, people who
10 fundamentally believe that winning is
11 important and that second place is first
12 loser.

13 I have those feelings very strongly and --
14 which are very unBritish, by the way, but I
15 have them.

16 [Laughter]

17 I must have got some American blood back in
18 me somewhere.

19 So whether we do it through cost efficiency,
20 whether we do it through entrepreneurship,
21 whether we do it through innovation, all of
22 those things are necessary ingredients in the
23 soup being made in the United States, and I
24 for one hope that our government will
25 continue to experiment and aware it creates a

1 concept with you sometimes, which is not
2 helpful but has the presence of mind, the
3 courage to take away that one thing and
4 replace it with human innovation.

5 Thank you very much.

6 Marilyn Carlson Nelson: I would like to
7 express my appreciation both -- for both your
8 companies and others in our Twin Cities
9 because I think we have quite an
10 extraordinary corporate culture where there's
11 been very little mismanagement of the trust,
12 of the stewardship, and I think that we
13 have -- it's anthropologic, we kind of
14 correct each other, and try to develop and
15 aspire to best practices,
16 And I say thank you to you because I think
17 you provoked, certainly in me and those I
18 queried as we were thinking about this -- I
19 learned a lot and I hope we'll be more
20 innovative because of what's happened here.
21 And for you, Mr. Secretary, I think George
22 mentioned in passing that how did you feel
23 that you'd come out of the corporate sector
24 and taken on this public role, and I'm so
25 grateful that you're here, that you're doing

1 these forums.

2 If you leave no other message to whomever
3 follows you that coming out into, quote, the
4 field, hearing people, letting us know you,
5 letting you know us, is valuable, and I can
6 only hope that there's some other corporate
7 executive who, with your model, will feel
8 inspired to take on this role because your
9 understanding of business has done so much to
10 enhance our ability to be competitive.

11 I just hope -- wish you had a lot more time
12 at it and hope whatever you do in your next
13 iteration will be to take what you've learned
14 here and help us all contribute.

15 So thank you.

16 Secretary Gutierrez: Thank you very much.

17 Thank you very much.

18 Rajesh?

19 Dr. Chandy: Thank you very much, George,
20 Marilyn, Bill, Mr. Secretary.

21 We're out of time but before we go, we have a
22 few gifts for each of you.

23 And Mr. Secretary, we checked and it falls
24 within the Federal government guidelines.

25 [Laughter]

1 Secretary Gutierrez: I won't be suborned.

2 Dr. Chandy: Thank you very much.

3 [Applause]

4 [Forum ended at 3:10 p.m.]

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