EXECUTIVE SUMMARY

Yale School of Management

CEO Summit

Tacking around Political Headwinds:
Guiding the Free Flow of Information

New York Stock Exchange | June 2 - 3, 2015

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Joel R. Reidenberg, Professor of Law, Fordham University
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John W. Jackson, Founder, Celgene
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Shlomo Yanai, Chairman, Cambrex (CEO Teva Pharma 2009 -2012)

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Richard D. Calder Jr., President & CEO, GTT
Pramod John, CEO, Oration
Steve Papa, Founder, Endeca
Geoff Colvin, Senior Editor-at-Large, FORTUNE
David Faber, Anchor, “Squawk on the Street,” CNBC

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Elisabeth DeMarase, Chairman, President & CEO, The Street, Inc.
Kimberly Benston, President, Haverford College
Mary C. Tanner, Vice Chairman, Evolution Life Science Partners
Beth Van Duyne, Mayor, Irving, Texas
Paul Soglin, Mayor, Madison, Wisconsin
Mark Stodola, Mayor, Little Rock, Arkansas
Miro Weinberger, Mayor, Burlington, Vermont
Douglas Franklin, President & CEO, Multiple Sclerosis Association of America
Nels B. Olson, Vice Chairman, Korn Ferry
Jerry Leamon, Former Global Managing Partner, Deloitte Touche Tohmatsu
Stacy J. Kenworthy, Chairman & CEO, OptiGlobal Group

Legend in Leadership Award: Ian M. Cook, Chairman, President & CEO, Colgate-Palmolive Company

Presented by
Catherine M. Engelbert, CEO, Deloitte LLP

Getting Enough Information on the Consumer

Ian M. Cook, Chairman, President & CEO, Colgate-Palmolive Company
Myron E. Ullman III, CEO, JC Penney Company
Adam Aron, CEO, Starwood Hotels & Resorts Worldwide
Gerardo Lopez, President & CEO, AMC Entertainment
Michael J. Wolf, Managing Director, Activate; Former President, MTV Networks

Comments
Wendi Murdoch, Co-Founder, Artsy
J.P. Donlon, Editor-in-Chief, CHIEF EXECUTIVE
Tony West, Executive Vice President & General Counsel, PepsiCo
Mike Kearney, Managing Partner - Strategic Risk Services, Deloitte & Touche LLP
Melanie Kusin, Vice Chairman, Korn Ferry
Tom Tait, Mayor, Anaheim, California
Matthew J. Harrington, Global Chief Operating Officer, Edelman
Stephen A. Greyser, Professor Emeritus, Harvard Business School
David W. Miller, Director, Faith & Work Initiative, Princeton University
Key Themes from June 2015 CEO Summit

The 25th Anniversary Yale CEO Summit, led by Yale Professor Jeffrey Sonnenfeld, was held on June 2 and 3, 2015 at the New York Stock Exchange. This Summit brought together business executives, current and former government officials, leading academics, and other thought leaders with the theme of “Tacking around Political Headwinds: Guiding the Free Flow of Information.”

Sessions dealt with equipping cities for business, global cities as magnets for economic growth, getting enough information to invest, barriers to early-stage innovation, and getting enough information on the consumer. Topics included the U.S. infrastructure, which cities represent the most attractive investment opportunities, the security landscape, and the environment for startup. Ian Cook, the Chairman, President and CEO of Colgate-Palmolive, was honored with the Legend in Leadership Award.

There is broad agreement on the need to update U.S. infrastructure. The problem is financing it.

Politicians from both parties, as well as business leaders from multiple industries, agree that the U.S. infrastructure is in dire need of repair. Participants in this discussion included U.S. Secretary of Transportation Anthony Foxx (who ironically was delayed getting to the Summit due to transportation issues), former Pennsylvania Governor Ed Rendell, and mayors from more than 15 U.S. cities.

The consensus was that the United States faces enormous issues with deteriorating bridges (more than 70,000 are structurally deficient) and poor roads, dated airports, and other infrastructure needs such as broadband Internet. Eleven years ago the U.S. infrastructure was rated as the best in the world, and is now rated 16th. The American Society of Civil Engineers has given the U.S. infrastructure a grade of D++. Even guests from China commented on the need for improvements in America’s dated infrastructure. The state of America’s infrastructure is both dangerous and it hurts U.S. competitiveness.

While China is currently spending 9% of its GDP on infrastructure and Europe is spending 5%, the United States is spending less than 2%. The problem is not one of recognized need, but of cost. Investment of $1.8 to $2.0 trillion is needed over the next decade, and there is little agreement on how to fund this investment. As one leading U.S. mayor said, “There is agreement on the need, but not on how to pay.”

Ideas mentioned to fund infrastructure repairs included: increasing the gas tax; taxing repatriated corporate earnings; creating special types of taxable bonds; eliminating the Davis-Bacon Act based on the belief it is artificially inflating project costs; and establishing various public-private partnerships, as well as other ways of attracting private capital. Also emphasized was the need for the U.S. government to create a long-term capital budget as opposed to short-term appropriation bills.

A real-time poll among Summit participants shows that neither party has put forward a good plan for investing in infrastructure.

Neither political party has a good plan for investing in US infrastructure

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<td>E. Strongly Disagree</td>
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Beyond figuring out how to pay for infrastructure, challenges exist in convincing the skeptical American public to support spending on infrastructure. In part this is because the public lacks confidence in the government’s ability to execute. It was suggested that there be a prioritized list of projects that are needed, along with evidence about how effectively previously approved projects have been executed, such as those funded by government stimulus following the financial crisis.

Also, while not necessarily part of the physical infrastructure, one participant argued that America’s historic economic success has been based on commercializing basic science. It is science—funded by the government—that has been foundational to the American economy. In addition to fixing bridges and roads, the United States also needs to invest in creating a foundation of science.

There is disagreement over whether American or Chinese cities represent the most attractive investment opportunities.

When polled about which cities represent the best places to invest, the majority of participants voted that the best opportunities are in the United States. Despite the country’s infrastructure challenges, U.S.
cities are vibrant and dynamic. While there is gridlock at the federal level, non-partisan U.S. mayors are leading the way in getting things done. A former federal official said, “Mayors get it; D.C. doesn’t.” Following U.S. cities, China’s cities are seen as attractive investments. Representatives from China discussed the continuing growth opportunities in China and the openness in China to foreign direct investment.

However, some U.S. investors remain extremely skeptical about the lack of transparency when investing in Chinese companies, advising great caution.

There seems to be a growing disconnect between American elites and the general public.

A central theme from this Summit is the apparent disconnect on multiple topics between the “elite” – including political and business leaders – and the mainstream American public. Former New York governor and newly declared presidential candidate George Pataki said that the federal government has grown too big and too intrusive, and is trying to dictate to the American public.

Examples of the disconnect that were cited include:

- **A disconnect on infrastructure.** The political and business elite see infrastructure as an obvious need but the American public is largely unaware of this need, sees little urgency to invest in infrastructure, and doesn’t trust the government to execute infrastructure initiatives.

- **A disconnect on privacy and security.** Many in the business and political elite favored the collection of phone records made possible through the Patriot Act and believe that the expiration of this Act weakens the United States. However, the majority of the American public doesn’t agree with the elite and has significant concerns about the government’s collection of private information.

- **A disconnect on the capital markets.** Many Americans believe that the capital markets and trading systems are rigged against them, providing an advantage to large institutional investors and putting individual investors at an unfair disadvantage.

These examples all get at a lack of trust, as Americans are increasingly distrustful of government institutions, business, and leaders. A few CEOs reflected that the way to bridge the disconnect within an organization is for business leaders to provide a credible vision that people buy into. Leaders must enlist their people to be part of the solution. One CEO said that people need to be vested and invested, which requires connecting with employees emotionally. Another senior executive described the importance of articulating a clear mission, sense of purpose, and set of values, which is what attracts people today.

However, concerns were expressed that while new technologies have traditionally complemented labor – improving labor efficiency and productivity – there are concerns among many leading thinkers that future new technologies will actually be a substitute for labor. There is a trend that software is taking over for low-skilled people, and it is not clear how these individuals will fare in an information economy.

One participant observed that at least 50% of Americans lack the ability and education to truly participate in the economy, and another asked, “How will people add value?” What employers want in the future are human skills of empathy, teamwork, relationship building, storytelling, and social sensitivity.

The startup environment across America is scorching hot.

One of the patriarchs of the venture capital industry – who invested in startups such as Apple and AOL – declared the current climate as “the most heated startup environment in my 57 years.” He estimated there to be 1,000 to 5,000 startups within one mile of the New York Stock Exchange and actually wondered if there might be too many startups.

He said that every MBA graduate wants to do a startup, not because they are passionate about a product or industry, but just because they want to be an entrepreneur. Capital is abundant, which makes this possible, but there are few unique, great ideas, and a host of me-too concepts. In spite of the abundance of capital, pricing for investors is insane.

Contributing to the startup environment is a “democratization of capital” and numerous incubators and accelerators springing up in cities across the country.

One experienced entrepreneur who has created a large successful enterprise suggested than even if 95% of all startups fail, those 5% that succeed will make the United States the innovation leader for many years to come.
Equipping Cities for Business: Investment Prayers and Nightmares of Our Mayors

Overview
America’s infrastructure is deteriorating. It needs to be repaired and modernized in order for America to remain competitive, which requires significant investment by the public and private sectors. Mayors and communities are engaged and actively support investments in infrastructure, but upgrading the national infrastructure must be led at the federal level. While political leaders understand the need for significant infrastructure investments, there is lack of agreement on financing the investments that are required. The business community must play an active role in conveying the importance to business of investing in national infrastructure.

Context
Secretary of Transportation Anthony Foxx (who was delayed in getting to the Summit by two hours due to transportation issues) and former Pennsylvania Governor Ed Rendell described the infrastructure challenges facing America, and along with several mayors and Summit participants, offered policy ideas to strengthen the infrastructure.

Key Takeaways
America’s physical infrastructure is crumbling and is in dire need of repair.

The consensus was that the United States faces enormous issues with deteriorating bridges (more than 70,000 are structurally deficient), poor roads, dated airports, and more. Eleven years ago the U.S. infrastructure was rated the best in the world; it is now rated 16th. The American Society of Civil Engineers has given the U.S. infrastructure a grade of D+ and has said that spending of $1.8 trillion is needed over the next eight years just to make the infrastructure adequate. Aspects of the U.S. infrastructure are dangerous, unsafe, and were characterized as “a ticking time bomb” and “a disaster waiting to happen.” On Amtrak’s New York/Boston route there are 10 bridges with an estimated life of 40 years that are more than 100 years old.

Responses
“The infrastructure needs of America are a ticking time bomb . . . there will be a catastrophe.”
—Mick Cornett

Secretary Foxx said the United States has an infrastructure crisis that will only worsen over the next 30 years as 65% more trucks and 70 million more Americans hit the roadways and want to use the country’s infrastructure. He suggested reviewing “Beyond Traffic: US DOT’s 30 Year Framework for the Future.”

A modern infrastructure is necessary for U.S. competitiveness.

In addition to being dangerous, the current state of the U.S. infrastructure is hurting U.S. competitiveness. Secretary Foxx was told by UPS’s CEO that a five-minute system-wide delay translates into a $100 million problem for the company, quantifying how infrastructure deficiencies can impact businesses that rely on transportation. Other countries are investing much more in infrastructure and are building a foundation for economic growth. The United States must keep pace by fixing and modernizing its infrastructure.

Infrastructure is necessary to help America and Americans succeed. Infrastructure enables businesses to grow, and provides the means for people to receive education and get to their jobs. It is critical for society. Secretary Foxx said, “Transportation provides an opportunity for people and businesses to achieve their very best.”
There is no shortage of infrastructure-related policy and funding ideas.

Secretary Foxx remarked that “transportation is a bipartisan issue,” and both Democrats and Republicans concurred regarding the need to address the problems facing the country’s infrastructure. Several speakers and participants offered ideas.

In the view of Secretary Foxx, the federal government needs to:

- **Have national goals.** Ambitious projects such as the transcontinental railroad and interstate highway system were based on visionary goals. The U.S. needs clear infrastructure goals.

- **Get serious about the public sector’s role in investing in infrastructure.** The Highway Trust Fund is not being adequately funded and Congress is constantly passing stopgap appropriations instead of making long-term investments. This uncertain federal funding is causing cities, states, and the private sector to pull back on infrastructure projects.

- **Help state and local governments.** In addition to funding, cities and states need assistance from the federal government in streamlining processes related to permits.

- **Create public-private partnerships.** For example, the Department of Transportation is creating a public-private investment center within the DoT.

Governor Rendell called on increased government investment in infrastructure, urging creation of a federal capital budget, stated that America needs a $2 trillion infrastructure investment:

- **Raise the gas tax.** Rendell said that no one even knows what the current gas tax is (it is 18.7¢ per gallon) as it is a small percentage of the price of gas at the pump, and no one would notice if it were increased. He said that both the U.S. Chamber of Commerce and the AFL-CIO support raising the gas tax, and that in the past 18 months seven states with Republican governors and Republican legislatures have raised their gas taxes. He asserted that if federal legislators could vote via secret ballot, it would pass overwhelmingly.

- **Use the Transportation Infrastructure Finance and Innovation Act (TIFIA).** TIFIA provides federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance. Highways, transit, railroad, intermodal freight, and port access are eligible for assistance. Through leverage, each $1 of federal funding can provide up to $10 in TIFIA credit assistance. If there were $10 billion in funds, through leverage it could produce $100 billion of investments in infrastructure, providing financing for many projects with good rates of return.

- **Bring back Build America Bonds.** These are taxable municipal bonds that carry special tax credits and federal subsidies for either the bond issuer or the bondholder. Direct Payment bonds have previously provided a subsidy of 35% of the interest (essentially paid for by the federal government), paid to the issuer. If the subsidy were 28% these bonds would be revenue neutral to the federal government.

**“Investing in infrastructure would improve public safety, our economic competitiveness, our quality of life, and would create more jobs. Every one billion dollars invested in infrastructure creates 25,000 jobs.”**

—Ed Rendell

Joe Lhota agreed on the need for a federal capital budget. He shared that New York City has a five-year capital plan that calls for $30 billion in infrastructure funding; however, only $15 billion has been funded, which is putting the New York economy at risk.

Also mentioned by one participant as a possible revenue source are funds put into an infrastructure fund when corporate profits that are currently sitting overseas are repatriated. However, Secretary Foxx said that idea has not scored well by the CBO. He countered with a proposal of a 14% mandatory toll (down from today’s 35% tax rate) when corporate profits are repatriated, which could produce more than $200 billion.

While he didn’t dispute the need to invest in infrastructure, Grover Norquist was strongly opposed to giving the government more money to be spent on infrastructure. He argued that much more of the $800 billion in stimulus should have been spent on infrastructure. He doesn’t believe that politicians will truly spend more on roads and other types of infrastructure, believes that the government overpays for expensive roads because the labor unions control the Democratic Party, and favors eliminating the Davis-Bacon act, which is artificially inflating infrastructure project costs by 25-30%.

**Mayors and communities understand the need for improved infrastructure and are working to make it happen.**

As the former mayor of Charlotte, North Carolina, Secretary Foxx understands the role that mayors play in pushing infrastructure projects forward. He termed mayors as “constructively impatient.” He added that he is seeing local communities try to get things done, and sees more cooperation and collaboration locally than nationally.

Knoxville, Tennessee Mayor Madeline Rogero stated that mayors and cities have a responsibility to invest in infrastructure. She said that when the public sector invests, the private sector will invest as well.

However, as important as the commitment of mayors is, and the support of communities, several mayors commented that the national infrastructure relies on the federal government. Mick Cornett implored federal leaders to stop kicking the can down the road and to find a way to break the gridlock that pervades Washington.
One idea of particular interest: high-speed rail.

China is investing in high-speed rail, with a train picking up arrivals at the Shanghai airport and transporting passengers 268 miles per hour into the city. Secretary Foxx said that the future for high-speed rail is bright in the United States, with projects in the pipeline in California, Texas, and Florida. What is needed is demonstration of success to build momentum.

The business community must play an active role in advocating for improved infrastructure.

Government leaders – including Secretary Foxx, Governor Rendell, and mayors – urged the business community to be engaged on the infrastructure debate. Secretary Foxx lauded the CEO of UPS for being attuned to the impact of infrastructure to UPS’s business. He encouraged all business leaders to understand how infrastructure impacts their business and to be able to communicate this.
Global Cities as Magnets for Economic Growth:
Attracting Investment for the Creative Economy, Infrastructure, and Safety

Overview
America faces challenges about priorities and investment of limited resources. Government and business leaders recognize the need for increased infrastructure investments, but lack agreement on plans and funding to proceed. Summit participants don’t see effective plans from either political party and there is a widespread lack of trust in the federal government’s ability to execute major projects.

However, despite these challenges, compared to cities in China and elsewhere, most Summit participants still see American cities as the best places to invest. American mayors are doing what they can to create vibrant, revitalized cities. As one former federal official said, “Mayors get it. DC doesn’t.” Summit participants also see opportunities abroad, with many seeing continued opportunities in China, while also supporting the TPP.

Context
New York City Mayor Bill de Blasio continued the discussion from Session 1 about infrastructure challenges, and participants then discussed a range of topics including the most attractive cities in which to invest, TPP, and the Patriot Act. The session concluded with presidential candidate George Pataki sharing his perspective.

Key Takeaways
Boldness, investment, and bipartisanship are needed to fix and modernize America’s infrastructure.

New York City Mayor Bill de Blasio reiterated themes from the previous session that America’s infrastructure—particularly bridges and highways—are aging and in disrepair. He cited data that 87% of CEOs see America’s infrastructure as aging, and an aging infrastructure negatively affects safety and commerce.

While China is spending 9% of GDP on infrastructure and Europe is spending 5%, the U.S. is spending just 1.7%. Over the past several years there has been paralysis at the federal level in making infrastructure investments, replaced by a series of short-term band aids.

“The U.S. won’t be able to compete if we don’t invest in infrastructure.”
—Robert Hormats
Mr. de Blasio said that bold, bipartisan action is required. He referenced the bold and controversial building of the Erie Canal, which provided tremendous long-term economic benefits to New York, and he cited the interstate highway system—passed during a time of Republican leadership—as bold investments that have paid enormous long-term dividends. He also mentioned successful bipartisan efforts to invest in infrastructure in cities such as New York City and Oklahoma City. Mayor de Blasio expressed hope for greater bipartisanship at the federal level to pass a long-term transportation bill.

Key issues mentioned hindering investment in infrastructure are:

- **Lack of agreement on what to do or how to pay for it.** A majority of Summit participants (70%) think that leaders of both political parties understand the need to invest in infrastructure, meaning the issue is not one of awareness or knowledge. The issues are that politicians can’t decide or agree on what to do or how to finance it. Only 4% of participants believe that both political parties have good plans for investing in infrastructure and 74% believe that neither party has a good plan.

One participant suggested a plan of creating a catalog of all current and future infrastructure needs and then choosing priorities. However, even this seemingly logical process would be extremely political, illustrated by the spending of $14 billion to dredge New Orleans, which is far less support than capital spending provided by the federal government to support Amtrak, which serves over 30 million people per year.

Neither political party has a good plan for investing in US infrastructure

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Among the ideas discussed—with supporters and opponents of each—are increasing the gas tax, raising funds by expanding EB-5 visas to immigrants who invest in the U.S., taxing repatriated corporate profits, and closing various corporate loopholes.

“Everyone agrees on the need, but not how to pay.”

—Mick Cornett

- **Lack of trust in government.** Steve Schwarzman sees it as a no-brainer that the country needs to invest in infrastructure, but understands the public’s reluctance and lack of confidence because the government doesn’t have a good track record. Look at the messes at VA and TSA to see why the public doesn’t have confidence in government. Supposedly the stimulus package was going to have $175 billion in infrastructure investments. What happened with these investments? Were they made? How effective were they? To instill confidence the government needs a clear plan on what infrastructure investments are needed, why they are needed, and how they will be managed and tracked. That plan then needs to be sold.

“To get confidence that money will be well handled, show it, sell it.”

—Stephen A. Schwarzman

China’s decision-making process about infrastructure investments is very different.

Those with knowledge of China, such as investor Jim Chanos, explained that while China may be investing more of its GDP in infrastructure, the decision process and results are very different in China than in the United States. In the United States, there is a detailed cost/benefit assessment and often a robust political debate. In China, the government just decides on a project and it happens. However, in China a result is unused airports and empty housing developments.

Former Under Secretary of State Robert Hormats said that the Chinese system allows for making fast decisions, which China has done in regard to infrastructure. China sees a need and acts. Meanwhile, Hormats termed the U.S. a “quagmire.” He said that the U.S. needs to depoliticize infrastructure decisions, which happens better locally than federally. “Mayors get it,” said Hormats, “DC doesn’t.”

Even with America’s infrastructure challenges, U.S. cities are seen as the best places to invest.

Despite concerns about U.S. infrastructure and political gridlock, when asked about the best cities around the world to invest in, Summit participants still overwhelmingly see the most attractive opportunities in the United States. Mayor de Blasio described U.S. cities as vibrant urban areas that attract people.

The best cities to invest in today are:

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<th>A. China</th>
<th>B. US</th>
<th>C. UK</th>
<th>D. Greece</th>
<th>E. Russia</th>
<th>F. Africa</th>
<th>G. Latin America</th>
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George Pataki believe the “heavy hand of government” is stifling growth.
Recently declared presidential candidate George Pataki described the federal government as too big and too intrusive. This intrusion is constraining economic growth, as the economy over the past six years has grown at half the rate it could have grown. He advocated for a simpler tax code with fewer loopholes and lower rate, and expressed disappointment in both parties for failing to accept the recommendations of the Simpson-Bowles Plan. He also sees the United States at a greater risk to terrorism than it has been due to expiration of provisions of the Patriot Act, which has weakened the country’s ability to track and combat threats.

Summit participants are supportive of TPP.
In querying attendees about the Trans-Pacific Partnership (TPP) trade agreement, a majority of participants (64%) feel that they have a decent handle on what TPP is all about, and 69% are in favor of TPP (46% are strongly in favor), with only 9% being opposed. (The other 23% are neutral.) Also, 90% agree (with 76% strongly agreeing) that the President should have trade promotion authority. The conclusion is that those in the business community feel in the know about TPP and strongly support it.
Are We Getting Enough Information to Invest, or Too Much for Security?

Overview

Americans want it all—complete privacy and security, along with personalized, customized attention and special offers from marketers. And the U.S. government wants citizens to have it all by feeling safe and secure and enjoying liberty and freedom, while being able to monitor citizens’ calls and activities. It is a difficult balance to strike. The difficulty is compounded by a disconnect between the “elites”—those who are educated, in power, and “in the know”—and the general public. The elites support the Patriot Act and want more investment in infrastructure; the public doesn’t trust the government, doesn’t want surveillance, and doesn’t support new taxes to fund major projects like roads, dams, and airports. There is also a disconnect between those on Wall Street who engage in high-frequency trading and all other investors who see high-frequency trading as cheating. And, neither the public nor the elites (nor those on Wall Street) truly sense the dangers from cyberterrorism or are prepared for a major cyberattack.

Our short-term focused society and short-term focused political leaders could benefit from a long-term strategy that took into account long-term strategic issues like infrastructure or cybersecurity. But in a country without a long-term capital budget and with short-term stopgap funding measures, formulating a long-term strategy seems highly unlikely.

Context

Speakers and respondents reacted to the expiration of Patriot Act provisions, the threat of cyberterrorism, whether financial markets have adequate transparency, and disconnects between the general public and society’s elites.

Key Takeaways

American consumers don’t like being watched but are open to sharing data if they receive value.

The behavior of most Americans regarding their personal data is far from consistent. Political pressure based on concerns about government surveillance of people’s phone calls led to expiration of provisions of the Patriot Act, which several Summit participants argued has weakened the country’s ability to fight terrorism. Former Deputy National Security Advisor John Negroponte said that surveillance was a very useful tool that has now been relinquished. More than 70% of Summit participants were in favor of the Patriot Act and disagreed with allowing these provisions to expire.
However, at the same time, every day many Americans voluntarily provide personal data to marketers because they feel they derive value from it. By willingly sharing data with marketers—which is often data conveyed through purchases and behavior—these marketers and others with access to consumer data can make their marketing more relevant to consumers. Consumers receive convenience and value, and therefore willingly surrender a wealth of data. A cybersecurity expert acknowledged that this is today’s reality, but cautioned that this is risky for consumers as companies have no incentive to protect data and little accountability if they lose it.

Former Ambassador to China Stapleton Roy sees the fundamental question as where to draw the line between freedom and security, and whether we can maintain a free society with current levels of security.

“Where do we draw the line between freedom and security?”
— J. Stapleton Roy

The risks from cyberterrorism are great and many organizations are unprepared.

Cybersecurity expert Deepak Jeevankumar declared it a “new age of cyberterrorism.” Nir Zuk, the founder of leading cybersecurity firm Palo Alto Networks, said, “We are still vulnerable.” He said consumers are vulnerable because of our lifestyles, companies have to decide on their level of security, and governments have to decide if they have the will to combat state actors. It is state actors that Zuk sees as the greatest threat. They are motivated not by money but by theft of intellectual property, by the ability to obtain sensitive data, and by being able to launch damaging attacks.

“If a country launched a missile, we would respond, but if a country does a cyberattack, we do nothing.”
— Nir Zuk

Summit participants acknowledge vulnerability, with 87% believing there is a lack of preparedness for a serious cyberattack.

We are unprepared for a serious cybersecurity catastrophe

Another cybersecurity expert, Rakesh Loonkar, described a way to think about threats based on the time horizon:

- **Near term:** there will be threats on the financial sector.
- **Middle term:** there will be attempts by foreign actors to steal American IP.
- **Long term:** there will be cyberthreats to take over physical infrastructure.

Transparency for investment decisions is seen by many as adequate, but for trading it is not.

CNBC’s Andrew Ross Sorkin and Jim Cramer both frequently hear individual investors say that professional investors have an advantage. Per Jim Cramer, “Many people don’t like the market and think it is rigged.” Andrew Ross Sorkin hears individual investors complain that professional investors get to meet with management and have other types of advantages.

But for Brad Katsuyama, the CEO of IEX, the issue is not lack of information or transparency when making investment decisions, which he believes is adequate; it is after the decision is made and a trade is actually executed. It is the trade execution process that he believes lacks transparency and where some institutional investors are gaining unfair advantages. As Katsuyama said, “The rigging is in the execution of the trade.”

The majority of Summit participants agree. Survey results show that 51% of participants believe that current market exchanges are rigged against individual investors and 64% believe that high-frequency trading is a form of front running or cheating.

The current market exchanges are rigged against individual investors

China continues to attract foreign direct investment though some investors remain skeptical because of the lack of transparency.

Representatives from a Chinese delegation took issue with the poll in the previous session where attendees viewed investments in American cities more favorably than investments in Chinese cities. Leaders from the Chinese delegation said the environment for investment in China is the best in the world, which is demonstrated by high levels of FDI. Even during a slowing global economy, foreign direct investment in China—particularly Guangdong Province—is growing. Last year FDI in Guangdong Province reached $27 billion, up 80% from...
the previous year. China is also building an entire business ecosystem, with banks, capital markets, and more diversified industries—and with declining levels of government subsidies.

Noted China skeptic Jim Chanos wasn’t persuaded. As an investor he is reluctant to invest in China because he hears a good story, but he doesn’t see adequate transparency. He said that investors in China “can only see so far” and won’t get U.S.-type disclosure.

Several participants see long-term social and societal issues.

Infrastructure and cybersecurity are long-term strategic problems that require a long-term strategy and long-term solutions. Adam Lovinger, a strategist in the Office of Net Assessment at the U.S. Department of Defense, works on developing a long-term strategy for the government. This is difficult because democracy is very messy, because political leaders are short-term focused and not strategic, and because government is driven by short-term incentives and rarely makes major strategic decisions unless faced with a crisis. However, Mr. Lovinger noted that one of the reasons the U.S. has consistently prevailed is the ability to draw on the private sector.

Harvard professor Quinn Mills identified another issue: increasing distance between “the elite” and the people. He grouped everyone in attendance as part of the elite and surmised that what makes sense to the elite—such as the need to invest in infrastructure or the importance of being able to have domestic surveillance—makes no sense to most of the people. The people don’t trust the government or the elite. It is important for the elite to be aware of this disconnect.

“The elite are at odd with the people.
There is a big disconnect.”

—Quinn Mills
Overview

In all businesses today, innovation is the name of the game. Abundant capital and a spirit of entrepreneurialism are resulting in the hottest startup landscape that many early-stage investors have ever seen. And innovation isn’t just limited to startups. In order to compete and survive, large, established companies are innovating their products, processes, business models, and cost structures. However, even amid this innovation land rush, barriers to innovation exist. Experts expressed concerns about a lack of basic science to provide a foundation for innovation, lack of defensible IP, and lack of adequate talent to support innovation. An example of an innovative segment that lacks adequate information is the dietary supplements industry. Claims are being made by supposed experts without scientific backing or regulation.

Context

Participants offered additional thoughts on transparency in China and on skepticism about the government and about investments. The conversation then shifted to startups, innovation, and barriers to innovation.

Key Takeaways

Experience in the building products industry raises doubts about Chinese transparency and accountability.

In 2005 to 2007 a type of drywall produced in China was purchased and used by many American homebuilders. This drywall had high sulfur content and quickly corroded. It had to be ripped out of homes and replaced at a tremendous cost to builders. The Chinese manufacturer didn’t take responsibility and wasn’t accountable, and the Chinese government didn’t step up. U.S. homebuilders will no longer use Chinese drywall and a dark cloud hangs over all Chinese home-building products. Similar stories exist in other product categories as well.

Skepticism about the government and about long-term investments may be justified.

Yale professor Douglas Rae, following up on the disconnect between the people and the elites, stated, “The people are right.” He agreed that people don’t trust the government, and said there is good reason not to. He cited as examples the VA and the 95% failure rate of safety procedures at airports.

In commenting on the reaction to making long-term capital investments, he suggested looking at how the stock market reacts to corporate announcements of investments compared to stock buybacks or...
The startup environment has never been hotter and innovation has never been more important.

Experienced startup investors in both the technology and health care industries are seeing tons of money being poured into huge numbers of startups. They see a national culture of innovation where seemingly all young people today want to be entrepreneurs and founders of startups. They also see innovation centered in cities, which are energetic, vibrant, and dynamic.

Alan Patricof, one of the founders of the venture capital industry—who made early investments in companies such as Apple and America Online—estimated there are between 1,000 and 5,000 startups within one mile of the New York Stock Exchange. He sees capital as abundant and the pricing of startup investments as insane. He even suggested that “we may have too many startups.”

“Private capital has capitalized the [biotech/pharma] industry.”
—Mary Tanner

In response to concerns that there is too much capital, too many startups, and most of these companies will fail, Joel Myers, the president of AccuWeather, sees enormous benefits for the country as a whole. In his view, even if 95% of these startups fail, the 5% that succeed will make the United States the innovation leader for years to come. This 5% will be both disruptive and enormously beneficial.

And, innovation is not just limited to entrepreneurial startups. The chairman of a huge financial services firm said that in all industries today you have to innovate to be relevant. Former Xerox CEO Anne Mulcahy credits investing in R&D and innovation as among the keys to turning Xerox around. She also stressed that innovation isn’t limited to product innovation. Innovation includes creating new business processes, business models, and operating structures. Xerox focused on innovating on costs, regardless of the health of the company, and rethought every dollar spent.

Innovation—as demonstrated by Snap-on—is also about redefining a company’s brand, entering entirely new verticals, and connecting with employees, partners, and customers in new ways.

While the case for innovation is clear, multiple obstacles exist.

Among the obstacles to innovation mentioned were:

- **Lack of pure science.** Historically, waves of successful innovations have been grounded in pure science, which was often funded by the government (e.g., the Internet). But decreased government funding for pure science will hurt innovation long term. Increased investments are needed in areas such as science, engineering, and genomics.
- **Lack of passion.** While every newly minted MBA from Yale or Harvard wants to be an entrepreneur and found a startup, few are truly passionate about a particular area. Throughout history most of the world’s great innovators were not just driven by the desire to create something and get rich; they were deeply passionate about a particular area or innovation. This passion and focus are lacking.
- **Lack of talent.** One participant noted that while there is great interest among the elite in innovation and startups, at least 50% of the population lacks the ability and/or education to participate in the innovation economy. This lack of talent limits the ability of the economy to innovate.
- **Lack of defensible IP.** In this crazy startup environment, the landscape is incredibly crowded. One participant observed that for any given opportunity, there are 18 different companies pursuing it, and few if any of these companies has created defensible IP. In the absence of pure science and defensible IP, energetic entrepreneurs face barriers in being able to create meaningful and sustainable innovations.

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Dietary supplements are an example of an industry where information and regulation are lacking.

With Dr. Oz as a leading evangelist of dietary supplements, this category sees constant innovation. Dr. Oz is seen as trusted and credible, and those at the Summit who know him say he is the real deal—a clinician and scientist who cares about people and is making recommendations of products he believes to be beneficial. Supporters argued that he is entitled to his right to free speech in offering his opinions. However, others argued that products in this category are untested, unproven, unregulated, and could be dangerous. Also, Dr. Oz doesn’t have unlimited free speech. He is a supposed expert and is held to a higher standard. Several participants from the health care field, such as Shlomo Yanai, the former CEO of Teva Pharma, believe that dietary supplements should be tested and regulated. Yanai reminded participants that the “F” in FDA stands for “food.” Since dietary supplements are related to food, they should be regulated as such.
Legend in Leadership Award
Ian M. Cook, Chairman, President & Chief Executive Officer, Colgate-Palmolive Company

Catherine Engelbert recognized Ian Cook for his tremendous leadership at Colgate-Palmolive, for the culture he has created at the company, and for Colgate-Palmolive’s outstanding reputation and sustained results.

In accepting the Legend in Leadership Award, Ian Cook humbly remarked that he certainly doesn’t think of himself as a legend. He sees Colgate-Palmolive as an organization of leaders and is therefore surrounded by and works with leaders every day. He has sought to instill the idea of being a personal leader throughout the company. The key leadership attribute he has attempted to demonstrate and cultivate is listening, which embodies the culture at Colgate-Palmolive.
Getting Enough Information on the Consumer

Overview
Companies such as Colgate-Palmolive that sustain success have a relentless focus on understanding consumers. But understanding consumers is about far more than just gathering information; it starts with a clear mission, values, and sense of purpose, and is grounded in a desire to build trust. Companies that have transformed themselves amid difficult situations also must build (or often rebuild) trust, particularly with employees, who must be engaged in the turnaround. Being grounded in values is the starting point for any company or leader that sustains success.

Context
In closing this Summit, attendees focused on the key elements of companies that sustain success as well as those that are able to transform themselves.

Key Takeaways
The key to Colgate-Palmolive’s success is a deep understanding of consumers.

Following the presentation of the Legend in Leadership Award to Ian Cook, Harvard Business School professor John Quelch observed that Ian Cook is an extremely humble person, who never graces the cover of a magazine. However, this humble leader, like everyone else at Colgate-Palmolive, is passionate about relentlessly understanding consumers. This is the ethos that drives the company. In fact, Colgate-Palmolive—with a commitment of getting 90% of the worldwide population to brush their teeth—is really a public health company, not a consumer product company. And like Mr. Cook, Colgate-Palmolive’s employees are motivated by more than money; they are motivated by improving the public health and producing more bright smiles.

In today’s world, successful companies are grounded by a mission, purpose, and values.
Tony West, PepsiCo’s general counsel, recently joined the company from the public sector. He said that among the things that attracted him to PepsiCo were the company’s mission, values, and sense of purpose. He has seen firsthand that the company thinks about corporate responsibility and how it makes money.

Also, just as talented individuals are attracted to companies with a sense of purpose, Edelman has found that over the past five or six years companies are attracted to leaders based on attributes of trust and courage. Public trust of CEOs is low and interest in celebrity CEOs has waned. Boards want leaders who demonstrate and build trust, and who can lead an organization based on character and purpose.

In turnarounds, it is culture and engagement that matter most, which comes from leadership.
In describing how JC Penney has turned itself around, CEO Myron Ullman did not describe some new product line, consumer insight, or analytical technique. He said the key to winning back customers was energizing the associates, and the key to energizing associates was turning the culture over to the people.

Emulating a concept from Southwest Airlines, JC Penney formed a “warrior counsel.” Warriors were courageous people who had stayed through JC Penney’s difficult times. Over 1,000 warriors at stores around the country took the lead in driving change. Within one year, employee engagement scores improved by 12 points and customer service results improved dramatically. Restoring JC Penney has been about courage, commitment, and engagement.
In repeatedly engineering successful turn-arounds, Lynn Tilton said that the keys include understanding reality and making all people in the organization part of the solution. Once people have bought in, they can be led to innovate around products and processes. AMC Entertainment CEO Gerardo Lopez agreed, stating that people need to be emotionally invested.

David Miller commented that a theme from this Summit has been the frequent absence of trust in political and business leaders. He asked those in attendance, “What are you doing to earn and engender trust, and create an environment of trust?” Miller sees many of the challenges that are faced as beyond the control of an organization or a leader, such as the country’s infrastructure challenges. He suggested that each person focus on and invest in what they can control, which includes their company, the way they engage with people, and themselves, including their mind, body, and spirit. By focusing on what is controllable, people will have more success building trust and will find themselves more fulfilled.