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## The Yale Washington CEO Caucus

September 16, 2014 | Washington DC

Corporate Priorities amid Congressional Uncertainties

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Richard Jacob, Associate Vice President for Federal and State Relations, Yale University

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### Transcending an Analysis of the Paralysis and its Impact on Your Business

Randall L. Stephenson, Chairman & CEO, AT&T Inc.

Edward B. Rust Jr., Chairman & CEO, State Farm Insurance Cos.

John J. Castellani, President & CEO, PhRMA

Mathew K. Rose, Executive Chairman, BNSF Railway Co.

Grover Norquist, President, Americans for Tax Reform

Mark J. Penn, EVP & Chief Strategy Officer, Microsoft Corporation

C. Michael Petters, President & CEO, Huntington Ingalls Industries

David F. Melcher, President & CEO, Exelis

Jim Moran, U.S. Representative, Commonwealth of Virginia

David P. Abney, CEO, UPS

Steve Odland, CEO, Committee for Economic Development

Fiona M. Scott Morton, Professor, Yale School of Management; former Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice

Bill Achtmeyer, Senior Managing Director, Parthenon-EY

Richard D. Legon, President, Association of Governing Boards

Jeffrey H. Ashford, Committee on Appropriations, U.S. House of Representatives

Melissa Glynn, Managing Director, Alvarez & Marsal

Nell Minow, Board Member, GMI Ratings

J. Peter Segall, Managing Director, Edelman

Christopher K. Johnson, Former Senior China Analyst, Central Intelligence Agency

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### Strategies and Strife: Avoid Getting Singed in Seven Global Hotspots

John McCain, U.S. Senator, State of Arizona

Bill Nelson, U.S. Senator, State of Florida

John D. Negroponte, Deputy Secretary of State (2007-2009), U.S. Department of State


R. James Woolsey, Director of Central Intelligence (1993-1995)

D. Scott Davis, Chairman, UPS

Elaine L. Chao, Secretary of Labor (2001-2009), U.S. Department of Labor

Gary E. Knell, President & CEO, National Geographic Society

Douglas H. Ginsburg, Senior Circuit Judge, U.S. Court of Appeals for the District of Columbia

Richard C. Adkerson, President & CEO, Freeport-McMoRan Copper & Gold

John F. Lundgren, Chairman & CEO, Stanley Black & Decker

Robert D. Hormats, Under Secretary of State (2009-2013), U.S. Department of State

James K. Glassman, Under Secretary of State (2007-2009), U.S. Department of State

James A. Lawrence, Chairman, Rothschild North America

Nicholas T. Pinchuk, Chairman & CEO, Snap-on Inc.

Thomas J. Quinlan III, President & CEO, RR Donnelley & Sons Co.

Stacy J. Kenworthy, Chairman & CEO, OptiGlobal Group

Clarke Havener, Global Sector Leader, Korn Ferry

Miriam E. Sapiro, Deputy U.S. Trade Representative (2009-2014)

Roya Hakakian, Fellow, Woodrow Wilson Center

Lally Graham Weymouth, Senior Associate Editor, The Washington Post

Bill Goodwyn, CEO, Discovery Education

Marc Rotenberg, Executive Director, Electronic Privacy Information Center

D. Quinn Mills, Professor Emeritus, Harvard Business School

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### Legend in Leadership Award: D. Scott Davis, Chairman, UPS

Presenter: Randall L. Stephenson, Chairman & CEO, AT&T Inc.
Key Themes: Corporate Priorities amid Congressional Uncertainties

Overview
There is less optimism among business leaders than a year ago regarding the U.S. economy, with high levels of economic, legislative, and regulatory uncertainty resulting in low levels of job-creating private investment. There is pessimism about the likelihood of new legislation dealing with tax reform, trade, or immigration. Passing legislation in this bitterly divided Congress is extremely difficult, exacerbated by a lack of political will and inadequate executive branch leadership. Yet despite the difficulty of the current political environment and the reality that business isn’t monolithic and doesn’t speak with one voice, business leaders must remain engaged, ensure their voices are heard, and explain the economic and societal consequences of failing to change outdated policies. At the same time, business leaders must be realists in acknowledging the low likelihood of near-term legislative action and must prepare their organizations to live with and succeed in a wide range of uncertain scenarios.

Geopolitically, the world has never been more turbulent or chaotic. Hotspots exist across the globe including the civil war in Syria; the emergence of ISIS in the Middle East; Russia’s aspirations related to Ukraine and beyond; economic and political weakness in Western Europe; a multitude of issues in South Asia; and violence and tensions in multiple African countries. CELI participants and U.S. political leaders see the United States becoming more involved militarily in the Middle East, because the need exists and America’s partners are too weak to act. To date, these hotspots have had surprisingly little impact on the global economy or financial markets. But the issues are too great and the world is too interconnected for business to remain unaffected for long. It is certain that geopolitics will play an enormous role for businesses in the years to come.

Context
September 16, 2014, was the 78th convening of the Yale School of Management’s Chief Executive Leadership Institute. This Caucus brought together current and former political leaders, including Senators John McCain and Bill Nelson, former Secretary of Labor Elaine Chao, former U.S. Deputy Secretary of Defense Ashton Carter, former CIA Director Jim Woolsey, Ambassador John Negroponte, Deputy Secretary of Education James Shelton, and former Deputy U.S. Trade Representative Miriam Sapiro. Other participants included Randall Stephenson, CEO of AT&T; Edward Rust, CEO of State Farm Insurance; David Abney, CEO of UPS; Mark Penn, EVP and Chief Strategy Officer at Microsoft, and leading thinkers, like Grover Norquist, president of Americans for Tax Reform.

Participants discussed Corporate Priorities amid Congressional Uncertainties. Specific conversations dealt with:

- Transcending an Analysis of the Paralysis and its Impact on Your Business, which focused on domestic policy issues and how business leaders can deal with them.
- Strategies and Strife: Avoid Getting Singed in Today’s Global Hotspots, which focused on the most pressing international challenges and the implications for businesses.

Also, UPS Chairman D. Scott Davis was honored with the Legend in Leadership Award.

Some of the key themes from this Caucus are summarized below.

Key Themes
There is less optimism about the economy than a year ago.

Among CELI participants, about 40% agree that the U.S. economy is strong and growing, while another 40% disagree with this sentiment (and the other 20% are neutral). Participants cited data indicating weak first quarter GDP growth, along with the lowest rate of corporate investment as a percent of GDP since World War II. Lack of private investment — largely attributed to economic and regulatory uncertainty — is hindering economic growth and job growth. While the unemployment rate has declined, this is largely because people are leaving the labor market.

The Business Roundtable sees the formula for growth as greater fiscal stability and economic certainty coming from: 1) tax reform; 2) free and open trade; and 3) immigration reform. Yet despite persistent...
advocacy efforts from the business community, there was skepticism about the near-term passage of meaningful tax, trade, or immigration legislation. This skepticism was attributed to the lack of bipartisan legislation in the Congress and lack of presidential/executive branch leadership. With no comprehensive legislative reform possible, the only legislation being passed is short-term and incremental in nature.

Other comments and perspectives included:

- **Differing views on the status and perspectives of small businesses.** One participant, whose business touches hundreds of thousands of small businesses, sees strong growth among many small businesses and sees small business owners as consistently having a more positive economic outlook than leaders of large businesses. He doesn’t see small business owners as focused on tax reform, immigration, or even healthcare. He believes that small business wants federal policymakers to just leave things alone, as most government actions are usually bad. Another business leader sees growth among big businesses but not among small.

- **Compensation committees are getting the results they reward.** While critics may lament the lack of investment by corporations and the short-term focus of CEOs on the stock price, the leader of a firm that measures boards and CEOs along several metrics put the blame on compensation committees. The view of this person: Comp committees create the incentives for CEOs and get the results they reward.

- **Tax inversions can be expected.** Participants commented that because of the current tax code, it comes as no surprise that companies would take action to lower their tax rate, especially when doing so is as easy as just establishing a foreign PO box. One representative gave an example of a company undertaking a tax inversion, which is supported by the governor and legislature where the company is currently headquartered, as the inversion will result in new jobs in the state and region.

- **Greater efficiency within higher education.** A representative from the higher education community explained that higher education is still valued and well attended. But with financial cutbacks, institutions have been forced to rethink their value propositions and operating costs. One result is that many institutions have shown leadership by taking steps such as cost cutting to improve their operational efficiency.

Business leaders must stay engaged and plan for multiple scenarios.

There was agreement that the business community is far from monolithic. Businesses of different sizes and industries, doing business in different geographies, often have very different interests. Several participants observed that previously business leaders seemed to act as statespeople (GE’s Reginald Jones was cited), with greater civic pride and concern for reinvesting in their local community.

But now with shorter tenures and more activists focused on short-term results, this sense of statesmanship is missing. A former leader from the executive branch commented that the U.S. government can no longer count on the U.S. community for support, as it once could. As companies have become global, with a far higher percent of their revenues coming from overseas, supporting the U.S. government is not an area of focus or in the interest of many companies. Further, many companies no longer have a relationship with the government, viewing the process of dealing with the government as too arduous. This former government official sees this as a loss to the country.

Despite the frustration of dealing with the government, most business leaders shared the view that it is necessary for them to remain engaged in matters of policy, even though getting legislation passed is difficult. Also, business leaders need to explain to the public the economic consequences of failing to update legislation that has been on the books for decades.

“Business leaders have to remain engaged and explain the [economic and societal] consequences [of failing to take legislative action].”

-- CEO

In light of the economic and political uncertainty that exists, and the low likelihood of major legislation anytime in the near future, business leaders need to prepare their companies “to live in different worlds,” as one CEO said. Others agreed, emphasizing that because it is impossible to predict the future, business leaders must prepare their companies “to build different paths” based on a wide range of different possible economic situations and regulatory structures.

“We don’t know what is going to happen. So we have to be able to live in different worlds.”

-- CEO

Additional comments and perspectives included:

- **Perceived value in participation in advocacy groups.** About 60% of participants believe that business advocacy groups have been effective in influencing legislation.

- **Convincing the masses.** While the business community has advocated for reform on taxes, trade, and immigration, the majority of Americans have not yet been inspired to back these reforms. They don’t understand the reasons that change is necessary and why it benefits them. Business is often perceived as having their own narrow interests in mind, and blaming politicians for inaction. Yet the business community bears some responsibility in not having educated the general population about why changes in these areas are needed, what the changes should be, and how all Americans will benefit.
• Limiting time in DC. While business leaders acknowledged the need to have a presence in Washington, DC, one leader cautioned against allowing advocacy to become too much of a distraction. Ultimately, CEOs have to be focused on their own organization’s performance. Taking one’s eye off the ball can cost a CEO his or her job.

Globally, there has never been more geopolitical turmoil.

In the view of multiple participants, there has never been more global turmoil than exists at the current moment, with multiple hotspots across the globe. Senator John McCain said that much of this turmoil could have been predicted. He sees it as a result of the U.S. not exercising leadership, as President Obama pledged to stop fighting wars, leave Afghanistan on a specific date, and leave Iraq without any residual force on the ground. In addition, Senator McCain argued that sequestration has decimated the military and leave Iraq without any residual force on the ground. In addition, pledged to stop fighting wars, leave Afghanistan on a specific date, exercising leadership, as President Obama predicted. He sees it as a result of the U.S. not that much of this turmoil could have been across the globe. Senator John McCain said the current moment, with multiple hotspots geopolitical turmoil.

The South China Sea. Tensions are growing in this area as many countries in the region are increasingly uncomfortable doing business with China.

• Africa. There is unrest in North Africa and in multiple African countries including Mali, the Central African Republic, Nigeria, and elsewhere.

These international crises will require greater U.S. action.

The vast majority of CELI participants (92%) believe that President Obama is right to try to build a multinational coalition to take on ISIS. However, there was skepticism about the strength or effectiveness of such a coalition, and a general belief among a majority of participants (66%) that the U.S. will eventually have to send ground troops to confront ISIS. This is because only 24% of participants believe that Arab leaders have the backbone to take on ISIS and only 36% believe that Europe has the backbone to do so.

A former State Department official explained that leaders in Europe believed they were in an era of long-term peace. As a result, European countries, namely Germany, decreased their military spending. These countries have been blindsided by Putin, and are unprepared and unable to respond. With its weak economy, Europe is more vulnerable, won’t be as strong, and won’t be able to lend the type of support to an international coalition that it has in the past, forcing the U.S. to shoulder more responsibility.

“We will be involved because there is no alternative.”

Senator Bill Nelson

Other comments included:

• We are underestimating the time and resources required. An experienced diplomat commented that historically when residual forces have been left behind after a conflict they have proven beneficial. However, typically government leaders have underestimated how long any missions will take. In dealing with ISIS, U.S. forces are likely to be necessary, because, “If not U.S. boots, then whose boots?” This is a big problem that will last longer and cost more than is being anticipated.

• There is unwillingness to make hard decisions. Both business and political leaders expressed disappointment at the lack of debate among elected officials. For example, instead of debating and making a strategic decision about U.S. actions in the Middle East, additional funding is being provided in the form of a short-term continuing resolution, to the dismay of many. One participant stated, “The absence of a decision is a decision. This continuing resolution is a decision. No corporate tax reform is a decision.” Some in Washington (including Senator McCain) feel strongly that authorization of military force by Congress will be required.

• There is no public consensus. An experienced pollster and strategist said that while 70% of the U.S. population is concerned about

Senator John McCain

Senator Bill Nelson

Additional crises mentioned by participants include:

• Iran. Former CIA Director Jim Woolsey said that Iran, which is the reason why Syria has so much military capability, is enjoying the distraction created by these other hotspots, while continuing to work to develop nuclear capabilities. He sees the Obama administration as eager to get any deal with Iran and declare victory. But he isn’t convinced this will prevent Iran from eventually having nuclear weapons. Senator McCain agreed, expressing concern that after Iran has nuclear weapons there will be a nuclear arms race in the region. Senator Nelson stressed that this is why it is so important to be successful in negotiations with Iran.
Thus far U.S. markets and businesses have not been affected by these geopolitical crises, but they will be.

While political leaders see enormous global turmoil and risk, financial markets and operating businesses have seen little impact to date from this geopolitical turmoil, to the surprise of many. One CEO said that in the short term, the business community doesn’t know what the implications of these various crises will be. But looking ahead, in the short term, revenues in and around Europe could be affected and longer term, geopolitics is likely to be more important than ever.

ISIS, and emotions are running high after the recent videos showing beheadings, there is still no consensus of public opinion on what to do, which is reflected in the lack of political will. He sees no groundswell of support for action.

• **Action comes not from consensus, but from leadership.** Senator McCain rejected comments about lack of political consensus or will. He said that throughout America’s history there have been many instances of a cautious, war-weary public. But strong, courageous leaders explained to the American people what was at stake and why action was necessary. He attributes America’s inaction not to lack of public support, but to lack of leadership.

• **There is a crisis of communication.** A communications expert sees a crisis of communication by America’s leaders. Despite a greater ability to communicate than ever before, America’s leaders have not delivered a consistent, compelling message.

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**Legend in Leadership Award**

D. Scott Davis, Chairman, UPS

AT&T Chairman and CEO Randall Stephenson presented the Legend in Leadership Award to D. Scott Davis, the Chairman of UPS. Mr. Stephenson said that in most acquisitions companies later discover hidden gems. He said that after acquiring Mr. Davis’s company in 1986, the leaders at UPS must have soon concluded that Mr. Davis was the hidden gem in this acquisition.

Under Mr. Davis’s leadership UPS has expanded throughout Europe and Asia. The company has undergone a strategic transformation by focusing on ecommerce and its small package business. And, Davis successfully managed UPS through the global economic downturn. He has never sought the spotlight, has left UPS better than he found it, and has continued UPS’s tradition of succession from within through the promotion of David Abney into the CEO role.

Beyond UPS, Davis has been a leader in the business community and a knowledgeable and forceful advocate for free trade.