

EXECUTIVE SUMMARY



Yale SCHOOL OF MANAGEMENT

CEO CAUCUS

The US Leading the Free World Isn't Free of Costs/Benefits for My Business: CEO Tradeoffs in Markets, Sourcing, and Investing

Washington, DC | March 15, 2023

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Chief Executive Leadership Institute

Agenda

Welcome/Overview

Jeffrey A. Sonnenfeld, Senior Associate Dean for Leadership Studies, Yale School of Management

Who Wins the War and How

KEYNOTE SPEAKERS

Senator Richard Blumenthal, State of Connecticut
Senator Lindsey Graham, State of South Carolina
Ambassador Kevin Rudd, 26th Prime Minister of Australia
Ambassador Oksana Markarova, Ambassador of Ukraine to the US
Mayor Rafal Trzaskowski, Warsaw, Poland

RESPONDENTS

Ben Harris, US Treasury, Asst. Secretary for Economic Policy
John E. Herbst, US Ambassador to Ukraine (2003-2006)
Konstantin Usov, Deputy Mayor, Kyiv

COMMENTS

Kathy J. Warden, Chair, President & CEO, Northrop Grumman Corporation
Nicholas T. Pinchuk, Chairman & CEO, Snap-on Incorporated
Robert D. Isom, Chief Executive Officer, American Airlines Group
Harold L. Yoh III, Chair & CEO, Day & Zimmermann
Rich Lesser, Global Chair, Boston Consulting Group
Robert D. Hormats, Under Secretary of State (2009-2013)
Philip Lader, US Ambassador to the United Kingdom (1997-2001)
Michael J. Hennigan, President & CEO, Marathon Petroleum Corporation
Steve Case, Chairman & CEO, Revolution; Founder & Former CEO, America Online



Moving to the Homefront: "Cultivate One's Own Garden" (Voltaire) - Domestic Policy for the Future

Joanne Lipman, Author, *Next!: The Power of Reinvention*
Jonathan Alter, Author, *His Very Best: Jimmy Carter, A Life*
Bob Bauer, Democratic Co-Chair, 2013 Presidential Commission on Election Administration
Benjamin Ginsberg, Republican Co-Chair, 2013 Presidential Commission on Election Admin.
Kenneth D. Moelis, Founder, Chairman & CEO, Moelis & Company
Joaquin Duato, Chief Executive Officer, Johnson & Johnson
Ralph E. Reed Jr., Founder & Chairman, Faith & Freedom Coalition

COMMENTS

Mary T. Barra, Chairman & CEO, General Motors Corporation
Asutosh Padhi, Managing Partner, North America, McKinsey & Company
Courtland L. Reichman, Managing Partner, Reichman Jorgensen Lehman & Feldberg
Alan J. Patricof, Co-Founder & Chairperson, Primetime Partners
Farooq Kathwari, Chairman, President & CEO, Ethan Allen Global
Barbara Humpton, President & CEO, Siemens USA
Adam Aron, Chairman & CEO, AMC Entertainment
Doug Parker, Chairman, American Airlines Group
Megan L. Meier, Partner, Clare Locke; Counsel, Dominion Voting Systems
Bill Anderson, Senior Managing Director, Evercore
Peter R. Orszag, CEO, Financial Advisory, Lazard Freres & Co.
Read DuPriest, Partner & Managing Director, AlixPartners
Tamara L. Lundgren, Chair, President & CEO, Schnitzer Steel Industries
James F. McCann, Founder & Chairman, 1-800-Flowers.com
Jeffrey M. Solomon, President, TD Cowen
Mark D. Ein, Founder & CEO, Capitol Investment Corp V
Tom Rogers, Executive Chairman, Engine Media Holdings
Steve Miller, Chairman, Purdue Pharma
Joel N. Myers, Founder & CEO, AccuWeather
Nicole H. Russo, President & CEO, Microboard Processing
Mark P. Becker, President, Association of Public & Land-grant Universities
Dan Webber, President, Edelman Washington DC
Manuel Dorantes, Strategic Advisor, Vatican's Dicastery for Communications

Legend in Leadership Award

PRESENTED TO

Kathy J. Warden, Chair, President & CEO, Northrop Grumman Corporation

PRESENTED BY

Mary T. Barra, Chairman & CEO, General Motors Corporation
Robert D. Isom, Chief Executive Officer, American Airlines Group





Overview

On March 15, 2023, in Washington DC, Jeffrey Sonnenfeld, Senior Associate Dean of the Yale School of Management, led the Yale CEO Spring 2023 Caucus. This was the 24th Yale CEO Caucus held over the past 12 years, and the 155th Yale CEO event.

This Caucus brought together CEOs, political leaders, government officials, academics, authors, and thought leaders from a wide variety of disciplines. The theme was *The US Leading the Free World Isn't Free of Costs/Benefits for My Business: CEO Tradeoffs in Markets, Sourcing, and Investing*.

Caucus participants focused on the war in Ukraine along with domestic issues, with particular attention on the US banking system due to the recent failure of Silicon Valley Bank.

The Legend in Leadership Award was presented to Kathy J. Warden, Chair, President & CEO, Northrop Grumman Corporation.



Jeffrey Sonnenfeld, Senior Associate Dean, Yale School of Management



Who Wins the War and How

Overview

Political leaders from both parties and most Caucus participants expressed strong support for Ukraine, with agreement that Ukraine must win this war and Russia must lose. If not, Russia will have further ambitions, which could encourage China and other countries to become more aggressive. Ukraine needs more weapons, more economic and humanitarian aid, and perseverance from the West. President Biden needs to make the case to the American people that further support for Ukraine is in America's interest.

Context

Senators Lindsey Graham and Richard Blumenthal shared their perspectives on US policy related to Ukraine, Russia, and China. Former Australian Prime Minister and current Australian Ambassador to the US Kevin Rudd offered his perspective on implications related to China. Ambassador Oksana Markarova, Ambassador of Ukraine to the US, and Warsaw Mayor Rafal Trzaskowski both provided their views, and several Caucus participants raised questions and made comments.

Key Takeaways

US political leaders expressed strong support for Ukraine.

There was strong bipartisan agreement that it is in America's national interest to provide support for Ukraine. Rationale for this support included:

- **Putin will not stop at Ukraine.** Ukraine is part of Putin's larger plan. If Russia is not defeated here, Putin will initiate further acts of aggression.

- **The world order will collapse.** If Russia succeeds in invading Ukraine, it is easy to envision China invading Taiwan. Such moves will upend the world order.

"What's at stake here is our freedom . . . our national security and the freedom and independence of NATO."

- **Other countries would pursue nuclear weapons.** In the 1994 Budapest Memorandum – signed by Russia, the US, and the United Kingdom – Ukraine agreed to give up its 1,700 to 1,900 nuclear weapons, which at the time was the world's third-largest nuclear stockpile. In exchange, the Memorandum's signatories (including Russia), agreed to respect Ukraine's independence, sovereignty, and borders. If Russia wins this war, no country will ever enter into a similar arrangement to give up nuclear weapons and many countries would likely pursue nuclear weapons.
- **Russia has committed war crimes.** These are seen nightly on television. The US cannot sit back and allow this to occur. If Russia is allowed to commit these crimes, it sends a signal that rulers can violate international norms with no consequences.
- **Stability is good.** Having rule of law and stability is necessary for economic growth. War and uncertainty is bad for business; peace and stability is good for business.

"Stability is good for business."

The senators commended the more than 1,000 US businesses that have pulled out of Russia – and saluted Professor Sonnenfeld and his team for publishing the list of companies that have left Russia, which played a key role in pressuring businesses to leave.

These senators want the US and other countries to provide Ukraine the weapons it needs and want the US to designate Russia as a state sponsor of terrorism. Doing so would deter China from equipping Russia with weapons by increasing the cost on China of doing so.



Senator Lindsey Graham, State of South Carolina

"The biggest issue facing us right now is will China arm Russia . . . if we do not label Russia as state-sponsored terrorism under US law, we're making a huge mistake . . . every day we wait to send that signal is a day China's moving closer to arming Russia."



Senator Richard Blumenthal, State of Connecticut

While there has been bipartisan US political support for Ukraine, some Republicans are questioning ongoing support. Recently, Florida Governor DeSantis, a leading Republican presidential candidate, termed Russia's attack on Ukraine a "territorial dispute between neighbors" and said this dispute is not relevant to the US. This parallels the view of President Trump.

A Republican leader said polling indicates that support for Ukraine among Republican voters has plummeted. Trump and DeSantis are latching onto this. Also, they are already campaigning in Iowa and are appealing to voters there with an isolationist streak, of which there are many.

Other Caucus participants observed that isolationist comments from leading Republican candidates will cause Putin to dig in his heels and not give up, holding out hope that Trump or DeSantis will become president and will abandon US support for Ukraine.

"These are shortsighted voices that we are hearing . . . I suspect it's more political calculation than geopolitical analysis."

The hope of Republicans at the CEO Caucus is that these voices will ultimately be dissuaded. A leading Republican recommended that President Biden needs to make the case to the American public about why continuing to support Ukraine is in America's national interest.

Ukraine is not asking for charity; Ukraine is asking for military support and investment.

In 1991, more than 80% of the Ukrainian population voted for sovereignty. In 1994, Ukraine agreed to give up the world's third-largest nuclear arsenal. Now, Ukraine has been brutally attacked by one of the signatories of the agreement assuring Ukraine's sovereignty, international law has been breached, and the UN charter has been breached. This is existential for Ukraine and also for Western democracies. Ukraine's leaders say the situation is simple: "They want to kill us; we want to survive."



Ambassador Oksana Markarova, Ambassador of Ukraine to the US

While a few US politicians don't see Ukraine as in America's national interest, Ukrainian leaders believe the majority of Americans and most American leaders understand how important Ukraine is and strongly support Ukraine, which means providing Ukraine with more military aid so that Ukraine can fight and win. Any skepticism about the importance of Ukraine to America and the West requires educating people.

Looking beyond the war, Ukraine envisions an innovative, fast-growing



Konstantin Usov, Deputy Mayor, Kyiv, Ukraine

economy that will help solve global problems in areas of agriculture, energy, and technology. Just as Europe prospered after World War II, so will Ukraine prosper after this conflict ends. Ukraine will welcome foreign investment, while it is likely that the world will isolate Russia until there is a change in Russian leadership.

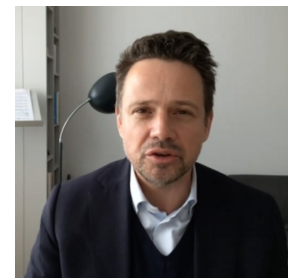
Ukraine's neighbors have risen to the occasion, but more help is needed.

Allies were highly complementary of the bravery, courage, and resiliency demonstrated by the Ukrainians. It is clear that Putin and Russian underestimated the resolve of Ukraine and of the West.

While other countries are not involved in the military battle against Russia, countries such as Poland are lending enormous humanitarian support. In the initial weeks after Russia's attack on Ukraine, there were about 300,000 Ukrainians in Warsaw, which represented 12-15% of Warsaw's population. Currently, there are about 150,000 Ukrainians in Warsaw, mainly women and children. There has been a tremendous response from local government and non-governmental organizations in providing shelter, food, medical care, and other forms of assistance. Ongoing assistance is required from countries such as Poland and from across the globe.

This is an existential fight and Ukraine must prevail. While there is some fatigue in Europe, it is important to persevere and to remain strong in supporting Ukraine and opposing Russia.

"We need to keep on helping, we need to do our bit because this is a fight for our freedom . . . and every dictator is watching."



Mayor Rafal Trzaskowski, Warsaw, Poland

Price caps on Russian oil have worked.

While Russia has been losing the military war, it is winning the misinformation war. This can be seen in that organizations like the IMF accept and publish unconfirmed economic statistics provided by Russia. The IMF data is then spouted by US academics and talking media heads, without questioning it.

"What we heard on CNBC, Fox Business, or Bloomberg is wrong. You have self-interested analysts giving a false story . . . Russia is not a superpower economically. They have thermonuclear weapons but they're not a superpower."

A policy that has worked remarkably well is price caps on Russian oil. As background, in February 2022, after Russia invaded Ukraine, the price of oil spiked and Russia was making money hand over fist.

In the summer of 2022, Europe initiated a sanctions package banning the seaborne import of Russian oil and banning use of Western services in the trade of Russian oil. This ban banned, for example, use of Western insurance on Russian oil shipments. However, while well intentioned, this policy had the potential to disrupt global energy markets and cause price spikes.

An alternative policy was enacted by the G7 in September 2022 to cap the price of Russian oil. The goals were to: 1) maintain availability of Russian oil to ensure stability of global energy markets; and 2) only allow Russia to sell oil at rock bottom prices, thereby hurting Russia's revenues.

Prior to the price cap policy, there was almost no difference in the price of Brent and Urals (Russian) oil. Today, Urals oil sells for about \$30 per barrel less than Brent oil. During a period of geopolitical uncertainty, the price of oil declined from previous high levels and has been incredibly stable, and Russian revenue has plummeted.



Robert D. Hormats, Under Secretary of State (2009-2013); Ben Harris, US Treasury, Asst. Secretary for Economic Policy

"We've taken a commodity and turned it into two different products . . . Russian revenue has plummeted because we bifurcated the market."

In reality, about 75% of Russian oil is trading outside of the price cap. But the price caps have given China, India, and other buyers enormous leverage to drive down prices. These countries are buying the cheapest oil they can on the coattails of these price caps. The policy has also been easy to enforce because the maritime intermediaries are highly concentrated.

The CEO of a leading oil company concurred that this policy has worked extraordinarily well. There is ample supply of oil, the price of oil is lower today than a year ago, markets are stable, and while Russia is continuing to produce and sell oil, they aren't making any profit.

An economic expert commented that not only is this policy working in the short term, but the long-term implications are enormous as China and India are diversifying their supply.

"Russia is like a vassal state. There are no finished goods that they bring to the global marketplace. It's food, fuel, metals—it's all raw materials . . . Putin has destroyed 30 years of economic growth."

Another participant noted that the West also had the good fortune of warm weather during winter, which served to decrease energy demand in the US and Europe by 25% compared to a year ago.

Tensions between the US and China are at an alarming level.

Recently, China's leader Xi Jinping and the country's foreign minister made very strong and public statements against the US. Xi said the US and its allies have made life difficult for China and China's foreign minister said that if the US continues its current posture, in particular on Taiwan, it will inevitably result in conflict.

A China expert sees these remarks as stemming from considerable domestic economic pressure in China due to a slow economy, rising unemployment, and rising prices. The domestic messaging of China's leaders assigns blame to the US.

Multiple participants mentioned that China places a premium on strength and power. Any signs of weakness from the US or the West could lead China to see an opportunity to take aggressive action on Taiwan, which would create chaos for Japan, South Korea, and the world. A participant commented that building on bipartisan support in the US for Ukraine, the US needs a bipartisan strategy on China that creates alignment with America's allies.



Ambassador Kevin Rudd, 26th Prime Minister of Australia

Several Caucus participants stated concerns about the confrontational tone between China and the US and expressed hope for de-escalation.

"We should have a much better dialog [with the Chinese]. We had a better dialog with the Soviets during the Cold War, which was existential."

Moving to the Homefront: “Cultivate One’s Own Garden” (Voltaire) – Domestic Policy for the Future

Overview

While all of the facts surrounding the failure of Silicon Valley Bank are not yet known, everyone is blaming their favorite villain. The far-left blames lack of regulation, and some on the far-right are blaming woke capitalism. The likely culprit is a mismatch between long-term assets – US treasuries at low interest rates – and short-term liabilities. However, most important is what the failure of this prominent bank will mean for the larger banking system and the innovation economy.

Context

In turning to domestic issues, CEO Caucus participants focused on the implications of the collapse of Silicon Valley Bank and on topics of innovation and fair elections.

Key Takeaways

Even during uncertain times, companies are focused on and investing in innovation.

Several examples were shared of sectors and companies making major investments in innovation.

As geopolitical tensions have risen around the world, some in the press have said the US industrial base is not up to the task of providing the capability and capacity to defend the country. Leaders from the defense community commented that this is not true. America’s industrial base remains strong and this sector is working hard to support the country and constantly innovate.



Kathy J. Warden, Chair, President & CEO, Northrop Grumman Corporation

At Johnson & Johnson, prior to the pandemic, the company manufactured about 100,000 vaccines per year. During the pandemic, the company rapidly innovated to make one billion vaccines per year, with thousands of people in the company working on this and with J&J deeming its Covid vaccine as a not-for-profit initiative. J&J’s vaccine is being used across the globe, including in geographies like Africa, as it only requires one shot and doesn’t have to be refrigerated.

Automotive giant General Motors responded during the pandemic by rapidly innovating to make ventilators, masks, and PPE and by creating a safe workplace to continue making cars.

During the pandemic, Siemens looked at how it could use its know-how to help organizations transform. Siemens’ know-how is strongest in areas such as electrification, automation, digitization, transformation of electric grids, and provisioning of new forms of transportation.

The collapse of SVB could have major implications for the innovation economy.

The news story of the day was the overnight collapse of Silicon Valley Bank. While the facts behind this collapse were still not well known, multiple public voices quickly entered the fray to offer blame. On one end of the spectrum was pinning blame on woke capitalism.

On the other end of the spectrum, legislators on the left asserted this failure was predictable and was due to regulatory rollbacks during the Trump administration. Some Caucus attendees believe lack of regulation may have played some role and more regulatory scrutiny could have decreased the riskiness of SVB’s behavior.



Joaquin Duato, CEO, Johnson & Johnson



Barbara Humpton, President & CEO, Siemens USA

Others argued that this failure was due to the Federal Reserve's significant increases in interest rates, which caused difficulties for banks holding large amounts of US Treasury bonds at lower interest rates.

"Fed rates coming up rather quickly put them in a box and deposits coming down . . . created a squeeze and they didn't handle communication very well."

SVB also had some other assets that could be deemed as risky. Ultimately, this was a mismatch in having long-term assets at lower rates and short-term liabilities at higher rates. In addition, SVB, through its own actions to raise capital, didn't communicate very well.

"Never finance long-term assets with short-term liabilities."



Kenneth D. Moelis, Founder, Chairman & CEO, Moelis & Company; Michael J. Hennigan, President & CEO, Marathon Petroleum Corporation

An experienced banker said that previously, banks had 40% equity, so they could better withstand any crisis. But that's no longer the case. Today, banks are essentially levered 10 to 1. That means if asset prices fall (which they have) and if depositors decide to take out their money (which depositors at SVB did), any bank would become insolvent.

While more facts will ultimately come out about the causes of this failure, more pertinent are the longer-term implications. Participants commended the FDIC, the Federal Reserve, and the Biden administration for their quick response to assure depositors that their funds were protected and to provide companies with access to these funds. This enabled companies to seamlessly continue to operate.

Unknown is what SVB's collapse will mean for startups and the tech sector, since SVB was extremely helpful to the innovation economy. Will this affect the access to capital for entrepreneurs?

"Could this [the failure of SVB] in the long run make it more difficult for young companies to get access to capital?"

There is a bipartisan effort to bolster US elections.

There has been a collapse in public trust in the US about fair elections, with about 30% of the population not having faith in the country's elections. There are movements to politicize election administration, there is distrust of professional electoral administration, and there are threats and disinformation that could lead to violence.

In light of these concerns, a bipartisan effort is underway to mobilize business and community leadership at the state and local levels to provide neutral support for a fair election process. This effort is focused on the institutional defense of fair elections, which is foundational to democracy. Part of this effort is about bolstering front-line election officials. Business support is needed here.



Bob Bauer, Democratic Co-Chair, 2013 Presidential Commission on Election Administration



Benjamin Ginsberg, Republican Co-Chair, 2013 Presidential Commission on Election Administration

Legend in Leadership Award

LEGEND IN LEADERSHIP AWARD

Presented to:

Kathy J. Warden, Chair, President & CEO, Northrop Grumman Corporation

Presented by:

Mary T. Barra, Chairman & CEO, General Motors Corporation
Robert D. Isom, Chief Executive Officer, American Airlines Group

Kathy Warden is a trailblazer. She is the first member of her family to go to college and the first female CEO in the history of Northrop Grumman.

Kathy is passionate about guarding the safety and security of our nation. She is seen as a powerhouse in the global aerospace defense industry and in the cybersecurity sector. As CEO, she led her company through the pandemic and has focused on investing in innovation, research, and design. Under her leadership, Northrop Grumman has strengthened its leadership position in aerospace in both commercial aviation and for national defense. Since Kathy became CEO, Northrop Grumman's stock price has increased from \$250 to \$450.

Kathy is viewed as inspirational, creative, and a person of high character. She has been a vocal advocate for inclusive leadership and for empowering women in the workplace. She has focused on uplifting and supporting more diverse talent and strengthening the culture of innovation across her entire company.



Mary T. Barra, Chairman & CEO, General Motors Corporation; Kathy J. Warden, Chair, President & CEO, Northrop Grumman Corporation; Robert D. Isom, CEO, American Airlines Group

