Tech Triumph or Bloated Bubble: Innovation, Investors, and Industrial Transformation

Roosevelt Hotel New York | December 13 - 14, 2017
Tech Triumph or Bloated Bubble: Innovation, Investors, and Industrial Transformation

The 92nd Yale CEO Summit, led by Yale Professor Jeffrey Sonnenfeld, was held at the Roosevelt Hotel in New York City on December 13 and 14, 2017. This Summit brought together CEOs and executives; current and former government officials, including the former Secretary of Defense; and leading academics, authors, and thought leaders.

Participants examined the theme “Tech Triumph or Bloated Bubble: Innovation, Investors and Industrial Transformation.” Topics discussed included American foreign policy in the Trump administration and international perceptions of U.S. policy; reactions to and implications of tax reform; cryptocurrencies; rules of engagement for new technologies; the state of retail; and revolutions in food and healthcare. The Legend in Leadership Award was presented to Leonard Schleifer and George Yancopoulos of Regeneron Pharmaceuticals. The Maverick in Leadership Award was presented to Danny Meyer of the Union Square Hospitality Group.

This Summit exposed macro concerns, while conveying firm-level optimism. Macro concerns include unclear, inconsistent actions on the world stage by the Trump administration, which is hurting relationships with allies and providing opportunities for adversaries. Also of concern is the tremendous market power being concentrated in Amazon, Facebook, and Google.

Yet despite these concerns, firms are performing well and business leaders are optimistic about the future. Business leaders have favorable sentiments about the tax plan, about reduced regulation, and about the economy.

Participants included:

James J. Barber, President, UPS International
Ashton B. Carter, 25th U.S. Secretary of Defense
Andy Dunn, CEO, Bonobos; SVP, Digital Consumer Brands, Walmart
Mark Fields, Former President & CEO, Ford Motor Company
Dario Gil, Vice President of AI and IBM Q, IBM
Douglas H. Ginsburg, Senior Judge, D.C. Circuit, U.S. Court of Appeals
Daniel S. Glaser, President & CEO, Marsh & McLennan Companies
Maurice R. Greenberg, Chairman & CEO, CV Starr & Co.
Gregory J. Hayes, Chairman & CEO, United Technologies Corporation
Robert D. Hormats, Under Secretary (2009-2013), U.S. Department of State
Walter Isaacson, Chairman & CEO, The Aspen Institute; Author, Leonardo Da Vinci
Brad Katsuyama, President & CEO, IEX
Klaus Kleinfeld, CEO, NEO; Former Chairman & CEO, Arconic
Kenneth G. Langone, President & CEO, Invemed Associates
Matthew S. Levatich, President & CEO, Harley-Davidson Inc.
Steven Lipin, Founder, Chairman & CEO, Gladstone Place
Joseph Lubin, Cofounder, Ethereum
John F. Lundgren, Chairman, Stanley Black & Decker
Tamura L. Lundgren, President & CEO, Schnitzer Steel Industries
Mike Mckool, Founder & Chairman, McKool Smith
Danny Meyer, Chief Executive Officer, Union Square Hospitality Group
Christina P. Minis, Co-Head, Americas Credit Finance Group, Goldman Sachs
Brian A. Nichols, Ambassador to Peru (2014-2017), U.S. Department of State
Grover Norquist, President, Americans for Tax Reform
Victoria Nuland, Assistant U.S. Secretary of State (2013-2017), European & Eurasian Affairs
Nels B. Olson, Vice Chairman, Korn Ferry
Peter Orszag, Vice Chair, Lazard; Former Director, U.S. OMB
Nicholas T. Pinchuk, Chairman & CEO, Snap-on Incorporated
Jed S. Rakoff, Judge, U.S. Southern District of New York
Kevin Rudd, President, Asia Society Policy Institute; 26th Prime Minister of Australia
Miriam Sapiro, Partner, Finsbury; Acting & Deputy U.S. Trade Representative (2009-2014)
Leonard S. Schleifer, President & CEO, Regeneron Pharmaceuticals
Stephen A. Schwarzman, Chairman & CEO, Blackstone Partners
Ivan G. Seidenberg, Retired Chairman & CEO, Verizon Communications
Irwin D. Simon, CEO, The Hain Celestial Group
Andrew Ross Sorkin, Editor, DealBook, The New York Times; Co-Anchor, CNBC
Lynn Tilton, Chief Executive Officer, Patriarch Partners
Joseph B. Ucuzoglu, Chairman & CEO, Invemed Associates
Matthew S. Levatich, President & CEO, Harley-Davidson Inc.
Steven Lipin, Founder, Chairman & CEO, Gladstone Place
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While America is a country of fantasies and deep divisions, the Constitution provides sustainability.

Kurt Andersen summarized the main ideas from his new book *Fantasyland*. He asserted that the election of Donald Trump as president is just the latest product of American fantasies and myth-making. (Among participants, 63% agreed that Trump’s election is a product of classic American myth-making.) Americans have always had fervent religiosity and have bought entertaining, optimistic myths from people like P.T. Barnum and Norman Vincent Peale. The 1960s gave everyone permission to “create their own reality” and their own “alternative fact.” This is reflected in the large numbers of people who don’t believe the media or science related to climate change.

The strong belief in fantasies and an unwillingness to compromise have produced a deeply divided society and political system. However, despite this polarized environment, multiple participants cited the wisdom of the U.S. Constitution in producing a sustainable system where we argue, but—with the exception of the Civil War—we don’t fight. Every four years we vote, elect a new president, and go through a smooth transition in power. Meanwhile, other countries have turmoil, coups, and upheaval. For all of the problems in America, the fundamental system of government seems to work better than anything else.

“I’m not concerned about it [the unwillingness to compromise]. Despite our faults, with the exception of the Civil War, we have always been able to get to common ground.”

<table>
<thead>
<tr>
<th>Survey Questions on Foreign Relations</th>
<th>% Agree</th>
<th>% Disagree</th>
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<tbody>
<tr>
<td>President Trump is doing an excellent job representing U.S. interests abroad.</td>
<td>11%</td>
<td>89%</td>
</tr>
<tr>
<td>Are you embarrassed with how President Trump has represented U.S. interests and image abroad?</td>
<td>81%</td>
<td>19%</td>
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<td>I am fearful that we have alienated key diplomatic allies.</td>
<td>77%</td>
<td>23%</td>
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<tr>
<td>The U.S. State Department is in a dangerously weak condition since this administration took over.</td>
<td>62%</td>
<td>38%</td>
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<td>I am disappointed in the administration’s trade policy.</td>
<td>66%</td>
<td>34%</td>
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Source: Real-time poll of CELI attendees

Business leaders see the State Department as terribly understaffed, and see the administration’s international actions as lacking cohesion, clarity, and consistency. The decision-making process is dysfunctional and Trump’s Twitter communications routinely undermine others in the administration, creating confusion and doubt.

There is great disappointment in President Trump’s foreign policy and conduct.

In survey questions related to American foreign policy, participants showed significant dissatisfaction in the actions of President Trump and his administration on the international stage. The President is not doing a good job of representing U.S. interests and is largely viewed as an embarrassment. He has alienated allies and provided opportunities for adversaries.

“Allies have seen ebbs and flows in U.S. policies and behavior, but this is abnormal . . . the U.S. is in some trouble around the world with allies.”

The result is the U.S. has damaged relationships with allies, who don’t know where the U.S. stands, and the administration has damaged important international institutions and agreements—like NATO, the UN, the WTO, TPP, NAFTA, and the Paris Climate Agreement. Institutions and agreements have played a key role in the world’s peace and prosperity since World War II. Casting doubt about international organizations and agreements provides opportunities for adversaries like China, Russia, and Iran.

“Adversaries see an opportunity to gain advantage because of confusion . . . it is dispiriting for our friends.”
At times, President Trump’s discourse is not civil nor constructive and is in conflict with American values respecting the legitimacy of critics and the role of an independent media; nor is it compatible with the gravity of his position. The majority of participants reported they are embarrassed with how President Trump represents the country. Several openly stated he sets a poor example for those who serve in the military or in any government capacity. No business leader would permit this type of behavior among subordinates.

There is also disappointment in the administration’s domestic performance, but business leaders remain hopeful.

Upon President Trump’s election, business leaders were optimistic that the White House was engaging them. Several described personal meetings with the President that were upbeat and full of promises related to infrastructure and trade policies. But thus far, business leaders are disappointed at what has been achieved, with no progress on healthcare or infrastructure, and negative progress on trade and immigration. Also, business leaders were surprised and dismayed that President Trump would misstate companies’ investment and employment plans, and would pit companies against each other.

“We’ve seen lots of rhetoric, but no progress.”

For many business leaders, the lone legislative bright spot is the likely passage of tax reform legislation, which is favored by 55% of participants. Those who support this legislation see it as a game changer that will transform the U.S. economy – and may be followed by entitlement reform in the next six months. Proponents argued that lower corporate taxes are good for America, will boost GDP growth, help U.S. competitiveness, and even help address income inequality. There was strong support among manufacturing companies who see this tax change as increasing investment, jobs, and salaries.

The majority of survey participants — including some who support it — see this legislation as an unfair attack on blue states, believe this bill adds to the national debt, worry about the impact on healthcare, and don’t believe carried interest is being properly taxed.

Those who oppose this legislation see bigger-picture problems. Opponents expressed the view that while most business people want lower corporate tax rates, the tax code is supposed to embody the values of the country, and this legislation doesn’t do so. In the opinion of one participant, “This tax bill will reinforce the perception that the system is rigged.” Fears were expressed that this will create even greater income inequality, which will ultimately result in an economic civil war, as well as possible unintended consequences like decreasing state revenues, which will force state universities to hike their tuition.

Survey Questions on Tax Plan

<table>
<thead>
<tr>
<th>Question</th>
<th>Agree</th>
<th>Disagree</th>
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<tbody>
<tr>
<td>I believe that the proposed tax reform package should be signed into law.</td>
<td>55%</td>
<td>45%</td>
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<tr>
<td>Once the law passes, my company will immediately make large domestic capital investments.</td>
<td>14%</td>
<td>86%</td>
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<td>I think the SLT treatment is an unfair attack on blue states.</td>
<td>62%</td>
<td>38%</td>
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<tr>
<td>It is wrong for this package to add so much to the national debt.</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>I believe that carried interest is not properly taxed.</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>I am concerned about the healthcare impact of the tax proposal.</td>
<td>62%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Real-time poll of CELI attendees

“There are ways to accomplish what we all want, which is lower corporate tax rates, in a different and better way.”

In addition, while this legislation has been sold as fueling corporate investment, only 14% of participants said their companies were likely to make large, domestic capital investments in the short term. (Others disagreed, believing more companies will make investments.) As one opponent to this tax plan said, “The number one thing constraining investment is not the after-tax cost of capital.”

Bitcoin is a bubble, but blockchain has huge potential.

The majority of business leaders (86%) see cryptocurrencies as overhyped and dangerous, and most (88%) believe bitcoin is a bubble that will not end well. Even sophisticated investors don’t understand bitcoin, see no underlying asset, and don’t subscribe to the view of its finite supply. Most see a bubble which will inevitably burst.

However, while skepticism of bitcoin and cryptocurrencies is high, there is greater interest in blockchain, which provides value as a better ledger. Advantages include having a currency that is not influenced by governments, has no single point of failure, and uses a shared infrastructure for payment and settlement that will take friction out of the system. One leading fintech investor who was previously a skeptic has changed his mind and has invested...
in both bitcoin and blockchain. His advice is to “focus on use cases.” Another investment expert sees inefficiency in exchanges. He is not sure about bitcoin or blockchain but sees signs that “there is something there.”

Survey Questions on Cryptocurrencies  % Agree  % Disagree

The bitcoin cryptocurrency is a dangerous bubble that will not end well.  88%  12%

Cryptocurrencies are overhyped and dangerous.  86%  14%

The current exchanges do not know how to properly regulate bitcoin.  91%  9%

My business presently has large blockchain initiatives.  27%  73%

Source: Real-time poll of CELI attendees

Business leaders aren’t opposed to large mergers, but are wary of the market power of tech leaders.

In response to survey questions about whether various mergers should be approved, participants overwhelmingly favor allowing the following mergers to proceed:

• Time Warner/ATT (77%)
• Disney/Fox (86%)
• CVS/Aetna (78%)
• Tribune/Sinclair (65%)

Both the size and the behavior of several large tech companies—Amazon, Facebook, and Google—are a cause for concern. In fact, 42% of respondents believe Amazon should be broken up for antitrust reasons. The argument is that even though these leading tech companies don’t engage in price gouging like typical monopolies—they actually provide low prices and good service, and even provide some services for free—they have tremendous market power, aren’t regulated, and are blocking competition. The consumer data they amass has tremendous value, giving them the ability to control all aspects of people’s lives. Those with concerns about these dominant platforms believe breaking up these behemoths would spur greater innovation and completion.

True innovation requires vision, passion—and patient long-term capital.

The term “innovation” is overused and misused. Companies often hype innovations that are relatively minor. But four true innovators described their journeys:

• Regeneron. Since its inception, this life sciences company was always focused on the patient, not the payout. The company focused on fundamental scientific discovery and understanding patterns of innovation. The founders forged a partnership with Merck, which realized it couldn’t do all innovation in house, but needed to partner. This focus and the partnership with Merck allowed Regeneron to have a long-term perspective.

• Bonobos. This online retailer was driven by the idea of creating a men’s fashion brand completely online. After doing so, the company concluded that a physical retail presence was also needed, but had to provide a unique customer experience. Bonobos, which had once been a private capital, considered going public but opted to be acquired by Walmart, which is developing a portfolio of innovative online/offline retail brands and experiences.

• Edible Arrangements. This unique food retailer decided to stay private and not to take money from private equity investors, who are focused on short-term EBITDA. The founders care deeply about products, customers, and brands, and don’t want to be controlled by private investors or impatient public investors. So, the founders have pursued a franchise model that provides capital for growth and retains control and focus.

• Hain Celestial Group. This company is passionate about pure, healthy, organic foods, and building long-term brands. The company has been a successful public company, but founder Irwin Simon acknowledges that being public is expensive and difficult, and has exposed the company to activist investors.

• Union Square Hospitality Group. This innovative restaurant company, whose brands include Shake Shack, has taken a unique approach in prioritizing employees first, followed by customers, communities, and suppliers, with investors ranking as the fifth priority. By taking care of the other priorities, investors too will be satisfied.

Common elements among these innovators are a sense of purpose and passion, a desire to serve customers and employees, a desire to avoid short-term market pressures, and finding a capital structure that provides the ability to engage in sustained, long-term innovation.
Legend in Leadership Award
Leonard S. Schleifer, President & CEO, Regeneron Pharmaceuticals
George D. Yancopoulos, President & Chief Scientific Officer, Regeneron Pharmaceuticals

Maverick in Leadership Award
Danny Meyer, CEO, Union Square Hospitality Group

Alan J. Patricof, Managing Director, Greycroft Partners, and Irwin D. Simon, Chairman, President & CEO, The Hain Celestial Group, presenting Danny Meyer, CEO, Union Square Hospitality Group, with the Maverick in Leadership Award