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PRESENTED BY
William P. Lauder, Executive Chairman, The Estee Lauder Companies
Mark Fields, President & CEO, Ford Motor Company
David J. Stern, Commissioner Emeritus, National Basketball Association
Jeffrey Gennette, President, Macy’s Inc.
Key Themes from December 2016 Summit

The 88th Yale CEO Summit, led by Yale Professor Jeffrey Sonnenfeld, was held at the Waldorf Astoria, New York on December 14 and 15, 2016—just one month after the presidential election. This Summit brought together CEOs and business executives; government officials, including mayors; and leading academics, authors, and other thought leaders with the theme of “Delight and Despair over Disruption Part II: The Post-Election Story.”

Sessions dealt with identity politics and leadership in business; reassuring our allies; defining free trade and free competition; sparking needed disruption in infrastructure and innovation; health care disruption; and customer disruptions. The Maverick in Leadership Award was presented to John Legere, President & CEO of T-Mobile USA, and the Legend in Leadership Award was awarded to Macy’s Chairman & CEO, Terry Lundgren.

In the aftermath of the presidential election, most business leaders are optimistic that corporate tax rates will be reduced and some resolution will be reached to repatriate overseas cash. But there is significant concern and uncertainty about how Donald Trump’s election will affect trade and relationships with countries such as China. Leaders are also concerned about Twitter attacks from Trump directed at companies, executives, and the media. Companies are focused on providing facts and being proactive in attempting to control the narrative on topics such as creating jobs.

Key Themes

Women have come a long way, but it has been a hard slog—which continues.

A panel of executive women, headlined by Ellen Kullman, former CEO of DuPont, Anne Mulcahy, former CEO of Xerox, and Joann Lublin of the Wall Street Journal, shared examples and perspectives from their experiences climbing the corporate ladder. The consensus: crony capitalism remains alive and well. But the women on the panel achieved success based on resilience, persistence, resourcefulness, and blooming where they were planted. They described the importance of being confident, authentic, and comfortable with revealing vulnerability.

There is delight (a little) and despair (a lot) over the election of Donald Trump.

This Summit’s theme was about delight and despair over the election. Delight was limited, while despair was significant. Delight centered around an expectation of lower corporate taxes and an increased likelihood of being able to repatriate cash held overseas.

However, despair and uncertainty overshadowed delight. In discussions about “Reassuring Our Allies” and “Defining Smart Free Trade and Free Competition,” participants expressed concerns about the future. A majority of participants believe this election has damaged the country’s global image, and most expect Trump’s election to have negative effects on climate change and international trade. A majority also expect deterioration in relations with China, Mexico, and the EU (67%), and there was nervousness over escalating tensions with China. Current and former State Department officials see international anxiety and stress as Trump challenges longstanding alliances.

Business leaders and government officials worry about Trump’s communication style.

Trump’s impulsive tweets and off-the-cuff media remarks, often with little/no basis in fact, are worrisome. Business leaders fear being the subject of a Trump attack for something like hiring in a foreign country or charging prices Trump deems as too high. Members of the media also find themselves in Trump’s cross-hairs for any story he doesn’t like, which may create reluctance to pursue particular stories. Among the approaches for dealing with these attacks include providing facts (behind the scenes) and being proactive in communicating about plans to create jobs.

Innovation is sparking massive disruption, but it often comes with tradeoffs.

Participants discussed different types of innovation driving disruptions. Among them are scientific innovations, which produce new types of drugs and technologies. A major tradeoff is the development of new automation technologies that could replace millions of jobs. Structural innovation is seen at companies like Alphabet, which is attempting to create a startup-like environment that attracts entrepreneurs and provides the freedom and resources to innovate and scale successes. Cultural innovation is evident at T-Mobile, where CEO John Legere has transformed the culture by breaking industry norms and creating an attitude in the company of rebellion, irreverence, and passion for customers.
We’ve Come a Long Way . . . Maybe?
Identity Politics and Leadership in Business

Opening Remarks

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Julie Herwig, Former Vice President, New York Life
Mark Penn, President, Stagwell Group; Former Top Clinton Campaign Strategist

Overview
Women have come a long way, in business and politics, but it has been a long, hard slog—which continues. Despite much talk about diversity and inclusion, executive ranks are still overwhelmingly filled by men, and women are held to different standards. Those women who have made it to the top have demonstrated remarkable persistence and resilience. The good news is perhaps the tide is changing, with a new generation of leaders and mission-driven companies creating new environments.

Regarding the recent presidential election, panelists presented completely opposing views. Some are certain that sexism against Hillary Clinton was present and played a key role. Others saw no evidence of sexism and believe voters opposed Clinton and favored Trump based on policies and whether they were trustworthy and inspiring, not because of their gender.

Key Takeaways
Crony capitalism remains, and women are held to different standards.

The panelists agreed: despite the talk of diversity and inclusion, crony capitalism still stands in the way. While people talk about and support the concepts of equal opportunity and equal pay, in reality, people hire and promote those who look and act like them. Since most executives remain men, they tend to hire and promote other men.

In the general population, women represent about 50% of the population, 25% of first line management, but a much smaller percentage of senior management. This holds true in most professions—including business, law, medicine, and journalism—where women represent about half of the students and graduates. But women still represent a small proportion of the leaders in these fields.

There was consensus that the adage holds true: “Men are promoted on potential and women are promoted based on results.” One senior executive on the panel acknowledged that this double standard still occurs. She said, “It happens. There is a different measuring stick. You can’t let that affect you.” Upon being excluded from meetings by male colleagues, she found ways to get into these meetings. She advised, “You do what you need to do to be present.”

Ellen Kullman is going even further, chairing Paradigms for Parity, a coalition of companies including Accenture, Bank of America, Coca-Cola, McKinsey, and more that is aiming for gender parity at the top of major companies by 2030. Many leading female CEOs have signed on.
Women who have achieved success have demonstrated multiple characteristics, especially resilience.

Those on the panel who have ascended to senior levels have gotten noticed, had serendipitous luck, been persistent, taken risks, and in particular, repeatedly demonstrated resilience. Joann Lublin told an anecdote from her book about a successful female CEO at a major retailer who early in her career was given an undesirable job in an undesirable part of the company. Instead of becoming dejected or leaving the company, she adopted a mindset of “bloom where you are planted.” She showed great creativity, turned this department around, and got noticed, which helped catapult her career.

“A common lesson [among women profiled in her book] was that women were persistent, against all odds. They kept at it. They got noticed.”

The successful female leaders on the panel also highlighted the importance of authenticity, which can mean being candid and showing vulnerability. Historically, leaders who showed vulnerability were criticized as being weak. But showing some level of vulnerability humanizes leaders and makes them more understood, relatable, and likeable.

Some younger women are having much more positive experiences.

Two women on the panel described positive changes underway in companies. One works at a Fortune 100 financial services firm where the CEO (a man, who became CEO when just 40 years of age) has prioritized creating a truly diverse culture. This executive described “a great experience as a woman” within this company. Outside of her company, she still sees good ole boys in older men who treat her like a young kid and don’t pay her adequate respect. But inside the company—driven by change at the top—the culture has changed.

Another executive is at a global consumer product firm that has a vision of empowering women. She characterized her organization, which is driven by a sense of purpose, as being an environment where women can thrive.

Views differed on the role that identity politics played in the presidential election.

Clinton won among women by 12%, and Trump won among men by 12%; Clinton won the popular vote because more women vote than men. Some CELI attendees were adamant that sexism played a role in the election, with Hillary Clinton held to a different and higher standard than Donald Trump.

Clinton was lauded by multiple panelists as being incredibly qualified. But a pollster and former political advisor commented, “When you play identity politics, every action has a reaction.” By this he meant that choosing to create one persona to win over one group of voters results in alienating another group. Specifically, this individual felt that Clinton erred in attempting to follow advice to create an identity as a sensitive, relatable grandmother, instead of conveying the impression of being the tough-minded person she is. This expert believes that following a strong model, like Margaret Thatcher, would have appealed to more men without diminishing Clinton’s standing among most women. If only a small number of men were swayed by a tougher Clinton, it could have made the difference in the election.

Others faulted Clinton for not doing enough to speak to and rally women, with attendees criticizing Clinton for being uninspiring and inauthentic. One participant said Clinton’s line about “Deal me in” in response to Trump’s criticism of supporting women’s issues “spoke to no one.”

“There was something not authentic about Hillary Clinton. The Clinton campaign thought they would win and never felt the need to show her authentic self.”

Still other CELI participants argued that gender played little or no role whatsoever in the election. One panelist argued, “She [Hillary Clinton] didn’t suffer from gender bias; she suffered from Hillary bias.”

Comments from various panelists about the election included:

- **Evangelicals made the difference.** One panelist noted that this election marked the largest ever turnout of evangelicals, who represented 27% of the electorate, with 81% voting for Trump. Trump also won among Catholics, which made a big difference in key swing states. Among “faithful Catholics” Trump won 54% to 37%.
• **Both candidates were despised by 65% of voters.** What ultimately made the difference was that voters voted for change.

• **The email issue really hurt Clinton on trust and character.** It was a big deal. She apologized but she didn’t go far enough. She never said, “The lesson I learned from this is . . .” She needed to go further, but she didn’t.
Reassuring Our Allies: Balancing Jitters and Joy

Overview

While the session’s title is about reassuring allies, most participants would struggle to do so at this moment. The majority of CELI attendees were surprised by the outcome of the presidential election, and most feelings about the outcome of the election are negative. It is difficult to balance jitters and reassure other countries when there is so much uncertainty and anxiety about America’s future strategies, policies, and behaviors. In fact, attendees are worried that America’s relationship with countries like China and Mexico will deteriorate, while it will improve with Russia — to the great concern of many. What this means for traditional allies and alliances, like NATO, is far from certain.

Context

Participants discussed how Donald Trump’s election will affect America’s foreign policy and alliances.

Key Takeaways

CELI participants were surprised at the election results and have a generally negative outlook.

Among CELI attendees, 41% most closely identify with the Republican Party, 35% with the Democrat Party, and 24% are independents. That said, 58% voted for Hillary Clinton, 26% voted for Donald Trump, and the balance voted for another candidate. For the majority of attendees (77%), the outcome of the election was a surprise. CELI attendees are not alone. One participant invoked Henry Kissinger who supposedly said, “The world is shocked by the election.”

It was mentioned that long before the election, none of the deep-pocketed Republicans supported Trump. And, cocktail party conversations were relayed where Kellyanne Conway, then working for Ted Cruz, said Trump had no chance of winning, and Trump’s initial campaign manager Roger Stone, who had quit, couldn’t share any information because he had signed a non-disparagement agreement.

However, there were notable exceptions. Months earlier Professor Sonnenfeld had written that many Americans are attracted to bravado and conspicuous consumption, and an experienced D.C. journalist said long in advance that he would not be surprised if Trump were to win. Reflecting on their feelings towards the election’s outcome, 39% feel positively and 58% feel negatively, with 39% feeling very negatively.

What are your overall feelings towards the outcome of the Presidential election?

A. Very positive
B. Somewhat positive
C. No effect
D. Somewhat negative
E. Very negative

One attendee, who has met with Trump, expressed concern that Trump is “not plugged into history.” This individual had thought that Trump’s outrageous statements would disqualify him. He had also shown a Trump transcript to a psychiatrist who concluded...
that Trump has narcissistic personality disorder. Another psychiatrist in attendance described Trump as a narcissist with sociopathic elements.

However, a former government official who has met with Trump termed him as “reasonable in small groups,” and suggested discounting his “flamboyant statements.” This former official observed, “When you put him on stage, he is an entertainer with a shtick.”

**Among U.S. allies there is great anxiety and uncertainty about Trump’s election.**

A journalist who has spoken with global leaders said that, originally, the world loved President Obama. However, as time has passed, many countries and leaders have grown to hate him, believing that he has turned his back on them. Another journalist relayed a comment from a former prime minister who said that Obama is smart and likeable, but no one is afraid of Obama or of the U.S. under Obama’s leadership. At this moment, the United States is far from universally loved.

Now, as Obama transitions to Trump, the key question is, “Who is Trump?” Some CELI participants characterized Trump as a bombastic ad hoc dealmaker, who makes off-the-cuff remarks. A former government official asserted that effective foreign policy is not made through knee-jerk tweets or one-off deals; it is grounded in a core strategy, which is currently lacking.

**“Foreign leaders are worried about Trump. . . . Allies need to know where the United States stands.”**

Advice to foreign governments at this moment of great uncertainty includes: get your own house in order, particularly in Europe where a velvet Brexit divorce is far better than a violent divorce; come together as allies; determine two to three priorities it is important to communicate to and hear from the new President and administration; and make the case for trade and other priorities.

**There is great concern that America’s important geopolitical relationships will deteriorate.**

The majority of participants (69%) believe the presidential election has done real damage to America’s global image.

Do you feel that this past Presidential election has done real damage to our country’s global image?

- A. Yes
- B. No
- C. Maybe

69% 38% 5%

**“The stature of the U.S. has been frayed.”**

— Former U.S. diplomat

About 41% of participants expect Trump’s election to improve US-UK relations, compared to only 34% who expect relations with the UK to deteriorate (25% expect no effect). However, participants overwhelmingly believe that U.S. relations will deteriorate with the EU (67%), Mexico (81%), and China (86%). While only 34% believe that Trump was wrong to take the call from Taiwan’s president, and several participants also found it acceptable to question the One China policy, Trump’s follow-up actions after the call were generally viewed as a mistake.

How will Trump’s election impact US-China relations?

- A. Improve
- B. Deteriorate
- C. No effect

80% 11% 3%
Also of concern to many is America’s future relationship with Russia.

Among CELI participants, 65% believe that Russia intervened in the U.S. presidential election. Despite Russia’s intervention, 73% expect improvement in the U.S.-Russia relationship based on Trump’s favorable behavior toward Russia.

How will Trump’s election impact US-Russia relations?

A. Improve
B. Deteriorate
C. No effect

It was mentioned that Obama and Secretary of State John Kerry wanted to give Russia a chance and attempted to forge a more positive relationship, which followed George W. Bush looking into Putin’s eyes and sensing the soul of a trustworthy person. But CELI participants from both parties emphasized that Putin has been very aggressive in the U.S. and Europe. Top U.S. military leaders have denounced Russia, and leading Republican thinkers at this Summit see Russia as a major concern, particularly related to Turkey and the Middle East.

“We need to take seriously Russia’s behavior.”

An academic offered a contrary perspective, viewing this as a moment for U.S. leaders to revisit America’s alliances. With three major rivals—China, Russia, and Iran—increasingly aligning with each other, it may be appropriate for the United States to avoid demonizing Russia and to consider some type of a mutually beneficial alliance that would split this group of rivals. Other CELI attendees didn’t share this view, with comments that Russia is undermining the EU and NATO, and that, “If you give Putin an ounce of freedom, he will take more.” One former diplomat suggested that the U.S. can work with Russia economically, but must be cautious politically and militarily—and that Russia should not be viewed as an ally or partner.

Unrigging the Markets: Defining Smart Free Trade and Free Competition

Overview
Participants are generally optimistic about capitalism following Donald Trump’s election, with the view that there will be less regulation, lower corporate taxes, greater ability to repatriate overseas cash, and more opportunities for small businesses. However, concerns are high about the implications for climate change and free trade. Business leaders generally believe NAFTA has been beneficial and support TPP, which was now declared dead. Worry is high that free trade will diminish, with significant adverse effects to businesses and the country.

There is also worry about being targeted by a Trump Twitter attack. Strategies for dealing include ignoring it, taking Trump on (which is not advised), providing facts behind the scenes, and being proactive in sending positive messages to preempt a Trump attack.

Context
Participants assessed the impact of Trump’s election on trade and the business climate.

Key Takeaways
Many believe Trump’s election will lead to a more favorable environment for business.

Participants are hopeful the Trump administration will take steps favorable to business, like reducing regulation, lowering tax rates, and creating a better environment for repatriating overseas cash.

Almost 95% of participants believe that under Trump the corporate tax rate will decline and about 90% expect a more positive effect on repatriating cash. Other positives include greater optimism in the small business community and a view among many in the working class that Trump understands them and will advocate for them.

What effect will the election of Donald Trump have on corporate tax rates in the US?

A. Very positive
B. Somewhat positive
C. No effect
D. Somewhat negative
E. Very negative

As regulation decreases, the majority of CELI attendees (65%) expect Trump’s election to have a negative effect on climate change, with 30% not expecting Trump’s election to have any effect on climate change and 4% expecting a positive effect.
Specific topics discussed related to trade included:

- **NAFTA.** Despite criticism of NAFTA, several participants believe NAFTA has benefited the United States. If the U.S. exited NAFTA, it wouldn’t help the U.S. auto industry; it would help the Germans and companies from other countries. Further, rhetoric about scrapping NAFTA has created uncertainty and hurt investment in Mexico. One participant suggested that as President, Trump should try to mend fences with Mexico.

- **Asia and TPP.** One participant remarked that “U.S. growth has been fueled by alliances in Asia,” and others commented that the U.S. has huge levels of trade with China and other Asian countries, and even though China’s growth rate is slowing, opportunities for further growth in China and throughout Asia remain significant. Sustaining and growing this level of trade benefits from stability and is hurt by instability.

  Compared to other countries, many in China enthusiastically supported Donald Trump, because they see him as a successful businessman. However, others in China are nervous about Trump, worrying that he will hurt trade and could put the U.S. on a path toward war with China. A China expert was clear that China does not want a military confrontation with the United States.

  The majority of participants favor TPP (the Trans-Pacific Partnership). They believe it would increase access to Asian markets and decrease barriers. If the United States does not participate in TPP, it is seen as hurting U.S. businesses and creating a vacuum that China will fill. Some urged the business community to do a better job of communicating this message.

There is significant concern about how Trump’s election will affect trade and business.

As leaders of global businesses, most CELI participants are strong supporters of global trade. As a leader of one global firm said, “95% of consumers are outside of the United States.” Trade is about having access to these consumers and being able to compete for their business. CELI participants are worried about how Trump’s election will affect trade, with 52% believing Trump will negatively affect trade and only 15% anticipating a positive effect; 32% expect no effect.

**What effect will the election of Donald Trump have on international trade with regards to your organization/industry?**

- A. Very positive
- B. Somewhat positive
- C. No effect
- D. Somewhat negative
- E. Very negative

**I worry about the U.S. losing influence in Asia.**

However, a former government official declared, “TPP is dead.” He said that continuing to focus on TPP is a waste of time. He advised business leaders to map out an alternative international growth agenda that does not rely on TPP or any trade agreements.

A person with knowledge of Chinese companies said the current environment has created greater uncertainty for leaders of global Chinese companies considering investing in the United States. Instead, Chinese companies are investing in places like Brazil.

**American brands and businesses.**

Panelists expressed concern that “brand America” will be deeply and negatively affected by the election. Others wondered if there will be backlash across the globe against traditional American brands. One branding expert cited a somewhat surprising global increase in the trust of American brands and businesses, but a major drop in the trust of CEOs.

**Business leaders worry about being targeted by Trump and hope to avoid the spotlight.**

Trump’s impulsive tweets and off-the-cuff media remarks, often with no basis in fact, are worrisome. Mayors relayed fears of immigrants in their cities who are worried about their future. As one mayor said, “People’s dreams are turning to nightmares.”

Business leaders fear being the subject of a Trump attack for something like possible hiring in a foreign country (e.g. Ford or Carrier) or for charging prices that Trump deems as too high (e.g. Boeing or pharmaceutical companies). Concern about which industry is most vulnerable to Trump’s attacks was somewhat evenly distributed between pharma (31%), high tech (23%), manufacturing (23%), and finance (13%).
The majority of participants (71%) don’t believe Trump is right to attack U.S. business leaders for outsourcing U.S. jobs, but 66% think it is okay for him to attack individual firms on prices they charge the government. Only about half (54%) think he is wrong to single out individual business leaders in his critiques.

Is Trump right to single out individual business leaders in his critiques?

A. Yes
B. No

While 60% of participants responded that they were not worried about their firm being attacked by Trump, there was still a general sense of apprehension and walking on eggshells. Approaches for dealing with a Trump attack include:

- **Ignore it.** Simply hope the tweetstorm fades away with no consequences. This is risky.
- **Take it on, headfirst.** It is risky to wage a public tweet war with Trump. T-Mobile CEO John Legere directly engaged in a battle with Trump, largely over their hair.

- **Provide facts, behind the scenes.** After Trump’s tweets about the cost of a new Air Force One, as well as comments about the F-35, the Aerospace Industries Association (AIA) responded by providing the facts, quietly, outside of the limelight.
- **Be proactive.** To preempt critiques, IBM publicized a note to the President-elect about IBM activities to create jobs.

A former Congressman called on the business community not to keep quiet, but to confront false information with the truth.

General comments about dealing with Trump include:

**Dealing with The Donald**

1. Ok, he won. Don’t re-litigate the election, despite business community expectations.
2. Do not counter threats with threat.
3. Rely on your own voice — not surrogates, like trade associations.
4. Drop the economic dogma/market slogan — he is a pragmatist, not a theorist.
Maverick in Leadership Award
John Legere, President & CEO, T-Mobile USA

PRESENTED BY
Alan J. Patricof, Founder & Managing Director, Greycroft Partners
Arianna Huffington, Founder, The Huffington Post; Founder & CEO, Thrive Global
Brad Katsuyama, Founder, President & CEO, IEX

T-Mobile USA CEO John Legere was recognized by other business mavericks as a revolutionary, a risk taker, and a true disrupter. He has been a maverick in the mobile phone space by injecting passion and guerrilla tactics into a sleepy industry while taking on entrenched incumbents.

Legere sees around corners, inspires loyalty among employees, and has redefined what a CEO looks like and how a CEO behaves. His maverick personality – and business savvy – is epitomized by the un-carrier manifesto he created to lay out what T-Mobile stands for. Beyond T-Mobile, Legere inspires entrepreneurs everywhere to think and act differently.
Sparking Needed Disruption in Infrastructure & Innovation

Overview

Both business and government leaders agree on the need to upgrade and modernize America’s crumbling infrastructure. The question is not whether to improve the infrastructure, but how to pay for it. Mayors strongly prefer that funding be provided and projects be executed at the local level.

Infrastructure is just one area where disruption is needed. Disruption is needed—and is occurring—in science and technology, and in organizational structures and cultures. These innovations are bringing about dramatic changes in how companies operate and how people live and work. But there are enormous risks that must be dealt with. Among them: the risk that automation technologies will eliminate hundreds of millions of jobs and the risk that personal data collected by innovative devices may not be kept private and secure. The potential of disruptive innovations are enormous; the ripple effects are scary and unanswered questions linger.

Context

Participants discussed the need for infrastructure modernization and how to pay for and execute it, along with different types of disruptive innovations.

Key Takeaways

There is general agreement: the U.S. has been underinvesting in infrastructure.

America is suffering from a huge infrastructure gap, in that infrastructure needs far outpace levels of spending. The U.S. spends 2.5% of GDP on infrastructure compared to the EU, which spends 5% of GDP on infrastructure and much less on defense. Both business and labor agree that more spending on infrastructure is necessary.

The key question is how to fund and execute infrastructure.

While a transportation bill recently passed with bipartisan support, participants still feel that much more infrastructure spending is required. Comments about funding and execution included:

- Previous funds intended for infrastructure haven’t been well spent. Participants complained that funds from the 2008 stimulus package that were intended for infrastructure were wasted. One participant asked, “What happened to the last money for infrastructure?”
Disruption in innovation is occurring in all industries—often with serious tradeoffs.

Every industry is being disrupted by innovation, with potential serious consequences for society.

• **Data-driven innovation.** New types of innovative devices and analytics have the potential to affect and steer all aspects of daily life. But the collection and sharing of data raises serious concerns about privacy and security. A Silicon Valley leader sees the dilemma facing high-tech companies as needing to constantly innovate while simultaneously assuring that information remains secure and private. Part of the solution is greater transparency about what data is collected and how it is used. Also, individuals need personal control over their data, to decide who can access it and be able to see who does access it.

• **Scientific and technological innovation.** Today there are three billion people online, but within five years, there may be another three billion people who are online and connected. When everyone is connected, enormous changes will occur. At the same time, the focus of many technologies is shifting from developing software to more scientific and technological innovation, including automation, artificial intelligence, and nanotechnology. The pace of scientific innovation is astounding and the impact will be staggering. One participant predicted that up to 85% of the jobs in the developing world are at risk for being automated. Labor-intensive jobs like clothing assembly have moved from developed countries to lower-wage developing markets. But automation means that many jobs will be replaced by technology. He believes that hundreds of millions of jobs could be eliminated within a few years. The example was shared of Foxconn, a major Asian electronics contract manufacturing company that believes it can replace one million workers with automation within three years—and has already begun.

At one time, 86% of Americans worked in agriculture. Due to technological advances, today only 1% of the population is employed in agriculture. But that transition took many years, providing individuals and society time to adapt. Change from automation will happen very quickly, which is of enormous concern.

• **Structural innovation.** Google’s founders wanted to create an organizational structure and culture that yielded the type of company they would want to work for. They wanted to create a startup environment that attracted entrepreneurs, provided a good home for them, and helped them succeed. They also wanted to create a structure that enabled innovative startups to rapidly conceive ideas, test them, and scale.

Google’s founders studied multiple structural models, including conglomerates like GE and Westinghouse, incubators, VC firms, accelerators, and innovation labs. None had the structure they wanted. In creating Alphabet, Google’s founders formed an innovative structure to create a startup environment, attract entrepreneurs, and give them the freedom to innovate in small teams, with the resources to scale innovations. With this structure Alphabet is able to take a longer time horizon than other types of structures and leverage the company’s management talent, assets, and capabilities. In creating this structure, Alphabet isn’t limited to immediate and obvious adjacencies, but may pursue opportunities based on knowledge and learning gained in one area that is applicable elsewhere.

• **Cultural innovation.** Following blockage of the ATT and T-Mobile merger, John Legere became CEO of T-Mobile. He was convinced the only way to thrive in this cutthroat industry was through cultural and brand disruption. Legere transformed T-Mobile’s culture into that of the rule-breaking un-carrier. He has broken industry norms and created an attitude of rebellion, irreverence, and passion for customers. In leading this revolution he has visited all 18 of the company’s call centers five times—creating passion and loyalty among the company’s employees—has attracted 3.5 million Twitter followers, and has doubled the company’s base of customers to 70 million.

• **Infrastructure innovation.** Government leaders are aware of the consequences for society. One example is the Investment Innovation Act, which allocated $200 billion in infrastructure spending. This includes passage of a regressive consumption tax in Los Angeles to improve roads, supported by about 70% of voters.

• An infrastructure-related tax on the repatriation of overseas corporate cash, as part of corporate tax reform, is one idea being floated to fund infrastructure.

• While infrastructure projects have the potential to boost employment, there may not be adequate labor to staff these projects. One participant said that 44% of the costs of infrastructure projects are for labor and that the types of infrastructure projects being discussed could create six million jobs. However, a CEO from the home building sector said there is a labor shortage in industries requiring hard physical labor, as there is an aversion in America to hard labor. Infrastructure projects will require immigrant labor and a guest worker program.

• Government projects require better metrics and accountability. One high-tech entrepreneur argued that instead of just spending money on infrastructure, money should be spent on the best solutions to problems. For example, a problem of getting from point A to point B in the shortest amount of time might be solved by building new roads, but a better solution may be new traffic light technology and sensors to make the existing infrastructure operate more efficiently. This requires a different mindset of solutions, metrics, accountability, and rewards.

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Overview

The health care industry has taken a reputational hit as some companies have tried to maximize profits by raising prices—at times to exorbitant levels—instead of investing in meaningful scientific innovation. The pharmaceutical industry in particular needs to take steps to restore trust. This includes investing in innovations that truly make a difference, demonstrating drugs’ effectiveness, proving value, and implementing pricing models where compensation is based on value and outcomes, not volume.

Context

Participants discussed the challenges in the health care sector, particularly challenges for pharmaceutical companies that have eroded trust.

Key Takeaways

The pharmaceutical industry has incurred reputational damage, much of it self-inflicted.

CELI participants ranked pharmaceuticals as the industry most vulnerable to Trump’s attacks, driven by repeated Trump statements about the need to “bring down drug costs.”

This is a startling turnaround for the pharmaceutical industry, which previously had the strongest reputation among all U.S. industries. One industry investor stated that the industry “has made some mistakes,” and the CEO of a pharmaceutical company acknowledged that “there has been little innovation by big pharma.”

To continue to fuel profits amid lack of innovation, companies have raised prices, often significantly. Examples include Mylan’s price increases for EpiPen and Valeant’s well-publicized price increases for multiple drugs (this was under previous leadership, not current CEO Joe Papa). One participant also cited the CEO of one of the world’s largest drug companies, who claimed that the company prices based on value. But the skeptical CELI participant observed that every six months this company raises its prices by 10% and wondered, “Did the value increase by ten percent?”

Also damaging to the industry have been the difficulties of once high-flying and controversial blood-testing startup Theranos. The company promised disruptive innovation, but after failing to deliver the promised results, and even causing some harm, it has imploded, driven in part by a courageous whistleblower.

The pharmaceutical industry needs to earn back trust.

One pharmaceutical CEO argued that pharmaceuticals are efficient and cost effective for a host of different diseases. Another CEO stated that drugs can provide real answers, based on science.

The model for the industry has been to invest in research and development, which often takes years, is risky, and often doesn't pan out. One pharma CEO highlighted the difficult of developing a drug by explaining that it took his company 25 years to generate more money from product sales than from investors.

When a scientific development finally does result in a new drug, that drug can be protected through patents, and pricing needs to be structured to provide good returns. Such a model is needed in order to encourage and incentivize innovation and reward those who invested in risky R&D. That doesn’t mean price gouging; it means pricing that encourages and rewards true innovations.

Important regulatory changes to encourage health care innovation include:

- Assessing drugs’ effectiveness. A drug company CEO criticized a candidate to head the FDA who said the role of the FDA should be merely to determine if drugs are “just safe.” This CEO strongly disagreed, wanting approval to be based on a higher standard. Just being safe isn’t good enough; to be approved a drug should be proven to be effective.
• **Having market mechanisms that reward value.** Historically health care has been driven by volume and price, with no market mechanisms for payment based on value. The Affordable Care Act and efforts of commercial insurers are changing that, with payment for some services increasingly based on value. The result is that providers may look at different treatment options (including drugs or investment in specific services) to prevent hospitalizations and/or reduce the total costs of care.

A former pharma CEO commented that defending the drug industry doesn’t resonate with the public. What people really care about is access to drugs when they need them and affordability. Pharma CEOs agreed that if the industry remains focused on the mission of making a difference in patients’ lives and developing drugs that make a difference, there will be a market. Drug company leaders need to focus on people, not profits, with knowledge that medicines that help people will produce profits. Leaders need a long-term perspective and the courage to avoid the short-term noise.
Catching the Customer Disruptions

Overview

As customer habits and tastes change, those business leaders and entrepreneurs that can see around corners and create new offerings that appeal to customers (both consumers and businesses) are positioned to succeed. This includes changes in the content that people consume and how they consume it, evolving interests in healthier lives with lower stress and better sleep, and entirely new types of platforms, like Uber and Airbnb, that fundamentally change how people buy and sell transportation and hotel rooms, as well as other types of services.

Those who are succeeding in bringing new disruptions to market have a deep understanding of customers’ changing habits and preferences and of the capabilities of technology. They are bold visionaries, leaders, and risk takers.

Context

Entrepreneurs are fueling disruption by identifying changing customer tastes and launching new products and services that serve these new evolving needs. These include disruptions in content, in health-related products and services, and in platforms that connect buyers and sellers in new ways.

Key Takeaways

Disruption occurs by understanding and appealing to customers’ changing tastes.

Disruptions take place by understanding what customers want and need, and using imagination to deliver in entirely new and captivating ways. Areas of innovation driven by imaginative ways to satisfy customer needs include:

- **Content.** As a cable television pioneer, Kay Kopolovitz realized that technology would enable people to consume information in entirely new ways. She saw enormous interest in and opportunity for more sports on television, leading her to partner with the NBA.

  - David Stern saw a similar opportunity, with six billion people around the planet being able to watch basketball games on different devices, through different platforms, like Facebook Live and Twitter. Stern continues to see a voracious appetite for sports programming as well as other types of original programming, which is why companies like Amazon, Hulu, and Netflix are creating their own original content.

- **Health.** Arianna Huffington’s new company Thrive Global creates content, provides products, and offers training and workshops focused on health, wellbeing, sleep, and productivity.

  - Hain Celestial Group is also focused on health, through simple, pure teas, juices, and food products. CEO Irwin Simon says that consumers are becoming more aware that food companies put many

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A professor of entrepreneurship noted that over the past 10 years corporate profits have been strong while many entrepreneurs have enjoyed tremendous success. However, many of the disruptive innovations that have taken hold are putting tremendous pressure on less skilled employees.

• **Platforms.** Gig economy platforms like Uber and Airbnb enable individuals with skills and excess capacity to sell services to those with discrete short-term needs. These platforms are addressing consumer needs, but have a tradeoff in that they are disrupting traditional employer/employee relationships with low-value transactional relationships, which is changing workplace dynamics.

Vivek Sankaran, President & COO, Frito-Lay North America

Matthew S. Levatich, President & CEO, Harley-Davidson Inc.

chemicals that aren’t healthy into food. Food is the cure to what ails many people, providing a tremendous growth opportunity for health food products.
Legend in Leadership Award
Terry Lundgren, Chairman & CEO, Macy’s Inc.

Legend in Leadership Award recipient Terry Lundgren, Macy’s Chairman and CEO, was recognized as a true merchant who worked his way up through every job in retail. He has been a great leader in creating the first upscale department store spanning the United States, a savvy dealmaker, and a trusted partner.

In transforming Macy’s into an omnichannel company, Lundgren has shown vision and guts, taken risks, been decisive, innovated, and been a mentor to younger leaders. Lundgren was described as optimistic and humble, with a zealous focus on follow-up and execution.

Lundgren has also been a committed leader in the community. He was described as “the very definition of a leader.”