EXECUTIVE SUMMARY

Yale School of Management

CEO Caucus

How We’ll Remember November:
The Business Impact of Political Disruption

Washington, DC | September 12, 2016

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How We’ll Remember November: The Business Impact of Political Disruption

Overview

Business and political leaders see an emotional and uninformed electorate in desire of change. Even as the economy has slowly recovered following the great recession, many people have not participated in the recovery. There is anxiety, anger, and mistrust of elites—including politicians and business leaders. Long-held beliefs concerning the benefits of trade are being called into question. These factors, along with anti-immigrant sentiments, drove Brexit and could affect the upcoming U.S. election.

While business has historically been a voice of reason and moderation, in this emotional, polarized climate, business leaders are finding it difficult to have their voices heard, despite significant spending on lobbying. Some are electing to keep their heads down to avoid controversy, while others are selectively using the bully pulpit to take the lead on particular issues, such as diversity or sustainability.

Context

September 12, 2016 was the 85th gathering of the Yale School of Management’s Chief Executive Leadership Institute. This Caucus brought together business leaders (such as David Abney, CEO of UPS, Brian Moynihan, CEO of Bank of America, Roger Crandall, CEO of MassMutual, Terry Lundgren, CEO of Macy’s, and Richard Edelman, CEO of Edelman), current and former political leaders (such as Congressmen Jim Cooper and John Yarmuth, and Jason Furman, the Chairman of the Council of Economic Advisors), and other leading economic and political thinkers including Elaine Chao, Stapleton Roy, Jim Woolsey, Bob Hormats, Bob Woodward, and Grover Norquist.

Participants discussed the business impact of political disruption, focusing on the economic echoes of Brexit and the decision of CEOs to use the bully pulpit or evade crossfire. Lockheed Martin chair and CEO Marillyn A. Hewson was presented the Legend in Leadership Award. Some of the key themes from this Caucus are summarized below.

Key Themes

The impact of Brexit is unclear, but the potential implications are significant.

In real-time polling of CELI Caucus participants, 64% responded that fears of the impact of Brexit were overstated, and the majority of participants believe that Brexit will have no economic or political effect in the United States.

<table>
<thead>
<tr>
<th>Effect of Brexit on:</th>
<th>Positive effect</th>
<th>Negative effect</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECONOMIC climate in the U.S.</td>
<td>8%</td>
<td>40%</td>
<td>52%</td>
</tr>
<tr>
<td>POLITICAL climate in the U.S.</td>
<td>12%</td>
<td>33%</td>
<td>56%</td>
</tr>
</tbody>
</table>

However, in discussing Brexit, business and political leaders noted significant potential implications.

Reasons for Brexit

For those in the U.K. who voted for Brexit, anti-immigration sentiment was cited as the primary driver, along with a perceived loss of national sovereignty. These same sentiments exist in the U.S. and are being stoked.

“It was very emotional in Britain. There are parallels to the U.S.”

Implications for the U.S. Election

While some were quick to dismiss Brexit as having no bearing on the U.S. election, others saw similarities in a highly emotional and somewhat uninformed electorate. Much of the population in the U.K. distrusts government and business elites, and didn’t trust dire predictions about Brexit espoused by the elites. In fact, some people in the U.K. intentionally took contrary positions to those articulated by government leaders. A similar distrust of business and government elites, as well as growing nationalism, exists in the United States. As in the U.K., many in the U.S. have not seen their lives improve since the great recession, are angry, and want change. Among Caucus participants, 87% see parallels between Brexit and U.S. anti-trade sentiment.

“People are saying that their life has not gotten better since the recession.”

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But many citizens don’t think they have benefitted from trade and free trade has now become associated (incorrectly in the view of many) with job loss. Because trade has become such a hot-button issue, TPP’s fate is uncertain. The president, his advisors, and many business leaders favor TPP, but the presidential candidates and much of the country are opposed to it.

“Trade discussions are not new, but the attitude of the country has changed because people don’t think they benefit.”

• Blaming trade for job loss and wage stagnation is missing the bigger issue, which is the technology transformation that is underway. It is easy and simplistic to “blame the foreigners” for America’s economic woes. But the reality is more complex. Entire industries are being transformed because of technology, which hinders new job creation. The technology revolution is happening and is inevitable. Instead of lamenting this transformation, America needs to focus on education and on developing the technical expertise that is required.

“The issue is technology, not trade. But it’s hard to blame technology; it is easy to blame foreigners.”

• A few participants offered very specific reasons they will vote for the Republican candidate, while not supporting or endorsing Donald Trump. Reasons given include:
  − Support for Trump’s position on tax reform.
  − Support for Trump’s desire to increase defense spending.
  − The view that the Republican Party is “a big tent.”
  − The view that America needs better trade agreements.
  − Belief that Hillary Clinton’s lack of caution with her emails and sensitive information calls into question her ability to be the president.

“International trade is an IQ test. It is disappointing the number of people who don’t pass it.”

Though some election themes are constant, every election is unique.

A leading political analyst who is a veteran of many elections observed that every election has a reason. The underlying reason of this election may turn out to be immigration or terrorism or trade or inequity or racism—it is not yet clear. However, this analyst cautioned the political parties and the candidates not to take an elitist attitude and not to underestimate the intelligence of the electorate. Voters are not fools. The population is educated, reads a great deal, and doesn’t like to be insulted. Simply terming the electorate as “emotional” fails to understand people’s fears and anxieties.

Other comments about the upcoming election include:

• Trade is not a new election issue, though it may be more significant in this election. Since World War II, most political and business leaders were internationalists who saw trade as a positive.

Implications for the U.S. Economy

Thus far, the immediate economic impact of Brexit on most U.S. companies has been minimal, not catastrophic as some predicted. There has not been a sudden panic or an immediate impact.

A leading economist noted that changes such as Brexit are typically incremental and occur over time.

However, if companies have a great deal of business in the U.K., are engaged in trade between the U.K. and the U.S., or have a hub in the U.K. as a base to support their business in the European Union, there is a great deal of uncertainty and concern over the longer-term impact. Most companies that are affected believe that the medium and longer-term impact will be negative, and companies in multiple industries will need to make major changes in their structures and supply chains over the next 2-4 years.

“Companies that treat the U.K. as a base for the E.U. are very worried. They will need to make big changes in the next few years and Brexit will have a big impact.”

Mark Penn, President, Stagwell Group; Former Clinton Campaign Strategist

Christopher Dodd, Chair & CEO, MPAA; U.S. Senator, Connecticut (1981-2001)

Grover Norquist, President, Americans for Tax Reform

R. James Woolsey, Director (1993-1995), Central Intelligence, and Douglas H. Ginsburg, Senior Judge, District of Columbia Circuit; U.S. Court of Appeals

David P. Abney, Chairman & CEO, UPS

Jason Furman, 28th Chairman, Council of Economic Advisors, and Elaine Chao, 25th U.S. Secretary of Labor (2001-2009)

David F. Abney, Chairman & CEO, UPS
“Business people have their heads down, but business leaders have to engage and educate.”

However, while some believe that a CEO’s sole focus should be on maximizing shareholder value, others see a critical role for business leaders in:

• Serving as statesmen. Even in a contentious political climate, business leaders can continue to play the role of the “adults in the room,” advocating reasonable, moderate positions in America’s long-term best interests.

• Educating the public about the core benefits of capitalism. No one is educating the public on the many benefits of business in providing jobs and opportunities, or defending the basic tenets of the capitalistic system.

• Driving important social changes. Businesses have played a role in driving changes, such as forcing widespread changes in supply chain practices, refusing to participate in corrupt practices internationally, and prioritizing topics such as diversity, sustainability, and LGBT rights. An expert who looks at social trends sees business leaders taking positions on some issues that affect employees and customers, such as gay rights.

A CEO of a large global company described how his company had a fully integrated organization in Mississippi in the early 1970s. The company didn’t care if the local culture was uncomfortable with integration; the company took a strong position and drove this change. He said the company is willing to take strong positions on things related to the business, but tries not to get into political issues.

“A leader has a responsibility to state a position.”

Even if the voice of business is not being heard by policymakers, business leaders can still drive positive change.

A recent Washington Post article, “How Big Business Lost Washington,” asserted that after decades of playing a centrist, moderate role, and even though business spends more than $3 billion per year on lobbying, the impact of the business community on Washington has been greatly diminished. Reasons include:

• A focus by businesses and business leaders on narrow, specific issues that apply only to their business.

• Lack of alignment among the business community on macro issues.

• A highly polarized environment in Washington, with politicians who listen to conservative and liberal idealists and zealots as opposed to business leaders.

• Lack of respect and trust of business leaders, who are often seen as motivated by short-term profits, bonuses, and shareholder interests.

• An unwillingness among business leaders to take public positions on controversial issues.

In this environment, some business leaders are devoting their energy elsewhere, not seeing benefits to their company or positive returns in entering the political fray.

• Participants with knowledge of the mindset of China’s leaders and the Chinese population said the Chinese are not surprised by anti-Chinese rhetoric in the U.S. election. The Chinese see Trump as inciting “uninformed passion” in the American electorate. Many in China prefer that Trump win the election. Hillary Clinton has a track record and is seen as being tough on China. In contrast, they see Trump as a business person who likes to negotiate and do deals. They think he is a fool and can easily be bested in a negotiation.

• One longtime analyst of politics and America sees pervasive impatience permeating society; he termed “impatience” as the theme of the moment. A former Congressman disagreed, seeing ignorance, uninformed passion, and a lack of political courage. Another former Congressman said the key theme of the moment is “change.” Americans are rabid for change, even though they don’t know or care what the change is.

“About 70% of the American people want change. They don’t care what the change is.”

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• Creating the workforce of the future.
Because business leaders can see the technological changes taking place and see the skills that will be required, businesses must play a leading role in helping educate the next generation of technologically skilled workers.

“We have to prepare the next generation.”

Legend in Leadership Award
Marillyn A. Hewson, Chairman, President & CEO, Lockheed Martin Corporation

Marillyn A. Hewson, Chairman, President, and CEO of Lockheed Martin, was recognized for running one of the largest, most important, most complicated businesses in the world. Hewson, who started as an industrial engineer and has worked in many roles at Lockheed Martin, was recognized as a leader who is:

• Decisive and willing to take a stand.
• Trustworthy in doing what she says.
• Compassionate in treating others how they want to be treated.
• Innovative in thinking beyond today’s success to tomorrow’s future.

She is driven, effective, and is a person with tremendous character. In addition to her involvement in business, she has been a civic leader and serves as a role model for other women in the high tech industry.

In accepting the Legend in Leadership Award, Marillyn stated that as a leader she has focused on constantly touching employees’ hearts and minds.