EXECUTIVE SUMMARY

Yale SCHOOL OF MANAGEMENT

CEO SUMMIT

The Entrepreneurial Spirit & the Global Rules of Engagement:

Fairness, Freedom, and Foresight

Waldorf Astoria, New York | December 18 - 19, 2013

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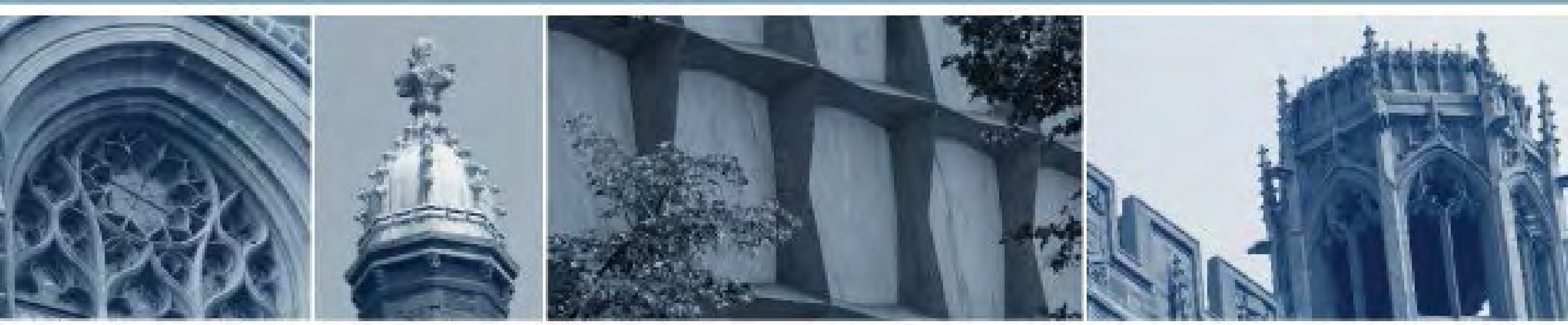

Yale SCHOOL OF MANAGEMENT

Chief Executive Leadership Institute

The Entrepreneurial Spirit & the Global Rules of Engagement: Fairness, Freedom, and Foresight

A few of the prominent participants included:

Jeffrey L. Bewkes, Chairman & CEO, Time Warner Inc.
Richard W. Edelman, President & CEO, Edelman
Mark Fields, Chief Operating Officer, Ford Motor Company
Rick Goings, Chairman & CEO, Tupperware Brands
Jeffrey R. Immelt, Chairman & CEO, GE
Thomas A. James, Chairman, Raymond James Financial
Robert J. Kueppers, Senior Partner, Deloitte LLP
Ellen J. Kullman, Chair & CEO, DuPont
Steve Miller, Chairman, AIG
Brian T. Moynihan, CEO, Bank of America Corporation
The Honorable Kevin Rudd, 26th Prime Minister, Commonwealth of Australia
Stephen A. Schwarzman, Chairman & CEO, The Blackstone Group
David J. Stern, Commissioner, National Basketball Association
Lynn Tilton, CEO, Patriarch Partners

China's actions will have major ripple effects for the entire world.

As China becomes the world's largest economy, the country's actions will affect global politics and economics.

Politics

The relatively new General Secretary of China's Communist Party, Xi Jinping, was described as a communist idealist, who in a short period of time has engaged in an extraordinary concentration of personal political power. He is perhaps China's most powerful individual leader since Deng Xiaoping, and drew comparisons to Vladimir Putin.

What is not known are China's geopolitical aspirations. Panelists described China as having an insatiable demand for natural resources, including energy and water. These demands are causing China to assert itself throughout Asia and in Africa. Some Summit participants see China as exerting more soft power, building its military, pursuing hegemony in Asia, replicating America's Monroe Doctrine in Asia, and fueling nationalism, particularly through symbolic actions related to Japan.

Others see China as having limited geopolitical aspirations, at least in the short term. They don't believe that China wants to challenge or replace the U.S. as a global power, and argued that China wants global stability as it pursues its own domestic agenda.

A common theme was that U.S. political leaders don't have a good understanding of China and its strategic goals. Many U.S. leaders mistakenly favor policies attempting to contain China. While containment is unrealistic, the U.S. is pivoting military resources toward Asia and is rebalancing, with greater focus on economic relationships, such as the Trans-Pacific Partnership (TPP).

Economics

China is clearly focused on transitioning from a savings-based, export-driven economy to a more domestically focused consumption-driven economy. This transition involves less savings (by individuals and state-owned enterprises), more domestic consumption by the growing middle class, continuing urbanization, greater government provision of a safety net, and growth of a services economy. (Among the reasons for Xi Jinping's consolidation of power is to concentrate economic decision making and to be able to persevere when inevitable obstacles emerge.)

The Honorable Kevin Rudd, 26th Prime Minister, Commonwealth of Australia

Skeptics argued that China has been attempting this economic transition for at least a decade, without success thus far. The economy—which is slowing—is investment driven and based on debt, and residential real estate plays an enormous role. Others say that this transition will take time, but it will occur.

A central question is what China's economic transition means for the United States. Essentially, China and the U.S. have been in a codependent relationship. China's economy has benefitted by exporting to the United States. The U.S. has benefitted from inexpensive products of decent quality and from China's continued purchasing of U.S.

government debt, which has kept interest rates low. But codependent relationships are not sustainable, and whichever party leaves such a relationship first will likely be better off. For the U.S. to leave this codependent relationship requires moving away from debt-based consumption and deficit spending; China has to move from savings to consumption-led growth.

Business leaders need to understand the populism in the United States.

A major theme is the wave of populism that persists in the U.S., which panelists don't expect to recede any time soon. The level of trust among the American public in corporations and CEOs remains incredibly low. One panelist observed that five years after the financial crisis, major financial institutions and corporate leaders are doing well, but small and mid-sized businesses are still struggling to get access to credit and 80% of the population has a relatively low level of economic activity.

Business leaders need to understand this context and the messages that they send need to fit within it. The public and employees are not interested in a self-promoting CEO who touts accomplishments. Messaging needs to be humble, about mission and purpose, about understanding and serving customers, and about helping consumers overcome their challenges and make their lives better.

The entrepreneurial spirit can exist in organizations of any size.

The conventional wisdom is that the entrepreneurial spirit is the domain of small startup companies, while large companies are slow and bureaucratic, and can't be entrepreneurial. But this doesn't have to be the case. This Summit was filled with stories of large companies that have transformed themselves through entrepreneurial activities. Apple, under Steve Jobs, was mentioned repeatedly as remaining highly entrepreneurial even as the company grew. Tupperware has transformed itself, with food storage products now accounting for only one-third of the company's revenues.

Among the key attributes mentioned of entrepreneurial organizations of any size were:

- **Believing in creative destruction.** Entrepreneurial organizations recognize that creative destruction is constantly occurring. To survive, organizations must focus on innovation and self-destruction, or they will be destroyed by others. One leading thinker observed that 20 years ago, few large companies prioritized innovation or seriously engaged in it, but today many large companies are incredibly innovative.
- **Having entrepreneurial leaders, who hire entrepreneurial people and create an entrepreneurial culture.** Entrepreneurial companies are led by innovative leaders who make entrepreneurial activities a priority. They hire creative entrepreneurs and empower them. They create cultures where risk taking is encouraged and not penalized—as long as there is accountability and lessons are learned when risks don't pan out. (This is very different from cultures that lack accountability, allow reckless risks, and don't act to restrict fraud.)

Mickey Drexler, Chairman & CEO, J. Crew Group

- **Focusing on customers.** A constant theme is that successful entrepreneurial activities are always based on a deep understanding of customers and customer needs. When companies successfully developed new products or entered new markets, they attributed their success to "understanding what customers needed."
- **Defining and focusing on what the company does best.** Entrepreneurial organizations go through a process of self-examination to understand and define the organization's own unique competencies. They then leverage these competencies and don't try to enter businesses or launch products outside of their sweet spot. When ventures or acquisitions fail, it is often because organizations don't stick to what they do best.

Brian T. Moynihan, CEO, Bank of America Corporation

Among the foremost roles of great leaders is the ability to drive change.

For organizations to survive and prosper—which is the exception, not the rule—they must be able to continuously change, evolve, and pivot. Enormous changes were described at companies including IBM, Pepsi, Snap-on, Ford, and DuPont. All of these companies, and others mentioned, have courageous leaders who:

- **Focused on the future.** The leaders of these companies realized that past accomplishments were no guarantee of future success. They focused on how underlying trends aligned with their company portfolios and organizational strengths. In focusing on the future, leaders made decisions about where to invest and where to divest. They reshaped their portfolios to position their companies for the future. They weren't paralyzed by fear and were not beholden to the past.

Mark Fields, Chief Operating Officer, Ford Motor Company

- **Retained their organization's values and legacy.** The leaders of these organizations saw the necessity to change their company's products, processes, and portfolio, while retaining their organization's core values and leveraging the legacy and brand.
- **Balanced the short and long term.** In fundamentally changing their organizations, these leaders focused on long-term trends and positioning. They made long-term strategic decisions, made long-term investments, and changed their organizations' cultures to ready their companies to compete over the long term. However, at the same time they understood the need to remain accountable for delivering on short-term goals. These leaders drove long-term change, while remaining accountable for short-term performance.

Ellen J. Kullman, Chair & CEO, DuPont

- **Built trust among all stakeholders.** For CEOs to drive change they must have employees, shareholders, and even customers and vendors who are willing to follow. In order to follow, these stakeholders must understand the vision and must have personal trust in the leader. Even in an era when public trust in corporate leaders is low, those who have successfully driven change have engendered trust, making the process of change possible.

Nowhere was this more true than this Summit's two Legend in Leadership Award honorees. David Stern, the commissioner of the National Basketball Association, has led his organization to become a global marketing juggernaut. The NBA has embraced all forms of digital media, has expanded to 215 countries, and has grown revenues by 30 times during his 30 years at the helm. Under Stern the NBA is impacting health and fitness, and is executing a well-developed succession plan.

David Stern, Commissioner, National Basketball Association and Jeffrey Bewkes, Chairman & CEO, Time Warner Inc.

DuPont, under Ellen Kullman, has reshaped and repositioned the company's portfolio by divesting commodity businesses and investing in new science-based businesses, while creating a more accountable culture. Once mainly a chemical business, DuPont is now an agricultural and food business.

These leaders reiterated the importance of monitoring macro trends, constantly changing, having a vision for the future, hiring great people, and constantly learning from other business leaders.

Ellen J. Kullman, Chair & CEO, DuPont and Jeffrey R. Immelt, Chairman & CEO, GE