Table of Contents

Key Themes

Leadership Trust Beyond Clichés: Limits of Human Judgment and Accountability

John H. Clippinger, CEO, ID3; Author, From Bitcoin to Burning Man and Beyond
Bill George, Professor, Harvard Business School; Former Chairman & CEO, Medtronic; Author, Discover Your True North
Patty Marx, Columnist, New Yorker; Author, Let’s Be Less Stupid
Jeffrey Pfeffer, Professor, Graduate School of Business, Stanford University; Author, Leadership BS

RESPONSES
Gregory Hayes, President & CEO, United Technologies Corporation
Steve Miller, President & CEO, International Automotive Components Group (IAC)
Nels Olson, Vice Chairman, Korn Ferry
J.P. Donlon, Editor-in-Chief, Chief Executive Magazine
Vincent Firth, Director, Monitor Deloitte and CEO Program, Deloitte Consulting LLP
Matthew J. Harrington, Global Chief Operating Officer, Edelman
Ronald A. Warren, Principal, LMAP

Trust Between Global Governments and Global Leaders

Kevin Rudd, 26th Prime Minister, Commonwealth of Australia

COMMENTS
Joseph B. Ucuzoglu, Chairman & CEO, Deloitte & Touche LLP
Terry J. Lundgren, Chairman & CEO, Macy’s, Inc.
Stephen A. Schwarzman, Chairman & CEO, The Blackstone Group
John D. Negroponte, Deputy Secretary (2007-2009), U.S. Department of State
Maurice R. Greenberg, Chairman & CEO, CV Starr & Co.; Founder, AIG
David Abney, CEO, UPS
Charles W. Goodyear IV, Former CEO, BHP Billiton
John F. Lundgren, Chairman & CEO, Stanley Black & Decker
R. James Woolsey, Director, Central Intelligence (1993-1995)
James S. Chanos, Managing Partner, Kynikos Associates
David A. Preiser, President, Houlihan Lokey
Michael F. Holland, Chairman, Holland & Company
Christopher K. Johnson, Chair, China Studies, CSIS; Former Head, China Desk, CIA
Richard W. Edelman, President & CEO, Edelman
Michael S. Burke, Chairman & CEO, AECOM
Steven Lipin, Senior Partner, Brunswick Group
XIANG Bing, Dean, Cheung Kong Graduate School of Business (CKGSB)
Donald A. Baer, Worldwide Chair & CEO, Burson-Marsteller
Jeffrey E. Garten, Professor, Yale School of Management

RESPONSES
Michael P. Ryan, Professor, Georgetown University
Michael J. Nyenhuis, President & CEO, AmeriCares
D. Quinn Mills, Professor Emeritus, Harvard Business School
Lally Weymouth, Senior Associate Editor, The Washington Post
Trusting the Economic System to Work for All

Paul A. Volcker, 12th Chairman, U.S. Federal Reserve System
Jed S. Rakoff, Judge, U.S. Southern District of New York
Douglas Ginsburg, Senior Judge, District of Columbia Circuit, U.S. Court of Appeals

COMMENTS
Jeffrey D. Sachs, Director, The Earth Institute, Columbia University
Roger W. Crandall, Chairman, President & CEO, MassMutual
Gregory J. Fleming, President, Wealth Management, Morgan Stanley
Timothy J. Mayopoulos, CEO, Fannie Mae
Elaine L. Chao, 24th U.S. Secretary of Labor (2001-2009)
William H. Donaldson, 27th Chairman, U.S. Securities & Exchange Commission
Stuart A. Miller, President & CEO, Lennar Corporation
Douglas C. Yearley Jr., CEO, Toll Brothers
Nicholas T. Pinchuk, Chairman & CEO, Snap-on Incorporated
Kenneth G. Langone, President & CEO, Invemed
Grover Norquist, President, Americans for Tax Reform
Edward A. Snyder, Dean, Yale School of Management
Anthony Scaramucci, Managing Partner, SkyBridge Capital
Barry M. Gosis, CEO, Newmark Grubb Knight Frank
Mark J. Penn, President & Managing Partner, The Stagwell Group
Robert Wolf, CEO, 32 Advisors; Former Chairman, UBS Investment Bank America
Gary P. Naftalis, Partner & Firm Co-Chair, Kramer Levin Naftalis & Frankel
Brad Katsuyama, President & CEO, IEX
Bruce Batkin, CEO, Terra Capital Partners
Steve Oland, President & CEO, Committee for Economic Development
Lynn Tilton, CEO, Patriarch Partners
Peter A. Georgescu, Chairman Emeritus, Young & Rubicam
Edward C. Forst, Former President & CEO, Cushman & Wakefield
Joelle Frank, Managing Partner, Joelle Frank, Wilkinson Brimmer Katcher
R. Cromwell Coulson, President & CEO, OTC Markets Group

RESPONSES
Bennett Stewart, Chairman & CEO, EVA Dimensions
Bethany McLean, Author, Shaky Ground: The Strange Saga of the U.S. Mortgage Giants
Steven Williams, Senior Vice President, PepsiCo

Are Political Candidates to be Trusted?

Byron Brown, Mayor, Buffalo, New York
Mick Cornett, Mayor, Oklahoma City, Oklahoma
Greg Fischer, Mayor, Louisville, Kentucky
Javier M. Gonzales, Mayor, Santa Fe, New Mexico
Jim Gray, Mayor, Lexington, Kentucky
Bill Peduto, Mayor, Pittsburgh, Pennsylvania
Paul Soglin, Mayor, Madison, Wisconsin
Beth Van Duyne, Mayor, Irving, Texas
Mark Stodola, Mayor, Little Rock, Arkansas
David R. Martin, Mayor, Stamford, Connecticut
Richard J. Berry, Mayor, Albuquerque, New Mexico

RESPONSES
Christopher Shays, Member of Congress (1987-2009), State of Connecticut
Joseph J. Lhota, Vice Dean & Chief of Staff, NYU Langone Medical Center
Ned Lamont, Democratic Candidate for U.S. Senate, State of Connecticut
Maxwell L. Anderson, Executive Director, New Cities Foundation
Murali Chandrashekar, Sauder School of Business, University of British Columbia
**Trusting Society to Master Its Technology**

Alan J. Patricof, Managing Director, Greycroft Partners  
Daniel J. McCarthy, President & CEO, Frontier Communications Corporation  
Thomas J. Quinlan, President & CEO, RR Donnelley & Sons

**COMMENTS**  
Adam Aron, President & CEO, AMC Entertainment Holdings  
John W. Jackson, Retired CEO, Celgene  
Frederick Frank, Chairman, Evolution Life Science Partners  
Edmund Lee, Managing Editor, re/code  
Joel Myers, President, AccuWeather  
Arvind Krishna, Senior Vice President & Director of Research, IBM  
Rakesh K. Loonkar, President, Transmit Security  
Robert G. Cross, Chairman, Revenue Analytics  
Mary C. Tanner, Vice Chairman, Evolution Life Science Partners  
Deepak Jeevankumar, Principal, General Catalyst Partners  
Harlan M. Krumholz, Professor of Medicine, Yale Medical School  
Raymond V. Gilmartin, President & CEO (1994-2005), Merck & Co.  
Elisabeth DeMarse, Chairman, President & CEO, TheStreet, Inc.  
Stephen C. Knight, F-Prime Capital Partners  
Stacy J. Kenworthy, Chairman & CEO, OptiGlobal Group  
Marc F. Adler, Chairman, Macquarium Intelligent Communications  
Vivek Wadhwa, Fellow, Stanford Law School

**RESPONSES**  
Christopher Mangum, Chairman, President & CEO, Servato  
Ankur Jain, CEO, Humin  
Steve Papa, Founder, Endeca  
Mark Rotenberg, Executive Director, Electronic Privacy Information Center  
Barry Nalebuff, Professor, Strategy, Yale School of Management  
Benn R. Konsynski, Professor, Goizueta Business School, Emory University  
Zack Cooper, Professor, Yale University

**Trusting that Consumers Get What They Expect**

Kenneth C. Frazier, Chairman & CEO, Merck & Co.  
Frank Blake, Retired Chairman & CEO, The Home Depot  
Joseph C. Papa, Chairman, President & CEO, Perrigo Company  
Matthew S. Levatich, President & CEO, Harley-Davidson, Inc.  
David J. Stern, Commissioner Emeritus, National Basketball Association  
Rick Goings, Chairman & CEO, Tupperware Brands Corporation  
Melanie Kusin, Vice Chairman, Korn Ferry  
Bill Goodwyn, CEO, Discovery Education  
Sanford R. Climan, President, Entertainment Media Ventures  
Kimberly W. Benston, President, Haverford College  
Rick Smilow, President & CEO, Institute of Culinary Education

**RESPONSES**  
John A. Quelch, Professor, Harvard Business School  
Ravi Dhar, Professor, Marketing, Yale School of Management  
Stephen A. Greyser, Professor Emeritus, Harvard Business School  
Rita Gunther McGrath, Professor, Columbia Business School  
Zoe Chance, Professor, Yale School of Management  
William P. Putsis, Professor, UNC at Chapel Hill

**Legend in Leadership Award:** Kenneth C. Frazier, Chairman & CEO, Merck & Co.

**PRESENTED BY**  
Frank Blake, Retired Chairman & CEO, The Home Depot  
Thomas H. Glocer, Founder & Managing Partner, Angelic Ventures; Former CEO, Thomson Reuters
Key Themes from December 2015 Summit

The 25th Anniversary Yale CEO Summit, led by Yale Professor Jeffrey Sonnenfeld, was held on December 16 and 17, 2015 at the Waldorf Astoria, New York. This Summit brought together business executives; government officials from the U.S. and internationally, including mayors of 11 U.S. cities; and leading academics, authors, and other thought leaders with the theme of “In Whom Do We Trust: Optimist Visionaries or Cynical Pragmatists?”

Sessions dealt with trust in business leaders, governments, and economic systems; trust in technology; and leadership trust beyond clichés. Topics discussed included the situation in China; the most important issues in the 2016 U.S. presidential election; dealing with major challenges including terrorism, income inequality, and climate change; and how companies are innovating in such a challenging environment. Kenneth Frazier, the Chairman and CEO of Merck & Co., was honored with the Legend in Leadership Award.

Trust is lacking in leaders, institutions, and countries.

The central question of this Summit was, “In whom do we trust?” At this moment, cynicism is high and levels of trust are low. The following comments from this Summit illustrate the lack of trust in leaders, institutions, and countries:

- **Trust is low in CEOs and politicians.** Richard Edelman shared data from the Edelman Trust Barometer showing low levels of public trust in CEOs, and even lower trust among politicians.

- **Financial markets are seen as rigged against small investors.** Among Summit participants—who are sophisticated and affluent—76% agree that “the financial markets are rigged against the small investor.” One participant said that the public understands and accepts a distribution of economic outcomes, but people are angered if they perceive that the rules of the game are unfair.

- **Business doesn’t trust government, and vice versa.** Business leaders see excessive and onerous regulation by government. But government sees business as driven to excess and unable to regulate itself, making regulation essential. Government leaders argued for the necessity of regulation and described how businesses contributed to making regulation complicated and onerous. An example shared: the five-line Volcker Rule was added to by 400 lobbyists representing specific interests, which resulted in a long, complicated regulation that businesses now complain about.

- **Investors lack trust in the Chinese government.** Among Summit participants, 90% do not believe the national income statistics that China publishes are accurate, with most believing they overstate the strength of China’s economy. There are also concerns about China’s legal system, which is seen as arbitrary and politically driven, as well as about corruption, a lack of transparency, and the lack of protection of intellectual property.

Solving the country and world’s greatest challenges requires collective action.

Much discussion focused on the challenges of income inequality in the U.S. and global climate change, as well as other issues including terrorism, economic growth, and education.

Regarding income inequality and climate change:

- **Income inequality is seen as a serious threat to societal stability.** Summit participants see income inequality as the third most important issue in the 2016 election, after terrorism and economic growth, and 87% see it as a large or medium threat to the U.S. social fabric. The problem is the extreme degree of inequality that exists. Today, 40% of Americans live on credit, another 20% have only $150 per month of disposable income, and another 20% have just $1,500 per month of disposable income. Lower-income segments of society have high dropout rates, use of drugs, and incarceration. Businesses that are maniacally focused on shareholders exacerbate the problem. While U.S. capitalists don’t want the government to get involved, the free enterprise system is not providing an adequate solution.

- **Climate change is a big deal for the entire world.** Economist Jeff Sachs declared that the Paris Agreement is “a big deal,” and 63% of Summit participants agreed that it was an important event. Sachs argued that the science behind climate change is well established, and that climate change is a first order serious issue. Even if the politicians in Washington, DC won’t focus on climate change, it doesn’t change the reality of the problem. He sees the need and opportunity to reallocate massive amounts of capital in creating a new energy system. Sachs claimed, “This will cut across all industries and will be the biggest shift of investment ever.”

Multiple Summit participants asserted that solving major problems such as income inequality and climate change can be done by the free enterprise system alone or by the government. Required is collective action that mobilizes all stakeholders.
One CEO argued that in recent years, America has lost a sense of moral responsibility among business leaders and a sense of collective responsibility where “we are collectively responsible for each other.” What is needed is more vision and more collective action, with business leaders playing a key role.

**In a sea of cynicism, pocket of optimism exist.**

The overall tone of this Summit was one of deep concern and enormous challenges. Yet amongst these challenges, several examples of optimism were expressed. Among them:

- **Progress at the local level.** While national politics is dominated by gridlock and ideologues, which erode public trust, local governments are led by trusted, apolitical, get-it-done, pragmatic mayors. The mayors in attendance build trusted, cooperative relationships in their communities at grassroots levels, and focus on topics that make a difference in people’s lives like public safety, improving education, and economic development.

- **Development of astounding technologies.** The types of information technologies and medical technologies on the horizon—and some of which already exist—are truly remarkable. Machines can automatically collect data, make predictions, and learn. Machines are becoming smarter, with more authority and decisions being delegated to them. Technology is also changing healthcare. This includes new biotech drugs with the potential to cure diseases, as well as the ability to analyze and splice genes, and enable cloning.

  These technologies—which raise concerns about privacy, data protection, and jobs—aren’t science fiction; they are reality, and many of them are already here. These technologies will be transformative, which is exciting. However, they will also be disruptive to businesses that don’t employ them.

- **Success in China.** Despite the lack of trust and transparency in China, and the caution that companies must exercise, the opportunities there abound. For example, while UPS has experienced challenges in China, it has developed a significant, rapidly growing business there. Leaders such as Hank Greenberg and Steve Schwarzman acknowledge that the environment for business is complex, but see great long-term potential in insurance and financial services.

- **Creation of an alternative trading system.** The perceived unfairness of the existing financial markets has created an opportunity for IEX to develop a new trading platform that provides a more level playing field. While the incumbents are putting up roadblocks, IEX is hopeful of providing a new trading system with a more level playing field, and has many supporters.

- **Lessons post-Tammany Hall.** The example was cited of New York City Mayor Fiorello La Guardia, who was elected after the Tammany Hall scandal when there was high skepticism and lack of trust. But La Guardia had vision, drove collective action, and led long-term investments in infrastructure and education, with enormous benefits to New York City. This example shows that with leadership, vision, and collective action, it is possible to overcome skepticism and address major social challenges.

**In this challenging context, a new type of leadership is required.**

A panel on leadership bemoaned that the leadership development industry and thousands of leadership books over the past 50 years have not produced better leaders. Only about 30% of employees are engaged and organizations are too slow to change. The panelists agreed that the leadership development industry is not working, partly because it focuses on style and media training, not teaching how to truly lead.

Former Medtronic CEO Bill George said that changes in the business context—with increased globalization, diversity, and more generations in the workforce—will take new kinds of leaders. George proclaimed that hierarchy and bureaucracy are dead. In flexible, decentralized organizations leaders will have to lead by being authentic, touching hearts and minds, demonstrating values, leading teams, and aligning their company’s strategy to its mission and values. Even with technology that can improve efficiency and automate some decisions, George argued that human leaders will always be needed who have intuition, judgment, and values.

Stanford professor and author Jeff Pfeffer doesn’t see any prescriptive formula for what leadership should be. And, Pfeffer emphasized the need for leaders to be able to adapt to what others around them need, as opposed to having a fixed core of authenticity, and to be able to transform themselves. Former AIG CEO Steve Miller argued that leaders need to engender trust and need to surround themselves with people they like and trust, and leaders need to be decisive, even with imperfect information.

Several participants suggested that building trust is not that hard. It comes from looking in the mirror and behaving based on “Sunday School values.”
Leadership Trust Beyond Clichés: Limits of Human Judgment and Accountability

Overview
Organizations are undergoing dramatic changes, driven by factors such as rapidly advancing technology and globalization. Companies are becoming more decentralized and less hierarchical. As these changes play out, new types of leaders with new skills are needed. There is no one-size-fits-all solution and the leadership development industry with its various admonitions has not produced better leaders. That said, the key skills that CELI panelists and participants emphasized include empathy and interpersonal skills, authenticity, decisiveness, the ability to build trust with employees, and skills to adapt to changing situations and circumstances.

Context
This panel of authors on creativity, innovation, and leadership discussed how organizations are changing and the types of leadership skills that are needed.

Key Takeaways
Smarter machines are transforming organizations and workplaces.

For machines to be linked and for decisions to be automated and delegated requires establishing trust between systems. Even though this is already happening, few corporate leaders know about it or understand it; most find it problematic and are in a state of denial. However, technological experts advised business leaders not to sit on the sidelines. Much change will occur over the next two to three years. Smarter, connected machines will enable organizations to create tremendous value, and those that don’t fully use these technologies will become obsolete.

These technologies will produce decentralized, less hierarchical organizations, with automated decision processes. There are implications for all companies and all sectors of the economy.

“Machines will be bright. There will be more authority in devices to make decisions. In some ways this is problematic. It is not a trend; it is already here.”

—John Clippinger

Changing organizations require new types of leaders with different leadership skills.

In addition to technological changes, other factors driving changes in organizations include increased globalization, greater diversity, and generational changes as millennials play a more prominent role in the workforce.

Author, professor, and former Medtronic CEO Bill George said that organizations and leaders must change. In organizations, hierarchy and bureaucracy are dead, as is the concept of command and control.
leadership. Leaders need to engage people to work in teams and groups by touching hearts and minds through purpose, leading based on values, and behaving as an authentic leader. George argued that technology is a vehicle to create better lives for people, but does not replace human intuition, judgment, and values.

“Authenticity is who you are from within. People do change and use different styles based on different situations. But this comes from an authentic core.”

— Bill George

In his book *Humans Are Underrated*, Geoff Colvin cited research indicating that the key skills that will matter in the future are empathy, interpersonal skills, and conveying who we are rather than what we do.

Admonitions from the leadership development industry haven’t worked. Other approaches are needed.

Stanford professor Jeffrey Pfeffer argued that despite the existence of the leadership development industry for the past 50 to 60 years—with a host of leadership musts and shoulds and how-tos—there is no evidence of improvement in leadership. One example: only about 30% of employees are engaged and Gallup hasn’t seen improvement.

“Leadership admonitions are not working.”

— Jeffrey Pfeffer

Pfeffer also challenged the idea of each person behaving based on one authentic core. He has seen people go through amazing personal transformations where they completely remake themselves, from being shy introverts to being able to “put on a show” in front of large groups. Instead of behaving in one way, Pfeffer suggested that leaders need to be true to what others around them need at any particular moment. (George replied that being authentic doesn’t mean that people don’t change. Leadership is all about change and growth and adapting.)

George believes that the reason leadership development often doesn’t work is because it emphasizes the wrong things. It tends to focus on areas such as style and media training.

Other comments from panelists and participants included:

- The exact definition of authenticity isn’t clear, though it sounds right when Bill George talks about it. One way to think about it is how a leader behaves and how they are perceived by others.
- Leadership is not about getting people to take the hill; it is about knowing which hill to take.
- Leaders, especially those in difficult situations, must surround themselves with people they trust, seek their input, and make clear, firm decisions, often based on limited information.
- Leaders must empower, trust, and support their people.

Other Important Points

- Read more about it. Each of the panelists has a new book: *From Bitcoin to Burning Man and Beyond* by John Clippinger; *Humans Are Underrated* by Geoff Colvin; *Discover Your True North* by Bill George; *Let’s be Less Stupid* by Patty Marx; and *Leadership BS* by Jeffrey Pfeffer.
- Tighter control. Despite comments of decentralization, reduced hierarchy, broad engagement, and trust, Jeff Pfeffer sees a different trend: company founders (at companies like Google and Facebook) entrenching their power through creation of stock with super voting rights. This seems counter to the other trends that deal with dissemination of power and authority.
- Technology in psychiatry. Software has been created that can be used to treat the majority of mental illness currently treated by primary care physicians. Through use of evidence and protocols, the treatment provided is more consistent and produces better outcomes than typical treatment provided by most PCPs. This software is also going to be used in New York City to provide therapy to the uninsured. Not only can technology provide better treatment, but it can also expand access.
- Drooodles. Patty Marx showed examples of Drooodles (see [www.drooodle.com](http://www.drooodle.com)), minimal square boxes containing a few abstract pictorial elements, which spark creativity in determining what a particular Drooodle is.
Trust Between Global Governments and Global Leaders

Kevin Rudd, 26th Prime Minister, Commonwealth of Australia

**Comments**

Joseph B. Ucuzoglu, Chairman & CEO, Deloitte & Touche LLP
Terry J. Lundgren, Chairman & CEO, Macy’s, Inc.
Stephen A. Schwarzman, Chairman & CEO, The Blackstone Group
John D. Negroponte, Deputy Secretary (2007-2009), U.S. Department of State
Maurice R. Greenberg, Chairman & CEO, CV Starr & Co.; Founder, AIG
David Abney, CEO, UPS
Charles W. Goodyear IV, Former CEO, BHP Billiton
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Christopher K. Johnson, Chair, China Studies, CSIS; Former Head, China Desk, CIA
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Michael S. Burke, Chairman & CEO, AECOM
Steven Lipin, Senior Partner, Brunswick Group
XIANG Bing, Dean, Cheung Kong Graduate School of Business (CKGSB)
Donald A. Baer, Worldwide Chair & CEO, Burson-Marsteller
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**Responses**

Michael P. Ryan, Professor, Georgetown University
Michael J. Nyenhuis, President & CEO, AmeriCares
D. Quinn Mills, Professor Emeritus, Harvard Business School
Lally Weymouth, Senior Associate Editor, The Washington Post

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**Overview**

The size and momentum of China’s economy create a sense of optimism about the long-term opportunities there, but this optimism is tempered by a lack of trust. There is a lack of trust in the economic data China publishes, lack of trust in the legal system which is seen as arbitrary and politically driven, and lack of trust that IP and innovations will be protected. This lack of trust erodes confidence, which hurts the economy.

This is not limited to China. Across the globe, trust is lacking in CEOs and government leaders. CEOs are seen as focused on the short term and their own compensation. Government officials are not seen as honest and transparent, and the public is concerned about being protected from terrorism.

Amid this pessimistic environment business leaders see it as their own responsibility to improve the reputation of business and of corporate leaders.

**Context**

Summit participants discussed the global political and economic situation, with particular focus on China, as well as other key issues related to the 2016 U.S. presidential election.

**Key Takeaways**

**China’s political and legal situation has tremendous impact on its economic situation.**

Former Australian Prime Minister Kevin Rudd, who is extremely attuned to China’s political and economic situation, sees a further consolidation of power by China’s President Xi Jinping. He expects significant turnover in China’s top leadership and in the Politburo.

(Others participants with knowledge of China anticipate less change.) Mr. Rudd also expects changes in China’s economic leadership team, based on bumps in the road experienced in 2015.

Also discussed were:

- **China’s anti-corruption campaign.**
  China’s anti-corruption campaign has been going on for more than two years and has now moved to the financial sector. It is damaging to China in that it shows the country’s legal system to be arbitrary and politically driven, and it is destabilizing the party. The campaign is creating indecision and inaction by Chinese business leaders who don’t want to be accountable for taking action, and it hurts long-term confidence in China among foreign business leaders. Because of these consequences, Mr. Rudd believes this campaign will wind down within a year or so. However, others with knowledge of China see it continuing for a longer period.

- **China’s foreign policy.**
  Mr. Rudd characterized 2015 as “a rough year for China” and believes that China may have overreached in some ways. He believes that China has reached the decision to bring down the regional temperature, shown by symbolic actions such as Xi Jinping’s meeting with Taiwan’s president. Participants were encouraged by China’s stepping back a bit on foreign policy.

- **Devaluing China’s currency.** A debate is taking place in Beijing among China’s economic leaders about devaluing the currency, which some participants see as extremely important. However, others placed less emphasis on this and believe that increasing U.S. interest rates will serve the same purpose in devaluing the currency.

- **Lack of IP protection.** Not only are foreigners worried about their IP being stolen by China but failure to protect domestic IP hurts the domestic economy as innovators leave the country in order to protect their IP. This is an “Achilles heel” for the country.
• The China/U.S. relationship. The past eight U.S. presidents have made the China/U.S. relationship a priority and have managed it as a positive sum game, which a former U.S. State Department official termed as the right approach. The relationship presents challenges in areas such as cyber security, but there have been positive steps including cooperation on climate change. Because there is $500 billion in trade between the U.S. and China, this is a vital economic relationship. Still, it is important to convey to the Chinese that the U.S. is not leaving the Pacific anytime soon.

A U.S. business leader sees China as an important business partner in providing inexpensive goods and labor, but termed China an unreliable partner that doesn’t buy much and steals IP. He believes the U.S. government needs to get tough with China on following global norms.

Even with uncertainty about China’s economy there is long-term optimism.

Regardless of economic results published by China’s government, the general consensus according to Mr. Rudd is that China’s economy is growing about 4%. This slowing of China’s economy has ripple effects with major trading partners, particularly Korea, Japan, and Australia, as well as the United States. Even high-end U.S. retailers that sell to Chinese tourists are seeing fewer tourists, and those who are coming are spending less.

China believes it needs economic growth of about 6% to maintain social stability by generating enough jobs, increasing living standards, and decreasing poverty. To achieve 6% growth Mr. Rudd expects aggressive moves from China’s central bank, including fiscal policy expansion. He sees strong headwinds as the country seeks to transform from a manufacturing-driven export economy to a service-driven domestic economy, but rapid growth in services is occurring and Rudd cautioned against predicting catastrophe for China.

Several participants noted that as a state-controlled capitalist system, China has strengths and weaknesses. The strengths include the ability to quickly make decisions and take action, like making massive investments in infrastructure, while weaknesses include lack of transparency, rule of law, and investor confidence. Participants commented that China has its own agenda and marches to its own beat, with little concern for normal business or financial metrics. In fact, 90% of Summit attendees do not believe China’s reported economic statistics are accurate, and some dispute that the service sector is growing as rapidly as stated, as this sector includes real estate, which has experienced problems.

The CEO of a U.S.-based multinational with significant business in China has experienced some difficulties with imports into China if they are in areas deemed by China as “strategic.” However, this CEO and others are still seeing strong growth in areas such as financial services and e-commerce, and remain optimistic about China over the long term.

A leading Chinese academic argued that China is more capitalistic than the United States, as the private sector represents 70% of China’s GDP and 80% of jobs. And, unlike the United States, China doesn’t have costly government-based social programs like health care or social security. He said that China fully embraces liberalization, globalization, and the Internet boom. Also, he stated that China can grow even without innovation if there is deregulation, which will unlock opportunities and improve efficiency in areas such as health care, energy, and financial services. He said China’s economic slowdown is essentially “managed growth,” as 8% GDP growth is simply not desirable.

Terrorism is seen as the greatest geopolitical threat and top election issue.

Among multiple possible geopolitical threats to global stability, ISIS was seen as the most significant threat. Some believe that the U.S. decision to remove troops from Iraq was a bad decision that left a vacuum that ISIS has filled. Lack of firm action by the U.S. has hurt U.S. credibility and trust, while emboldening ISIS and others.

Domestically, terrorism was ranked by participants as the most important issue in the 2016 election, slightly ahead of economic growth. However, a former national security official believes that despite the worries of terrorism in the United States, the threat is probably exaggerated.

I believe China’s national income statistics are accurate
A. Strongly agree
B. Agree
C. Disagree
D. Strongly disagree
E. Unsure

What is the biggest geo-political threat to global stability in 2016?
A. ISIS
B. Al-Qaeda
C. Russian expansionism
D. Chinese ambitions in the South China Sea
E. Nuclear proliferation
F. Other

What is the most important issue in the 2016 election?
A. Employment
B. Economic Growth
C. Terrorism
D. International trade
E. Climate change
F. Tax reform
G. Immigration
H. Income inequality
I. Healthcare
Potential aggression by Russia is receiving inadequate attention.

A professor who has studied Russia sees the country as vulnerable over the long term. Russia has a huge territory, representing about 15% of the earth’s surface, with thousands of miles of borders. But Russia has only 140 million people, and lacks the population and economy to defend itself over the long term. A possible scenario over the next 50-70 years is that Russia will be partitioned into three sections: the western portion becomes part of Europe, the eastern portion becomes part of China, and the southern portion becomes part of the Islamic countries to Russia’s south. Putin realizes this and knows that Russia has to take dramatic action or it won’t survive. As a result, Putin is aggressive and action oriented, and wants to expand to protect Russia. (Of some surprise, this topic receives minimal coverage in the United States.) Actually, having a strong Russia to balance China and Islam may be more beneficial to the U.S. than a partitioned Russia.

Other foreign policy experts believe a more likely near-term scenario is that Russia will decide to pick off a Baltic state (like Latvia or Estonia), putting NATO in the position of having to respond forcefully. However, there is little appetite in the U.S. or U.K. for sending troops. This could place NATO’s existence under significant stress.

As these international events play out, trust in government and business leaders is low.

Leaders have a difficult time leading if they are not trusted— which is today’s reality. Richard Edelman shared data from the Edelman Trust Barometer indicating that in two thirds of countries more than 50% of the population doesn’t trust CEOs. CEOs are seen as short-term oriented and focused on their own compensation; not on creating jobs or developing new products. As opposed to “vision,” people want honesty, trust, and transparency. And, levels of trust in government officials are even lower than in CEOs.

Several participants found this data about trust to be spot on and called on business leaders to take the lead in improving the overall reputation of business and of CEOs.

One step in building trust and understanding is the creation of the Schwarzman Scholars program. This program brings together outstanding students from the United States, China, and the rest of the world to study and learn together. It is attracting the best of the best students, who will form relationships, build trust, and solve some of the world’s most pressing problems.
Trusting the Economic System to Work for All

Overview
The societal problems facing America are enormous, including environmental damage from climate change, income inequality, a shortage of good jobs, a perception of rigged financial markets, lack of a national housing policy, high levels of student debt, and an overall lack of vision and optimism.

While regulation is necessary in some instances, Summit participants are generally averse to regulation and prefer non-regulatory solutions. Because of the magnitude of the problems discussed, participants see the need for collective action and for leadership and action by business.

Context
Summit participants discussed the most significant social problems faced and possible solutions for these enormous challenges.

Key Takeaways
Addressing climate change requires a new energy strategy and massive reallocation of capital.

Economist Jeffrey Sachs stressed that the planet is in trouble as global temperatures increase, ice melts, and sea levels rise, with potentially devastating consequences. While this is a topic of political dissension in the United States, the science is overwhelming and is broadly accepted in other countries. The rest of the world is scared and acknowledges the seriousness of this problem. Summit participants (63%) generally agreed with Sachs that the recent Paris Global Climate Agreement was an important event; however, 62% believe this agreement lacks sufficient enforcement to matter.

Sachs argued that climate change is not just an environmental issue, but a financial and economic one that will cut across all industry sectors. As opposed to specific initiatives or policies like cap-and-trade, Sachs stated that a national energy plan is needed, along with an entirely new energy system and infrastructure, requiring a technological transformation to get to zero or low-carbon power and electrification of vehicles. This transformation requires a comprehensive long-term energy strategy and demands reallocation of tens of trillions of dollars in capital. Sachs, who said, “This will be the biggest shift of investment the world has ever seen,” called on Wall Street to take the lead in financing this new energy infrastructure.

Jeffrey Sachs, Director, The Earth Institute, Columbia University

Responses
Bennett Stewart, Chairman & CEO, EVA Dimensions
Bethany McLean, Author, Shaky Ground: The Strange Saga of the U.S. Mortgage Giants

Last week’s Paris Global Climate Agreement was an important event

A. Strongly agree
B. Agree
C. Disagree
D. Strongly disagree
E. Unsure

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However, it was noted that other countries face the same technology/globalization challenges yet have less inequality than the United States. Keys to addressing inequality include investing in people, improving the educational system, and increasing wages. Business leaders that have focused obsessively on maximizing short-term shareholder value—as opposed to optimizing for multiple stakeholders, including employees—bear some responsibility for the current situation, and business leaders have a responsibility to do more to address this problem.

As if climate change and income inequality were not enough, a host of other major challenges exist.

Other major challenges discussed include a perception of rigged markets, lack of housing policy, high levels of student debt, and a lack of optimism.

- **Perception of rigged markets.** Among Summit participants, 76% agreed that the financial markets are rigged against the small investor. Individual Americans believe that the rules are unfair, eroding fundamental trust in markets.

- **Lack of housing policy.** Even after the most recent financial crisis, which was largely related to problems in the mortgage market, the country has no national housing policy. The rate of homeownership has declined and there are challenges in the rental market, yet this issue has been ignored.

- **High student debt.** A financial services executive said that even with low housing prices, low interest rates, and improving access to credit, many people are unable to buy a house because of huge levels of student debt.

- **Lack of optimism.** One participant pointed out that a common theme in discussing all of the major problems faced is a lack of optimism. America has historically been a country of vision and optimism, believing that anything is possible. That seems to be fading as few people do well. The country is experiencing a loss of optimism, which is core to America’s identity.

“Optimism seems absent. I worry about the loss of the American dream.”
— Sanford Climan
There are no simple, easy answers. Solutions to complex problems require collective action.

Several approaches were discussed as paths to address these massive problems. No single solution is likely to be adequate; all are necessary in some form. Among the ideas mentioned:

- **Innovation.** Preserving jobs and sustaining companies requires investments in people, technology, and constant innovation, even in established industries. Innovation also provides a path to improve transparency and trust in markets, as IEX is attempting to do with a new trading platform that creates a level playing field for all investors.

- **Regulation.** Most Summit participants were fearful of regulation and of government creating national policies and strategies, believing that government intervention hurts and strangles rather than helps. Most business leaders prefer market-based solutions from the free enterprise system. But public officials and former regulators pushed back, arguing that the market can’t and doesn’t always fix itself and that regulation is necessary to establish the rules of the game, ensure fairness, and protect consumers. There have been multiple benefits from government involvement—like interstate highways, phone lines, rural electricity, and much more. Further, the public is angry about perceived imbalances and excesses, and regulation is a vehicle for responding to public anger. If the business sector doesn’t police itself then regulation is necessary to impose solutions. Also, even when simple regulation—such as the five-sentence Volcker Rule—is proposed, corporations engage lobbyists to shape the regulation. With the Volcker Rule, more than 400 lobbyists were engaged by the business community, creating much longer, more complex regulations. While some see regulation as painful, others see it as necessary.

- **Values.** Laws and regulations can only go so far. A sense of morality and self-limits are necessary, which were termed as “Sunday School values.” Such values are often seen as lacking and need to be more frequently applied by political and business leaders.

- **Accountability.** Typically when a business is involved in a crime such as fraud, the business (meaning the shareholders) is penalized, as opposed to the individuals who perpetrated the crime. People who commit these crimes need to be held accountable, though convicting them is often difficult.

- **Collective action.** A common theme is that the magnitude of the problems faced is so large that they cannot be solved solely by business, by government, or by any one stakeholder. (And some problems such as climate change can’t be solved by one country.) As much as business leaders are opposed to government involvement, businesses are focused on achieving their own short-term goals as opposed to addressing macro societal issues. Therefore, making progress requires collective action involving business, government, and other stakeholders.

“In society we have stopped feeling a moral responsibility for each other . . . we need more vision, more collective action.”

—CEO of Fortune 100 company

- **Leadership.** Taking the initiative to act and to align around collective action requires visionary leadership. Ken Frazier cited the example of New York City Mayor Fiorello La Guardia who came into office following the Tammany Hall scandal, when public trust was low. But La Guardia articulated a vision and led collective action around investing in the city’s infrastructure, transportation system, schools, parks, and public housing. La Guardia’s example shows that even during moments of low trust, visionary leaders can bring about enormous changes that improve people’s lives and improve society for generations.

This is a moment in time where business leaders must take the initiative to bring about collective action to address the most important issues affecting the United States and the world.
Are Political Candidates to be Trusted?

Overview
In contrast to the political gridlock, extremism, and idealism that exist at the federal level, mayors are practical problem solvers focused on getting things done to improve the lives of citizens in local communities. Priorities include public safety, infrastructure, social services, and jobs. Strategies include creating diverse, inclusive communities by building grassroots relationships with all groups and stakeholders, especially the business community. Mayors want to improve the educational system, even though they usually don’t control it, and are working to strike a balance in having a police force that protects citizens from crime without violating their constitutional rights.

“Being a mayor is a Ph.D. in life.”
—Mayor

Context
This panel of mayors described the most significant challenges faced in cities and how mayors lead in getting things done.

Key Takeaways
Mayors are seen as more effective than national leaders at getting things done.

CELLI participants overwhelmingly agreed that problem solving at the city level is more effective than at the national level. In contrast to national politicians who are extremely ideological, mayors are more practical and apolitical. In some cities, mayors run as individuals, without being associated with a political party.

How mayors think about terrorism and immigration provides a stark contrast to the national debate. National politicians, especially Republicans, are focused on the threat of terrorism and combating ISIS. But mayors expressed a different view. One mayor cited data indicating that since 9/11 there have been 45 deaths in the U.S. due to terrorism. Over the same time there have been more than 11,000 deaths due to gun violence. This mayor said that it is important to be mindful of terrorism but he is not afraid of terrorism. Based on the statistics, he is about 200 times more concerned about gun violence.

Most of the panelists were also pragmatic in discussing immigration. In many cities a large portion of the population is composed of immigrants or descendants of immigrants. Those immigrants from places like Syria wanting to come to the United States are mainly widows and orphans and the “huddled masses” that America has always accepted. To have a knee-jerk reaction to the recent terrorist incidents in Paris and California that involves refusing to accept certain immigrants is inconsistent with America’s values and history. While mayors see it as necessary to recognize legitimate concerns and take reasonable precautions, this does not mean refusing to accept new immigrants. In fact, almost 20 mayors have written to the President about having the capacity to take Syrian refugees, and cities such as Pittsburgh are exploring increasing their capacity to take even more refugees—a practical response that differs greatly from the rhetoric of national politicians.

Responses
Christopher Shays, Member of Congress (1987-2009), State of Connecticut
Joseph J. Lhota, Vice Dean & Chief of Staff, NYU Langone Medical Center
Ned Lamont, Democratic Candidate for U.S. Senate, State of Connecticut
Maxwell L. Anderson, Executive Director, New Cities Foundation
Murali Chandrashekaran, Sauder School of Business, University of British Columbia
Part of mayors’ success is attributed to building grassroots relationships.

As cities grow increasingly diverse, with multiple religions and ethnic groups, mayors see proactively building relationships with all of their citizens as a key part of their job. Mayors described attending numerous events in their community with every type of group imaginable to send a message to every group that “you are important” and “you are part of this community.”

“Be proactive instead of reactive. Get Muslim leaders involved and engaged in public outreach to decrease ignorance.”
— Mayor

In particular, several mayors discussed engaging in outreach and building bridges with the Muslim community. Greg Fischer, the mayor of Louisville, Kentucky, described his efforts to build relationships with his city’s Muslim community. The idea was for the Muslim community to take steps to be viewed as the city’s best citizens by engaging in philanthropy, volunteerism, and other activities to support the community. This has led to Muslims being embraced in Louisville and integrated into the broader community. As a result, when a mosque was recently defaced more than 1,000 people came out to help repair it.

Mayors were in agreement that the media likes to highlight stories of tension and racism, but stories of day-to-day cooperation and support rarely get told.

Mayors are focused on those topics that matter most to their cities.

Mayors are focused on issues that affect the daily lives of their citizens and cities. Among the most important areas of focus:

• Public safety. One mayor commented that mayors see their most important responsibility as protecting their city, which is reflected through the fact that roughly two thirds of city budgets are devoted to public safety, including funds for police and firefighters. Since the Oklahoma City bombing in 1995, significant progress has been made in improving the communications between first responders to respond more quickly and effectively.

“Protecting our city is the most important responsibility of a mayor.”
— Mayor

• Education. In most cities mayors don’t have direct control over local education, which is managed by school boards and superintendents. But mayors have a bully pulpit to push for educational changes. In Buffalo, for example, where there is a contentious school board and the public schools are in crisis, the mayor is open to playing a more significant role to improve the schools if granted permission by the state. Buffalo’s mayor has been involved in the city’s “Say Yes to Education” initiative which promises a college scholarship to all graduates of the city’s public and charter schools, and provides academic support to help students get to college. In the three years since this program was implemented, graduation and college matriculation rates have increased.

“You can’t have a healthy city without healthy schools.”
— Mayor

• Social issues. In addition to fostering inclusive, diverse communities, mayors are focused on issues such as early childhood development—so that children are not already behind when starting school—and on welcoming immigrants (as discussed earlier).

• Jobs. One mayor commented that there will always be people who are suffering and it is impossible for government, and for a mayor, to address all of a community’s social issues. But an important area that government can affect is job creation; mayors can help cities create more and better jobs for citizens. Governments can provide incentives for job creation and can help create an environment and an ecosystem where companies can flourish—and hire.

“We have to push on the accelerator of job creation.”
— Mayor

Policing practices are receiving much attention nationally and at local levels.

A debate about policing has been underway in America for several decades. In the 1980s, with high rates of crime, new theories and strategies for policing were developed. Today the media is filled with reports of police actions that injure and kill citizens. (However, one mayor paraphrased a law enforcement official who said that young men of color are dying in record numbers, but most of these deaths are not at the hands of police.) One of the central questions in this debate is what a society is willing to give up to be safe, and what rights police officers are given to keep citizens safe while also acting constitutionally.
One mayor suggested that the key to effective policing is building relationships between the police and the community. His city has instituted a program called "Coffee with a cop" where police officers regularly meet with citizens throughout the city over coffee to talk, listen, and build relationships.

“It is hard to hate someone you know.”
—Mayor

Other Important Points

Several other topics were touched on in this wide-ranging discussion. They included:

- **Cynicism and negativity.** An experienced pollster and political observer commented that a challenge facing mayors—and all political leaders—is a pervasive sense of societal cynicism and pessimism. Despite economic positives such as 5% unemployment, low inflation, and low gas prices, 70% of Americans think the economy and country are going in the wrong direction. It has become popular to take a negative, cynical view. This is exacerbated by social media, by negative political ads (which represent about 90% of political ads), and by the harsh, uncivil political discourse, casting a negative shadow over political leaders and hurting credibility.

- **Teaching civics.** A mayor suggested that decreased teaching of civics has contributed to the loss of civility in society. He believes greater emphasis on teaching civics could help improve civility.

- **Cultural richness.** Cities provide economies of scale and efficiency. Yet perhaps even more importantly, a key benefit of cities is that they provide vibrancy and cultural richness.

- **Business involvement in education.** Since so many schools are struggling, an attendee asked if there should be greater federal involvement in education. Most mayors prefer educational decision making and control at the local level. A suggestion offered by one mayor is to allow business people and industry experts into classrooms, which is prohibited in many states. A greater presence of business people in the educational process would provide a more practical real-world perspective.
T RUSTING SOCIETY TO MASTER ITS TECHNOLOGY &
TRUSTING THAT CONSUMERS GET WHAT THEY EXPECT

Overview
Technology is transforming society with new products, business models, and ways of sourcing capital and talent. And remarkable decentralized new technologies are making even more possible. But because technology accelerates and magnifies, any issues of unfairness and inequity are amplified, which erodes trust.

Context
Due to time, sessions 5 and 6 were combined, with an emphasis on building trust while introducing new technological innovations.

Key Takeaways
The tech startup environment is white hot, but innovation is largely incremental.

A legendary technology investor described startups as occurring in waves, and characterized the current wave as the largest in the past 40 years. He sees thousands and thousands of startups in multiple categories, as talented young people are attracted to startups where they can make a quick buck, as opposed to joining more stable, large companies. This hot startup environment is being fueled by abundant capital, which is driving valuations through the roof.

This investor sees a great deal of activity in developing apps—which require minimal capital and can produce a quick return—in financial technology and in big data/predictive analytics. However, there is a great deal of duplication, me-too products, and incremental innovation, as opposed to dramatic breakthrough innovations, as occurred previously with companies such as Intel or Apple. The one area where a great deal of innovation is occurring is in virtual reality/augmented reality.

Technology is enabling new models in raising capital and accessing labor.

Technology is enabling far more than just exciting new consumer products; it is fundamentally changing how companies operate and how entrepreneurs raise money. Two examples that were discussed:

• Unbundling. Accessible, decentralized computing is resulting in a massive unbundling across multiple dimensions. Particularly among millennials a prevailing view is that “access trumps ownership.” This is resulting in the “shared economy” and giving rise to popular services like Uber and Airbnb. It is also changing the labor

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market as jobs and work are being unbundled. People who don’t want “a job” are able to supply skills in an unbundled way.

- **Crowdsourcing.** One participant said that in the near future more capital will be raised via crowdsourcing than through venture capital, and another panelist declared “venture capital is dead” and asked, “Now that entrepreneurs can crowdfund, why is VC needed?”

Decentralized technologies are changing capital and labor markets, and these changes are just beginning.

**Large, established companies are leveraging technology to reinvent themselves.**

Schumpeter’s concept of creative destruction asserted that new companies would emerge and push established companies aside. This does happen, but it is possible for established enterprises to renew and regenerate themselves, demonstrated by hundreds of publicly listed companies that have existed for more than 100 years.

“Companies can renew themselves. It’s not easy but it can be done.”

— Jeffrey Sonnenfeld

An example is IBM, which has reinvented itself through constant organic innovation as well as through acquisitions of innovative companies that fit with IBM’s strategy. One area of focus for IBM is bringing together next-generation data from multiple sources for analysis and insights. Applications in health care include mining electronic medical records (which might be 50 pages long) to identify for physicians the most important information, and using complex data from medical records, personal devices, travel records, genetic testing, and elsewhere to determine what factors most impact an individual’s health and how to improve health.

**America’s robust biotech ecosystem requires pricing flexibility to generate adequate returns.**

Biotech is an area where significant innovation and risk taking is taking place. In just the past three years investments of the past decade have begun to bear fruit, as several terrible diseases like Hepatitis C are beginning to be cured. One biotech investor described this as a “new golden age” in biotech. However, many biotech efforts fail, de-

Underpinning this ecosystem is the notion of free market pricing where innovative companies can price innovative products to realize an adequate return. The former CEO of a global biopharmaceutical company emphasized that the cost of a drug is not merely the manufacturing cost of a pill, which might be one dollar. It is the cost of the research to develop a drug and shepherd it through the approval and commercialization process. And, the benefits of a medicine, such as Sovaldi (by Gilead) which cures Hepatitis C, include savings from elimination of future hospitalizations. Participants see free market pricing as critical to reward successful innovations and to encourage future investments.

"To sustain research, biotech companies need to be able to price to recoup their R&D and invest in future R&D."

— Former Pharma CEO

**While technology can provide benefits it can be used in ways that erode trust.**

One participant described how technology has transformed financial transactions involving individual investors. Instead of having human intermediaries providing slow, manual services with limited choices, individual investors today have more and better choices, more information at their disposal to make decisions, lower friction, and lower costs.

Other participants acknowledged the benefits of technology in expediting financial transactions, but believe that some technologies have provided unfair advantages to some institutional investors, leaving individual investors at an unfair disadvantage. Technology has produced benefits but has been used in ways that have damaged trust, causing individuals to lose faith in markets and systems.

**Building trust is about delivering on deep consumer needs.**

Harley Davidson was able to revive its business by matching customers’ passion for the company’s lifestyle brand (which resonates with customers so much that many tattoo the logo on their body) with excellence in product development, innovation, manufacturing, and distribution.

Tupperware has enjoyed global success through relentless product innovation — which includes many higher-priced products — and by personally demonstrating products in intimate settings. But Tupperware has delivered on deeper needs by helping individuals create successful businesses to support their families through microfinance, through personal training and coaching, and by developing a sense of confidence.
In presenting Kenneth Frazier with the Legend in Leadership Award, Frank Blake and Thomas Glocer characterized Ken as a leader who is caring, insightful, and engaged in meaningful work. In a very difficult environment, where pharmaceutical executives often receive bad press, Ken stands out and has done an exceptional job at Merck. In contrast to many in the industry, Ken has not manipulated prices or engaged in financial engineering. He has made long-term investments in R&D and led his organization in achieving excellence.

Ken described business as being a noble pursuit, if pursued in the right way. Businesses create jobs, and companies in the health care business heal the sick. It is the responsibility of leaders to remain committed to the idea of a higher purpose, to take a long-term perspective, and to demonstrate vision and faith, especially in difficult, turbulent times.