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Key Themes from The Yale Washington CEO Caucus

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Who and What Can You Trust as Factual for Guiding Global Strategic Plans?

Richard C. Adkerson, President & CEO, Freeport-McMoRan Copper & Gold
Adam Aron, CEO, Starwood Hotels & Resorts Worldwide
Joel Babbit, CEO, Narrative Content Group
Michael S. Burke, Chairman & CEO, AECOM
Teresa Carlson, Worldwide Head of Public Sector, Amazon Web Services
Elaine Chao, 25th U.S. Secretary of Labor (2001-2009)
Elizabeth H. Esty, Congresswoman, State of Connecticut – 5th District
Jeffrey E. Garten, Dean (1995-2005), Yale School of Management
Bruce E. Grewcock, Chairman, President & CEO, Kiewit Corporation
Gregory J. Hayes, President & CEO, United Technologies Corporation
Robert D. Hormats, Under Secretary (2009-2013), U.S. Department of State
Stacy J. Kenworthy, Chairman & CEO, OptiGlobal Group
Philip Lader, U.S. Ambassador to the United Kingdom (2009-2013)
James A. Lawrence, Chairman, Great North Star
Adam S. Lovinger, Strategist, Office of Net Assessment, U.S. Department of Defense
John F. Lundgren, Chairman & CEO, Stanley Black & Decker
W. James McNerney Jr., Chairman, The Boeing Company
Nels Olson, Vice Chairman, Korn Ferry
Nicholas T. Pinchuk, Chairman & CEO, Snap-on Incorporated
Marc Rotenberg, Executive Director, Electronic Privacy Information Center
Myron E. Ullman III, CEO, JCPenney Company
Mark A. Weinberger, Global Chairman & CEO, EY
R. James Woolsey, Director (1993-1995), Central Intelligence
Harold L. Yoh III, Chairman & CEO, Day & Zimmermann

RESPONDENTS
Rodrigo Canales, Professor, Yale School of Management; Chief Policy Advisor, Mexican Ambassador to the U.S.
Jerold R. Mande, Senior Advisor, U.S. Department of Agriculture
D. Quinn Mills, Professor Emeritus, Harvard Business School
Joel Szabat, Executive Director, Maritime Administration, U.S. Department of Transportation

Legend in Leadership Award: W. James McNerney, Chairman, The Boeing Company

PRESENTERS
Jamie Dimon, Chairman & CEO, JPMorgan Chase & Co.
Stephen A. Schwarzman, Chairman & CEO, The Blackstone Group
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Benjamin A. Breier, President & CEO, Kindred Healthcare
R. Cromwell Coulson, President & CEO, OTC Markets Group
Jamie Dimon, Chairman & CEO, JPMorgan Chase & Co.
Jason Furman, 28th Chairman, Council of Economic Advisers
Douglas H. Ginsburg, Senior Judge, District of Columbia Circuit, U.S. Court of Appeals
Jim Gray, Mayor; Lexington, Kentucky
Alex Martin, Senior Client Partner, Korn Ferry
C. Thomas McMillen, Congressman (1987-1993), State of Maryland
Brian Moynihan, CEO, Bank of America
Grover Norquist, President, Americans for Tax Reform
Steve Odland, President & CEO, Committee for Economic Development
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Eddie Tam, CEO, Central Asset Investments
Frederick O. Terrell, Vice Chairman, Credit Suisse

RESPONDENTS
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Patrick J. Healy, Head of Listings, IEX
Rob Quartel, Chairman & CEO, NTELX
Marc J. Sonnenfeld, Partner, Morgan Lewis
In Whom Do We Trust? Politics, Policies, and People

Overview

Trust is the most fragile of commodities, being extremely difficult to build and easy to lose. At the moment, governments, politicians, and CEOs are distrusted by the American public, and internal domestic squabbling is eroding America’s trust internationally. Yet despite America’s political dysfunction, belief remains in the strength of the U.S. economy—especially compared to the economies of more volatile emerging markets. Moving from the political extremes to the middle and finding areas of common ground (like investing in infrastructure) can help rebuild trust both domestically and internationally.

For business leaders, among all of the geopolitical threats on the horizon, cyberattacks are most worrisome. Cyberattacks can damage an organization financially, hurt its reputation, and dramatically impact trust. As a result, business leaders have prioritized cybersecurity and are spending heavily.

Participants discussed the many aspects of trust—focusing on trust in politics, policies, and people. Discussion looked at trust or lack of trust in government and political leaders, in the U.S. economy, and in businesses and business leaders. Also, Boeing Chairman James McNerney was presented with the Legend in Leadership Award. Some of the key themes from this Caucus are summarized below.

Key Themes

There is a general lack of trust of both government and business.

Peter Segall of Edelman offered observations on trust, based on the 2015 Edelman trust barometer. Now in its 14th year of measuring trust, Edelman has found that trust varies greatly from year to year, based on current events. In the past year there has been a steep drop in the trust in government, with low trust of elected office holders and higher trust among government regulators. Trust in CEOs has rebounded a bit from 2008 but remains low; in fact, trust in CEOs is lower than the trust in average employees. Because of the lack of trust in business, people view that a strong regulatory framework is needed to restrain corporate excesses. Edelman’s research finds that people view their most trusted source of information as a peer.

Government collection of private data has exacerbated distrust of government.

Critics argued that the government’s data collection activities have gone far beyond what was intended in Section 215 of the US Patriot Act, that the massive amounts of private data that have been collected have not been useful in disrupting any terror plots, and that civil liberties have been compromised. Individuals with this perspective believe that lack of government transparency about data collection is just one more government action that has eroded the public’s trust.

Those in favor of the government’s collection of data understand the sensitivity of this issue, but argued that there are dangerous terrorists who want to inflict damage on the United States and kill citizens. To protect the country from terrorists the government must have the ability to collect and analyze personal data; failure to use all of the tools and technologies at our disposal would compromise national security. One participant explained that throughout America’s history, during times of crisis, certain liberties and personal rights have been suspended in the name of national security.

A view expressed by several participants was the need to use the various tools and technologies at the government’s disposal, but to have greater congressional oversight of various governmental data-collection activities.

Context

September 15, 2015 was the 82nd convening of the Yale School of Management’s Chief Executive Leadership Institute. This Caucus brought together current and former political leaders (such as Ambassador John Negroponte, former U.S. Director of National Intelligence; R. James Woolsey, former Director of Central Intelligence; Congresswoman Elizabeth Esty; Jason Furman, Chairman of the Council of Economic Advisers); business leaders (such as Stephen Schwarzman, CEO of the Blackstone Group; Jamie Dimon, CEO of JPMorgan Chase; Brian Moynihan, CEO of Bank of America); and other thought leaders including Grover Norquist and Jeffrey Garten.
2. **The need to invest in infrastructure.** There seems to be general agreement on the need to invest in infrastructure, like roads and bridges. But uncertain is exactly how to pay for it and how to ensure that projects are well executed, as opposed to “bridges to nowhere.” (A member of the Department of Transportation replied that the stimulus package provided $48 billion for 15,000 infrastructure projects, most of which are on needs lists of state and local governments.)

**Political divisiveness within the United States makes it hard to build trust with other countries.**

Former Under Secretary of State Robert Hormats sees an erosion of international trust for the United States. Deep political divisions and the perceived impermanence of U.S. policy—when one political party states its plan to reverse the policies of the other party—cause other countries to view the U.S. less reliably or predictably. The United States is still seen as having tremendous power, but lack of a clear, consistent strategy and consistent policies makes it harder for countries to trust U.S. positions. For example, some in the United States want America to pull back internationally. Countries wonder if the U.S. will be there to support them.

“Lack of trust externally comes from divisions internally. It is not a question of whether the U.S. will be strong—it will be. It is a question of reliability and the sustainability of policy.”

— Robert Hormats

This uncertainty about the reliability of U.S. policy is reflected in Caucus participants’ response to a real-time poll on global trade.

<table>
<thead>
<tr>
<th>The U.S. presents a reliable position in global trade:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>45%</td>
</tr>
<tr>
<td>Disagree</td>
<td>43%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>11%</td>
</tr>
</tbody>
</table>
In this period of geopolitical uncertainty, America must trust its own economy.

The geopolitical climate is chaotic and uncertain, with ISIS, Iran and its various attachments (Hamas and Hezbollah), and failed states, such as Syria, Yemen, Iraq, and Libya. The world is undergoing a transition from the Cold War to a much more complex, fragmented set of actors, including many non-state actors. This transition and uncertainty could go on for some time.

Former Director of National Security and Deputy Secretary of State John Negroponte argued that in such a period, trust and self-confidence must come from ourselves. The U.S. has the rule of law, a democracy with accountability, many alliances and friendships, and an economy that is the envy of the world. Caucus participants also have the most confidence in the U.S. economy.

The U.S. economy will continue to be a better bet than emerging market economies:

<table>
<thead>
<tr>
<th>Agree</th>
<th>85%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>4%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>11%</td>
</tr>
</tbody>
</table>

In contrast, experts on emerging markets – particularly in Asia – said that trust in the political and economic systems there is lacking. An individual who has spent considerable time in China said that inside Beijing, politics are opaque and termed Beijing as “impenetrable.” Economically, Yale School of Management’s Jeffrey Garten described the emerging world as having a tough time, which is likely to continue for some time. Long term, emerging markets will account for a growing percentage of global GDP, but the path won’t be smooth; there will be cycles and bumps along the way.

An Asian investor said that at the moment, the flow of capital is telling the story. Despite all of the political problems in the United States, and despite a huge trade surplus between China and the U.S., China is experiencing a capital flight to Hong Kong and the United States.

“In spite of all of the budget problems in the United States, which is looked at closely by foreign investors, there is still confidence in the U.S. government and economy.”

– CELI participant from Asia

Business leaders see cyberattacks as America’s greatest threat.

ISIS has made gains in Syria and Iraq. Iran and its attachments are extremely dangerous. And Putin’s regional ambitions pose a significant threat. However, when polled about the biggest threat to America’s national security, overwhelmingly Caucus participants are most concerned about cyberattacks.

What is the biggest threat to U.S. national security?

<table>
<thead>
<tr>
<th>Threat</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>China’s growing militarism</td>
<td>11%</td>
</tr>
<tr>
<td>Putin’s regional ambitions</td>
<td>16%</td>
</tr>
<tr>
<td>Iran violating the nuclear deal</td>
<td>7%</td>
</tr>
<tr>
<td>Islamic extremists</td>
<td>18%</td>
</tr>
<tr>
<td>Cyberattacks</td>
<td>49%</td>
</tr>
</tbody>
</table>

The reason that this audience was so concerned about cyberattacks is that nations and hackers can launch a cyberattack directed at a company. A cyberattack can damage a company financially, hurt its reputation, and erode trust. With most leading companies today being global corporations, a cyberattack can damage a company globally. The CEO of a leading financial services company said that trust is his firm’s most important asset and he is willing to spend whatever amount is necessary to protect against cyberattacks and preserve his firm’s trust.
Legend in Leadership Award
W. James McNerney, Chairman, The Boeing Company

Jamie Dimon and Stephen Schwarzman cited Jim McNerney’s business accomplishments at GE, 3M, and most recently at Boeing, and hailed his leadership of the Business Council and the Business Roundtable during challenging times. Schwarzman termed Jim McNerney “the senior statesman of the business community in our time,” and Dimon described Jim McNerney as “the epitome of the kind of CEO you want to be.” Both presenters mentioned his strategic leadership, humility, grace, courage, and fortitude. Jim McNerney has engendered trust and earned respect from everyone who has known him.