CEO SUMMIT 2001

POST CONFERENCE REPORT

LEADERSHIP IN THE DIGITAL AGE

ACCELERATING VALUE

THE CEO'S CHALLENGE

BOOZ • ALLEN & HAMILTON

BROADVIEW

KORN/FERRY INTERNATIONAL

KEYNOTE SPEAKERS

Bob King
President and CEO
Corporate Express

Scott McNealy
Chairman and CEO
Sun Microsystems

Eric Schmidt
Chairman and CEO
Google

Geoff Yang
Founding Partner
Redpoint Ventures

PANELISTS AND MODERATORS

Geoff Champion
President, Global Advanced Technology Practice
Korn/Ferry International

Martin Coyne
President, Commercial Business Group
Eastman Kodak

Bert Ellis
Chairman
iXL Enterprises

Mark Goldstein
Former CEO
Bluelight.com

Chuck Kissner
Chairman
DMC Stratex Networks

Harry Jansen Kraemer, Jr.
Chairman and CEO
Baxter International

Sheldon Laube
Chairman and CEO
CenterBeam

Mark Leslie
Chairman
Veritas Software

Bruce Pasternack
Senior Vice President
Booz•Allen & Hamilton

Jerry Rawls
President and CEO
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Steve Smith
Vice Chairman
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John Thompson
Chairman, President and CEO
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Dan Warmenhoven
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The Nasdaq Stock Market

Recently, Booz Allen & Hamilton, Broadview and Korn/Ferry International partnered to host a unique forum for business leaders called *CEO Summit: Leadership in the Digital Age*. The summit was created to give CEOs and chairmen the opportunity to discuss critical business issues that confront all companies as they move forward. The theme of the conference held June 21 to 24, 2001 at the Inn at Spanish Bay was "Accelerating Value: The CEO's Challenge." The following pages summarize the lively discussions that took place.

For the four years that CEO Summit has convened, the conference has had a consistent theme: *Leadership in the Digital Age*. Due to the accelerated pace of change, this has proven to be a robust theme, equally applicable during the good times and the bad, during bubbles, booms and now, in a period of belt-tightening. The summits have provided a valuable forum for CEOs to discuss guiding their enterprises through a period of hypergrowth, then through transitions and downturns, and now, on preparing to catch the next wave.

For 2001, the summit's subtitle was "Accelerating Value: The CEO's Challenge," and the focus was on capturing value. While the objectives of the 1990s involved capturing market share, acquiring customers and being rewarded with increased market capitalization, today, many companies, both new and long established, recognize that the old rules related to profitable growth are still "required reading" for successful executives and companies. Companies are aggressively seeking ways to capture value and transform their businesses in this period of competitive and financial stress.

One of the most salient "lessons learned" from the "bubble" is that companies that do not capture the value they create do not survive. The difference between those companies that flourish and those that fail is as often a matter of execution as of strategy. You need a business model that fosters alignment and adaptability to capture the value you create.

Although the digital mania of the past five years has engendered a great deal of cynicism, particularly in the wake of the stock market collapse and the general economic slowdown, senior business executives should take a long view of the wave sent rushing forward by the development of the Internet. While Wave I of the Internet era — the period of wild spending, fantasy business models and 27-year-old billionaires — is over, the Internet era itself is not.

The developed world's economic contraction has unleashed into the marketplace an abundance of technological capacity, management skill, knowledge and market understanding. Now is the time the best will invest to win.

So, what's a CEO to do? No position demands more and is subject to more scrutiny than the CEO's role in corporate life. With earnings under pressure in today's economic environment, CEOs are in constant motion and many are searching for new leadership models to build value for the firm and grow at the expense of their competitors rather than just survive. Exceptional leaders realize they can't do it all. They must build leadership capacity and enabling processes throughout their organizations. They must help their teams find simplicity on the other side of complexity.

"What we do today is to glorify CEOs who seemingly do it all," said Bruce Pasternack, a senior vice president with Booz Allen & Hamilton, in his summit opening remarks. "They're on the cover of magazines, and they're admired until they stumble and then it's a very slippery slope. There's little room for error today. I think most CEOs recognize they can't do it all, and in fact, they have to build the capacity for leadership throughout their organization," he said.

This year's summit, held at the Inn at Spanish Bay in Pebble Beach, California, featured three panel discussions: "Winning in the Next Wave," "The Naked CEO" and "Value Creation in a Volatile Market." Accompanying keynotes came from Eric Schmidt, chairman and chief executive officer of Google and former chief executive officer of Novell; Geoff Yang, founding partner of Redpoint Ventures; Robert King, president and chief executive of Corporate Express; and Scott McNealy, chairman and chief executive of Sun Microsystems.

Winning in the Next Wave

The first wave of e-business focused on optimizing transactions, displacing low-value activities and strengthening customer relationships. The winners in the next wave will find new ways to create and capture value. Winning strategies will generate efficiencies, extend customer reach, establish new businesses and redefine business models.

In the not too distant past, industries could be described in terms of "value chains" in which the flow of physical goods and information moved in a linear fashion among the participants. Many such chains are now being shattered and well-established firms are finding their value proposition threatened. A new reality is confronting traditional companies: Gone are the days where owning and controlling every aspect of your business is desirable, or even possible.

Some describe this as a highly adaptive ecosystem, in which a Darwinian ruthlessness kills off the weak, while those who best play a vital role will survive. Others describe this as a constellation, which evokes images of relationships that look more like orbits than pyramid-shaped hierarchies. Terms like "business webs" connote networks of relationships. Whatever the terminology, the basic concept is that firms are relating to each other in new and highly nonlinear ways.

"The challenge to CEOs in the years ahead will be how to manage these very complex interrelationships between your business and the core things you do and this increasing array of partner companies who do more and more of mission-critical functions that allow your business to succeed," said panelist Sheldon Laube, chairman and chief executive of CenterBeam. "We're going to see new ways and new organizational structures of how businesses collaborate around these extremely difficult issues."

"But ultimately the real issue is how do you structure your business?" Mr. Laube continued. "And how do we, as executives, focus our time on what's important? And how do we manage and create structures to allow us to manage the partnerships we'll have with an ever-growing

EXCERPT FROM OPENING KEYNOTE

Eric Schmidt
Chairman and CEO
Google

"Changes in the way leadership works are really driven by the compression of time, which is, in my view, ultimately driven by technology. The fact of the matter is that technology is now allowing new business strategies that dynamically and rapidly change everything you're doing, and it happens so much more quickly than it ever did before. If you look at history, this has always been true. This always surprises every generation of leaders, but my observation is that the compression of time has been a key component of economic history for the last 100 years.

The single most important thing you can do in a situation like this is to take all the pain now, but convince people that the pain will end very quickly. The companies you see that are taking very, very tough steps, where the executives are being hugely criticized, are clearly the ones that are going to win. Because that's the cycle.

Ultimately, I think a CEO is more of a judge than an advocate in a company, because a CEO has to judge what is a reasonable expectation as opposed to an unreasonable expectation. The companies that get into financial trouble, as opposed to strategic trouble, are ultimately asking the organization to do something which it knows in the long run is not in its interest.

I think that the rules of leadership haven't changed from the times of Attila the Hun and Genghis Khan. It's all around whether people believe that you're committed to what you're trying to do. I think the same rules apply when things are going well as when things are going poorly.

During the bubble, we had an awful lot of people who had not had very much business experience, who became convinced they had the golden hand. A longer-term view says these things are cycles. We're in a down cycle now, but we'll recover. And I think the management techniques are roughly the same. It's all-around communication and inspiration. That's good leadership."

Bruce Pasternack
Senior Vice President
Booz•Allen & Hamilton

Mark Leslie
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Martin Coyne
President, Commercial Business Group
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Chairman and CEO
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number of critical suppliers to us that will do more and more of the functions that historically we saw as those that we should do ourselves?"

CenterBeam is a young company, born during the Internet boom and the era of proliferating alliances. For long-established companies, the shift to constellation or business-web structures can be even more challenging. Eastman Kodak, born during the industrial revolution, must now reinvent itself to survive in the digital era. For a company that grew through internal innovation and invention, one of the biggest challenges is learning how to reach outside the organization.

"Most old companies, 100 years old, will struggle with partnerships and alliances," said panelist Martin Coyne, president of Kodak's commercial business group. "We always did it ourselves and it's hard to trust someone else to do it. We've started to do a lot more acquisitions; we're learning how to do partnerships and alliances," he said.

Kodak has been through "a complete change in processes and decision making," Mr. Coyne said. "We used to be able to study whether to put up a film plant for 18 to 24 months. We had a lot of history on how much film was being consumed. No big rush. We would just take our time, continue to analyze the data, etc. When the time was right, we did it. Now we're making decisions on a daily basis. We were looking at an acquisition and we got the decision down to literally less than a week, whether to go or no go. So we have had a major change in process," he said.

Veritas Software has been one of the past decade's biggest success stories, but it too struggles with the speed of change and the need for new structures. "I think that things that you don't see on the far margins of your peripheral vision, the changes to the industry, are the things that are most dangerous to companies," said panelist Mark Leslie, Veritas' chairman. "We see it all the time, how great companies have come and gone, and it's because they have not been able to deal with change," he said.

"I believe that the entire concept of corporate leadership has changed as a function of what's precious," Mr. Leslie continued. "Today, what's most precious is intellectual property rather than capital, or capital goods, or equipment, or labor. It's ideas and the people who own those ideas. It's talent and people intensive. Change is ever faster. Competition is ever fiercer. So my view of leadership is that the most important thing we do as leaders is to create the environment for others, to create the environment where the best people can make the most correct decisions most quickly," he said.

The difference between companies that succeed and companies that fail is often not a matter of strategy but of alignment between strategy and structure, Bruce Pasternack of Booz Allen & Hamilton said in his panel's closing remarks.

"We often see companies that are out of alignment in some form," he said. "It can be in the simplest thing. It could be the compensation system is out of alignment with the culture you want, or the metrics you use to measure performance, or how you're recruiting and what kind of people you're bringing in. If you have one thing out of alignment, it tends to throw the whole organization out of alignment. If you think about the word *alignment*, not in a sense of a bureaucratic alignment, but in a sense of aligning your strategy, your organization, your decision processes, your metrics and rewards, and your people, you have a lot fewer problems with culture issues," Mr. Pasternack said.

The Naked CEO

CEOs are under tremendous scrutiny by shareholders, competitors, employees and the marketplace. How do you maintain a steady hand on the rudder of leadership while in the fishbowl? How do you balance the professional and the personal aspects of your own life and manage them proactively so as not to become a casualty? What can you do to enhance the possibility that you will be there in the future to capture value for your constituents and yourself?

Korn/Ferry International recently completed a study with the University of Southern California's Center for Effective Organizations, involving 6,000 people in three regions in the world. One interesting outcome was that women under 30 take jobs for career knowledge and developing their own intellectual property, while men under 30 take jobs for career advancement. Women over 50 take jobs for career advancement, while men over 50 take jobs for intellectual property.

The study asked: How do you manage your value system? How do you manage your physical self? How do you manage your mental self? What types of process do you try to put in place with your management team to allow them to build ethics, values, visions, work habits?

"In that same study, 86 percent of the people who responded identified work/life balance as the most important thing to them" in looking at a job, said panel moderator Geoffrey Champion, president of Korn/Ferry's global advanced technology practice. Yet these same people "had it down as the least important factor in actually accepting a job. So what people say is that work/life balance is the most important thing to me, but when I make my job decision it gets thrown out the window because I understand what the requirements to be successful in today's business environment really are," he said.

Perhaps the most difficult time for a CEO to achieve any semblance of work/life balance is during a turnaround. Clearly a turnaround places extreme demands on the chief executive as well as on his or her direct reports, requiring an intense level of focus. All too often a turnaround seems to stand or fail on the sheer willpower of the individuals involved.

For panelist Bert Ellis, chairman of iXL Enterprises, turning around the company has become an all-consuming endeavor. "I can tell you right now, do as I say but not as I do," he said. "Because I have suspended all life for the past year with one goal…to get iXL turned around and operating profitably again. Of particular importance in a turnaround is 'to have good partners,'" Mr. Ellis said. "I found that, particularly in the last year, that has made a huge difference in the way we've run our company, to have really good partners, board members that you can count on, and partners that have been through some cycles and know how to give you the right advice and be there when you need them in the life boat rowing with you. I think you also have to have a lot of perseverance and guts right now in this environment, and the ability just to keep getting back off the floor and getting back up into the game each day," he said.

While any CEO would prefer to confront hypergrowth than a turnaround, success brings its own stresses. Many chief executives, particularly founders, are reluctant or unable to delegate effectively. Others have built organizational structures that really do require the CEO to sign off on every decision, to close every major deal. But the new environment demands more flexibility.

Geoff Champion
President, Global Advanced Technology Practice
Korn/Ferry International

Bert Ellis
Chairman
iXL Enterprises

Harry Jansen Kraemer
Chairman and CEO
Baxter International

Dan Warmenhoven
CEO
Network Appliance

"So the question is, how do you maintain your mental health and sense of accomplishment and well-being both during the ups and during the downs?" said panelist Dan Warmenhoven, chief executive of Network Appliance. "The first step is to build an executive management team you've got tremendous confidence in. I'm sure everybody here focuses on building the management team that's got the right combination of skills. But it's integrating that skill set into a collaborative organization that's the key ingredient," he said.

"If you can build that degree of collaboration, then your confidence goes up in such a way that your stress goes down," Mr. Warmenhoven said. "So I've adopted an attitude that I can entrust the team with any decision around the business or any action that has to be taken. And I've got confidence that it will be acted upon and the outcome will be positive. In doing so, I have minimized the dependence of the business upon myself. Which means my degree of anxiety and stress is much lower. So the central theme of building a high-performance team is a critical ingredient to business success. But I would also argue that it's a critical ingredient to mental health," he said.

Some executives thrive in situations others would find extremely stressful. Some crave a rich family life while others are loners. Older executives may have different priorities than younger ones. And so while companies can and should help all team members with work/life balance, ultimately this is a matter that must be resolved at the individual level.

"It really needs to be a very personal thing," said panelist Harry Jansen Kraemer, Jr., chairman and chief executive of Baxter International, "because what's balance for somebody is completely and totally out of balance for another. So rather than assuming that there's 'one size that fits all,' my challenge to my team members and colleagues is to really take the time, individually and with your spouse, with your family, with whoever is important to you, to really honestly get a sense of, 'Do I have in balance what's really important to me?'" he said.

One way that the corporation can help is through flexible work environments, Mr. Kraemer said. "I have found that creating flexibility and letting people know that you are serious about achieving balance has an enormous impact on the team, and we've taken this very seriously. Providing flexibility for all team members is a fantastic 'win-win.' It's the right social thing to do and it's also the right economic thing to do. It's clear that by providing flexibility, team members know you care, productivity increases, and turnover is reduced…a 'win-win.'

EXCERPT FROM LUNCHEON KEYNOTE

Geoff Yang
Founding Partner
Redpoint Ventures

"People look at their expense structure and start striking people from the org chart. That's the wrong way. Imagine you're building the business from scratch; who would you hire? The companies that emerge from this time will be very strong and will have a great run. The number of competitors will be cut in half, customers will be ready to invest in the next wave of technology and expenses will be low. It's also a great time to start a company.

The CEO is the second most important thing affecting outcomes. I happen to think the market is number one. Great CEOs are extremely rare, but they share five attributes: 1. Attitude, character and personality; an urgency and will to win that inspire commitment from other people; 2. Conviction, and the ability to communicate that conviction; 3. Active listening skills; 4. Fear of competition, and the ability to recognize and support their own weaknesses; 5. Honesty and integrity.

Great CEOs have the ability to translate strategy into execution. They pay attention to key metrics: what are the few things you can actually measure that define whether the business is successful or not. They create a culture of accountability, with the ability to hire, fire and retain executives. They have great business sense and can make decisions on incomplete information and fix the wrong ones along the way."

Value Creation in a Volatile Market

External development is a key means of accelerating value. But driving a corporate development strategy can be particularly challenging when stock prices are unpredictably volatile. Determining what types of transactions are likely to create lasting value is never easy. CEOs must determine what partnership alternatives will create competitive strength, cost efficiencies and increased investor attention.

From airlines to automobiles to advertising, the urge to merge has escalated steadily over the past decade. In 2000 alone, there were 9,472 merger and acquisition transactions in the United States — a new record. This rush to the altar was based on assumptions about rapid growth and a strategic need for time-to-market advantages. Many deals were very successful, but there were numerous mistakes made during this overly ebullient period. Now that the economy has slowed, deals are being held to closer scrutiny and must pass more management and board skepticism. Deals are still getting done in today's environment but with more due diligence. While fewer deals are being consummated, they probably will turn out to be more successful. Furthermore, alternatives to acquisitions such as investments and commercial partnerships are being actively developed.

Although senior executives devote exhaustive hours to striking the right deal, it is merely the beginning of the long and arduous merger integration process. In fact, structuring a deal is relatively easy; implementing one is nothing short of heroic. As an executive presiding over a newly merged company, one is inundated with competing priorities and demands. But the most important questions are these: How do you deliver on the value you promised shareholders and investors while simultaneously "keeping the wheels on the business"? In the wake of a merger, how do you successfully integrate operations while maintaining your focus on customers?

Chief executives "have been in the middle of the fray during the late '90s when we had a terrible time predicting demand on the upside in all of our businesses, during a period in which our stock prices today or yesterday seemed to have nothing to do with how high they might go a quarter or a year from now," said panel moderator Steve Smith, vice chairman of Broadview. "Subsequently, in the last year we've experienced volatility in the other direction. I think all of us have had a great deal of difficulty predicting demand for our businesses on the downside, predicting where our stock prices might be a day, a month, a year from now. We are living in incredibly difficult times for running companies," he said.

EXCERPT FROM DINNER KEYNOTE

Bob King
President and CEO
Corporate Express

"In order to achieve quantum leaps in revenue or profits, a brick-and-mortar company like Corporate Express must either do a big acquisition or develop new business models. We have done many acquisitions and know how to do that well, but we are using the Web to develop new business models to attack new customer segments and offer new services to our customers.

In order to be successful with a Web transformation or e-business initiative, the CEO must get involved and lead the project. These initiatives touch so many areas of your business that only you as the CEO can lead the cross-functional teams involved. So you may have to educate yourself on how all of this works and you may have to work harder and manage more details than you have done in the recent years of your career."

INTRODUCTION BY

Mary Cranston
Chairman
Pillsbury Winthrop

Steve Smith
Vice Chairman
Broadview

Chuck Kissner
Chairman
DMC Stratex Networks

Mark Goldstein
Former CEO
Bluelight.com

Jerry Rawls
President and CEO
Finisar Corporation

John Thompson
Chairman. President and CEO
Symantec Corporation

The difficulties are amplified for Internet companies, which may face financing issues and huge drops in their market caps. "The complete and utter collapse of the e-tail sector obviously affected us or anyone who put any money whatsoever into the consumer Internet sector," said panelist Mark Goldstein, former chief executive of Bluelight.com, an Internet retailer spun out of the Kmart Corporation.

"But in terms of deal flow, it became just somewhat outrageous toward the fall of last year with companies going out of business at the rate that we saw," Mr. Goldstein said. "I would come into work and I would have CEOs literally stand at the front door of my office giving me business plans, calling me, coming to my house. And the valuation of the companies would start at, 'Well, I'd take $100 million.' At the end of the day it was, 'Oh please, just take my three engineers,'" he said.

Symantec Corporation is a software company that has historically grown through acquisitions, primarily of other consumer software brands and titles. Now the company is using acquisitions to reinvent itself as an enterprise software company, serving corporate customers. "We will stick to our strategy, which is to fundamentally shift the focus of our company away from the consumer market toward the enterprise and use this wonderful consumer franchise as a generator of cash," said panelist John Thompson, Symantec's chairman, president and chief executive.

In today's volatile climate, "the issue for us now is about discipline because when you see that many deals, people want to do deals," Mr. Thompson said. "You have to make sure that the team executes with the same discipline in their due diligence process and isn't trigger-happy because something that we looked at a year or so ago that was astronomically high, now all of a sudden is buyable at a low price," he said. "Maybe it's not the right time."

For companies with strong cash flow, like Symantec, the volatility means that deals can get done today at more attractive prices. DMC Stratex Networks has taken advantage of the volatility to acquire companies that help it transform itself for new markets.

In this environment, "the problems are exposed, and potential deals are coming at us right now at an incredible rate," said panelist Chuck Kissner, chairman of DMC Stratex. "We have had to put additional personnel on just to try to filter the opportunities that are out there, especially now that the valuations are more realistic at this point. So I think that it is true, that being opportunistic is the way to go," he said.

But that doesn't mean the company takes every deal that comes its way. "After looking at many opportunities and implementing several of them, we are down to a filtering process that I think works pretty well," Mr. Kissner said.

"It is quite pragmatic in terms of financial drivers, but foremost it's a deal that fits our strategy. If it fits our strategy, then the next question we are going to ask is, 'Is it sufficiently accretive in a reasonable period of time, and does the target immediately help to strengthen our balance sheet?' Because maintaining the balance sheet is a key focus if we are to navigate the inevitable cycles in our business. Then the ultimate test that seems to work really well is we ask anyone in the company, such as our employees working right on the factory floor, if they think that doing a deal like this makes sense to them," he said. "It helps to ensure we don't get too enamored about a specific deal without thinking through what it will take to make it successful."

Of course, during volatile times many companies still prefer to focus on internal development. Panelist Jerry Rawls, president and chief executive of Finisar, found inspiration from that noted philosopher Yogi Berra: "one time he said something like, 'Baseball is 90 percent mental and the other half is physical.' In business, especially in these times of volatility, our business is 90 percent customers and the other half is employees and products," he said.

"For us to try to weather all the volatile happenings around us and the decline in capital spending, our focus has really been on customers — trying to make sure that we touch them in as many ways as we can," Mr. Rawls said. "We listen to them as carefully as we can, and we try to make sure that we are developing the right products for them and are engaged with all of their future plans. So, yes, we are paying a lot of attention to our employees. Yes, we are developing a lot of new products. But like always, it is the customer focus that I think is going to serve us well," he said.

EXCERPT FROM CLOSING KEYNOTE

Scott McNealy
Chairman and CEO
Sun Microsystems

"The tough question is, in your own organization, what percentage of the structured and unstructured data — the applications, reports and transaction environments — is on a Web server accessible with a single sign-on, secure, authenticated conditional access from any device to all of your constituencies from a browser? The answer is probably somewhere between 0 and 20 percent. At Sun, we are 80 to 95 percent browser-based.

The key is to get your folks into an online directory — all your employees, your shareholders, your suppliers, your customers, your resellers, your developers, your equipment, any of your constituents — so that you have single sign-on. Most of you have all of your constituents somehow online in about 50 databases, and you've described them all differently.

You've got to get them all into a common LDAP directory. That is job #1. That is the most important IT job you have in your company. And your CIOs are too busy spending time running the network and running the data center. Outsource those immediately. We outsourced all of our printing and copying to Kodak. We outsourced our network to AT&T. We outsourced our data centers to EDS. You know what? Those three companies do that for a living. We do chip design and software programming for a living. We don't run data centers. Outsource that. Focus on what you do.

Now go and ask your CIO: 'How many individual databases, applications, reports and transaction environments do we have?' You know what the answer will be? 'Beats the heck out of me. I'm just the CIO' — meaning Chief Infrastructure Officer or Chief Integration Officer — but they are not spending any time being Chief Information Officer. They are supposed to know how many DARTs they have.

I can't help you sit down and actually read your reports. You are going to have to do that because that is actually the art of being a CEO. But the science of being a CEO is being able to get at all of this information."

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BROADVIEW

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