

CEO SUMMIT

2008 | 10TH ANNUAL

celebrating 10 years

Leading the Global Enterprise: Decisions at the Top

An invitation-only group of CEOs and chairmen met recently in Pebble Beach to discuss the pressures and challenges of making the kinds of "bet the business" decisions that are critical to the growth of their companies — and to their very survival.

The essence of the chief executive's job is to make the right choices in the face of uncertainty. Shareholders and boards can be impatient, markets are unforgiving, and the pace of change is unrelenting. At the 10th Annual CEO Summit in Pebble Beach, presented by Booz & Company, Jefferies & Company, and Heidrick & Struggles, 70 chief executives and board chairmen shared their viewpoints and observations on some of the toughest leadership challenges, including fostering innovation, corporate transformation and CEO succession.

Looking back over a decade of previous Summits, Jim Bethmann, a managing partner with Heidrick & Struggles, noted in his introductory remarks that the overall themes had changed — from speed and acceleration in the heyday of the dotcom boom, to resilience, security and survival during the tough markets early in this decade, and, more recently, to globalization and growth. But the one constant for CEOs is the need to make crucial decisions under intense pressure.

Managing transformation and change



Bill Nuti, Chairman and CEO of NCR Corp.

With credit markets tightening and economic uncertainties mounting, many CEOs are facing decisions about how to best drive transformations to build value. Keynote speaker Bill Nuti, chairman and CEO of NCR Corp., discussed the common pitfalls of change management programs. Since he joined NCR in 2005, the company's stock has appreciated more than 50 percent as he architected organization and process changes to position NCR for growth and profitability. One common mistake, Nuti said, was failure to clearly communicate the vision of change.

"The very first thing is to establish a sense of urgency. You have to communicate the case for change. People need to know the reasons."

— Bill Nuti, Chairman and CEO, NCR Corp.

"You can't just do webcasts or email messaging. You have to get out in the field and get the entire organization involved." Another common error, he said, is failing to keep the vision clear and simple. "The organization," he said, "has to be able to digest what you're communicating." "Decisiveness is an important element in driving change effectively," said panelist Bob May, CEO of Calpine Corp., who spoke on a panel titled "Getting Results: From Decision to Successful Action." Said May: "Once you've made a decision, you need to stick with it." But since no plan is going to be perfect, May also said you also need to include feedback mechanisms so that you can modify your course when necessary. Drugstore.com CEO Dawn Lepore agreed. Since joining the company in 2004, Lepore said, the company shifted its focus

from online prescriptions to over-the-counter beauty and health items. Revenues at the beauty.com web store grew last year by 45 percent and revenues for the over-the-counter segment grew by 19 percent. "You need to communicate to your team that you are going to watch the metrics as the transformation continues, and make course corrections where needed," Lepore said. "You have to have the courage to stay the course on things you truly believe in, and the courage to say 'I was wrong' on things that don't work."

Keynote speaker Jim Goodnight, CEO of



Jim Goodnight, CEO of SAS Institute Inc.

SAS Institute Inc., noted that more than 80 percent of new firms in the U.S. end up failing, and that about 10 percent of all American companies fold each year. "To survive — and even thrive — in today's dynamic economy requires the ability to identify changes and opportunities, and then quickly adapt to them," Goodnight said. At SAS, which has posted 32 consecutive years of growth and profitability, Goodnight said the key to success has been managing for creativity by keeping workers intellectually engaged, making managers responsible for creativity, and engaging customers as creative partners.

Fostering innovation: build or buy?

Innovation is widely viewed as one of the surest ways to build competitive advantage, but CEOs need to choose whether the best route for innovating is through internal or external means. Keynote speaker Michael Capellas, chairman and CEO of First Data told the group: There's clearly a place for both buy and build, and M&A has been a successful means for entering new markets where the company doesn't have critical mass. However, it's equally important to have the ability to extend products and services in your existing core markets.

"We have to find a way to drive innovation back into our capital markets and be bold enough to manage through short-term swings in quarterly earnings."

— Michael Capellas, Chairman and CEO of First Data

Running a privately held company such as First Data, Capellas, has made a big difference in how he thinks about long-term investment.

"You have the ability to say, 'I am not worried about quarterly earnings, and I'll make decisions based on future growth.' This frame of mind can affect you in a most liberating way." Previously, Capellas had worked at publicly held companies, including as CEO of CompuLink and MCI, and as president of Hewlett-Packard.



Michael Capellas, Chairman and CEO, First Data

One reason that many companies seek innovation via acquisitions, said panel moderator Paul Desinger, a vice chairman of Jefferies & Company, is that in-house research initiatives at big companies often have not worked well in the past. "People believe the fact that we don't have big research labs anymore, like Xerox PARC and Bell Labs. But while great research came out of those labs, much of the commercialization of product actually benefited other companies like Apple."

George Klaus, executive chairman of Epicor Software, noted that his firm had grown from \$30 million in sales to over \$500 million over the last 12 years, through organic growth and targeted acquisitions. Klaus stated that two kinds of M&A activities had been particularly successful: "One is a 'Game Changer' — moving into a new market or expanding your company in a truly new way; the other is the 'Tuck-In,' where you're filling a gap in your product line or portfolio." For panelist Steve Singh, chairman and CEO of Concur, in-house development and M&A can complement each other. One problem when expanding into a new market, he said, is that management may not fully understand the new market. "For that reason, I like the idea of internal teams starting to build out products in that area and starting to understand

the customer and market requirements," Singh said. "Then you can use M&A to augment it."

Mike Quillen, chairman and CEO of Alpha Natural Resources, noted that potential shareholder reactions are considered when management is evaluating acquisition candidates. "We have a strategic framework for growth that we have communicated to our shareholders and the Street in general," he said, "and there have been instances where we looked at an opportunity and it did not really fit the story we were



Mike Quillen, Chairman and CEO, Alpha Natural Resources

Getting CEO succession right

One of the most important and sensitive decisions for company directors and CEOs is arranging a smooth transition when the chief executive officer steps down or needs to be replaced. Keynote speaker Bruce Chizen, the recently retired CEO of Adobe Systems Inc., shared his experience in helping facilitate his own succession. Chizen, who served as Adobe CEO from 2000 to 2007, transformed Adobe from a desktop software business to a leading technology platform provider, while maintaining the company's legendary culture and brand.

"If the company is doing well, and you have an internal candidate you know well, why take the risk of going outside the company? There's something to be said about having somebody who understands the culture, the organization, the products, the technology and the customers."

— Bruce Chizen, Retired CEO of Adobe Systems Inc.

Chizen said that it's important for the board to have an ongoing discussion about succession at least once per year. "If it doesn't happen until it's needed, the board will panic. At Adobe, it was much easier for me when it got real because we had had these discussions." Adobe created the role of chief operating officer in 2005 to prepare Chizen's successor — current CEO Shantanu Narayen — and the two created a "two in one box" relationship for running the company, with Narayen taking on increasing responsibilities and a greater role in dealing with the board. For this approach to work, Chizen said, there needs to be a relationship of trust, as well as clarity in the roles of the two executives.

But while a seamless transition like Adobe's is ideal, successions are often not so smooth.

That was the conclusion of a panel session and roundtable titled "Deciding When — And How — to Fill Your Own Shoes." Bill Roper, president and CEO of VeriSign, joined the company's board as an outside director in 2003, and became lead independent director in 2005. He recounted how he went to what was supposed to be a one-day board meeting on a Tuesday in May 2007. "I came home on Saturday night to get some more clothes and go back, and told my wife I was chief executive officer of the company," he recalled, "so it was not handled exactly with a lot of order and precision." Said Stephen Miles, the managing partner at Heidrick & Struggles who



Jim McConn, CEO of 1-800-Flowers.com

led the discussion: "Things happen, and you have to deal with them. The question is, do you have a process in place that's strong enough and robust enough to select the best successor?" For panelist Bob Haggerty, chairman and CEO of Polycorn, "One of the biggest things we've done is to have the board get to know and understand the executive staff, so they're not just seeing them in the context of a PowerPoint® presentation or a performance review."

Given the strains visible today in the economy and in the capital markets, the coming year seems certain to be filled with uncertainty and risk. Although CEOs can't know the specific challenges that will arise, they can be sure they will be called on to make the kinds of tough decisions that were examined at CEO Summit 2008.

The Need for Energy Policy



John Hofmeister, Former President (Retiring) of Shell Oil Company

CEOs attending the CEO Summit heard an analysis of the current energy situation — and a critique of U.S. energy policy — by John Hofmeister, former president of Shell Oil Company. Hofmeister, who is leaving Shell in June, plans to continue to advocate for a sound national energy policy via a consulting company he is forming, "Citizens for Affordable Energy." Energy is the key challenge facing business and society in the 21st century, Hofmeister said, in a sobering assessment of the current situation.

An urgent task for policy, from the perspective of Shell, is to increase domestic supplies of traditional fossil fuels, since renewable energy sources will not provide meaningful supplies for decades. Policy steps should include permitting oil and gas drilling offshore and on federal lands, as well as tapping "unconventional" oil shale reserves and developing "clean coal" technology.

At the same time, Shell urges faster development of alternative fuels such as hydrogen and new generations of biofuels, as well as solar, wind, nuclear, hydroelectric, and geothermal energy. In addition, the U.S. should take the lead on controlling greenhouse gas emissions, and pursue policies to improve efficiency across all forms of energy use.

Hofmeister's presentation initiated a lively debate at the Summit, touching on the tensions between energy policy and environmental concerns around the world, the lack of debate about energy in the current Presidential campaign, and the possibilities for technology to solve future energy problems. "While many in this group didn't agree with everything in the presentation," said Eric Spiegel, senior vice president and managing director of Booz & Company's Global Energy Practice, "there was widespread agreement that there is probably no issue that has more importance today, and that we have to come up with some feasible solutions quickly."

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