

The CEO Forum

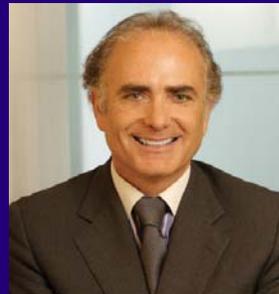
The Quarterly Publication of "The CEO Show with Robert Reiss"



Craig Barrett
Chairman & CEO (ret)
Intel Corporation



Greg Babe
President & CEO
Bayer Corporation



Calin Rovinescu
President & CEO
Air Canada



Nancy McKinstry
Chairman & CEO
Wolters Kluwer



Chris Artinian
President & CEO
Morton's Restaurant
Group

In this Issue CEO Interviews with:



Bill Roedy
Chairman & CEO (ret)
MTV Networks
International



Thomas Watjen
President & CEO
Unum



Patrick Connolly
President
Sodexo Health Care



Jeffrey Joerres
Chairman & CEO
ManpowerGroup



David Sable
Global CEO
Young & Rubicam

The CEO Forum

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Companies In This Issue



Intel Corporation, is an American multinational semiconductor chip maker corporation headquartered in Santa Clara, California, United States and the world's largest semiconductor chip maker, based on 2010 revenues of \$43.6 billion. Intel was founded on July 18, 1968, as **Integrated Electronics Corporation**. Founded by semiconductor pioneers Robert Noyce and Gordon Moore and widely associated with the executive leadership and vision of Andrew Grove, Intel combines advanced chip design capability with a leading-edge manufacturing capability. It has 96,500 employees worldwide. Intel is listed on NASDAQ with the symbol INTC.



Bayer Corporation, headquartered in Pittsburgh, is a subsidiary of Bayer AG, an international health care, nutrition and high-tech materials group based in Leverkusen, Germany. The company's products and services are designed to benefit people and improve their quality of life. The Corporation is committed to the principles of sustainable development and to its role as a socially and ethically responsible corporate citizen. Economy, ecology and social responsibility are corporate policy objectives of equal rank. In North America, Bayer had 2010 net sales of EUR 8.23 billion (\$10.86 billion) and employed 16,400 at year-end. For more information, go to www.bayerus.com.



Air Canada is the 15th largest airline in the world and the largest for passenger services in the Canadian market, the Canada-U.S. trans-border market and in the international market to and from Canada. Its global network provides service directly to 60 Canadian cities, 57 destinations in the United States and 63 cities in around the world. Air Canada and its partners operate 1,530 flights each day. In 2010, Air Canada and Air Canada Express carried over 32 million passengers, to 178 destinations on five continents. In 2011, Air Canada was ranked 'Best International Airline in North America' in a worldwide survey of 18 million airline passengers conducted by independent research firm Skytrax for its 2011 World Airline Awards.



Wolters Kluwer is a market-leading global information services company. Professionals in the areas of legal, business, tax, accounting, finance, audit, risk, compliance, and healthcare rely on Wolters Kluwer's leading information-enabled tools and software solutions to manage their business efficiently, and succeed in an ever more dynamic world. Wolters Kluwer had 2010 annual revenues of €3.6 billion, employs 19,000 people, and maintains operations worldwide. Wolters Kluwer is headquartered in Alphen aan den Rijn, the Netherlands. Its shares are quoted on Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices.



Morton's Restaurant Group, Inc. (NYSE: MRT) is the world's largest operator of company-owned upscale steakhouses. Morton's The Steakhouse restaurants provide the Gold Standard experience whether guests dine in our bars, the main dining room or the private dining rooms. The Company owns and operates 77 Morton's steak houses located in 64 cities in 26 states, and in Puerto Rico and six international locations (Toronto, Singapore, Hong Kong, Macau, Shanghai and Mexico City), as well as Trevi, a Las Vegas Italian restaurant.

Calin Rovinescu

President & CEO

Air Canada



Making Air Canada Fly Higher

Calin Rovinescu was appointed President and Chief Executive Officer of Air Canada in April 2009. From 2004 until his re-joining Air Canada, Mr. Rovinescu was a Co-founder and Principal of Genuity Capital Markets, one of Canada's leading independent investment banks.

Mr. Rovinescu first joined Air Canada in 2000 as Executive Vice President, Corporate Development & Strategy, where he was Chairman of, and had oversight for many of the airline's businesses including loyalty management (Aeroplan), regional carriers (Jazz) and maintenance, repair and overhaul (ACTS). He also had overall responsibility for a number of corporate functions including Legal, Information & Technology, E-Commerce, People, Labour, Government Affairs, Communications, Alliances and Corporate Secretariat. In addition, Mr. Rovinescu held the position of Chief Restructuring Officer during the airline's 2003-2004 restructuring.

Prior to 2000, he was the Managing Partner of the law firm Stikeman Elliott in Montreal, where he practiced law for over 20 years in the areas of corporate finance and mergers and acquisitions, and was a member of the firm's Partnership Board and Executive Committee.

Mr. Rovinescu received his LL.B from the University of Ottawa in 1980, his LL.L. from the University of Montreal in 1978, and his D.E.C. from McGill University in 1974. He is a member of the Quebec and Ontario Bar Associations. Mr. Rovinescu is a member of the IATA Board of Governors and also serves on the Board of Directors of several private and non-profit corporations including the McGill University Health Centre.



“We were recently named the best international airline in North America by Skytrax - the second year in a row .”

- Calin Rovinescu

Robert Reiss: Calin, not everyone knows the Air Canada brand.

Calin Rovinescu: We are the fifteenth largest air carrier in the world. And with that comes a great franchise. We were recently named the best international airline in North America by Skytrax - the second year in a row that Air Canada has been placed among the very best airlines in the world.

What did they base that on?

Skytrax does a passengers choice survey of about 18 million frequent flyers world wide. This annual survey is considered a key benchmarking tool for passenger satisfaction levels of airlines throughout the world. It's based on a combination of inflight product and customer service as well as route network. We serve some 175 destinations and so we have a big international franchise. Last year we also won several other prestigious industry awards, including the best flight attendants in North America, the best on-board product, and the best airline website. So 2010 was a banner year in many respects for us.

It sounds like Air Canada is the best kept secret in America ...

Thank you, Robert, it is – but we're trying to change that. In fact, a big part of our strategy is to continue attracting traffic into Canada to connect onto our global network, including from the United States.

It's obviously critical because Canada has a population of about 30 million people. So you obviously have to reach out beyond Canada to grow your business.

Correct. In fact, when we look at some of our largest growth markets, they are markets like Asia, China in particular, and Latin America. In the airline business, we refer to these markets as “sixth freedom traffic,” meaning traffic that we attract from another country, such as the United States, bringing it through our Canadian hubs, primarily Toronto but also Vancouver and Montréal, and then connecting through to the rest of our international network. Asia has been a big growth market for us.

Calin, everything sounds pretty rosy now. But I know when you took over as CEO in April of 2009 it was not such a pretty picture.

That's right. I became CEO on April Fools Day, 2009, which was an auspicious day to start. Air Canada was going through a rough patch. Our financial



“We couldn’t solve pensions until we solved the collective labor agreements. And we couldn’t solve the collective labor agreements until we had some stability in our liquidity, our funding.” - Calin Rovinescu

liquidity levels were depleted. We had the 2008 spike in fuel prices. You may remember that at that time jet fuel was approaching a \$140 a barrel.

The consequence of that was it put pressure on credit card processing arrangements, which are the life blood of an airline, because you count on future bookings which are typically booked through credit cards. We were starting to hit the covenants under those credit card processing arrangements and might no longer have had access to them. So we were struggling with limited liquidity.

As a result of the weakness in the equity markets and the low interest rates, our pension deficit - we have a “defined benefit” program in Canada - was approaching \$3 billion. All of our collective agreements were expiring that summer. So we were facing a mountain of challenge. The way the liabilities under this pension plan were structured in and of itself could have pushed us into bankruptcy. So, we had to deal with these challenges straight up and in real time.

It sounds like, with the challenges of the recession, the gas spike, and low funds, what you needed was a stable labor environment. But to get labor stability you also needed changes to pension funding. But then to get changes to pension funding approved, you needed to increase business. So you were in this vicious circle. What was the first thing you did when you came in?

You know Robert, the analogy that I often used at that time was the Rubik’s Cube saying that we needed to work on all colors of the Rubik’s cube at the same time. We couldn’t solve pensions until we solved the collective labor agreements. And we couldn’t solve the collective labor agreements until we had some stability

in our liquidity, our funding. But we couldn’t get funding until we solved our credit card processor arrangements, and we couldn’t solve our credit card processor arrangement unless and until we had liquidity.

Of course, people remember in those days that debt and equity markets were largely closed to most companies and certainly to airlines because everyone faced a credit crisis at the time. Banks were just not lending and the equity markets were in free fall. So the equity of Air Canada was trading at near option value.

What were your first steps to turn the company around?



Well the number one thing we had to establish was whether we had a franchise that was worth saving. Were we better dead or alive? There was a lot of media speculation when I came in that perhaps I was going to restructure the company and put it into a bankruptcy process and it was not bad for that reality check to be out there. After all, this is a

big organization.

With your 22,000 employees, and it being a former crown organization there was an embedded structure that probably helped you in turning it around.

Exactly. Right now, we are closer to 26,000 employees, with 29,000 retirees. And we serve 33 million passengers a year. So this is a big organization that has many, many stakeholders. The existence of the reality check on survivability was not a bad thing to have coming in because you had to ask the question, do you want to have a defined benefit pension plan? If so, how are we going to salvage that?



And for labor, that's the Holy Grail. No one ever wants to touch the pension.

Nobody wants to terminate the plan and I made it clear that it also was not my objective to terminate it. Using the Rubik's Cube analogy, I was going to try to get all of the colors lined up as much as I could, but I didn't have to get the last cube absolutely lined up. In other words, if I've got 80% of it, I would have been happy.

What we did was negotiate a 21-month moratorium on what I referred to as past deficit funding payments. Meaning that we are going to continue making current service payments on the pension fund but we were not going to make deficit payments for 21 months. Then we would have six payments for three additional years thereafter.

So, we basically had five years of pension stability. Why was that important? Because then it enabled us to talk to lenders and other financiers to help solve some of the other problems.

That took care of one side of the Rubik's Cube.

Correct. Next, I needed to go and tackle the labor contracts that were expiring in the summer.

As we look at the second part of this Rubik's Cube ideally I would have loved it if I could get a five-year labor contract, too. But I couldn't in all conscience go to our unions and say, "I'm going to get you to commit to five years at the worst time in the last number of years at this company." I know how to play a good fair ball game and that would not have been a fair thing to ask.

So under the 80/20 rule, all I wanted was to solve 80% of the issues I needed to deal with. We were able to negotiate a 21-month extension to the labor contracts, with the view that we'd have another negotiation in a more normalized economic environment, not at the bottom of a recession with fuel prices damaging us and so on. That then created some more stability. With those two pieces in place then we said, "Okay now we need \$1 billion." We needed \$1 billion, by the way, by the end of July! So I came in April and now we needed \$1 billion by the end of July because otherwise, you would have had to make some funding payments.

“Using the Rubik's Cube analogy, I was going to try to get all of the colors lined up as much as I could, but I didn't have to get the last cube absolutely lined up.”

- Calin Rovinescu

We needed to get government modifications to the funding rules effectively to bless the arrangement we had concluded with the labor unions for the moratorium. All of that had to come together by the end of July, too, or the company would have been in default. We managed to get a relatively non-conventional group of financiers. Our largest shareholder pitched in something. Our loyalty partners and GE, which is our largest aircraft manufacturers, all came to the table, and we were able to raise that \$1 billion before the end of July.

You talk about this grim picture in April of 2009, handling the Rubik's Cube analogy and yet somehow in 2010, you're the most noted airline in all of North America. Talk about how you did that?

When we looked at the way we were going to move from 2009 and the challenges we faced to achieve success, we had to start off with the premise that the glass was at least half full and we had a really strong franchise.

We set four priorities. For an organization that has 26,000 employees and 33 million customers per year, four priorities don't sound like a lot, but I wanted the entire organization to focus on just four things.

We created something called our Cost Transformation Program, CTP. We were looking at \$500 million in reduced costs and new revenues which we've now increased to \$530 million on an annual basis. This objective is entirely through process improvement, changes to the way we do our business, changes from revenue policies, through better terms with vendors, etc., but not through wage give backs. I was not going to ask employees to reduce their wages. Last year we exceeded our target which was \$300 million. We

reached \$330 million. In 2011, our target was \$530 million in annual sustainable benefits.

Our second priority was "Re-engage with the customer". When I arrived in 2009, it was my impression that the customer was disengaging from Air Canada, that we were largely starting to view the customer as a commodity. As a legacy carrier, we can't afford that. We have some strengths through our legacy, such as our network, such as the product, and so we said, "We're going to capitalize on that."

We made some early changes to our customer interface. I personally went across the country and met with our highest ranking customers, the ones we call our "Super Elite" customers, the ones who have the highest status in our loyalty program. I wanted to hear what they had to say. We had meetings with them across the country. Then we started implementing a series of changes to further re-engage with our customers. We did this in call centers, on-board, basically throughout the entire organization. There were real, solid, tangible improvements.

Third, we said we're going to strive to be an international power house. The brands of Canada and Air Canada are very strong internationally. So we said we need to capitalize on that. We have a great business to Asia, Europe and Latin America. So we are now focusing on that part of our business which means we need to attract traffic from outside of Canada, as I've said. That is now a significant driver of our business. In 2010, our traffic to Asia increased by 26% over 2009.

Then, fourth and finally was "changing the culture". For an organization like Air Canada, you have to remember Air Canada was a Crown corporation. It was owned by the government most of its life – until 1989. Air Canada is going to be 75 years old next year. We



wanted to change the culture of an organization that started life as a Crown corporation to become more nimble.

But you had no money to do that.

No, we had no money to do that until the end of the year. For us to move forward, we needed to be more nimble. We needed to have the best that an entrepreneurial culture could give. Culture that some of the low cost carriers have. We said we expect that type of mentality to exist throughout the organization, whether you're on the front lines, or whether you're in the boardroom, or whether you're raising capital. We needed to just get on with it.

How did you get that culture imbedded?

To change a culture for this many people, you have to have something that is more than just a motto. We needed to make examples of success stories because one of the great drivers of culture change is celebrating success. As we started having success with customers, as we started having some good reactions from raising capital from shareholders, we tried to allow success to breed success. We attributed that to a different behavior that began to develop in the company. Our stock price tripled in 2010, and so we looked ahead 2011.

Your stock price tripled?

Yes, it tripled. So we looked back at 2010 and said: "We really took care of our customers!" Then we won the best airline in North America.

So, you made all this money but did the employees also make extra money?

Yes, the employees did. We declared a series of bonuses for our employees, for the first time ever. We actually allocated \$500 worth of shares to each and every one of our employees, all 26,000 of them. All together it represented about \$55 million worth of bonuses that we paid in 2010, which is the highest ever in the history of Air Canada.

This sounds remarkable. Are you still catching your breath?

We're quite pleased but, unfortunately, the price of fuel is not allowing us to have too long a celebration. I just said to our leadership team the other day, "that

was then and this is now." We're now facing nearly record high fuel prices again based on what's going on in the global environment.

What do you see as the future of the airline business?

It starts off with how some successful legacy carriers, like Air Canada, can manage to control their costs compared to Low Cost Carriers that have been formed over the last decade. Typically, we'd have a 35% cost disadvantage and that disadvantage is the result of the level of complexity in our business, a unionized work force, a defined-benefit pension plan, inter-airline arrangements with our various partners, and customer amenities such as lounges, loyalty programs, etc.

We need to find a way, as legacy carriers, to convert those attributes into strengths rather than just cost factors. As we go forward, we will continue to see new carriers crop up. That's just the nature of the beast because there are virtually no barriers to entry in this industry. Aircraft are easily acquired and easily financed because of the fact that they have a residual value.

That is why you see as many startups as you do. Part of the future will be to ensure that you can have consistent long-term business plans with a legacy model. We showed in 2010 that we're well on our way towards that, and that has to be a big driver for the future.

Second, I'd say the industry in most Western countries has been crippled by the huge rates, fees, and charges that are imposed on the industry by governments and government agencies. In Canada, something called a "ground rent", is a fee that airport authorities pay to the government of Canada for the privilege of being able to receive airplanes there. That, of course, is passed on to us and we then pass it on to our customers.

So, between the ground rent, the landing fees, the air navigation charges, the security surcharges, and the fuel excise taxes, we basically have an industry for all practical purposes that is treated as if it is a sin to fly as opposed to being an economic stimulus. It is akin to tobacco or alcohol with their outrageous taxes. The countries that have been the most forward-thinking are those that understand what a big economic driver aviation can be, and have been very successful.

Whenever we talk about success, we need, by definition, to talk about the Gulf States which are the third major driver of the future. We have interesting competition that is emerging. We have in the world

three global alliances: Star Alliance, of which Air Canada is a founding member One World Sky Team, and now we have the Gulf Carriers, too. That is basically how the battleground for world air transportation competition is shaping up.

Most of the airlines of the world are deciding whether they want to be independent or whether they want to be part of one of those three alliances, or somehow be available to partner with all other carriers or stay completely independent. The world has become a much more networked place, it's hard for successful carriers to remain completely independent without some form of partnerships.

The Gulf Carriers have been successful in large measure because their governments have understood the value of aviation. What they've managed to do is not to tax them and drive them into debt, but actually help them by building, at the government's expense, massive airports and facilities, the kind of infrastructure that is conducive to building global gateways.

You see in places like Dubai, Abu Dhabi, and Qatar outstanding infrastructure and we see the same thing in Shanghai, Beijing, Seoul and Singapore. When I look at operations, these are the kind of operations that we need to be aware of how this industry will be successful going forward.

You've taken an organization that was in an incredibly challenged situation, and you turned it around within one year to be the top airline in North America. How would you define some of the core tenants of your leadership philosophy?

I'd say that lots of great ideas fail by not paying attention to the various stakeholders that are involved in the decision-making process. I was going to be clear with them about my vision of trying to lead from the center as opposed to direct from the top down.

Leading from the center, I have shareholders above me. I'm going to have beside me other leaders, other managers. I'm going to have employees who report to me. I'm going to have suppliers. How do you convert a supplier into a real partner? We've talked in the past about the exponential power of partnerships with suppliers. Can you ask a supplier for a reduction in the

cost? You can if the supplier understands what you're doing.

The communication strategy of ensuring that all stakeholders have a perspective and a stake in the survival and prosperity of Air Canada was a big driver. Secondly, too many people want to take the last nickel off the table; they want to have a 100% success. My own version of the 80/20 rule is, I'm going to be satisfied if I get 80% of what I want to get in most cases, so I didn't even try to get the last 20% in all cases. I was going to be happy with the 21-month deal that will see me over this. I was going to be happy with the pension arrangement that avoided our having to make the kind of payments that would have crippled us in 2009. I wanted to live to fight another day, not necessarily solve everything.

My third tenant is, in many cases, if I have my foot in the door, I'm going to leave it there until I can get the rest of my body in the door. Another one is if you make a mistake, fix it. So I like to say, "eat your crow when it is young and tender; it's the best way of dealing with crow."

Calin, it was great having you on the CEO show.

Thank you, Robert. I enjoyed it very much.



Robert Reiss and Calin Rovinescu

Interview aired 01/30/2011