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Lessons from a thriving CEO
Dr. Larry Senn is founder and chairman of Senn Delaney, an international firm that has partnered with hundreds of CEOs and their executive teams, including Fortune 500 firms, to create high-performance, thriving cultures to enhance spirit and performance. Author of Winning Teams-Winning Cultures, Larry will publish his latest book, Up The Mood Elevator, in 2012.

There are a number of great lessons for CEOs who want to be Thriving leaders and create Thriving organizational cultures in the interview with Yum! Brands Chairman and CEO David Novak in this issue of The CEO Forum. Any CEO who can deliver 10 consecutive years of 13-percent-plus earnings growth has a message for all of us who run companies. If you can do that with 1.4 million employees in 117 countries, the global lessons are even stronger. When asked how he accomplished that, David says: “…the single highest priority I had was to really create a global culture where we can galvanize around the behaviors that we know will drive results in our industry.”

Study after study has confirmed that companies like Yum! Brands that align their cultures with their strategies outperform those that do not by a wide margin. A 2011 McKinsey study showed a more than two-fold difference in EBITA and in book value growth in top-quartile versus bottom-quartile cultures. That kind of alignment around a carefully defined culture is what David meant when he stated how important it is to “galvanize around the behaviors that drive business results.” Those behaviors were called the How We Work Together Principles when we first developed them at Yum! Brands, and they later became the How We Win Together Principles. Both emerged from insights gained in facilitated offsite sessions with David and his executive team.

David also said, “We primarily focus on getting results through people.” He deeply believes you do that when people feel recognized and valued and that they are making a difference. When we first began work with Yum! Brands some years ago, he asked us to help him build a global recognition culture. He has done that far better than most CEOs.

A Thriving culture and the Mood Elevator
Why are these lessons on being a Thriving CEO so important? Senn Delaney has been conducting research with several universities over the past few years on a leadership mindset we call Thriving. The three traits we identified that define Thriving are an accurate predictor of superior performance and success. Evidence of Thriving in David and at Yum! Brands comes through in this The CEO Forum interview.

One Thriving trait is vitality. Simple defined, vitality means living a healthy, positive set of values in community with others. Anyone visiting the Yum! Brands headquarters can feel the energy and vitality.

David talks about Senn Delaney’s concept the Mood Elevator as an important concept for a leader to create positive energy. As a CEO who is acutely aware of the power of the Shadow of the Leader, he says you need to check your Mood Elevator when you come in the door. You are casting the wrong shadow if you are low on the Mood Elevator at irritated, bothered or angry. David says you need to at least get yourself up to the curious level and you are at your best when you can get up to grateful level. The How We Win Together Principles, the Mood Elevator and David’s continual focus on positive energy and recognition of people exemplify that vitality aspect of Thriving.

A second predictor of Thriving is a learning and growth mindset. David’s commitment to learn and to teach is evidence that he has that growth mindset. His best-practice visits to Apple and Google and periodic meetings with Warren Buffet are all a part of a growth and learning mindset that enables him and Yum! Brands to execute on a committed goal of at least 10-percent growth each year and continual improvement in operational excellence. He personally commits big blocks of time to teach and mentor other Yum! Brands leaders. This caused Buffet to say that David is “the top leader in terms of teaching people.”

The third predictor of Thriving is purpose. You might not expect a higher purpose in a global fast-service restaurant company, but David and Yum! Brands are very purposeful, and have a stated vision of being a “Defining Global Company That Feeds the World”. They live this purpose through the Yum! Brands Foundation, a partnership with Louisville’s largest hunger relief organization and the Yum! Brands Harvest program, the world’s largest prepared-food donation program. David personally leads and lives by that purpose. He set the example by donating all proceeds from his new book, Taking People With You, to the UN World Food Program.

View a video of David Novak with my lessons on leadership at Senn Delaney’s new thought leadership video channel, SDTV: http://sdtv.senndelaney.com/?p=872.

With purposeful leadership, vitality and a learning and growth mindset, it’s quite remarkable what any leader can do to create a Thriving organization. To learn more about creating a Thriving organization, please contact me at (562) 981-5233, email me at lsenn@senndelaney.com, or visit www.senndelaney.com.
After interviewing about 250 CEOs, I recognized that there is a new category of leadership -- one defining trait that some of the most exceptional CEOs share -- they are transformative. These CEOs can revitalize a company, reinvent an industry and even reboot society.

Several of the CEOs in this issue are clearly transformative. Bernie Marcus as co-founder and 19 year CEO of The Home Depot has now taken a cause of getting CEOs to align and create jobs and advance the economy; Bob Johnson as founder and CEO of Black Entertainment Television transformed media and now through RLJ Companies, a powerful consortium of 15 companies, is creating a platform for equal opportunity in financial ownership of enterprises. Both of these iconic pioneers are utilizing their platforms to reboot society.

David Novak CEO of Yum Brands which includes Taco Bell, Pizza Hut and KFC has over 1.4 million employees focused on feeding the world, while Jim Perdue, another executive involved with chickens, is focused improving our environment. Sara Mathew has led Dun & Bradstreet to a new model of helping businesses make better decisions; Bob Moritz as Chairman of PwC through their consulting business impacts strategic direction of thousands of companies; while Bob Lynch as CEO of Americans for the Arts has proved the arts, which directly impact $166 billion of our economy positively -- and very significantly -- influence every segment of society including cities, education, business and even the military.

Joe Taylor is shifting Panasonic from B2C to be a prominent player in B2B; Lori Dickerson Fouché has helped bring Fireman’s Fund back to its honorable start as a societal driver of good; and Dan Hanrahan has led Celebrity Cruises to transform cruising to be a genuine first-class way for their guests to relax in luxury, be entertained, and perhaps most importantly, recharge their batteries—something every CEO needs.

If you would like more insights on this new leadership category of being a transformative CEO, I have aligned with Jeffrey Fox, author of 11 international best-selling business books, where we co-author, "The Transformative CEO", which McGraw-Hill will publish in June 2012.

I hope you find value in this issue, and in your work focus on the power of being a Transformative CEO.

Transformatively yours,

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David C. Novak is Chairman and CEO of Yum! Brands, Inc., (NYSE: YUM), the world’s largest restaurant company in terms of system units with more than 37,000 restaurants in over 120 countries. Yum! Brands is ranked #214 on the FORTUNE 500 list, with revenues of more than $12 billion in 2011.

Novak devotes much of his time each year to personally train leadership skills to the company’s management and franchisees, emphasizing teamwork and a belief in people that rewards and recognizes customer-focused behavior. His book based on this highly successful program, TAKING PEOPLE WITH YOU: The Only Way to Make BIG Things Happen (January 2012), is a New York Times and Wall Street Journal best-seller and all of his proceeds go to the United Nations World Food Programme.

Prior to leading Yum! Brands, Novak was President at both KFC and Pizza Hut. He also held senior management positions at Pepsi-Cola Company, including Chief Operating Officer, and Executive Vice President of Marketing and Sales.

Novak has been recognized as one of the world’s “30 Best CEOs” by Barron’s for the past two years, one of the “Top People in Business” by FORTUNE and one of the “100 Best-Performing CEOs in the World” by Harvard Business Review. He is also the recipient of the national 2008 Woodrow Wilson Award for Corporate Citizenship.

Novak is on the board of directors of JPMorgan Chase & Co., the Yum! Brands Foundation and World Food Program USA. He is also a member of The Business Council and The American Society for Corporate Executives. He devotes considerable personal support to the United Nations World Food Programme and Dare to Care Food Bank hunger relief.
Robert Reiss: Not everyone in the world knows about Yum! Brands. But you have 1.4 million employees and some of the biggest brands in the world.

David Novak: We have more than 37,000 KFC, Pizza Hut and Taco Bell restaurants in over 120 countries. More than 70 percent of our profits now come from outside of the United States. We have a big booming business in China where we have nearly 4,500 restaurants. We created Yum! Restaurants India as a stand-alone reporting division in late 2011, underscoring the potential scale of India as an exciting emerging market for us. And in Africa we plan to enter seven new countries in 2012. We have a big base of 660 restaurants in South Africa already. So we're truly a global company with a major league business. Obviously, the heritage of our company begins right here in the United States with our three iconic brands.

You've also actually grown for the past ten years at over 13% on earnings per share. How have you accomplished that?

We've focused primarily on getting results through people. We've said from the beginning that our formula for success is build people capability first, then we will satisfy more customers and make more money. In fact, when we first started our company, the single highest priority I had was to create a global culture where we can galvanize around the behaviors that we know will drive results in our industry.

How have you built Yum! Brands' global culture and your people? Is it the same for all three brands or is it different?

The behaviors in our work environment are the same for all our brands. People want to work in an environment where they know that they can truly add value. It means that you've got to be focused on the customer. We call it "Customer Mania". In addition, we have built Yum!'s global culture around the importance of recognition to drive performance. All of our leaders around the world are expected to have their own individual recognition awards.

Did you really give away rubber chickens as awards when you were president of KFC years ago?

Yes. We make recognition fun by giving away awards like rubber chickens, cheese heads and giant taco sauce packets. My award is an oversized set of walking teeth for employees and franchisees who "Walk the Talk" of leadership. Then we focus on going for breakthrough, take the hill teamwork, building know-how, and learning from other people.

You clarified this in your new book called “Taking People with You: The Only Way to Make Big Things Happen”.

One of the things I’ve enjoyed most over the last 15 years is personally teaching a program called “Taking People with You”. My primary responsibility is to develop leaders because I believe, "Show me a great leader and I’ll show you a great business." I have our leaders come to this program and I ask them to bring the single biggest thing they’re working on that will have the biggest impact on our business.

I ask them, "How many of you can get it done by yourself?" The answer is, "No one can. We all have to take people with us." I share everything I know.

"In India, we have this great group of passionate Indian leaders who said, ‘We want to help especially hearing-impaired people’.”

- David Novak
about taking people with you to get results starting with the mindset that you should have, how you develop a plan, and then how you follow through to get results. That’s why I wrote the book, so I could share the insights with everyone. I also have a personal stretch goal of ending world hunger. All of my proceeds from “Taking People with You”, now a New York Times best-seller, will go to the United Nations World Food Programme in conjunction with Yum! Brands global hunger relief efforts.

I guess that’s why Warren Buffett said that he sees you as the top leader in terms of teaching people.

I’m really flattered to hear that from Mr. Buffett because he’s unbelievable.

You’re even more flattered because I read in your book that he eats at Kentucky Fried Chicken, but adds salt.

He loves it. I take him with me every year to KFC when we go visit him and he is such a humble guy. He is one of the wealthiest people in the world but he always wants to take a picture with our crew members. He hands them his wallet and we all have a lot of fun. He is a terrific leader.

You mentioned India and China; first, China. You’ve had dramatic growth there and in 1987 KFC was the first quick-service restaurant in China. So capitalism is growing though your business there. Talk about doing business in China.

We found in China and other international markets, success starts with a great local team that understands the customer base and understands how to do business in that particular country. We’ve been blessed in China to have a tremendous leader, Sam Su, and his leadership team. They’ve been together for over 15 years and they’ve built the business from scratch.

In addition, we have category-leading brands, a highly educated workforce, best-in-class operations and logistics capability, a huge real estate and development team and our own distribution system in China. We have become the leading retail developer there, opening a record 656 new restaurants in the country in 2011.

We’ve taken Western brands like KFC and Pizza Hut and offer Original Recipe chicken and Pan Pizza but also made it relevant for the Chinese consumer by extending our menus with innovative products to fit local taste preferences. KFC was actually the first quick-service restaurant chain to enter China in 1987 and today is the leading QSR with more than 3,700 restaurants in over 700 cities. Pizza Hut is also the leading casual dining brand in China with more than 620 restaurants. Plus we leverage our assets throughout the day there.

Now let’s talk about India. It is also a fascinating story about how KFC actually created special restaurants in India for the hearing-impaired.

One of the things we want to have as part of our company’s mission is we want to be the “Defining Global Company that Feeds the World”. That means having a famous recognition culture where everyone counts, building vibrant brands everywhere and being a company with a huge heart. It starts with our jobs. One of the things that we want to do is to take everybody’s career and give them an opportunity.

In India, we have this great group of passionate Indian leaders who said, “We want to help especially hearing-impaired people.” We have 12 restaurants now that are run by the hearing-impaired in major...
cities in India. I meet with these wonderful employees when I go to India and they’re so passionate and compassionate. All they want to know is how can they grow? So, we’ve put in special systems and processes in our training to help the hearing-impaired actually run a restaurant. Our customers in India really appreciate the restaurants.

That's terrific! It exemplifies a term I've recently learned about called “caring capitalism”.

Employees want to be in a growth company and in a company that knows there’s more to life than just making money. We want to be a company with a huge heart. In addition to what we do in terms of providing great jobs around the world and developing our people, we have created the world’s largest hunger relief effort to raise awareness, volunteerism and funds for the United Nations World Food Programme and other agencies.

You've been talking about corporate culture; where did you really learn your insights about corporate culture?

I always had many ideas on what kind of team and company I’d build if I ever had the chance to do it. At a crossroad in my career, I met a man by the name of Larry Senn from Senn Delaney. He is one of the most renowned corporate culture experts in the world. I received a letter from him saying he would like to come to see me. I met with him in my office and he started talking about corporate culture and how to use it to drive and deepen my organization. He had a number of different exercises that he talked about, one being the “accountability ladder”, and how you had to move up it to be fully engaged.

What does that mean exactly?

It means that rather than being oblivious to what’s going on and saying it’s somebody else’s job, you get to the stage where you get to the top rung of the accountability ladder, which means I’m going to take responsibility and get on with it. He also had things like the “mood elevator”. The worst thing you can do is go to work every day and be angry and not have a positive attitude. You’ve got to at least move yourself up the mood elevator and get in the “curious and interested” state to be an effective leader.

Larry also talked about casting the “shadow of leadership”. This means you have a corporate culture whether you know it or not, just by the shadow you cast by how you act as a leader every day. You set the tone for that culture. He had exercises that would help people internalize these thoughts. These were a lot of principles that I had but I didn't know how to really cascade them in a big organization, but he showed me how to do that. In 1998, we took his exercises and cascaded them around the world to help establish the corporate culture that we now have today. I owe Larry Senn a great debt of gratitude.

What would you say is the connection between corporate culture and customer experiences?

My personal belief is it’s hard to make customers feel good unless employees feel good. If you have an envi-
“In new products, you always want to bring what I call ‘a unique image to a known quantity’.”

- David Novak

Any advice to franchisees?

Franchisees are leaders just like everybody else. You need to own your team. You need to own the spirit. If you've got a restaurant that you walk into and see positive energy, you have to pat yourself on the back. One of the reasons why you've got that is because you've set the right tone. If you walk in and you have lethargy and your team members aren't hustling and there is apathy, look in the mirror first before you start criticizing somebody else.

Let's talk product; my favorite are the crunchy beefy burritos.

Yes, that little crunch makes it a special thing. In new products, you always want to bring what I call “a unique image to a known quantity”. I remember being in the snack food business when nacho cheese was developed. Cheese was the known quantity but nacho was the unique image to it. So nacho cheese was a great brand name for Nacho Cheese Doritos for instance.

Let's talk more about those Doritos. You took it in a whole new direction because you took your team to the supermarket. Talk about that whole exercise of what you did to create innovation.

A lot of times, you can get a lot of great ideas if you get outside of your own area of so-called expertise and look for other areas of inspiration. One of the things I did with my team when I was head of the Frito-Lay account at my ad agency was to take them to the grocery. However, we didn’t go to the snack chips section. We went to the salad dressing section and studied the popular flavors at the time. We realized that the single hottest flavor at the time was ranch dressing, a mainstay today. So we said, "What if we brought ranch flavor to Doritos?" We went to Frito-Lay and recommended they develop a ranch flavor Doritos. Then we went back and looked at nacho cheese Doritos and said, "Hey, they brought a unique image to a known quantity with the nacho and the cheese." I thought, "Okay. How do we describe our ranch Doritos? Let's call them Cool Ranch Doritos."

There's a challenge for Taco Bell because some people perceive it to be messy and not an easily portable food. How do you overcome challenges like that?

One of the things you have to do is get inside the minds of your customers and understand what the issues are. I always believe in answering the question, "What perceptions, habits or beliefs do you have to change, build or reinforce to grow your business?"

For Taco Bell, we started thinking about how we could bring forth portable foods. So we introduced quesadillas at Taco Bell, the hottest new handheld because you could eat it very easily. We introduced a big burrito and called it the Grilled Stuffed Burrito, the heavy duty portable. Then we introduced the product of the year which is the Crunchwrap. These products were geared around portability and that innovation carried Taco Bell's success for about two to three years.

You innovated with Pizza Hut, too, where you went to visit different specialty pizzerias.

We learned a lot from California Pizza Kitchen. We came up with pepperoni lovers and meat lovers. We have lots of innovations around our company.

For example, in Australia, they came up with this big box meal where they've bundled bread sticks and chicken wings and pizza together, which was very successful. We told the team in the United States about it and we launched that here with very good success.

So, what do CEOs need to do to become smarter about innovation?

The biggest thing you need to do is to make sure that you're externally focused, not internally focused. It's important to really look outside for all sources of inspiration that you can find. I call this "pattern thinking" and say, "Hey, if they're doing this over in this industry, how could we apply that same kind of thinking to our industry?" When you do that, you can pick up all kinds of ideas.
When I think about all the restaurants in the world that we don't really run or control, I look at them almost like laboratories. We need to understand what they're doing and what's successful in one part of the world and then say, "Okay, how could we do something like that so it would be consistent with our own brands?" We constantly visit and learn from other companies like Apple and Google.

You just ask them: "Could we come by? Could we visit?"

We do “best practice visits” where we can listen and learn. When we first started the company, we visited the top companies in the world. We really began to build our company around the things that I saw the great companies were doing. I like calling it the “Yum! Dynasty Drivers”. I’ve identified five Yum! Dynasty Drivers, and if you really want to build sustainable growth over time, you do these five things.

You've had failures, too. As a matter of fact, you had the noteworthy distinction of being Time Magazine’s 100 Greatest Failures with Crystal Pepsi. What happened?

It was the biggest idea I ever had but it was poorly executed because I didn’t listen.

Does it bother you still?

If I would have listened to people and made it taste a little bit more like Pepsi, and if we would have taken more time before we rolled it out because we rushed to get it in the market by Super Bowl, I'm sure we could have had a very sustainable, successful new product. But instead, I was a heat-seeking missile that wasn't listening. That's one of the lessons I learned that I share in my Taking People With You leadership program.

So, listening is one of the key tenants CEOs need. What else is most important to succeed as a CEO?

Just knowing how much power there is inside of your organization and spending a lot of time creating the work environment that unleashes the power of people, and then making everybody in your company know that they make a difference. When we do training, we don’t just train the vice presidents; we train employees at all levels. That’s because we know that if your job is in our company, it's important and it doesn't matter what level you are. If you do your job well and everybody else does their job well, then Yum! Brands is going to do well. So, having that work environment, having a corporate culture where everyone knows that they truly can make a difference, should be a top priority of any CEO. The other thing that is very important is to focus on leadership development because if you have great leaders in your company, you're going to have a great business.

David, thank you for being on the show.

Thank you, Robert. I enjoyed it.