

Interview

Parsons' Plans

An Interview with Richard D. Parsons, Chairman and Chief Executive Officer, Time Warner Inc., New York

EDITORS' NOTE Richard Parsons became CEO of Time Warner in May 2002 and chairman of the board in May 2003. Before becoming CEO, he served as the company's co-chief operating officer, overseeing its content businesses – Warner Bros., New Line Cinema, Warner Music Group, and Time Warner Book Group – as well as the legal and people-development functions. Parsons joined Time Warner as president in February 1995, and has been a member of the company's board of directors since January 1991. Before joining Time Warner, he was chairman and chief executive officer of Dime Bancorp, Inc. and before that, a managing partner of the New York law firm Patterson, Belknap, Webb & Tyler. Prior to that, he held various positions in state and federal government, as counsel for Nelson Rockefeller and as a senior White House aide under President Gerald Ford. Parsons received his undergraduate education at the University of Hawaii and his legal training at Union University's Albany Law School. In addition to his posts with Time Warner, he is chairman of the Apollo Theatre Foundation, and also serves on the boards of Citigroup, Estee Lauder, the Colonial Williamsburg Foundation, the Museum of Modern Art, Howard University, and the Committee to Encourage Corporate Philanthropy.

COMPANY BRIEF Headquartered in New York, Time Warner Inc. (www.timewarner.com) is a leading media firm, offering online and interactive services as well as network, film, cable television and magazine publishing businesses. With brands including Warner Bros. and Time Warner Cable and over 87,000 employees worldwide, Time Warner (NYSE:TWX) reported sales of approximately \$43.7 billion and net income of \$2.9 billion for fiscal 2005.

Where will Time Warner's future growth come from?

I think our most predictable growth will be from our cable franchising company, Time Warner Cable. As we look at

our long-term plan, Time Warner Cable is likely to have both top-line and bottom-line double-digit growth within four or five years. They're upgrading their plant; they are not just laying new services and products on top of an old operation. It's not just television; it's high-speed Internet, digital, and telephone services. They're laying all of that on the upgraded cable plant, and that's driving very strong revenue growth and bottom-line growth.

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**AOL is
the secret
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Our cable networks will be strong growers as well, for a couple of reasons. For years, there was a fairly substantial gap between viewership and the percentage of ad dollars that were coming into the cable world. But for the last four or five years, we have had over 50 percent of television viewers and the advertising gap is closing. The advertising dollars are now beginning to follow the eyeballs. So the dual revenue stream of subscriptions and robust ad growth is going to keep our cable networks and supporting cable networks growing rapidly. For instance, HBO has distinguished itself with the tagline: It's not television; it's HBO. Everybody wants HBO to help them drive their penetration, so that will keep HBO growing strong. Our magazines will not be among our fastest-growing businesses, but there will be solid growth there with very attractive cash-flow generation characteristics and very low capital requirements. The magazine business is "steady as she goes." It's

consistent growth. We don't have to reinvest a lot of cash into building our magazine brands, because those franchises are all very strong. We just have to keep delivering quality product.

Movies and television is a tough business, but we sit in a great position with Warner Bros. and then New Line Cinema tucked underneath it. Warner Bros. is by far the largest, most profitable, most robust of the movie television studios in the world, and that position enables the studio to attract hit-making talent. We have grown Warner Bros. year in and year out, and we think we can continue to do so going forward.

And finally, AOL is the secret sauce. We're enthusiastic about AOL, because we're moving into the online advertising space. We think that will be an exciting story for us this year. And even though AOL has been losing dial-up, narrow-band subscribers over the last three or four years, it is beginning to increase its number of digital subscribers and that part of the business is stabilizing.

Is the financial community taking notice of those opportunities for growth?

The message is getting through, but the Street is saying, "Show us the numbers." So that's our challenge this year – to show them the numbers.

Why did you decide to sell off Time Warner's book business?

We actually concluded that we should sell our book business in 2002, but we couldn't get a fair price for it. It's a very fine business, but the book business is consolidating. It's not a high growth business. So strategically, we either had to be prepared to enhance our competitive position or get out of the book business. And we realized it wasn't a core holding. Ours was a small book company operating on a global basis, and that's a business where size and scale matter. We found the perfect buyer, who was able to give our beloved book company that scale, and they said they would keep our employees on.

What has been Time Warner's approach to the Chinese market?

Everybody loves to talk about China,



and I understand why: There are something like 1.3 billion consumers over there – 20 percent of humanity. But it's a tough market for a content company like ours – a company that deals with ideas, stories, and concepts. Those are things that can be regarded by certain governmental regimes as dangerous, things that need to be controlled or censored. So, while we have done a number of things in China to begin creating relationships on which to grow in the future, we haven't been as aggressive there as we have in other countries. That market just isn't yet prepared for us to make massive investments. It will have to make some progress in its laws to protect content. In China, piracy of movies and television looms large.

Do you have a different outlook for India?

Yes, we do have a different outlook for India. India is more within our normal range of expectations and experience. While people still pirate stuff over there, it is clearly against the law, and there are attempts to enforce that law. So it is a legitimate market, and it's more open from a governmental and censorship perspective. So we have been more active in India, particularly on the television front.

You assumed your current posts at a time when Time Warner was going through some major changes. How challenging was it to impress upon the company's employees the need for those changes? Were they looking for change as well?

Change can go in a lot of directions; it can go forward, and it can go backward. A number of our employees, when I became CEO, were looking for change. They wanted to go back to a period of greater harmony, stability, and clarity in terms of how we were running our businesses. So while it may appear backward, I thought it was appropriate, at least at the time, to remind everybody that we had the best assets and businesses in the world, and I thought we had the best management also. I thought if we could get back to running and focusing on our businesses and begin to find more ways to work across businesses, instead of attacking or defending ourselves within the franchise, we would be better off. And I think it worked.

At the end of the day, any company is only as good as its people. Have you been able to attract and retain the right employees to Time Warner's businesses? Is the media world still an exciting industry to join?

I think in almost any enterprise human beings are called upon to make it work. It's all about the people, particularly in a creative enterprise like ours, in which we're trying to translate thoughts into something tangible. Our human resource base is our number-one asset. Secondly, I think that it is still exciting. Many media and entertainment companies have real problems attracting or hanging onto people, but young people coming out of school want to come here. They find it exciting. They think it's a place where they can actually make a difference and impact the way people around the world react to things through journalism, electronic media, and so on. I think our cable business is one of the most exciting of our businesses. It's now about more than television; it's about high-speed Internet services, telephony, and software and IT components. So that business is now drawing all sorts of talent from the technical world. That's an exciting place to be. It's building a new business enterprise. It's expanding its borders.

Consumers are inundated with information today about the services provided by your competitive set. How do you differentiate Time Warner from the pack for potential employees? Is it difficult to show what makes one company unique?

I think it is. First off, the trend toward consolidation is going to continue inexorably, because in order to compete on a global basis, you have to have a certain scale and size. And as everyone consolidates, it's hard to find or be a unique personality. If there are 20 people working out of a small office on a magazine, that publication is in their blood and it reflects their voices. Now, multiply that operation by 1,000, and after a while, that publication might start to sound like its competitors. That said, in fact, every organization has its own culture, even though it may take some time to pick up on the nuances. At Time Warner, in particular, we spend a lot of time here trying to make sure we have a culture that respects what people do and who people are.

And how important is workforce diversity to Time Warner's culture?

It's more important than some people think. Diversity is an initiative we drive. It has less to do with what's right in a moral sense, and more to do with what's smart in a business sense. We're a global consumer-product company. We make and sell products and services to consumers. Whether it's one of our movies, television programs, a magazine, or a cable offering, the purchaser is the consumer. So I would argue – and logic

would argue – that the more sensitivity and sensibility you have with respect to the different consumers in the marketplace, the more effective you're going to be in penetrating each of those markets. So, put simply, we need people from all of the communities that we try to sell to in order to understand the interests and sensibilities of the consumers in those communities. So we have been making a big push to deepen our diversity along ethnic lines and thought lines, as well.

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**Corporations
have responsibilities
to help keep their
communities vibrant
and thriving.**

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Corporate citizenship also plays an important role in an organization's culture. How important an initiative is that to Time Warner in particular?

I think it's important for a couple of reasons. I like to think back on the time when I ran a local bank in New York. It was in our interest then, as a business, to keep the community in which we operated thriving. That's all corporate responsibility is, in my judgment. It's acting like a citizen. Citizens have responsibilities to their communities, and corporations have responsibilities to help keep their communities vibrant and thriving, because the community will help your business thrive. If you let a community decay, your business will decay with it. Secondly, from an individual employee's point of view, people want to make a living to put food on the table and keep a roof over their heads. But they also want to feel like they are making a difference in the world, and they want to feel good about their colleagues and the place they work. One way to help fill those latter needs is to be involved in the community, to show that it isn't just about extracting from the community. It is also about giving back.

Do you think corporate America is moving in the right direction when it comes to governing itself? Are the legislation and regulations effective? And is corporate America doing an effective job of winning back the public's confidence?

There's a pendulum in everything in life; it swings and very rarely rests for any length of time on the exact point of balance. In the '90s, I think the pendulum swung too far in the direction of "foot-loose and fancy free," imperial CEOs, inad-

equating corporate governance, and inattention to the ultimately right way of doing business. And in reaction to the Enron, WorldCom, and Tyco scandals, the pendulum has again swung past the point of perfect balance, and it's probably too far to the left. That's understandable, but the single-line focus that boards have to make on corporate governance is overdone at the moment. Boards are being stampeded with this notion that their jobs are to act as management's watchdogs. That's not the way the system is supposed to work. The board is really supposed to work with management and help management move the company forward. It shouldn't be an adversarial relationship. But as I said, the pendulum is always moving. I think it will come back to a middle point, but it will take a while. We'll have to get past the trial headlines and people being reminded of all these defalcations of the late '90s and the early part of this decade.

How has the role of the CEO evolved over the years?

The role certainly evolves, just as all living things evolve. I think we went from the imperial sort of CEO who was all-powerful to an era today with more emboldened shareholders with their own ideas as to how they would run the company. Secondly, compensation levels – against the backdrop of the abuses that occurred in years passed – are under attack and under intense scrutiny. It's almost like being a public official. You're in the public eye, and the public scrutinizes CEOs in a way they didn't in the past. I think that's what's happening in the system. And the people who make up the system are coming to profoundly understand the power of these companies and how they can affect people's lives.

What would those who have worked closely with you over the years say of your management style?

They would probably say that I am a guy who is accessible and open to reason. I'm fairly laid back, so you don't have to worry about saying the right thing or admiring the emperor's clothes. You can make whatever argument you wish to make, and if it's a reasoned argument, you'll probably get somewhere with it.

What are your key priorities for Time Warner Inc. for the years ahead?

First, we've kept AOL out of the ditch; it's up on the road. But now, we have to get it up to speed so that it can compete with the other players out there in terms of subscriptions and online advertising sales. That's a work in progress. Secondly, we need to make sure that we're taking advantage of our portfolio of businesses. We have a presence in print, in the movies, in television, online, and in other electronic media. So we have to take advantage of that and figure out how to move the things we make across as many different platforms and bring them to as many different consumers in as many different ways as possible. ●