

Interview

Leveraging ITT's Strength and Breadth

An Interview with Steven R. Loranger, Chairman, President, and Chief Executive Officer, ITT Corporation, White Plains, New York



Steven R. Loranger

EDITORS' NOTE After serving as an officer and pilot in the U.S. Navy (1975-1981), Steven Loranger spent 21 years at Honeywell and its predecessor company, Allied Signal, where he served in various executive positions including President and CEO of Honeywell's \$5 billion engines, systems, and services business. From Honeywell, Loranger joined Textron as Executive Vice President and COO, overseeing a \$10 billion portfolio of aircraft, defense, fluid and industrial businesses. He was appointed Chairman, President and CEO of ITT Industries (now ITT Corporation) in 2004. A graduate of the University of Colorado, where he earned bachelor's and master's degrees in science, Loranger is a member of the Business Roundtable and serves on the boards of FedEx Corp., the National Air and Space Museum and the Congressional Medal of Honor Foundation.

COMPANY BRIEF Based in White Plains, New York, ITT Corporation is a global engineering and manufacturing company offering a wide range of engineered products and services. Its four business segments are Defense Electronics and Services, which develops, manufactures, and supports electronic and communications systems and applied engineering for worldwide defense and commercial markets; Fluid Technology, a global provider of fluid systems and solutions for the water, wastewater-treatment, building-trades and industrial and pro-

cess markets; Motion and Flow Control, operating in the leisure, marine, transportation, and aerospace market segments; and Electronic Components, providing communications, industrial, transportation, aerospace, computer, and consumer electronic products. With 40,000 employees around the globe, ITT reported sales of \$7.0 billion and net income of \$360 million in 2005.

Over the past few years, ITT has made a push to build its brand and increase the public's awareness of it. Are you pleased with the global understanding of the scope and scale of ITT? Do you feel you have a leadership position in your business segments?

We're very pleased with the progress we're making in leveraging the strength and breadth of ITT on a global basis – certainly considering that this branding activity has only been strongly underway for the past year and a half. However, we have more progress ahead of us. I was just in China. The Chinese market was one of the primary reasons we decided to drive a unified organizational brand, and the brand has been very successful there. For example, I met with a Vice Mayor in China, and he and his entire leadership team had a broad range of fluid technology requirements, from industrial reuse to municipal wastewater. That meeting was effective because ITT is now known as a supplier of that full range of services and as a partner in this process. Clearly, had we not advanced the unified brand platform, we would not have had that audience.

Do you anticipate growth for ITT from the domestic market? Are you also focused on achieving growth in emerging markets?

Because of the strength of our defense and our water technology businesses, we do see strong growth both in the North American and the European markets. That growth is being driven by the requirement for municipality upgrades, coupled with increasing regulatory requirements for clean water. That market is probably two times the GDP. And, of course, in North America, the defense markets have been very strong. When we turn to long-term growth, we view Asia, and most notably China and India, as areas of outstanding growth opportunity. This year alone, we will be effectively doubling our sales-growth rate in China. So

when we look at future capital, future product development, and future sales and distribution strategies, the majority of the work right now is going into China.

Are you focused primarily on organic growth? Do you see opportunities for growth through acquisitions?

Yes, we do. But our primary focus has been on organic growth. We want to make sure that we stay close to our core and advance new products and technologies in areas in which we're strong. I'm pleased that we're turning in yet another year of double-digit organic growth. But beyond that, we have generated a nice currency in terms of our balance sheet and available cash. We do look for acquisition capability on a global basis, and certainly, we have acquisition ideas in China in particular.

The services offered by ITT and its competitors might sound very similar when compared side by side. What differentiates ITT from the rest of its competitive set? And has it become more challenging to demonstrate what makes a brand unique in today's marketplace?

Our competitors and customers are continually raising the bar, but we're responding with three basic strategies. One is particularly critical to our successes: our ITT management system. It starts with a unified company vision in all of the brand's attributes, and is connected with a very strong foundation of shared values. But more importantly, it is our consistent discipline and use of proven management tools, such as our strategic planning, operations, leadership, and productivity tools, that give us an execution edge over our competitors. That's number one. Secondly, we manage an attractive portfolio that has a unique mix of both defense and commercial businesses and that gives us a nice economic resilience. We also have a blend of after-market and OEM production and a growing blend of long- and short-cycle business on a global basis. So those are the key strategies for differentiation beyond just simple service. Third, we like to keep our customer service as effective and responsive as possible. By doing these three things and continuing to innovate product technology with "Engineered for life," we will continue to differentiate and advance our strategies.

As a global firm, is it important for ITT to offer its services seamlessly across geographies? Are you focused on send-

ing one consistent message for the company across markets? Or do you work on specialized messaging for each market in which ITT operates?

I think we can play on a global basis, even in individual markets. You'll still see some product brands being used in our portfolio, because they have high value in certain markets. But the one thing we're not compromising is quality delivery and responsiveness to our customers. So it goes without saying that doing the basics well is a strategy that is not only effective, but imperative in all markets. We are striving to make these attributes as well our promise of "Engineered for life" be a consistent message around the world.

How important has new technology been to your business? Is it truly changing the way you're operating today?

I think it's a critical enabler to our success. One of our key metrics at ITT is our new product sales as a percent of overall revenue, and I am thrilled to say that 30 percent of our sales are from products that we developed within the last three years. That's a reasonably high number for a company like ours. We're enhancing night vision capability by going to next-generation image intensification and the overlay of infrared technology. We're continuing to develop broader bandwidth communication systems that use less power and are lighter in weight, less costly, and more capable. And we're doing the same things in our water technology businesses. So technology is critical for us to remain competitive. And in fact, technology really is key to our tagline: Engineered for life.

Are the manufacturing and engineering industries still attractive to talented young people? More specifically, have you been satisfied with ITT's ability to attract fresh talent to its ranks?

We all need to continue to attract young people to our industry, particularly in the areas of science and technology. I've been reasonably pleased, but for a slightly different reason than the premise of your question. Because of our attractive businesses, reasonably sound management systems, and our values system, a lot of young people see an upside with ITT. And as a consequence, we've had good luck attracting young people who see a company that's thriving, and can continue to win in the future. So it really is our growth and our technology that's attracting young people.

You touched on the values. Today, there seems to be – more than ever – a focus on social responsibility in the corporate world. For ITT and for you personally, as the company's leader, how important is it to be engaged in the community? How do you drive the importance of corporate citizenship home and get the employees to understand it?

First of all, it is important for companies to give back to their communities, simply because we benefit from the economic strength of our surrounding communities. We believe it's important to give back for two reasons. First, corporations are inherently responsible from a social standpoint. Secondly, it creates a fulfilling environment for our employees. Our employees want to feel that they are a part of

THREE STRATEGIES DRIVING GROWTH

- 1. Start with a unified company vision, connected with a strong foundation of shared values, to execute proven management tools.**
- 2. Manage an attractive portfolio with a unique mix of long- and short-cycle businesses that maximize economic resilience.**
- 3. Keep customer service as effective and responsive as possible, while continuing to innovate product technology.**

their community. And so when we participate in charitable activities, it makes our employees feel good. We just have to enable our employees to participate.

Looking two or three years out, do you have two or three key priorities for ITT Corporation?

Yes. First and foremost is talent. We continue to be successful in attracting and developing talent that is globally capable, inclusive, strategically curious, and results-oriented. That is a never-ending challenge for us. Number two is to continue advancing our sales, distribution, and technical capability in China and India. Finally, we have a very strong global participation in the water business. So we must effectively leverage our technical and global position in water to create a stronger global water business. So those are the three areas that will be the keys to our success: talent, the Asian economy, and the global water business.

You joined ITT in 2004 as President and CEO. At the time, what excited you about the opportunity to lead ITT? And, looking back, has the experience been what you expected?

Strategically and culturally, it has been very consistent with what I expected. I would say it has been a challenge to fully leverage the strength and breadth of our company. One of the keys to that was our corporate branding strategy. It has driven us to think and act like one company, and has helped us to get the right people, customers, and systems in place across our businesses and expand in developing markets. This makes our employees feel like they are part of something bigger, and helps us share best practices across the global organization.

In leading a global company like ITT Corporation, you must have very little time off. Even when the workday ends in the States, business is being conducted in Asia. How can you get away from the business from time to time to relax?

I'm blessed with a good leadership team and good deployment of accountability. So while I do think about ITT all the time, I do get away. Thanks to technology, I'm always in touch, but because we are focused on our strategies, I expect our team to be accountable for daily management. Like everybody else, I have found ways to catch my breath; I can always find time to enjoy some sailing, doing projects around the house with my wife, and fishing on the weekends. I believe it is critical for all working people to make time to simply let go and "float." It's a stress reducer!

You seem to place a special emphasis on the team around you. How involved are you in attracting talented employees to ITT? Is your enthusiasm for team-building just part of your nature?

I think leadership is central to all of these strategies. I make it my personal job to get to know the top 500 leaders in the company. I probably spend more than 50 percent of my time talking with our people and thinking about people's careers and next moves, and getting involved with development activities. I think any leader of a business today has to focus a significant amount of time on developing and maintaining a good leadership team. ●