

The Need to Innovate

An Interview with Donald Keough,
Chairman of the Board, Allen & Company, Inc.

EDITORS' NOTE Prior to assuming his present post at Allen & Company, Don Keough served as President, Chief Operating Officer, and Director of The Coca-Cola Company from 1981 to 1993. He was re-elected a director of the company in 2004. He has served on several companies' boards, including the H.J. Heinz Company, The Home Depot, USA Network, and McDonald's Corporation. He currently serves on the board of Berkshire Hathaway and is a trustee of numerous educational and charitable foundations. Keough was educated at Creighton University in Omaha, Nebraska.



Donald Keough

COMPANY BRIEF Founded in 1922, New York-based Allen & Company, Inc., is a closely held investment banking firm that serves some of the leading names in entertainment, technology, and information. The company has brokered numerous prominent deals, including the Disney-Capital Cities/ABC merger, Westinghouse's \$5.4 billion acquisition of CBS, and Seagram's \$5.7 billion purchase of 80 percent of MCA from Matsushita. Its annual retreat in Sun Valley, Idaho, has attracted such luminaries as Bill Gates, Michael Eisner, Rupert Murdoch, and Warren Buffett.

Are you surprised at how deep the economic crisis is and the speed at which it came on, and where are we today in terms of recovery?

For somebody who was born before the Depression, who grew up during the Depression, and went through every single economic turn through all these decades, surprise is a word that you don't say casually, especially when you get to be my age. The fact is, anybody who was watching carefully at what was happening to the price of every form of real estate in the United States, posting unbelievable numbers higher than the inflation rate, had to realize there would be a day of reckoning and an inevitable crash. Banks started to lend money, not on the basis of the financial ability of the person who was asking for the money, but on the basis of the presumed value of the land or the building that was involved. The assumption was that the land or the building would always be worth more. Then when banks stopped

holding the mortgages, flipped them upstream and received fees on them, all of a sudden, there was a problem. People like Warren Buffet were warning about this situation, but not many people listened. When the crunch hit, it really was a hurricane.

The amazing thing to me is the panic that existed in the financial community, the panic that existed in Washington, and over a period of time, the resilience of the American people. I watched my six grown children adjust to the reality of the economy, which is a symbol of what's happening all across the country. Frankly, the attitude in America is better than the basic economy we're living in. I'm surprised that the market has been so vigorous, but my sense is that we're a long way from moving with any great speed into a recovery that people will notice.

With regard to the steps that have been taken, many say the government did what it had to do with the stimulus, but true recovery needs to come from the private sector, specifically entrepreneurship and innovation. Do you agree with that?

There is no question about it. Anyone who believes that the federal government using taxpayers' money can turn this economy and create a very positive long-term trend, really doesn't know what he or she is talking about. The stimulus had to happen, and it wasn't tidy. By its very nature, there will be an enormous amount of waste. But the government had to do something and the stimulus became "the something." The adjustment people have made in living has had a lot more effect on the sense of optimism that is developing than the stimulus money.

While the American people were spending and not saving, we now see the savings rate going up. Do you believe this change will be long term?

I don't believe we will be returning to that free-spending-come-what-may-everything-is-going-to-be-perfect society for a long time. We may not even know we've had a recovery when it arrives. People obviously will be more cautious, and the symbols of excess, which were getting quite outrageous, will not be seen very soon in society, either here or anywhere else in the world.

Do you agree with the premise that some companies are too large to be allowed to fail?

With the automobile companies, for instance, my view is we should have let the hard reality of the bankruptcy take place sooner than we did, but there were too many political issues involved for that to happen. But ultimately, they did fail, and taxpayers' money insured that it was a softer fall than the harder fall it would have been.

There are many well-run companies with high integrity that do great things within the community, but public perception of business has often been negative. Is that frustrating?

It's usually the way. You only get vivid examples of excess, failure, stupidity, and crime. You rarely see a newscast with a report on all the great things that happened on a given day. Business, particularly big business, always tends to be a target and especially so when there is some abuse within the industry. Pure logic, however, tells you that you don't take a specific, limited situation and turn it into a general statement, implicating the entire industry.

Coca-Cola, a brand you led for many years, is known as one of the leading innovators, but many talk about innovation today coming from China, India, and other emerging markets. Do you worry that the U.S. is losing its edge, and from a global point of view, may lose its leadership position?

The U.S. won't lose its innovation edge. The innovation in places like China and India will insure that the American business community will continue to innovate. Competition is a great motivator. I'm very excited about emerging nations like China, India, Brazil, and others. We have seen a billion people crawl into the edges of the middle class in the past 10 years, so there is a whole new market for that billion people in the next 20 years. It also means, with the continuing growth of these economies, that we will see another billion people added to the middle class in the next 10 or 15 years. That's a very positive thing for America, and for American business. Is the day over when we're the lone king standing on the top of the hill? Probably. Is that a bad thing? Absolutely not. We live in a global community, and we know pretty well how to deal with it.

Having led a large company, can you maintain an entrepreneurial spirit and culture within a company regardless of size?

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I believe that you can, but in a way, it's much easier to innovate in smaller companies than it is in bigger ones. That is not to say that larger companies can't benefit from a smaller company's innovation. In the past few years, The Coca-Cola Company acquired a small company called Glaceau. It started with a young man who took vitamins and enjoyed soft drinks. He put the two together and created a product called Vitamin Water. He organized a small group of people, hired some distributors, and it became a very interesting business, attracting The Coca-Cola Company and others. The young man and a few of his associates ended up with \$4 billion and the big company ended up with a wonderful product that will benefit the shareholders and consumers over the years to come. That kind of innovation takes place all the time.

Has the Chairman or CEO role changed or evolved over the years?

The model of the typical American public company up through the '90s was a laissez-faire kind of environment. Boards tended to be close to the CEO, to look through the same stain-glass window and see the same colors. In the past 10 years, there has been more intense interest in the role of boards of directors and of the CEO. The concept of separating the Chairman and the CEO's responsibility is helping some companies. We're moving into an era where CEOs are going to be more aware of board governance than in the past, and there will be more shareholder interest in the performance of the management of the company, and that's a good thing.

Does the increased regulation make it tougher to take risks?

If you separate risk from the capitalist society that we're a part of, it's a totally different world. So if prudent risk is ever taken out of the game, any company that operates that way won't last very long. CEOs who are so cautious that they won't take the kind of risk they have to take, shouldn't be in that job. I learned about risk from sitting at the feet of Warren Buffett, and when he takes risks, he takes big ones. Warren always looks at the worst case scenario, and asks if that happens, am I able to handle it and is this company able to handle it? If the answer to those questions is yes, you're still taking a big risk, but one that is not going to destroy the company. Warren said once, if you're going to bet the farm, you better have another farm.

With regard to emerging markets like Russia and Brazil, as you look at industry in

the future, will you need to be a certain size and scale to compete?

A lot of it depends on what industry you're in. It's going to be hard to build a great company unless it's able to cross borders, and find markets around the world. It means that you have to have size. That doesn't mean you have to be ridiculously big. It just means you have to have enough size that you will be able to establish the kind of credit you need in order to take advantage of the opportunities that present themselves. It's like what's happening with the Internet world where the asset is not a heavy asset – it's brainpower, so small companies can become large companies in a big hurry.

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The Coca-Cola Company has a history of great leadership. How are such leaders identified and developed within the company?

In a way, it's the most important thing. The current CEO of The Coca-Cola Company was born in the U.S.; his father was a Turkish diplomat. Some 27 years ago, I began to see him operate within the Coca-Cola system. When the wall came down in Eastern Europe, I saw what he was able to do in Poland and in countries in Eastern Europe, and I thought that one day he would run The Coca-Cola Company. To see him as CEO now is fascinating knowing

his background. His predecessor was born in Ireland, raised in South Africa, and did his work in Australia, the Philippines, Germany, and Europe.

With great companies now, the nationality of the leadership doesn't have anything to do with it. The important thing is to be sure you have a person who has the natural intelligence to deal with the issues that come before him, a person who has the energy and passion to deal with the business, and a person who has complete integrity. In addition to those three qualities, you need a person who thinks not only of the expected consequences of particular actions but of the unintended consequences. A lot of CEOs and business leaders fail to think about the unintended consequences that might take place, and the consequences of those consequences.

Over the past year, you published a book that many say you were persuaded to do. It received a lot of notoriety and success. Did you enjoy the process, and do you foresee more books in the future?

The message in the book is one I have believed for 30 years, and it somehow seemed inevitable that it was going to be written. The book is moving around the world in all languages and that makes me happy. I doubt if there is another book in me, but never say never.

Those who know you say, with all the success in his life, and all he's been able to do, Don Keough is the same person he always was. Was that instilled in you early on, or is that part of your nature?

Success is a journey – it's not a destination. One of the main points in my book is that I never thought of myself as someone other than a person who was in the middle of his life and who had a lot of things he wanted to accomplish and enormous curiosity about the future. Even at my age, I'm still curious about everything, and every day is precious. I never thought about the bottom line and said, "Okay, now I've made it." I have always considered myself so lucky. I'm three generations away from somebody who arrived on a boat after the potato famine in Ireland and landed in the United States without anything but muscle and guts. A few generations later and in living in this country, it's as though we won the lottery. And you hope that the legacy you leave is that you did the best you could and that you encourage the next generation to come on and make it better. ●