BUSINESS

SAINT PAUL PIONEER PRESS

SUNDAY, JUNE 24, 2001

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MONDAY: YOURTECH

'Digital hub' hype?

Not at all. Apple's iBook laptop delivers on the promise of a well-rounded tech lifestyle.

INSIDE

NEW CEOs, NEW Pressures

JOE ODEN/PIONEER PRESS

Richard Roscitt was with AT&T for 29 years before taking the helm at ADC. The company is never far from his thoughts, he says, even if he's out fishing.

"Oftentimes, all you have is your gut."

RICHARD ROSCITT
CEO OF ADC

"Our collective goal is to increase our stock price and bring good returns to our shareholders."

RICHARD ANDERSON
CEO OF NORTHWEST AIRLINES

RICHARD MARSHALL/PIONEER PRESS

Richard Anderson came to Northwest Airlines in 1990. He says it's important to have a vision for the company so employees know "which hill we're taking."

The pressures on chief executive officers have intensified, as investors become more demanding, technology brings rapid changes and the economy dips and spins. Three of Minnesota's largest companies have rookie leaders who must prove themselves in this tough environment.

DAVE BEAL STAFF WRITER

It's not easy being a chief executive officer of a publicly traded company these days.

Investors have become impatient. The economy continues to lag. Competitors are more aggressive. Rapidly changing technology is forcing big financial bets. And unforeseen swings in demand are destroying even the smartest business plans.

Imagine coping with these forces while having only a few months' experience as the top leader of a large company. That's the case for Richard Anderson of Northwest Airlines, Art Collins of Medtronic and Richard Roscitt of ADC Telecommunications, who have all assumed the chief executive officer positions at three of Minnesota's most valuable companies this year.

The magnitude of their responsibilities is daunting. Combined, the companies employ nearly 100,000 workers — roughly 32,000 in Minnesota — and report annual revenues of $20 billion. And with today's volatile business climate, the decisions these men make can mean the difference between their companies' success and failure.

In separate interviews recently, Pioneer Press reporters and editors spoke with the new chiefs about their views of leadership — about the priorities they set, the markets they pursue and the people they choose to carry out their vision. The conversations purposely steered clear of specific strategies, operations and financial issues, focusing instead on the elusive art of their jobs.

Their remarks reveal the difficulties they face each day satisfying competing interests and the constant challenge of reaching short-term financial targets without sacrificing the ultimate goal — long-term growth and survival as an independent company.

The three men step up at a time when top-flight corporate leaders are tough to find.

3M, for example, searched outside the company for the first time in its 99-year history to hire James McNerney of General Electric, as their new chief. (McNerney would not agree to an interview for this story.)

He was in hot demand late last year because he essentially trained for the job under Jack Welch, General Electric's CEO. Welch is widely hailed for his success at GE, now ranked by investors as the world's most valuable company.

"I think everyone has to prove themselves, and they've got to do it every day."

ART COLLINS
CEO OF MEDTRONIC

Yet endurance is also a key part of the Welch mystique. He'll retire shortly after two decades as the company's top executive, a tenure almost unthinkable in the current environment, where few CEOs keep their jobs for more than a few years.

Why? The performance of CEOs over the last decade has been scrutinized with much the same attention that Americans once accorded other leaders and celebrities. Stockholders, employees, customers, boards of directors and politicians look to CEOs to rep-

CEOS CONTINUED ON **4C** ▸

Inside

■ CEOs at big-name companies are right up there with athletes and movie stars when it comes to celebrity status. But do they really deserve it? Page 5C

■ The featured CEOs and their businesses are profiled. Pages 4C and 5C

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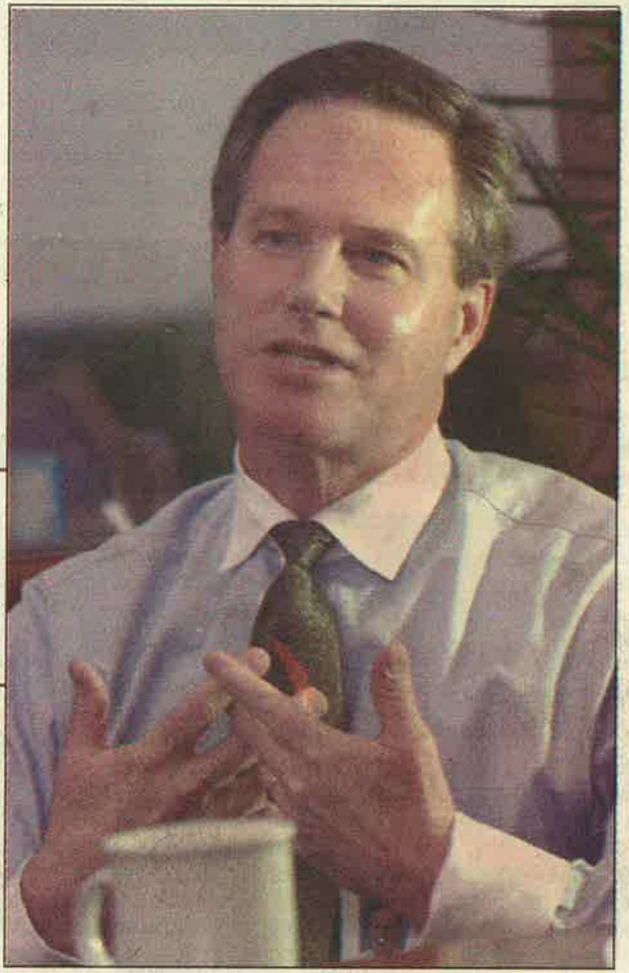
ON THE AIR

Anderson, Collins and Roscitt will take part in a special town hall edition of "NewsNight" at 7 p.m. Monday on KTCA-TV, Channel 2.



JOE ODEN/PIONEER PRESS

Art Collins has top-level experience at Medtronic, where he was named chief operating officer in 1994 and president two years later. The company's stock price is not the "be-all and the end-all," he says.

CEOs

▼ CONTINUED FROM 4C

22,878 deals involving U.S. companies were announced, a 6.6 percent increase over the three years ending in 1998, according to MergerStat.

Medtronic and ADC have been among the more voracious acquirers. Since 1998, Medtronic has acquired, or announced plans to buy, seven companies at a combined price of nearly $14 billion. Since the start of 1999, ADC has bought 18 companies.

Northwest considered a deal that would have made it part of American Airlines.

So is bigger better?

"Yes," says Anderson, giving an immediate answer framed squarely in his industry. "Absolutely, because we're moving in a world that has far fewer trade barriers, No. 1. And No. 2, your customers demand size and scale."

Collins and Roscitt, however, believe being bigger is not in itself better or worse.

Collins notes that growth, when combined with a high price-to-earnings ratio for a company's stock, serves as a strong protection against takeovers. He adds that acquisitions need to be thought out carefully because "most acquisitions fail."

Collins believes CEOs should approve only acquisitions that fill strategic needs and have a good integration plan. Taking those steps will raise the odds, which are "not very good to begin with," for successful deals. "I think acquisitions fail because the integration plan is not well thought-out."

Roscitt asks: "Would I rather be a $5 billion company that was losing money or a $3 billion company that was wildly profitable?

"Being bigger for bigger's sake is never a great issue," he says.

Rather, growth is a response to specific imperatives. Among them: being big enough to invest in research and development, or to reach markets wherever they may be.

At Northwest, most of the directors represent significant investors or business partners with the airline. It includes three union leaders who represent employees with a stake in the company.

About half of the ownership of Northwest is represented directly by its board members, an extremely high portion. At Medtronic, by contrast, only 1 percent of the shares outstanding are held by officers and directors.

Erickson says Medtronic and ADC represent the more typical situation for a large publicly held company: mostly outside directors who hold relatively small amounts of the corporation's stock.

Each of the three CEOs uses his board to sound out plans and ideas.

Anderson thinks the board can be particularly useful for advice in helping to close financial deals. Collins taps the board for tough questions on strategy and "to periodically push us on performance."

The reality, for each of the three: Boards, which hire and fire the CEOs, are wielding more power. In just the past five years, close to two-thirds of all major companies worldwide replaced their CEOs, according to Drake Beam Morin Inc.

Roscitt thinks he has "very little" time to show his stuff. Many CEOs and senior executives last for only a year or so, he says. "I just don't think there is any such thing as a honeymoon. After the gun goes off and you work as hard as you can, you hold yourself accountable for the outcome."

Adds Collins: "I think everyone has to prove themselves, and they've got to do it every day."

Dave Beal can be reached at **dbeal@pioneerpress.com** or (651) 228-5429.

Name: Richard Roscitt, 50.

Title: Chairman and chief executive officer.

Time in position: Four months.

Previous job: President of AT&T Business Services; president and CEO of AT&T Solutions; member of the AT&T governing executive panel.

Compensation: Annual base salary of $900,000; $1.5 million hiring bonus; options to buy $27 million of ADC stock; chance each year of performance incentive payments equal to one to three times his base salary; also gets $5.5 million if he stays with the company at least four years.

Employees: 18,000, down from 23,700 one year ago; expected to shrink to 17,000 in November.

Employees in Minnesota: 4,500.

Trailing 12 months revenue: $3.4 billion.

International operations: Has sales, manufacturing and development offices in more than 35 countries and has sales in more than 130 countries.

How investors value the company: $5.53 billion.

Percentage of shares available for trading by the public: 84 percent.

Board makeup: Eight; seven outsiders.

What percentage of the board should be from the outside? "The majority of it."

How often do you look at your stock price? "You look at it, but you don't do things as a result of it every day."

Business challenge: Leading company through steep downturn in telecommunication equipment sales.

News since appointment: In March, said it would cut 4,000 jobs, close factories and eliminate product lines to reduce costs; second-quarter

The new reality of boards

From the post-World War II era into the 1990s, corporate directors typically did little but rubber-stamp management decisions, says Erickson of the Carlson School. But in the '90s, pressures grew from litigation and from investors' demands for stronger profits and higher stock prices.

Directors became more aggressive. They began siding with Wall Street instead of with management. They also protected themselves better from lawsuits, which were streaming in from shareholders and various advocacy groups.

Erickson says there have been two results: more pressure to sustain strong quarterly earnings and more concern that the company not make a big mistake that can lead to a lawsuit and create ridicule in the media.

The board makeups of Northwest, ADC and Medtronic are quite different.

sales fell from $771 million a year ago to $652 million in the quarter ended April 30; posted a net loss of $1 billion, including about $500 million in restructuring and nonrecurring charges, $754 million in investment write-downs, and other charges and credits — compared with a profit of $718 million in the same quarter of 2000.

What's the toughest part of your job? "Managing in a marketplace where demand has turned down."

Other corporate boards: None.

Born: New Jersey.

Education: Bachelor's degree in engineering from Stevens Institute of Technology (New Jersey); MBA from Massachusetts Institute of Technology.

ADC 6/30/98 – 6/22/01