Keith Williams
President and Chief Executive Officer
Underwriters Laboratories, Inc.

CEO tenure:	President and CEO since 2005
Headquarters:	Northbrook, IL
Type:	Privately Held
Number of Employees:	10,001+

Keith Williams is president and CEO of Underwriters Laboratories, Inc., an independent standards development, testing, and certification organization with worldwide operations. Prior to joining UL, Williams was president of Asia-Pacific Operations for Medtronic Inc. and president of GE Medical Systems China. He has served on various joint venture boards, including businesses with Samsung, Wipro, and the Chinese Ministry of Health.

THE CONFERENCE BOARD: You cited your number one challenge as operational excellence. What drives operational excellence within your organization? Are you more focused on people or processes? Is there some optimal mix of the two?

KEITH WILLIAMS: I think operational excellence is more about culture than it is about process. And we've actually spent a lot of time here trying to improve our business process, so that may seem like a strange comment, but if you look at guys like Toyota, they'll tell you consistently that Toyota's a company that has average processes and excellent execution and that's why they've been so successful. You can have great processes but if you don't execute them well, the results are going to be bad.

Initially when I joined UL, we really focused on the process because the process was so fundamentally broken, it didn't matter how well you executed it, you still couldn't produce the result. But now we're turning our focus to execution and being able to measure execution by looking at results.

When it comes down to operational excellence, there's a couple of ways that people get there. One is a culture where basically you get severely punished if you don't execute well. That's not our culture, but there are a lot of companies in the world that operate that way and they operate pretty effectively. The other kind of culture is where people have a set of shared and aligned objectives and a pride in what they're trying to accomplish. That's what we've been working on doing. Last year we introduced an employee incentive program, essentially like a profit sharing program, to allow everybody to share in the success of the company.

TCB: What are the obstacles to execute a program like that?

KEITH WILLIAMS: Well, for us it's been cultural legacy. We were a company for most of our life, probably 90 years, that didn't have any competition. We weren't exactly a government agency but we were like one. Therefore, there wasn't really any urgent need to be competitive or client-centric or worry about execution. If the customer was unhappy, you could just punish him by putting his job on the bottom of the pile. And in a competitive world you can't do that. You've got to remember every day that your client has many other choices.

TCB: How do you maintain the standard over time?

KEITH WILLIAMS: First of all, you have to have good measurements for people to understand how they're performing. It's true in every professional sport that you've got to keep score and keep statistics and know who the performers are, and you've got to make sure that those people get recognized and rewarded. Number two, it's important to keep some real consistency in what you're trying to accomplish. If every year you're changing your goals, it's almost impossible for people to achieve operational excellence. In the world that we live in it's so easy to come in every day with a new idea that might change the direction of the company but, unfortunately, that just whipsaws the whole organization and then you can never achieve any kind of excellence.

TCB: You mentioned improved speed to market as the most important thing you wanted to tackle to strengthen operational excellence. What is your main vehicle to do that?

KEITH WILLIAMS: For us to improve speed to market is going to mean re-engineering the way our core business process works. We've done that once in the last seven years and we've made dramatic improvement in net promoter scores. But, having said that, we now know that for the next ten years that everything we've done is inadequate based on what the marketplace will demand and what our competitors might be able to do. So, time to say, "Okay, everything we did was great, and now it's unacceptable. Let's re-engineer it."

TCB: Is that a case for Six Sigma, given your background in the quality area?

KEITH WILLIAMS: Six Sigma is a great problem-solving tool if you have specific problems to solve, but I don't think it's necessarily a great way to organize a company for outstanding execution. We're doing what a lot of people are doing, which is Lean Sigma. And our emphasis has been on how do we dramatically improve the way we satisfy or delight our clients. Then we use Six Sigma as a tool to help solve problems that we can't easily solve otherwise.

TCB: Moving on to global expansion, what areas are you targeting, and what issues are you facing on the expansion side?

KEITH WILLIAMS: Our business was historically only a U.S. market access kind of business. And we have now, I'd say, 55 percent of our people outside the U.S., but still most of the work

that we do is for products that will be consumed in the U.S. or Canada. So the real growth opportunity for us is to become a certifier for products that are used in markets like Europe, Asia, or South America. And there are huge emerging markets. Brazil, Indonesia, and Vietnam will be really good markets for the next ten years. Certainly India's an enormous opportunity, and someday China, but not today. Safety testing, which is our core business, is a government-controlled activity in China and we're not allowed by law to do it, so—okay, you do something else.

TCB: Integrating existing business from other countries and cultures into your business model, where standards are so important, must be quite a challenge.

KEITH WILLIAMS: Not necessarily. Our core business is based on consensus standards and testing for compliance to those standards. But those standards are an open source, so anybody in the world can use them. So that's no hindrance to us. And testing and certifying for compliance to a standard is pretty much a vanilla activity. So it's actually easier than you would think.

But the other part of our business are businesses where you're not certifying performance of a product to a standard but just testing the performance of the product to either a manufacturer's specification or a buyer's specification or just some industry protocol, like HDMI or Bluetooth. In China a lot of those activities are not regulated by the government, so we have an opportunity to create a domestic business.

An example: we bought a little Atlanta company, Air Quality Sciences, that tests baby mattresses, baby cribs, and carpet for the emission of volatile organic compounds. It's a proxy for indoor air quality. But that's not regulated in China, so we can start a business with that technology, testing and certifying products for the Chinese market for low VO emissions. There may be a nice market there for that.

TCB: Is the notion of self-regulation a global movement? Is it tied to corporate social responsibility or is it a defensive strategy to ward off further regulation? And do you see it differently in different geographies?

KEITH WILLIAMS: There are a lot of different perspectives on that. The European Union for 20 to 30 years has had the CE mark, which is basically the manufacturer's self-declaration of conformity to the European standards. This worked well for a long time but is now starting to have challenges. You've probably seen the news stories about problems with medical devices like breast implants in Europe.

We're part of an industry association called IFIA, the International Federation of Inspection Agencies, mostly European companies. Recently IFIA did a study in Europe where they bought 127 products at retail shops that were CE-marked but which had no third-party certification testing. Then they sent them to a non-IFIA member-accredited laboratory for testing, and 82

percent of those products that were certified by the manufacturer as meeting the European standard, in fact, did not meet it. That's a growing problem in Europe because, whereas maybe the traditional European manufacturers could be relied on to be trustworthy, in the global economy where products can come from anywhere and people can just stamp the CE mark on them, there's no verification—you're now getting a huge percentage of products on the market that are not compliant, even though they claim to be compliant. So Europe's got to face that problem. If you do nothing, you run the risk of, first, increased public safety problems; and, second, of undermining legitimate manufacturers. If you don't worry about safety, you can always make a product cheaper. And when there's no third-party certification, there's a lot of incentive to cheat. About the only penalty you get if your product is found to be noncompliant is recall. Recall is a big deal for a big brand manufacturer or retailer, but not for somebody who's selling at a flea market.

TCB: So the result is that there will be less self-regulation, more regulation enforced by European officials.

KEITH WILLIAMS: Yes. Now, the U.S. system for product safety is what the Consumer Product Safety Commission calls voluntary but not optional. It's a really good scheme. Essentially they tell the industry, if you run voluntary programs that are adhered to and effective at keeping unsafe products off the market, then we will refrain from creating government regulation. But if you fail to have programs or if the programs you have fail to work, then we will impose government regulation. Probably the most interesting case is consumer fireworks. They were under huge pressure 10 or 20 years ago, because of problems with malfunctioning consumer fireworks. And the American Fireworks Safety Laboratory, I think, was established. They put together a good voluntary testing and certification program and largely took that issue away. Had they not done that, there may not be consumer fireworks anywhere in America today. That's a really good case study about how an industry can come together to self-regulate, to not only forestall government regulation but to forestall the end of their industry completely.

TCB: Should governments be responsible for the safety of their companies' products? And how far down do you have to go to ensure integrity in the supply chain?

KEITH WILLIAMS: What governments generally worry about is the safety of the products in the marketplace where they are, not the safety of products manufactured for export—although that has changed a bit in China since the problems with milk and pet food related to melamine.

China did start to worry after the toy scandal about the quality of toys being exported from China and they set some standards. They were worried about losing their toy industry over issues like lead paint. But generally countries don't have standards on export, they have standards on imports and they have standards on products sold within their boundaries.

In corporations, you talk about quality systems, and you'll find two schools of thought: One is where the quality system is run out of corporate as a corporate-central function, and the other is where each business unit is responsible for its own quality system. I think generally you're going to find that the latter produces a better result. Because it's not somebody in the business unit who's now got to follow some stupid corporate rule, it's someone in the business unit who's responsible to deliver a specific quality result. The same goes for the U.S. government's voluntary non-optional system of regulation. They say to the industry, "This is the result we expect and you can get there in many different ways. But if you fail to get there, then we have a way to get you there." That system works well because it allows a lot of private initiative and it allows industry to innovate.

TCB: Let's talk about global political and economic risk, because you identified that as a major concern. What, from your organization's perspective, are the main risks that you're facing in the next few years, and how are you trying to mitigate them?

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KEITH WILLIAMS: Our business is heavily dependent on global trade flow. If we have a significant interruption in global trade for any reason, we're going to have a business problem. We worry about any economic slowdown in the three major economies of the world—the U.S., then China and Europe. And there are so many economic risks right now, whether it's the mess in the European Union or the mess in Washington, D.C., or the generic weakness of the Chinese economy and the fact that parts of China are already noncompetitive in terms of manufacturing costs. So that would be the number one worry for us.

TCB: Is that a worry from the perspective of slow sales and revenue? Or is it that slow economic growth provides undesirable disruptions to your value chain?

KEITH WILLIAMS: I don't think it's disruption. I think it's slow economic growth. The political risk that's potentially disruptive is the mass proliferation these days of bilateral and multilateral trade negotiations. What you have now is many, many of these bilateral and regional trade negotiations, and every one has the chance to be disruptive to our business. Some look really good, like TPP. The European Union and the U.S. are probably going to start a new transatlantic trade negotiation next year—who knows what that could be like? We've got four countries—Peru, Ecuador, Mexico and Canada—who are working on some sort of mini version of TPP; you've got China negotiating with Japan . . . The best thing in the world for consumers, manufacturers and ultimately for our business would be to have one standard for the product that would apply all over the world, one third-party test that would cover the whole world, and then one certification mark that would be accepted everywhere in the world. So if you're Whirlpool, you can make a dishwasher that you could sell everywhere in the world. You'd have to make modifications for the electrical supply system, for example, and you might have to make

modifications for the size of the plumbing supply line, but essentially one series of products to serve the whole world. It would give consumers more choice, manufacturers less cost, and would be dramatic in improving international trade flow. But every time one of these trade negotiations gets set up, you have the risk of technical barriers that work against this idea of one standard, one test, one mark.

TCB: While some businesses might say, "If I have one standard and one certification mark, it's going to reduce my cost significantly." But other businesses may say, "Well, hold on a minute. It also creates a lot more competition in my local market and I don't like that."

KEITH WILLIAMS: Exactly. A good example is floor care products, vacuum cleaners, where the industry long ago said, "We want to have one common standard." So the standards and testing have been harmonized, and they make global products. But there are other places where people say, "Well, hold on a minute. I really don't want to have all this free competition." It's lifetime work for everybody.

TCB: That gives us more work to do as economists to convince the business sector that ultimately we're all better off in a more competitive environment. On another topic, this year on our challenge list we added trust in business, and it came in last. Every region, every country. We added it last year because when we were speaking to CEOs, they all mentioned the trust issue. What are we missing here?

KEITH WILLIAMS: Explain what you mean by trust.

TCB: It's the faith and expectation that corporations and business leaders will operate in an ethical matter, meet social, moral and environmental expectations by doing business according to societal values. And since the '08-'09 crisis, there has been a bit of a breakdown in the confidence that people have that the business sector is improving our economy and society. Are big companies creating jobs? Do they have the medium term in mind rather than just short-term shareholder goals? Is this a concern or do you think, well, once the economy starts growing again people will change their minds and see that we're actually good folks?

KEITH WILLIAMS: I think it varies from region to region. Take some of the fast-growing economies like Singapore as well as the U.S. and some places in Europe and ask people, "How do you feel about big business? Do they have society's interest at heart or do they only care about themselves?" There is an issue in America that probably is almost a century old of cynicism, distrust of big business in general. That "Business people are fat cats and they don't care about us." Maybe it comes out of the American labor movement of the early 20th century. In Asia, the places I lived anyway, people saw business as being a positive force in creating jobs and being something desirable in the local economy.

TCB: There's more mistrust of government than of business in those places.

KEITH WILLIAMS: Right. But I think it's a long-term political issue for America, if we really create a society where the majority of people believe that business is evil and only government is good. Because government can't create wealth. Trust is an interesting avenue of investigation for you, but I don't think it's with CEOs—I think it's with the general populace in how they view business.

If your population views business as being bad, then you're going to have politicians elected who reflect that and who will make decisions that will be seen by their voters as punishing business when, in fact, they really punish the average person. A good example is corporate income tax. We have probably the highest corporate tax in the world now. But imagine if America had no corporate income tax—we would become the largest tax-sheltered manufacturing location in the world with the most productive workforce. It would create a flurry of investment and a lot of blue-collar jobs, which is exactly what our economy needs. But the people who would oppose that change would be unions and anti-corporate people who say, "Oh, it's corporate welfare to eliminate corporate income tax." Kind of cutting off their nose to spite their face, because if, in fact, you eliminate corporate income tax, which is only $50 billion or something to the government anyway, the number of factory jobs created would be incredible and we wouldn't have an economic problem anymore.

TCB: Let's hope that an economic recovery will help people to realize that maybe the business sector is a crucial player in all this. It's also, of course, the divide between big business and small-to-medium size businesses, which has come more to the forefront in the last few years, that has fueled some of this concern.

KEITH WILLIAMS: I don't think the recovery will make a difference. Political leaders have to stop generically demonizing business. If someone misbehaves, of course you should punish and demonize them, but you shouldn't apply a stereotype to say, "Well, because one bank did a bad thing, all banks are evil." Trade unions made huge contributions in the 20th century, but it's time to move into the 21st century and recognize that the common shared problem we have today is not labor versus management in the U.S., it's the U.S. versus China, U.S. versus Indonesia, U.S. versus Germany, and how do we work together to compete with all of those folks and to make sure that everybody's quality of life is improving here? It's not splitting the pie anymore, it's making it bigger as the world's changing.

TCB: That segues into our last question, the issue of human capital. I'd like to have your reaction on the notion that the way people work and engage with their employers is going to change fundamentally. More remote work, deeper penetration of technology into the relationship between workers and their companies, with implications for health insurance, pensions, savings. Do you see labor relationships within your business changing, and if so, for better or worse?

KEITH WILLIAMS: I think for us it's generally better. One of the things that's most important to me in all the decisions we make is to think about are we making life better for all 10,000 people here, or not? Because our job as leaders in the organization is not only promoting the long-term health and security of the business but also having some responsibility to try to help our people have better job security, a better life, and we work pretty hard on that. As I told you, we introduced an employee incentive plan this year. The metrics and the calculation for the payout for every employee in the company are exactly the same as they are for me. If I get a full payout, they get a full payout; if they get no payout, I get no payout. So we have a shared interest. And you don't have a situation where as a CEO I could get some huge bonus and then everybody else gets nothing. Because what happens then is you have discontinuity of objectives. People say, "Well, he did that for his benefit. What do I get out of it? Nothing." I think it's important not just symbolically but in reality to be able to say to people, "Yeah, we're on the same boat here."