

LEADERS

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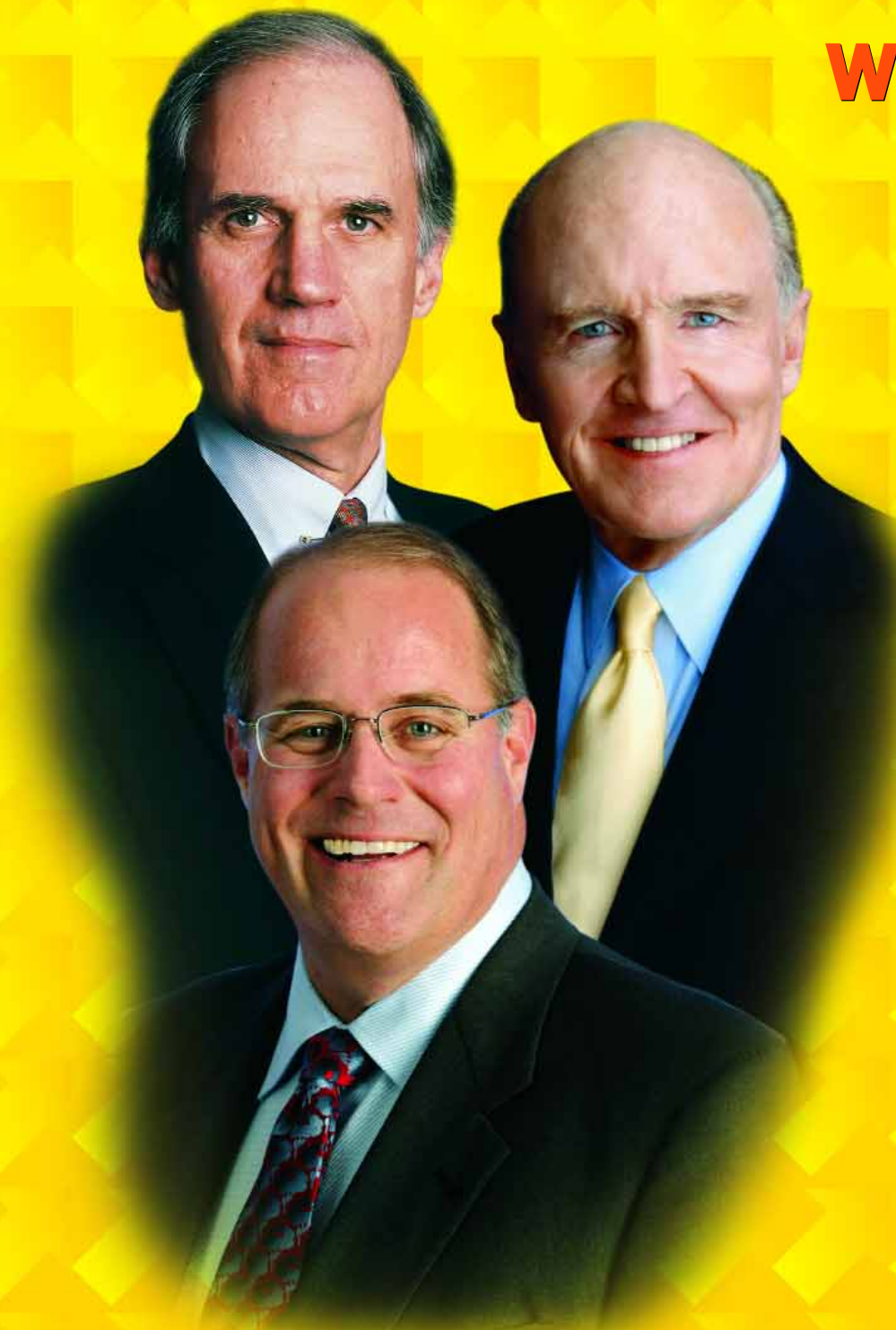
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Defining “Engineered for Life”

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

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 manufacturing businesses, including aircraft and defense, fluid and power systems, and automotive and industrial products. He was appointed president and CEO of ITT Industries in June 2004 and was elected chairman of the board of directors in December 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 the National Air and Space Museum and the Congressional Medal of Honor Foundation.

COMPANY BRIEF Based in White Plains, New York, ITT Industries, Inc., is a global engineering and manufacturing company offering a range of engineered products and services. Its four business segments are Defense Electronics and Services, which develops, manufactures, and supports electronic systems and components for worldwide defense and commercial markets, and provides communications systems and engineering and applied research; Fluid Technology, a global provider of fluid systems and solutions for the water, wastewater-treatment, building-trades, industrial and process, and biopharm markets; Motion and Flow Control, operating in the motion-control and flow-control market segments; and Electronic Components, providing products and services in the areas of communications, industrial, transportation, military/aerospace, commercial aircraft, computer, and consumer uses. With 44,000 employees around the globe, ITT Industries reported sales of \$6.8 billion and net income of \$432.3 million in 2004.

What is your outlook for growth for each of your four business segments?

I'll start with our largest business segment, which is Defense Electronics and Services. That segment will generate \$3 billion in sales this year. It has been growing at a rate of about 20 percent per year for the last several years, and that's a nice organic growth rate. That business segment participates in the defense industry in three significant areas. First, our advanced-engineering unit, which is a contracted business, serves many advanced agencies such as the Department of Energy and the Defense Advanced Research Projects Agency [DARPA], providing very high-technology analysis and engineering that contribute to the development of a variety of new applications. This business segment also includes our battlefield communications and electronics business, providing night vision, single-channel ground and airborne radio systems [SINCGARS] radar, and electronic-warfare capability, such as radar jammers, all of which we categorize as communication electronics.

In addition, we have a significant space-based business within our defense segment, which is the largest provider of optical and nonoptical imaging systems. We build everything from weather satellites to global positioning system [GPS] navigation-satellite payloads, but the biggest piece of this business concerns surveillance equipment. We make surveillance imagers that provide data for commercial, as well as government, applications. This is a business segment that has been growing nicely. One of the reasons for that is the changing nature of security. Terrorism, homeland security, and battlefield management have become more prominent issues over the years, and, quite frankly, we play in the sweet spots.

What are your prospects for your other business segments?

Our second business segment, with about \$2.6 billion in sales, is our Fluid Technology business. We offer one of the broadest ranges of technical capabilities in fluid technology, including all sizes of pumps and water-handling equipment to

serve municipal water and wastewater-treatment markets. We provide all elements of water handling, from pumps in wells and irrigation to residential uses, and we also have significant positions in advanced-treatment desalination, filtration, biological treatment, and ultraviolet ozone capability. This business has the highest growth potential of all of our business segments, because environmental regulations continue to promote higher and higher levels of purity, in terms of both particulates and biological contaminants. Inevitably, this requires more advanced technology and filtration capability. We do a significant amount of this type of business in China, where most of the largest cities do not have municipal water-treatment systems. We're putting in those systems. So this business is growing significantly.

Our third business segment is Motion and Flow Control, with \$1.1 billion in sales. In this business, we serve a combination of automotive and industrial marine markets. We have seen good growth in the automotive aftermarket and we continue to see very nice growth in the industrial and the leisure segments.

And finally, our smallest segment, generating about \$700 million, is Electronic Components. While we've ridden the telecommunications cycle during the last few years, we are currently enjoying a very modest recovery period. As with our Fluid Technology segment, we foresee our Electronic Component sales expanding in China.

Do all your business segments operate globally?

Yes, they do, although we do most of our defense manufacturing in the United States. In our other segments we manufacture in more than 15 countries, including a very significant Asian presence, notably in China. In terms of selling and distributing, we serve 127 nations.

You mentioned China as a key growth market for the company. What other international markets offer strong opportunities for growth?

In terms of year-over-year growth, without a doubt China represents the

greatest significant percentage-growth opportunities. However, it's important not to forget that North America and Europe are still our largest markets. So we are seeing a lot of activity in developed markets, and we will continue to gain market share in those regions. That is certainly part of our growth strategy. But the Chinese market is one to which we are migrating rapidly. We have almost 7,000 people currently working in our manufacturing operations in China. So that's an exciting new market for us.

Some of your recent growth has been through acquisitions. Do you see that continuing, in conjunction with organic growth?

Yes. We're generating a nice free cash flow, and we hope to continue to make strategic acquisitions that create value. In other words, we've got a very nice organic growth strategy that can be enhanced with acquisitions, but acquisitions will be executed only if they are strategically valuable. A good example of that was our recent acquisition of the German advanced-water-treatment company WEDECO. That was a very nice strategic addition to our wastewater-treatment and water-management portfolio.

How large a role does technology play in the operation of your company? Is it used across all four business segments?

Yes, technology is playing a major role throughout the entire company. For instance, in our wastewater-pumping business we have recently invented an extremely innovative product called an N-Pump. This pump is capable of pumping not only wastewater fluid, but a range of particulate matter at a level of efficiency and reliability that has never before been possible. It is our advanced-technology impeller design that has made this possible.

Another example is our innovation in night vision. We will soon be transitioning some of our night-vision production to the next-generation technology, which fuses light intensification with infrared-detection capability, enabling the user to see in just about any environment. That is high technology. In addition, we're integrating GPS and digital signals into our SINGAR radios, as well as identification friend or foe signals, and this very broad data can be transmitted through an advanced waveform to the battlefield commander. So, in many, many different ways, technology is playing a critical role in our growth.

In building awareness for your brand, how important is the ITT name? Does the market have a strong understanding of the scope and capabilities of the brand?

I think the ITT Industries brand has been well recognized in the last five or six years, particularly by the financial community. I would say the customer community recognizes the brand to a far

lesser extent. Accordingly, we think it's appropriate to begin building a stronger global brand image around ITT, and that's going to be one of our central themes as we go forward.

All your business segments operate in competitive environments. How challenging is it to differentiate within those markets, and how do you define what makes ITT unique?

Well, it's always a challenge, because we have a very well-respected set of competitors. Broadly speaking, we differentiate in two principal areas. First and fore-

through the consistently high quality of our products and their delivery. This may not sound all that glamorous, but we do the basics well. We have a very sound foundation in demand management in our material-flow systems and in the operating excellence of such programs as Six Sigma. And, quite frankly, I can point to many orders that we have won as a result of being significantly better than our competitors in quality and delivery. The way I see it, that's a wonderful growth platform.

Are you happy with ITT's ability to attract the best talent to the com-



most, we follow a model we call "engineered for life," and this is a way of life more than anything. In fact, when we think about the kind of company we are and the kind of things that we do, this phrase is a unifying theme for our employees to be always setting new standards in reliability, functionality, and, most important, vitality.

The other way we differentiate is

pany? In most people's eyes, yours is not the "sexiest" industry out there.

Actually, we've had a reasonably good track record on this front. I am always concerned about attracting new, energetic, and advanced-thinking talent into the organization. Indeed, some of our businesses are very exciting, and that attracts good people to our company. Some of the work we do in engineering,

defense technology, and even fluid technology is very rewarding. But more than anything, this is a company that has a good culture and a good value system, and I find those to be two of the best-selling features that we have.

You touched on values. The few high-profile ethical lapses in corporate governance we have seen in recent years have had the unfortunate effect of tainting the good name of corporate America. From a leadership point of view, are you optimistic that the business world can successfully convey its honesty and integrity to the public?

I think it's safe to say that this issue is of great concern to all the CEOs of the world today. The message of honesty and integrity is getting out, but the only way we can continue to get it out is to make sure that we run our companies in compliance with the new regulations, such as Sarbanes-Oxley, and that we get a good track record of success in this area. I can assure you that inside ITT Industries, the value system goes far beyond words on a piece of paper. When we make decisions inside the company, compliance, integrity, and respect are central to our thought processes. As a CEO, I try to drive these as part of our daily behavior every chance I get. I believe that's the key to changing public opinion about the leadership of corporations.

Another key part of ITT's culture is giving back to the community. Do you believe all corporations have a responsibility to conduct philanthropic activities?

Absolutely. I think it's important for a company to have a good relationship with its community, and not be known only as a good place to work. The community also needs to know that you will leave the environment better than you found it. That benefits a company's relationship with the community enormously. Beyond that, I believe corporations have an obligation to give back to part of the society that it serves, and that has an additional benefit in the powerful employee satisfaction it brings with it. As an example, like so many other corporations, we reacted immediately following the tsunami of December 2004. We gathered an international group of people and very rapidly dispatched a significant number of water-treatment units to Sri Lanka. Our intent was to do the right thing for the tsunami victims, but it was remarkable at how inspirational that action was for people inside our company. I received dozens of letters and e-mails from employees that conveyed the message, "This is a great company to work for because you do these kinds of things." So, in a way, giving back to the community enables us to validate our value system and our motto: "Engineered for life."

You were appointed to your position last summer. When you think back to the early days, has the busi-

ness progressed the way you had hoped it would?

Yes, things have gone as well as I could have hoped. One of the great pleasures of being at ITT is that there have been no significant surprises. When I came here, I found out that we did, indeed, have an attractive set of businesses. We did, indeed, have some terrific talent – some professional, disciplined people who were really driving to do the right thing. And I found out that we did, indeed, have advanced technology that was providing significant fuel for growth. The company's performance has been on

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track and that has really been a reward for me. It has also given me, along with all the other people at ITT, a wonderful platform from which to take the company to the next level. This is a group of people who feel proud about what has been done, and because of that, they see possibilities for greater growth in the future. And that has made my first year wonderful.

How do you think some of your present and former colleagues would describe the experience of working with you?

I think they would say that I'm a "people person," and that I believe in betting on people. And I think they would say that while I am impatient, I set my standards high. Furthermore, they'd say I can be counted on to help people develop and get their jobs done. In addition, I think they'd say that I'm a stickler for accountability. In other words, if we decide we want to get something done, I insist on getting it written down and linked to metrics. I don't want ideas explained through anecdotes, but rather through action plans, with regular review processes built into those plans. All my plans are written down, and I expect everyone else to write down theirs, too. I've got my strategies, my action plans, my metrics, my schedules, and so forth, and that approach is being deployed throughout the company. Finally, I think my colleagues would say that I like to have a little fun along the way. We try to do our best in business, but at the end of the day, if you can't laugh at yourself, learn from your mistakes, and

take a fresh look at what you do, what's the point of being here?

Many CEOs have very cluttered desks, with papers everywhere. Yours is almost spotless. Is this the way you always operate?

I am very focused on whatever I am working on. This one stack of paper is my plan. This is my agenda. This is what I'm working on at the moment. Everything is clear and concise. I try to be efficient in my own processing. I believe in lean principles, and one of the lean tools we use at ITT is the "5S" methodology, built around five "s" words that can help create a productive work environment: sort, set in order, shine, standardize, and sustain. I try to apply those principles to my workspace to set the example.

Looking ahead to the future of the business, are there one or two key focus areas for you going forward, whether priorities or challenges?

Yes, on the growth side and the operating side. On the growth side, we have a nice platform in defense and water technology, and we have good visibility around our business in 2005, 2006, and 2007. However, I spend a lot of time thinking about how we can keep up what has been six consecutive quarters of double-digit growth in 2008 and beyond. So the strategic positioning on those franchises is an obsession for me, and my plan contains a process-improvement element to that effect.

On the operating side, we have made a number of acquisitions, and I want to make sure that those acquisitions are integrated well. We have a strategy called "acquisition integration," which involves taking some of the businesses that have been underperforming in the past and making sure that we have got good process capabilities in place to enable those businesses to improve in the future. And finally, we have a few value centers operating below their potential, in terms of both ROIC [return on investment capital] and operating margin. So I'm spending my time helping those teams think through the improvement strategies to get their businesses up to where they can be.

As you mentioned earlier, technology can be a great enabler. However, it also means you can be reached at any time, thanks to cell phones, e-mail, and so forth. As a CEO today, can you ever really turn off the business and get away?

Unfortunately, no. I don't ever turn off my Blackberry cell phone, because I do want to be accessible. But even when I'm away from the office and not around the Blackberry, I'm always thinking about our people, our processes, and the future of the company. I think that when you're honored with a job like this, it's hard not to think about it all the time. That said, however, I will admit that when I'm fly fishing, I don't think about work. ●