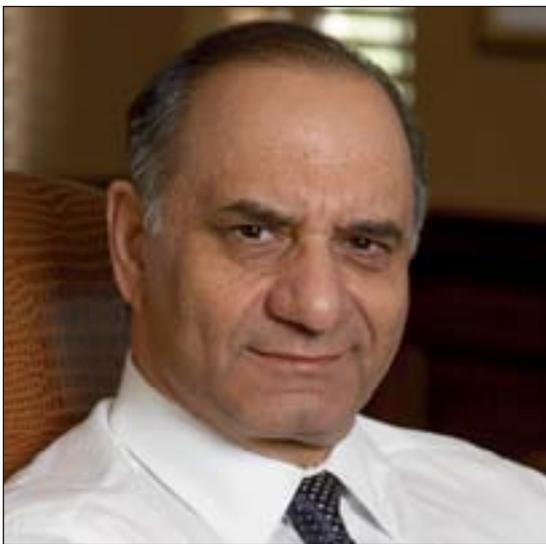


Interview

Leadership Principles

An Interview with Farooq Kathwari,
Chairman, President, and Chief Executive Officer,
Ethan Allen Interiors Inc.



Farooq Kathwari

EDITORS' NOTE Farooq Kathwari has been President of Ethan Allen since 1985 and Chairman and Chief Executive Officer since 1988. Prior to this, he served as Vice President and Chief Financial Officer of Rothschild, Inc. In 1973, he formed a joint venture company with Ethan Allen, KEA International, Inc., to develop home furnishings products. In 1980, KEA merged with Ethan Allen, and he joined the company as the Vice President in charge of merchandising and international operations. In 2009, Kathwari was inducted into the American Furniture Hall of Fame. He is the former Chairman of the National Retail Federation and the American Home Furnishings Alliance. In addition to providing leadership in the home furnishings industry, Kathwari has served many humanitarian causes throughout his career. He is Chairman of the nonpartisan Kashmir Study Group, which he founded in 1996. He is also a member of the Council on Foreign Relations. He sits on the boards of numerous humanitarian and nonprofit organizations, including Refugees International, the International Rescue Committee, the Henry L. Stimson Center, and the Institute for the Study of Diplomacy at Georgetown University. Among his many honors are the Outstanding American by Choice Award from the United States Government; the Eleanor Roosevelt Val-Kill Medal; Ernst & Young's Entrepreneur of the Year award; and the National Retail Federation's Gold Medal Award. He was also named one of Worth magazine's

Best CEOs in the United States. Kathwari earned a B.A. in English literature and political science from Kashmir University and an M.B.A. in international marketing from New York University. He also holds two honorary doctorate degrees.

COMPANY BRIEF Offering interior design solutions through a network of nearly 300 dedicated design centers in the United States and abroad, Ethan Allen Interiors, Inc. (www.ethanallen.com) is a leading interior design company and manufacturer and retailer of home furnishings. The company's 1,500 design professionals provide clients with comprehensive design expertise and service using the full range of Ethan Allen home furnishings.

How has the economic crisis impacted the Ethan Allen brand and what is your view on positioning the brand going forward?

In December of 2008, I got my main leadership together and I used two analogies to explain our situation. The first was from my experience as a mountain climber. Mountains teach you that if you go too high, you can't breathe and you have to come down. It's okay to come down, because you stabilize yourself and then you can go back up. Staying at an altitude where you can't breathe is deadly. I told my associates, "We are at about 20,000 feet. I would like us to come down to 17,000 feet, stabilize, and then go up again."

The second analogy I used I learned from a farmer whose apple trees I used to help trim. He said, "A healthy tree needs to be trimmed, but don't trim it too much at one time or you will kill it." So in our process of pruning, we knew we had to be careful not to trim to such a degree that we killed our healthy tree.

With these things in mind, we were able to manage scaling back at Ethan Allen. We made very tough decisions on issues like consolidating our manufacturing and logistics operations and letting people go, which we didn't want to do, but which was necessary to help make us stronger. It has also given us an opportunity; in the past year, we have accomplished more than we could have anticipated. Our people were ready for change, and they understood that reinvention was critical to our future success.

The good news is that since October 2009, business has been coming back. We are

healthier and stronger, and we have been able to hire again at our manufacturing and retail operations.

Key among the changes we had to make was the consolidation of our wood products to three U.S. facilities from the 13 we had a few years back. Last year, we also consolidated all upholstery manufacturing into one facility in North Carolina. Both moves allow us to go forward with our best manufacturing operations in the U.S. and still be competitive.

The next thing we looked at was logistics. We have to move furniture from our manufacturing plants to distribution centers to our clients' homes across the country. We had been continuously improving this process, but last year gave us a real opportunity for change that we would not have had if business had continued at its pre-2008 pace. We consolidated all of our distribution logistics primarily into one major national distribution center.

Our way forward rests largely on the fact that we are a globally integrated company that still makes 70 percent of its products in the United States, while most of the rest of our industry has closed their U.S. operations and outsourced. The challenge of manufacturing in the United States today is a national problem. Unless you make a commitment to it and are willing to make strategic improvements at a very small margin, or even at a loss, you're not going to be able to manufacture here.

We made the commitment for a number of reasons. First, quality and reliability are cornerstones of our brand, and our American manufacturing base fosters both and differentiates us favorably in the mind of the consumer. Second, we have the integrated business structure to support American manufacturing. And third, we have the strategy and technology in place to make our U.S. manufacturing efficient.

Outside of the plant consolidations, have there been other process changes that you have made in reaction to the weakened economy?

The recession gave us an opportunity to do something that has created a major competitive advantage for us. We decided to develop manufacturing processes in the U.S. that allow us to deliver custom, made-to-order wood furniture products, mirroring our existing all-custom upholstery business. This was done to combat

Ethan Allen Las Vegas Design Center

the commoditization happening in our industry, where others, especially those who manufacture in developing countries, may have a price advantage over us.

Starting with dining furniture, we began converting the manufacturing process in our wood products plants to a custom one. For 80 years, we have produced anywhere from 100 to 500 units of a completed table; now, we make parts that are assembled when an order comes in. That gives us the ability to offer a tremendous number of options and finishes to our clients and is also integral to maximizing efficiency.

We designed new retail footprints to maximize productivity per square foot and to be sure that going forward, all Ethan Allen Design Centers will be the right size for each location.

We developed new technologies, enhancing our state-of-the-art Web site; introducing touch screens to the Design Centers; and launching a new retail information system.

And we made changes in response to the new attitude of consumers – they were afraid to spend, and there is still reticence. We worked to offer rare savings opportunities and good financing terms. We did this because it was critical to maintaining our business stability and cash flow. Today, we are much stronger because of it.

What is it about the culture of the company that allowed your people to understand the need for change and the benefits that would result from it?

Change is not easy, but reinvention has always been a part of the culture at Ethan Allen. It's leadership's responsibility to accept the necessity of change and to manage it. We work hard to get the message across about why change is being made and why it's important. Continuous communication is critical, both internally and externally. I speak to our associates every two months, and we have frequent communication meetings. As a result, most everybody is aware of what we are doing.

Across all industries, leaders talk about the opportunities in China, but many also talk about the challenges of doing business there. Have you been happy with how the brand is positioned in China?

We have built a presence there through a partner, and in a short period of time, together we have become one of the larger furniture retailers in China with 40 design centers there.

Do you foresee opportunities for the brand in other emerging markets?

We do. We have invested a lot in the U.S. but are also focused overseas. We have a presence in a number of countries, from the Philippines to Japan to Taiwan to Thailand. Last year, we opened in Jordan and Dubai, and we're looking at Europe. Ethan Allen provides a total package of one-stop shopping for home furnishings with great quality products, and on top of it, our philosophy is centered on service. We stand out because of the interior design expertise and help that comes as part of the package when you buy from Ethan Allen. People throughout the world desire a unique combination of products and services.

Has it been challenging for you to remain engaged in all parts of the business, especially as you've grown overseas?

No. When I was young, I was the captain of a cricket team. I base my management philosophy on that experience. My job as captain was to have all members feel that they were a part of one team and to make sure that team was well trained and did well. The difference between having a captain who plays with the team and as part of the team, versus having a captain who is not "playing" with the team, is critical to our success. Organizations need a captain who is right there with them.

Our business model at Ethan Allen is based on teams. We have hundreds of teams right now from manufacturing to logistics; each design center is run by a "captain."

Motivation for me is like playing sports. You have to keep on playing and you have to do your best to win.

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How much did your earlier role in competitive sports shape your management style?

As I mentioned above, the captain of a team plays with the team. I also strongly believe that leaders must conduct themselves fairly, establish priorities, and explain those priorities to their team members. At Ethan Allen, I use the word "justice" as part of our leadership principles. Justice means dealing fairly, which is not easy. It means consistently doing what you believe is right, which also means you're willing to risk the occasional loss.

Ethan Allen's leadership principles could just as easily be titled Kathwari's leadership principles. Did you have to get your leadership team to buy in to that, and how critical was it to communicate that those principles are the core of the culture?

These principles have been part of our culture for many years, and they are the core of how we run the company. Our culture is based on doing what we believe is right. I don't want people to hide things; if anything is wrong, we want to know. The culture is not about trying to please people externally just for the sake of pleasing

them. We're a public company so we have to make sure we do things right. Our culture dictates that people treat their associates with dignity but also maintain discipline. These are principles that our people want to follow through on.

Your culture is also focused on being a good corporate citizen. How critical is that focus, and is that a responsibility today of businesses and business leaders?

It's part of the overall responsibility of any organization. But you have to make sure that you are doing well at home before you start doing things outside.

So as an organization, our primary responsibilities are to our customers. We have to treat them well, provide them with great service, and give them the best possible value. To me, that is social responsibility.

We also have thousands of people who work in our organization – they have families, so we have to make sure that their welfare is also taken into consideration.

Additionally, we are involved with communities where we work. Many of them depend on us, and it is our responsibility to deal with them fairly even though the past few years have been tough.

After that, we can get involved with other good causes.

Does it concern you that the U.S. is losing its competitive edge globally, and is there not enough being done to cultivate innovation and leadership?

That is a major concern. However, we have the opportunity to revitalize. This recession has given us an opportunity to do things we could not have done before, because our people are ready. Crisis has created an opportunity, and we should not miss it. The good news is that the U.S. today projects the diversity of the world; we have talent and ideas from all over. So as a nation, we need to go back to focusing on creative ideas rather than on financial maneuvering, as we have recently focused on.

Those who know you say it's hard to imagine a time when you will slow down. Will that day come?

One of the other important responsibilities of leadership is to make sure you leave the organization stronger than when you came in, which means having strong people. As long as I am the CEO, I have to be the team captain. But when the day comes that I don't have to be, then somebody else has to take it on. You cannot be a leader 70 or 80 percent; you have to be full charge or out.

Do you ever step back and appreciate your success, or do you always look ahead?

I've always believed in maintaining a balance between Ethan Allen and a lot of other things I do. I have been very interested in trying to help reach solutions in international conflict, and the plight of refugees and displaced people. This gives my life balance. While making money is okay, if that is the only measurement of success, you're going to make a lot of mistakes and you will never be satisfied. My involvement with nonprofit organizations has given me an opportunity to contribute, and has also helped me maintain perspective, because when you look at world problems, our problems as an organization seem relatively small. ●