RAYTHEON
LECTURESHIP IN
BUSINESS ETHICS

# Building an Ethical Culture in a Post-Fraud Environment: A View from the Front Line


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CENTER FOR
BUSINESS ETHICS

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BENTLEY
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BENTLEY is a national leader in business education. Centered on education and research in business and related professions, Bentley blends the breadth and technological strength of a university with the values and student focus of a small college. Our undergraduate curriculum combines business study with a strong foundation in the arts and sciences. A broad array of offerings at the McCallum Graduate School emphasize the impact of technology on business practice, including MBA and Master of Science programs, PhD programs in accountancy and in business, and selected executive programs. Enrolling approximately 4,000 full-time undergraduate, 250 adult part-time undergraduate, and 1,270 graduate students, Bentley is located in Waltham, Mass., minutes west of Boston.

The Center for Business Ethics at Bentley College is a nonprofit educational and consulting organization whose vision is a world in which all businesses contribute positively to society through their ethically sound and responsible operations. The center's mission is to give leadership in the creation of organizational cultures that align effective business performance with ethical business conduct. It endeavors to do so by the application of expertise, research, education and a collaborative approach to disseminating best practices. With a vast network of practitioners and scholars and an extensive multimedia library, the center provides an international forum for benchmarking and research in business ethics.

The center helps corporations and other organizations strengthen their ethical culture through educational programming such as the Raytheon Lectureship in Business Ethics.

The Bentley community was honored to welcome Larry Benjamin, Chief Executive Officer of U.S. Foodservice™, as the seventh Raytheon Lecturer in Business Ethics. Many corporate leaders will talk about business ethics when their enterprises have enjoyed continued success, without the taint of a serious ethical scandal. Mr. Benjamin offered us a different perspective: that of a new leader who brought his company back from the brink, overcoming the double challenge of a large fraud scandal and a severe business decline. Within the modestly titled "Seven Practical Tips" that Mr. Benjamin shared as part of his lecture is a powerful guide for all organizations seeking to build an ethical culture.

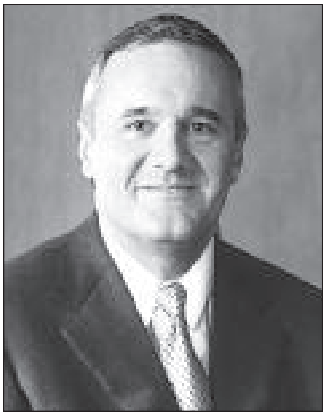
A commitment to ethics and social responsibility — in our scholarship, in the classroom, in student life, and in the way we do business — is central to Bentley's mission as a business university. We believe it is possible to teach ethics, but only if it becomes a way of life on campus. Our students and faculty live and breathe these issues through a host of pioneering programs, sponsored by a campus-wide Alliance, comprising the Center for Business Ethics (CBE), the Women's Leadership Institute, the CyberLaw Center, the Bentley Service-Learning Center, and the Bentley Diversity Initiative.

Having recently celebrated CBE's 30th anniversary, I can't help but reflect on how far the business ethics movement has come, while recognizing there is more to do. Ethics may now have entered the mainstream of business, but not yet the bloodstream in many cases. Infusing Bentley students with the kind of ethical consciousness and commitment that will distinguish and inspire them as future business leaders is a critical part of our mission. The Raytheon Lectureship in Business Ethics series, founded and organized by CBE, is a hallmark of this Bentley-wide effort. With Raytheon's valued support, I am confident that our students and faculty will continue to draw inspiration, understanding and new insight from the dialogue created by the lectures.

W. Michael Hoffman
Executive Director, Center for Business Ethics, and
Hieken Professor of Business and Professional Ethics, Bentley College

**The Raytheon Lectureship in Business Ethics at Bentley College is made possible through the generous support of the Raytheon Company. Raytheon is an industry leader in defense and government electronics, space, information technology, technical services, business aviation and special mission aircraft, with annual revenues of $20.3 billion. The company employs 80,000 people worldwide. Raytheon aspires to be the most admired defense and aerospace systems supplier, through its world-class people and technology. It has built a reputation for adhering to the highest ethical standards in the industry. The lectureship series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States.**

**Learn more about Raytheon online at *www.raytheon.com*.**

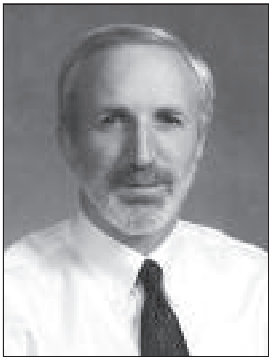


Ethics in business is about so much more than just following rules. Fundamentally, it is a matter of creating the right culture in our organizations, so that people have the ability and support to make decisions that are not only effective, but consistent with the values and principles we hold dear. Raytheon has worked very hard in establishing an ethical business culture that is accepted by our employees and woven into the fabric of the ways in which we work. Our continued growth and profitability depend on it.

Raytheon has supported the Center for Business Ethics at Bentley College for many years, and our sponsorship of its Lectureship in Business Ethics is an important commitment for the company. We recognize the enormous value of the leadership given by the center for the past 30 years, to promote ethical business practices and cultures in the United States and around the world. And ethical leadership — illuminating and inspiring conduct that is instinctively ethical — is what the Raytheon Lectureship in Business Ethics is about.  I'm proud that Raytheon can play a part in bringing to the Bentley campus highly respected leaders of companies that have a manifest and deep-rooted commitment to doing business in the right way. Their insights contribute much to an important discourse on how the business community can and should achieve ethical excellence.

William H. Swanson
Chairman and Chief Executive Officer
Raytheon Company

**U.S. Foodservice™ is one of the leading foodservice distributors in the United States, with approximately 28,000 employees and yearly revenues exceeding $18 billion. The company markets and distributes more than 40,000 national, private label and signature brand items to more than 250,000 foodservice customers nationwide, including restaurants, hotels, healthcare facilities, cafeterias and schools. U.S. Foodservice™ is a subsidiary of Royal Ahold, a publicly held international group of local food retail and foodservice operators, based in the Netherlands. Ahold's U.S. retail supermarkets include Stop & Shop, Giant and Tops.**



## LAWRENCE S. BENJAMIN

Since October 2003, Larry Benjamin has served as a senior executive at Royal Ahold, a global food retailer. He is currently Chief Operating Officer of Ahold USA and also serves as CEO of Ahold's U.S. Foodservice™ unit.

Prior to joining U.S. Foodservice™, Larry led the reorganization and/or restructuring of a series of food businesses, serving as president of the NutraSweet Company, Stella Foods, Specialty Foods Corporation and the Budget Gourmet/Birdseye division of Kraft Foods. He has also served as an advisor for several private equity firms.

Larry received his BA from Brown University and his MBA from Columbia University Business School.

Mike Hoffman (l.), founding executive director of the Center for Business Ethics, with speaker Lawrence Benjamin and Patricia Ellis, vice president of business ethics and compliance at Raytheon.

# Building an Ethical Culture in a Post-Fraud Environment: A View from the Front Line

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS
AT BENTLEY COLLEGE

Wednesday, October 25, 2006

**Lawrence S. Benjamin**
**Chief Executive Officer**
**U.S. FOODSERVICE (a subsidiary of Royal Ahold)**

## I. Introduction

Thank you and good afternoon everyone. It's a great honor to be here.

Let me begin by saying it may seem a bit odd that I have been selected as your speaker today, given that the company I work for has been the subject of an SEC fraud investigation, a Department of Justice criminal investigation, investigations by several European authorities and a very large shareholder class action lawsuit. In addition, several former executives of my company have either pled guilty to criminal charges or are facing criminal trial.

Based on that background, my perspective on business ethics is a perspective from the battlefield rather than the boardroom. The observations that I will offer today are practical, grounded in the very real experience of a company that has faced a fraud head-on. While I hope that none of you ever finds yourself in that situation, I do think there are some valuable lessons from our experience that are applicable to all kinds of organizations. Our situation may have been more extreme than most, but I strongly believe that the root causes of ethics breakdowns are the same everywhere — the consequences of ours are just more vivid.

As background, let me tell you about the company I work for, U.S. Foodservice, and how it ended up in this situation.

U.S. Foodservice is a distributor of food and other products and services to the restaurant, hotel, hospital and institutional foodservice industries. We are a national company with about 80 distribution centers in 36 states in the U.S., more than 28,000 employees and annual sales of about $19 billion.

We are a subsidiary of a much larger publicly held Dutch company named Royal Ahold. Ahold is one of the world's largest supermarket companies with multiple supermarket brands in both the U.S. and Europe. In the Northeast, Ahold's best known supermarket brand is Stop & Shop.

Ahold has been around for over a hundred years and until the year 2000 was primarily a food retailer. Based on the company's concerns about the slowing growth of the food retailing market, Ahold decided to invest in the faster growing foodservice industry by acquiring several foodservice distributors between the years 2000 and 2002. The acquired companies were combined under the common banner called "U.S. Foodservice." Virtually overnight, Ahold had put together an $18 billion foodservice giant in an otherwise highly fragmented industry.

While Ahold was acquiring foodservice companies in the U.S., they were also busily acquiring retail supermarkets across the globe: in Europe, South America and Asia. Their stock soared and their future prospects seemed brighter than ever.

That all changed in February 2003, when an accounting problem was discovered at U.S. Foodservice. In the course of a subsequent investigation, the company discovered and disclosed about $900 million of misreported operating profit at U.S. Foodservice, and had to restate their operating results. Following this announcement, Ahold's stock plummeted and the SEC, the Department of Justice and various Dutch authorities all announced accounting fraud investigations into the company. In addition, a number of shareholder lawsuits were filed.

At U.S. Foodservice, this event precipitated a series of simultaneous internal and external crises: The entire executive management team was removed from office or left the company; suppliers tightened payment terms; several large customers moved their business; and profits and cash flow nosedived. In November 2003, almost exactly three years ago, and about nine months after the accounting problems were first discovered, I joined the company as CEO.

One of the greatest challenges of becoming a CEO of a company that has been through a fraud is that leadership has very little credibility. The organization feels betrayed by previous leadership and remains highly skeptical of anyone, new or old, in a leadership position. The occurrence of fraud only reinforces the perception that many have about management — particularly CEOs: that they are greedy, selfish and inherently unethical creatures. In fact, a recent survey indicated that 87 percent of the general U.S. population believes that CEOs cannot be trusted. The good news in all of this is that expectations for CEOs are very low.

I believe that the very heart of building an ethical culture in a post-fraud environment is restoring trust in leadership. Without trust, leaders can't lead, they can only force. In this respect, ethics is the most fundamental element of an effective organization, whether you've just been through a fraud or not. The stronger the trust within a company, the better it can operate on all fronts. The creation, nurturing and reinforcement of an ethical, trustful environment are the leader's most important responsibilities. Furthermore, this "tone at the top" has taken on legal significance as it is now used as a specific criterion for assessing the effectiveness of a company's fraud prevention efforts under the Federal Sentencing Guidelines. So, whatever your vantage point, this is important stuff.

At U.S. Foodservice, our journey to establish a strong "tone at the top" and to build an ethical culture is not finished. It is quite an undertaking and we work at it every minute of every hour of every day… but we've made some solid progress and we've learned a few things along the way. I'd like to share with you now some of the lessons learned, in the form of "Seven Practical Tips for Building an Ethical Culture."

## II. Seven Practical Tips

### *Practical Tip #1: Topple the Monuments*

Imagine yourself, on your first day as the new CEO. You arrive at the office and are struck by a few things that seem unusual for a company in a basic, nuts-and-bolts, low-margin business, particularly one in crisis. There is a fleet of fancy, shiny black, company-owned luxury imported cars in the parking lot; there's a company jet suited for a rock star; your huge office has a fireplace, a wet bar, private shower; and your office, along with those of other senior executives, is sequestered in a sealed-off, secure, wood-paneled section of what is otherwise a very plain office building.

In a post-fraud environment, these symbols of power, secretiveness and privilege become bigger than life — they are not just symbols, they are monuments. They are a lightning rod for the organization's antipathy toward the prior régime. As the new CEO, you have only one choice: knock all of these monuments down. Removing these kinds of highly visible symbols communicates to the organization that power and privilege are no longer valued, and that the old ways are dead.

Even the simplest of these symbols can get noticed. Within my first hour on my first official day at the head office, I asked that the electronically sealed door to the "executive area" be physically removed and the area opened to all. Within a matter of hours, without any formal communication, word spread across the entire company, from coast-to-coast, that "the door was gone." Shortly thereafter, we moved all of the executive officers out of this wing, back into their individual departments throughout the building — and converted this area into a conference center for everyone. We also got rid of the cars and the plane. Nearly three years later, people still talk about the "day the door went down."

### *Practical Tip #2 — Bring In Some Outsiders*

I haven't done a formal study, but I suspect that most companies that have ethical issues have a history of being led by a small, tightly closed circle of people who have worked together for a long period of time. While trusted colleagues with a strong history can be an important element of a leadership team, the lack of diversity of history, perspective or experience in a leadership team is an ethics danger sign. When leadership teams become exclusive clubs, they are breeding grounds for trouble.

Given the special circumstances at our company, the entire leadership team was replaced. Importantly, we have rebuilt our management ranks with a blend of strong talent both promoted from within the organization and recruited from the outside. We have also improved the gender and ethnic diversity of our leadership group, although we still have much work to do here. This combination of diverse backgrounds provides a richness of perspectives that helps keep the leadership decision-making in balance.

### *Practical Tip #3 — Get People Talking*

One of the necessary conditions for most unethical behavior is an environment in which people don't speak up when they hear things and see things that don't seem right. They may be afraid, they may be simply indifferent, or they may just not know who to talk to.

At U.S. Foodservice, we have worked very, very hard to get people at all levels talking — about everything. In fact, if you want to get people to speak up when they observe unethical behavior, they need to feel comfortable speaking up about anything and everything — whether it's about ethics, or about the cleanliness of the washroom. They also need to know that when they do speak up about something that is wrong — whether it is unethical behavior or the washroom conditions — that something will be done about it. An open environment, that encourages people to speak up, can only exist when there is a dialogue — not just a suggestion box or a complaint hotline.

One of the most important components of getting people talking at U.S. Foodservice has been our frequent meetings, forums and discussions across multiple levels of the organization. When the senior leadership of an organization simply talks to itself, or within a tightly controlled chain of command, the environment cannot be open. When dialogue occurs regularly, and frequently, without primary regard to organizational level, the place opens up fast. People start talking to everyone about everything. An open environment is inherently untidy. Although organizational tasks may need to conform to some hierarchical lines, communications should not. Real openness isn't possible any other way.

### *Practical Tip #4 — Establish Very Clear Rules*

This practical tip seems obvious. The difficulty here is that often the rules are too theoretical and there is little guidance about their practical application. The "gray area" of ethics can become larger in the real world than the creators of the rules expect.

In our company, we have worked and continue to work very hard to minimize the "gray area" of ethical behavior by trying to make the rules as clear as possible. As a baseline, like most companies, we have a comprehensive corporate code of conduct, which is provided to all employees, signed by them annually and is available online — but that's just not enough. In addition, we publish frequent "Compliance Alerts" to all employees highlighting or clarifying specific compliance areas that need attention. We make our ethics staff available for consultation with all employees through the ethics hotline or on a direct basis. We also conduct frequent ethics training, including online courses on particular topics as well as interactive case study, video-based group ethics training. To create real engagement of our associates in the training experience, we've tried to keep our training fresh and interesting.

### *Practical Tip #5 — Enforce the Rules Consistently*

This practical tip also seems quite obvious. However, once again, the practical application is more difficult than it seems. Rules enforcement is one of the most visible and powerful forms of communication about leadership's commitment to ethics. As a result, it requires careful and consistent thought and action.

In our company, the ultimate enforcer of our rules is the Ethics and Compliance Review Committee which consists of several members of leadership. I do not sit as a regular member of this committee, nor do I have any supreme authority over their decisions. The committee has an operating charter and acts as a sort of judiciary for our company, ensuring the fair and consistent application of our rules, irrespective of the organizational level of the individuals involved.

We also ensure that we conduct our investigations of rules violations in a fair and accountable way. Individuals who are the subject of an investigation are provided with a written investigation policy and a confidential resource to contact if they believe that any aspect of the investigation has been handled improperly or unfairly. We have also clearly communicated our expectation that associates will cooperate with investigations and they will not face any form of retaliation for doing so. When people do not cooperate, we have taken swift remedial action.

### *Practical Tip #6 — Place the Ethics Function Front and Center*

In many companies, the ethics and compliance function, if it exists at all, reports into the legal or human resources function. While the ethics area needs to work closely with both legal and human resources, our own history led us to place this position as a direct report to the CEO.

Based on this experience, I am fully convinced that ethics and compliance works best when it reports directly to the CEO, regardless of whether your company has had a specific ethics problem requiring special attention. As an integral member of the leadership team, our Chief Ethics & Compliance Officer has input into and awareness of all key decisions in the company. She has direct access to all members of leadership and her influence touches everything that we do. As a further check and balance, she also reports on a dual basis to the Chief Corporate Governance Counsel of our parent company.

Placing the ethics function at the center of the organization also communicates to the organization, unequivocally, that ethics and compliance is at the heart of leadership in our company. It cannot be delegated.

### *Practical Tip #7 — Stay Humble*

Previous speakers at this forum have an extraordinary track record of creating truly exceptional ethical cultures in their organizations. Our history is certainly different. While we are making strides forward in many areas, we are not where we want to be yet. We are humbled by what other companies have accomplished and we find new opportunities every day to get better in this area.

Given our particular past, I don't think that we will ever become complacent. Our experiences have helped create a culture that is inherently averse to building monuments to ourselves in any area of our business. Ultimately, we think that this cultural humility keeps us vigilant — we are always on the lookout for ethical lapses, confusion and improvement opportunities. Having been blindsided once, we have no capacity to be blindsided again. So, my final practical tip is to stay humble — beware that your own company's success does not create an opportunity for ethical blind spots to occur. And when things are going really well, refer back to practical tip #1.

## III. Results

At this point, you may be wondering about whether there is any evidence that some of these practical tips have worked.

First, let me discuss our financial performance, which is certainly one indicator of our improved effectiveness as an organization. In 2003, the year in which the fraud occurred, profits at U.S. Foodservice were negative $74 million. In 2004, we increased profits by $141 million to a positive $67 million. This year, we have communicated to the financial markets that we expect our profits to exceed $300 million, a nearly $400 million improvement since 2003.

Second, we have resolved the company's legal issues relating to the 2003 fraud. In 2004, the SEC reached a settlement with the company and did not assess any financial penalty. As part of the agreement, the SEC cited the company's cooperation with their investigation as well as the company's remediation efforts. In 2005, the company reached settlements with Dutch authorities and announced a settlement with its shareholders. Finally, just last month, the Department of Justice announced that it had reached a "non-prosecution agreement" with the company, assessed no financial penalty and also cited the company's exemplary cooperation and remediation efforts.

Third, we have received very positive feedback from our employees based on internal ethics surveys and other feedback mechanisms. Our scores, when benchmarked against other companies who have taken similar surveys, are in the top tier. While we have been encouraged by these results, we have also found ample opportunity for improvement from this feedback.

Fourth, and perhaps most important of all, we have seen a real shift toward more self-governance in ethics at all levels of the company. People ask their manager, or our Ethics Office, seeking advice on compliance matters before they act. People self-report when they think that they may have done something wrong, or are just not sure. Ethical issues are openly raised and discussed as a routine part of the decision-making process. The "Tone at the Top" is becoming the tone at every level.

## IV. Conclusion

To conclude, let me thank you for this opportunity to share some observations about our ethics journey at U.S. Foodservice. While not a comprehensive list, these seven practical tips have been particularly powerful at our company. I hope that you will find them useful in your studies as well as in your own journey on the battlefield.

**Below are the highlights of Larry Benjamin's question-and-answer session with Bentley College students, faculty and guests.**

**Question:**

You spoke about toppling the monuments in order to rebuild employee trust in the senior leadership. I'm curious to know how you garner the support of your employees when they see your compensation package and take the view that it's unreasonable.

**LARRY BENJAMIN:**

I find that the executive compensation issue, particularly in relation to CEOs, has really exacerbated public distrust of CEOs. I think the best defense against this is disclosure. The most encouraging development is that elements of compensation that were previously hidden are now being fully disclosed.

**MIKE HOFFMAN:**

Larry, can I follow that up? I've heard from a number of sources that CEO compensation is now around 420 times that of the average worker, which is really rather shocking. Assuming you agree that this is a problem, how do you think we can bring the ratio back to a reasonable level? Do you think there needs to be regulation? Do you think there needs to be more outrage from the public? Do you have some personal thoughts on this?

**LARRY BENJAMIN:**

My view is that, in the U.S., if CEOs don't get their act together, more regulation is coming. Our experiences with Sarbanes-Oxley, the changes to the Federal Sentencing Guidelines and other recent legislation suggest that if we don't manage ourselves, someone will manage the situation for us. I think that some companies have led the way by establishing clear policies. I think they're admirable and, over time, either we will all do the same thing or someone will do it for us. I believe this issue is responsible for the lack of trust in CEOs, or at least has made the situation worse.

**Question:**

From what I've read about your background, it seems you're essentially a turn-around manager. It sounds like you've been able to come into very difficult situations in order to improve them. Other turn-around managers have a reputation for sorting things out mainly by firing and laying people off. Did you have to let a lot of people go? Was there a lot of restructuring and did your people go along with the changes that were being made?

**LARRY BENJAMIN:**

That's a good question. I've become a turn-around person more by happenstance than design. I find the challenges of companies in trouble particularly interesting. I'll tell you a little secret about the turn-around world: It's a lot easier to make changes in a company that's in trouble than in one which is successful. Turn-arounds are not nearly as difficult as going into a well-run company that's successful and taking it to the next level. At U.S. Foodservice, I will tell you that there was huge support, once we got rid of the monuments, cleared the air, established some basic credibility. The degree to which people lined up, to shift direction and to move forward was remarkable. To answer your question specifically, we did not have a lot of cost reduction at first. We have had a round since then. I think we've done it fairly — and we are in a very competitive industry — but it was not the initial focus. We were trying to get our customers back, we were trying to get our organization stable and finally it worked. Cost reduction is probably more appropriate for some situations than it was for ours.

**Question:**

How much of your business did you lose initially after the scandal? How did you go about getting it back?

**LARRY BENJAMIN:**

Without going into huge detail about the food service industry, we have two kinds of customer based on the two kinds of restaurants at which people normally eat. You eat at your local independently owned restaurant, or you go to a big chain. The local people stuck with us; it was really remarkable. The local customers tend to see their relationship with the company in terms of their relationship with the salesperson and with the driver who delivers their supplies. We were able to hold on to a lot of local business. The big customers were more of a problem. The big customers were worried that we would go under; that we wouldn't be there for them. There had been a very large bankruptcy in the food service industry just a few years before — a huge bankruptcy. Basically the company shut down overnight. However, we lost only a small portion of our business out of the box and we were able to get it back pretty quickly. It ended up not being that sort of catastrophe, mainly because so much of our business is still local — which is great.

**Question:**

When you were brought in [to U.S. Foodservice], did you bring people in with you or make use of talent already in the company?

**LARRY BENJAMIN:**

I did both. The first person I brought with me — someone I've brought with me several times now — was my CFO. Given the company's financial difficulties, and my own experience in the turn-around environment, it made sense to start with a sound understanding of the financials. U.S. Foodservice was a little different from some other situations I've gotten into. There was no management there — they were gone! Actually, the company went along for several months with no permanent management team in place. So, of my direct reports today, three are people with whom I've worked for a long time, and four are people I didn't know before.

**Question:**

It seems your focus is mostly on the United States. Is Ahold facing ethical challenges in environments outside the U.S., which it's addressing with the seven tips you just outlined?

**LARRY BENJAMIN:**

When the accounting fraud problem was discovered at U.S. Foodservice in February 2003, it precipitated an investigation into not only U.S. Foodservice but also Ahold worldwide. This was a very deep and widespread investigation. As a result, accounting issues were found in other parts in the company. These were on a much smaller scale, but nevertheless the company launched a worldwide governance, ethics and compliance initiative, across all the Ahold businesses (including Stop & Shop, the business in Holland and in Poland). The entire company really has been working together on these things, using the seven tips I mentioned, though not necessarily explicitly.

**Question:**

Your third tip was about getting people to talk. How do you accomplish that with 28,000 employees, recognizing that regular meetings may not always be the most efficient or effective channel for communication?

**LARRY BENJAMIN:**

It takes constant work. I personally, and my whole staff, have to be constantly out there among our people. Practically speaking, there are two main things that we do. First, we have town hall-style meetings, not unlike this Q&A session, usually at a company facility. We'll do it on the night shift and the day shift, with employees at all levels. One of us will get up, talk about what's going on in the company and take questions. There are lots of questions.

The other important thing we do is have round table sessions of ten to 12 people. Whether they're sales people, office people or others, at all levels, we spend a couple of hours just listening to them. We always ask the same two questions: What are you feeling best about? And what are you most concerned about? That's all it takes to get a group talking for two hours.

This kind of communication is one of the most difficult because it is so untidy. It's uncomfortable for a lot of people to start cutting across levels in the organization, particularly those in the middle who don't necessarily want senior managers talking to their people. But once you get people over that and they don't feel threatened, I think you really do create an environment where everyone gets talking. Believe me, when we get a group of 12 people together, we can't shut them up. They talk a lot! It's great, but it's untidy.

**Question:**

Imagine you're having a round table, not with your employees but a group of CEOs from companies that are not in turn-around situations. Things are going pretty well and they all think they're ethical. What would you say to them to convince them of the benefits of adopting your Seven Tips?

**LARRY BENJAMIN:**

There's a tendency for some people to say, "Well, you guys had a big fraud but we don't have that problem." What is so revealing is that even some of the most hallowed companies have stumbled. I think it goes back to the basic principles of staying in touch with the organization, whether through formal feedback mechanisms, where you are surveying people on how they feel about the ethics of the leadership; how they feel about their manager's ethics.

I think the biggest problem CEOs have is staying in touch with their organization. There's a wonderful article called "Seven Surprises for New CEOs" in the Harvard Business Review.[1] It talks about the seven things that CEOs are surprised about when they get into the job. One of them is that as CEO you expect to get access to all kinds of information; yet once you're in the job, you find that nobody tells you anything. What you hear is filtered; people are afraid to talk. The day before you might have been a Vice President and, suddenly, you're CEO. It changes the way people speak to you. You have to work very, very hard at staying in touch. That's why I find it so valuable not to just talk to people who work for me, but to go down through the organization. The deeper you go, the more direct people can be.

**Question:**

Do you think there's a link between the open communications you're talking about and increased productivity or other payback for the corporation?

**LARRY BENJAMIN:**

Intuitively, I think absolutely there is a link. Communication has been critical to getting anything done. I think that trust is just about ethics. You need trust — it's the lubrication for the whole system — because without it you can't get people engaged. You can't get people to make that extra effort. They sit there and wait to be forced to do something. Your job is to study these things and notice the correlation between [work] environments and financial performance. I'm sure someone has written about that somewhere, but intuitively and in my own experience, an open environment is incredibly powerful but incredibly difficult to achieve. People have to get used to the fact that they can talk, and not just about ethics. You have to be ready for them to open up about everything. Otherwise, it's not a truly open environment.

**MIKE HOFFMAN:**

I think we can learn a lot from your seventh tip about humility. One of the striking things about many of the CEOs and other high-level executives who have wound up in the newspapers for the wrong reasons is the hubris, and the sense of entitlement they've exhibited. Whether their mistake was throwing their spouse a million-dollar birthday party and charging it to the company or buying objects for their house at the company's expense, it seems that people who acquire immense power and wealth can start to believe rules and standards don't apply to them like they apply to 'lesser mortals.' I know this pushes you into an area of psychology, or into a realm of human nature, but do you have any reflections for our students and guests?

**LARRY BENJAMIN:**

Mike, you and I had a wonderful brief conversation about this. I think it is less about the money than the power; the psychological need to see what you can get away with, exempting yourself from the rules that apply to everyone else. The symbols and trappings of power can often be an indicator of a problem in an organization, and there is likely to be widespread resentment and distrust of people with privileges that are not shared by everyone else.

You and I agreed that it was remarkable how much money many of the people who commit fraud already have. It's not like they really need the money! They seem to be looking for the feeling of power that huge wealth can give, the ability to impress and influence almost everyone they meet.

**MIKE HOFFMAN:**

Larry, I don't think the image of you taking down the door to the executive suite will ever leave me. I thought that was a wonderful image on how to rebuild a culture with trust and openness. I want to thank you for coming and giving this speech.

[1]Porter, Michael E., Jay W. Lorsch and Nitin Nohria, "Seven Surprises for New CEOs," Harvard Business Review, October 2004, Vol. 82 Issue 10, pages 62-72.

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