

RAYTHEON
LECTURESHIP IN
BUSINESS ETHICS

Social Responsibility: Building a Culture of Strong Ethics, Good Deeds and Smart Business

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CENTER FOR
BUSINESS ETHICS

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BENTLEY

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BENTLEY is a business university. 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, including MBA, Master of Science and certificate programs at the McCallum Graduate School, emphasize the impact of technology on business practice. Enrolling approximately 3,900 full-time undergraduate, 335 adult part-time undergraduate, and 1,300 graduate students, Bentley is located in Waltham, Massachusetts, 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.



We were privileged to welcome Anne Mulcahy to the Bentley campus, as the fourth Raytheon Lecturer in Business Ethics. Ms. Mulcahy, the Chairman and Chief Executive Officer of Xerox Corporation, has been credited with leading one of the most remarkable turnarounds in recent American corporate history. Ms. Mulcahy's lecture showed us that an organizational crisis will not only test management's commitment to ethics and social responsibility, but will reveal the extent to which these concerns are ingrained in the company's decision-making processes and the corporate culture — whether they are part of the organizational DNA.

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, the Institute for Women in Leadership, the CyberLaw Center, the Bentley Service-Learning Center, and the Bentley Diversity Initiative.

In the twenty-nine years since the Center for Business Ethics (CBE) was established, it has endeavored to be an international leader in the field of business ethics, and a driving force behind the infusion of ethics and social responsibility into every facet of Bentley life. The Raytheon Lectureship in Business Ethics series, founded and organized by CBE, is a hallmark of this Bentley-wide commitment. 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
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, and business aviation and special mission aircraft, with annual revenues of more than \$20 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 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 are 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 nearly 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. The series brings to Bentley College highly respected corporate leaders of companies that have a manifest and deep-rooted commitment to doing business in the right way. They will share insights and ideas and engage in discussion about how the business community can and should achieve ethical excellence. I look forward to many fine lectures.

William H. Swanson
Chairman and Chief Executive Officer
Raytheon Company

XEROX CORPORATION is a \$15.7 billion technology and services enterprise that helps businesses deploy Smarter Document ManagementSM strategies and find better ways to work. Its intent is to constantly lead with innovative technologies, products and solutions that customers can depend upon to improve business results.

Xerox provides the document industry's broadest portfolio of offerings. Digital systems include color and black-and-white printing and publishing systems, digital presses and "book factories," advanced and basic multifunction systems, laser and solid ink network printers, copiers, and fax machines. Xerox's services expertise is unmatched and includes helping businesses develop online document archives, analyzing how employees can most efficiently share documents and knowledge in the office, operating in-house print shops or mailrooms, and building Web-based processes for personalizing direct mail, invoices, brochures and more. Xerox also offers associated software, support and supplies such as toner, paper and ink.

Headquartered in Stamford, Connecticut, Xerox is No. 132 among the Fortune 500 and has 58,100 employees worldwide. The company's operations are guided by customer-focused and employee-centered core values — such as social responsibility, diversity and quality — augmented by a passion for innovation, speed and adaptability.



ANNE M. MULCAHY is chairman of the board and chief executive officer of Xerox Corporation, Stamford, Conn. She was named CEO of Xerox on August 1, 2001 and chairman on January 1, 2002.

Mulcahy most recently was president and chief operating officer of Xerox from May 2000 through July 2001. Prior to that, she was president of Xerox's General Markets Operations, which created and sold products for reseller, dealer and retail channels.

She began her Xerox career as a field sales representative in 1976 and assumed increasingly responsible sales and senior management positions. From 1992 to 1995, Mulcahy was vice president for human resources, responsible for compensation, benefits, human resource strategy, labor relations, management development and employee training.

Mulcahy became chief staff officer in 1997 and corporate senior vice president in 1998. Prior to that, she served as vice president and staff officer for Customer Operations, covering South America and Central America, Europe, Asia and Africa, and China.

Mulcahy earned a bachelor of arts degree in English/Journalism from Marymount College in Tarrytown, N.Y., in 1974. In addition to the Xerox board, she is a member of the boards of directors of Catalyst, Citigroup Inc., Fuji Xerox Company, Ltd., and Target Corporation, and is a member of The Business Council.

She was born on October 21, 1952, in Rockville Centre, N.Y.



(Left to right) Patricia Ellis, Vice President, Ethics and Compliance, Raytheon Company; Anne M. Mulcahy, Chairman and Chief Executive Officer, Xerox Corporation; W. Michael Hoffman, Executive Director, Center for Business Ethics, Bentley College.

Social Responsibility: Building a Culture of Strong Ethics, Good Deeds and Smart Business

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS
AT BENTLEY COLLEGE

Tuesday, April 12, 2005

Anne M. Mulcahy
Chairman and Chief Executive Officer
Xerox Corporation

Thank you for that kind introduction and for your warm reception.

It's a pleasure to be here for any number of reasons. It's Boston. It's spring. It's a college campus. It's a chance to spend some time with my son, Michael, who's a student at Boston College. It's a forum to talk about a subject near and dear to all of us at Xerox. And — most importantly — it's an opportunity to get acquainted with Bentley's Center for Business Ethics.

You've been at the forefront of the dialogue on business ethics for nearly three decades and I'm sure you have a lot to teach us. So what I'd like to do with our time together is spend about 30 minutes describing how we approach business ethics and make sure we leave plenty of time for dialogue and discussion.

To tee up our conversation, I will:

- Provide a brief overview of what we're doing today under the broad umbrella of business ethics and social responsibility.
- Explain why we believe good practices in social responsibility helped save Xerox during the worst crisis in our history.
- And explain why what we're doing today feels so inadequate as we look to the future.

I'll start with a brief description of what we're doing today. Social responsibility and business ethics are so engrained in the Xerox culture that it's hard to know where to begin. During the 1960s, when Xerox came to prominence in Rochester, New York and was growing rapidly, the community — like so many others across the nation — was torn apart by race riots and the struggle for social justice. Social responsibility was in its infancy. Centers like yours didn't exist. There were no books to tell CEOs how to behave or what to do.

Fortunately, Joe Wilson — the man who founded Xerox — didn't need a book. He knew instinctively that a healthy Rochester was good for Xerox; that a corporation has a moral obligation to give back; that no company can operate independently of the community in which its people live and work; and that behaving in an ethical and responsible way was not only the right thing to do, it was also good business. He articulated a set of core values, about which I'll say more in a moment. Their enduring relevance is unmistakable and they continue to serve as our North Star.

Through Joe's leadership, Xerox embraced the problems of the mid-sixties. We donated human and financial resources to the community. We helped start organizations to spur economic growth in the inner city. We provided hundreds of job opportunities and training. And we launched a diversity program within Xerox that is still recognized as one of the best.

Joe's involvement in the civil rights struggles of the mid-sixties forever changed the face of Xerox and set us on a course of social involvement that has become part and parcel of the way we have done business ever since. That manifests itself today in a five-pronged approach to social responsibility and business ethics.

First, we take environmental management very seriously. Before it was popular to do so, more than two decades ago, Xerox adopted a policy that protects the environment and the health and safety of our employees, customers and neighbors. This principle is central to the way Xerox does business in every nation around the globe.

We articulate our environmental goal in just a few words: making Waste-Free Products in Waste-Free Factories, to help our customers attain Waste-Free Workplaces. Last year, we diverted nearly 160 million pounds of waste from landfills; recycled 85 percent of our non-hazardous solid waste; and promulgated tough standards for our paper suppliers.

Secondly, we have overhauled and strengthened our governance process. We've aggressively embraced Sarbanes-Oxley; promulgated a new Code of Ethics; trained and re-trained all our people on their responsibilities; and given employees an easy and anonymous vehicle to raise issues. We have enabled our Board to be more independent and involved in governance of the company.

We treat good business ethics as everyone's responsibility. People know what's expected of them. They know how to raise issues. And we have a world-class process in place to ensure that every concern is examined thoroughly. If we find a problem, we fix it.

The third plank of our program is corporate philanthropy, spearheaded by The Xerox Foundation. We invest about \$15 million a year in nonprofit organizations. And I use the word "invest" deliberately — we don't write a check and walk away. We consider our donations to be investments in the organization's capacity to positively impact the quality of life in the community in some tangible, measurable way. We support some 400 organizations each year and, in about 80 percent of cases, a Xerox person is personally involved. They are either board members or volunteers or serve in some other capacity. We find that this synergy between Xerox money and Xerox people ensures a greater return on our investment.

Fourth, we encourage volunteerism at the grass-roots level. Last year, some 15,000 employees in the United States alone participated in the affairs of their communities under the auspices of Xerox. For example, in Rochester, New York, a group of Xerox Lean Six Sigma Black Belts are helping eight community organizations improve their business processes, boost productivity and improve client satisfaction. There are other outlets for the volunteer spirit of our people as well. Xerox employees contributed more than \$2 million last year to United Way campaigns across the country. They served on thousands of nonprofit boards. They

held public office. They participated in our Social Service Leave Program which allows a select group of Xerox people to serve in the community for periods as long as a year at full pay.

The fifth and final prong of our social responsibility strategy is a relentless focus on diversity. We treat it as a line responsibility — not as something which is “nice to do” but as a business imperative that you must do to remain competitive. Senior managers throughout the company are evaluated on their performance in hiring and promoting what we call a balanced workforce. Each operating unit is given short-term and long-term staffing goals. We inspect progress regularly as part of our normal business reviews. We have a variety of programs around flex-time and job-sharing and day-care and eldercare. When we’re forced to downsize, we expect and insist that the job reductions mirror our balanced workforce targets. We include diversity in our statement of core values and communicate its importance often and consistently.

That’s a very brief synopsis of the five planks of our business ethics program. If you are interested, we could go into any one of them in more depth during our discussion. Taken one by one, they are hardly unique. Most progressive companies today have similar programs. Where I believe we may have some unique advantages is that we have been pursuing these strategies for a very long time, and we have integrated them into the way we run Xerox. They are not stand-alone, nice-to-do initiatives; they are part and parcel of our management process, our culture, our DNA. As we like to say, they are part of what makes Xerox, Xerox.

Our management at all levels is held accountable. We set tough goals and measure results. We regularly review progress at operations reviews. We conduct an annual employee feedback survey to gauge how we’re doing.

And we communicate about social responsibility and business ethics constantly. Our six core values are part of our annual deployment of objectives each year. These are the Xerox core values:

- We succeed through satisfied customers;
- We deliver quality and excellence in all we do;
- We require premium return on assets;
- We use technology to develop market leadership;
- We value our employees; and
- We behave responsibly as a corporate citizen.

For the past several years, one of our five performance objectives for the company is to “live our values.” These objectives are far from round words on a piece of paper. They are accompanied by specific objectives and hard measures.

Now, I am telling you all of this not to boast. I am telling you this to give you some idea of how ingrained social responsibility is in the fabric of Xerox. We care about it. More importantly, Xerox people care about it. And that brings me to the second part of my talk — how our tradition in social responsibility and business ethics helped us save Xerox during the worst crisis in our history.

Unless you’ve been living on another planet, you undoubtedly know that Xerox has gone through a wrenching period which saw us teeter on the edge of bankruptcy. Here’s the inside story on how we got into trouble, how Xerox people got us out and why they didn’t leave us when we needed them the most.

Come back with me for a minute to a point in Xerox history I don’t ever want to visit again — May 2000.

Just a year earlier, things at Xerox appeared to be extremely positive. Our market share was improving. Competition was faltering. Our financials were sound. The growth in our stock was outpacing the market by a fair amount. A change in leadership had apparently gone well. We were setting our sights on a bright future.

Or so we thought. With alarming speed, things unraveled in the latter part of 1999 and in early 2000. We attempted too much change too fast. Competition stiffened while economies here at home and around the world weakened. We uncovered accounting improprieties in Mexico that led to an S.E.C. investigation and sucked up precious management time. And we took some actions that in the broad daylight of hindsight were dumb.

All these and other forces hit us simultaneously in what we came to call “The Perfect Storm.” We probably could have managed our way through a few of these issues. But the cumulative impact overwhelmed us, and set us back on our heels.

By May 2000, we were in deep trouble. Revenue and profits were declining. Cash on hand was shrinking. Debt was mounting. Customers were irate. Some employees were defecting. Shareholders saw the value of their stock cut in half and continue to head south.

That was the day I was named President and Chief Operating Officer. In a talk like this, you might have expected me to say that the appointment fulfilled a life-long dream. In truth, it did not. And I accepted the responsibility with equal parts of pride and dread.

Fortunately, however, I had not one but two aces in the hole. The first was a loyal customer base that wanted Xerox to survive. And the second was an incredibly talented and committed workforce who love Xerox and would do anything to help save the company.

And so we went to work. We laid out a bold and ambitious plan that had three major planks: focusing on cash generation to improve liquidity; taking \$1 billion out of the cost base to improve competitiveness; and strengthening our core businesses to ensure growth in the future. The results have been stunning in both their magnitude and their swiftness.

We've dramatically reduced our debt, improved our cash situation and returned to profitability. In 2000, Xerox lost several hundreds of millions of dollars. Last year, we made \$859 million.

As proud as I am of the financial turnaround, what gives me the greatest satisfaction is the progress we made on the third leg of our strategy — strengthening our core business to ensure future growth. Even as we dramatically reduced our cost base, we maintained research and development spending in our core businesses. In fact, we didn't take a single dollar out of R&D in our core business — not one.

As a result, the last few years have been our biggest new product years in our history. I'm on very firm footing when I tell you that we have the broadest, deepest, best set of offerings in our industry. Our customers are responding. Our equipment sales — a bellwether metric for us — have been up. So we're on our way.

I'm thrilled to have had the opportunity to lead Xerox through this turnaround. It's been the experience of a lifetime. And in what may be the understatement of all time, I've learned a lot along the way about leadership and trust. At the depth of our crisis, all Xerox people really wanted to know is how we would get back on track and that our values would be protected in the process.

So even while Rome was burning, people wanted to know what the city of the future would look like. I plead guilty that I didn't immediately get the importance of giving people, particularly employees, a clear picture of where we were heading. I believe it was the single most often asked question; not whether we would survive, but what we would look like after we came through the crisis. I attribute that to the steely optimism of Xerox people, even in the face of extreme adversity. And I took it as a very good sign.

But I must tell you that I'm not very patient with things like vision statements that are exercises in grandiose thinking and round words and not rooted in reality. So we tried something a little different; not a vision statement, per se, but a fictitious *Wall Street Journal* article, written in 2005 about where Xerox was and how we had gotten there. It forced us to express our vision in simple English, to put numbers on paper for revenue, profit and the stock price. It allowed us to make up quotes, portraying us as we wanted to be seen by various constituencies, and to assure people that our values would emerge intact.

Someone told me, soon after I was named president, that when times are good you should talk about what needs improvement. And when things are bad you should assure people they will get better.

I took that advice to heart. I worried constantly. I had doubts. There were times when the challenges seemed insurmountable. But in public, especially with employees, I was always both candid about our problems and confident we could overcome them. The response was overwhelming. Defections slowed to a trickle. Hope rekindled. Energy returned.

In my first year, I did six live television broadcasts for employees, held more than 40 town meetings, and sent out more than 20 letters to the troops. I did hundreds of roundtables and logged about 100,000 miles visiting employees in more than a dozen countries. And I believe it's fair to say that I've kept that pace up, maybe even intensified it.

At the depth of our problems, I gave Xerox people a candid assessment of our problems. I shared with them our strategy to turn Xerox around and then gave them a choice: leave Xerox for greener pastures or roll up your sleeves and get to work, saving a company we all love.

The vast majority chose the latter, and they were very vocal about why. It's because they all believe they are part of a special company. Most of us joined Xerox in the first place because it stood for something beyond the bottom line, as important as that is.

Xerox people love Xerox. Xerox customers are loyal to Xerox. We wouldn't have survived the past year if we didn't have that love and loyalty. And it stems in some measure from our heritage as a good corporate citizen.

So for us — and for all like-minded companies — our past behavior was like money in the bank. It gave us a reservoir of goodwill that we could draw upon in

our hour of need. It's so important to us that, even in the midst of our financial difficulties, we continued to make grants through The Xerox Foundation. Our employees continued to volunteer in the community. Even as we let people go, we maintained our diversity goals and met our targets. We accelerated our environmental programs and overhauled our governance process. Although we needed and wanted to turn the company around as quickly as possible, we insisted on doing things right — no corner-cutting.

You see, we all believe that we are part of an ongoing experiment to demonstrate that business success and business ethics are not mutually exclusive. In fact, we believe they are synergistic. There's a lot of tough-minded research around to back that up. A Harvard study, for example, found that companies that balanced the concerns of employees, customers, shareholders and society, grew at four times the rate of companies that focused solely on shareholder value.*

That's intuitively true for most of us here today. Our experience at Xerox these past few years bears it out. If employees had voted solely with their checkbooks, they would have left. All we could offer them was hard work, frozen wages, cost-cutting and an uncertain future.

But we could offer them one other thing if they were willing to vote with their hearts: The opportunity of a lifetime; the opportunity to save a company that cherished its role in making the world a little better than we found it. It turned out to be a galvanizing force. And they went to work to will Xerox back from the brink of bankruptcy and put it on the road to greatness.

Outsiders are beginning to take notice. *Fortune's* 2005 "Global Most Admired Companies" ranked Xerox number one in our industry. And *Business Ethics* magazine ranked us number ten among all American corporations in terms of business ethics.

Now, I suppose I could end my speech right here. It would certainly make me feel good. But it would also be quite disingenuous. Social responsibility and business ethics — like every other facet of business — are rapidly moving targets. We're in a race without a finish line. As good as any of us might think we are today, we have to be even better tomorrow and not just by a little, but by a lot.

And that brings me to the third point I wanted to cover: why what we are doing today seems so inadequate as we look to the future.

I saw a statistic recently that about 50 global companies are larger than the economies of all but a dozen or so countries. And when you throw in the impact

of the supplier base that these companies spawn and support, the results are even more startling. With that economic might come awesome responsibilities. Consider a few facts:

More than one billion of the earth's population can't read or write.

One-fifth of the world's population goes to bed hungry every night.

In Asia, 60 percent of the population still lives on less than \$2 a day.

More than 40 percent of the world's population still does not have basic sanitation.

More than a billion people drink water that is unsafe leading to the deaths of nearly two million children each year.

I could go on but I know I am preaching to the choir. Bentley's Center for Business Ethics deals with these realities every day. We ignore them at our own peril, from the moral and economic standpoints.

What I am suggesting is that all of us need to ratchet up our expectations of what we can do collectively. I certainly don't have all the answers. I'm not even sure I have the right questions. But we are trying to push ourselves to think beyond the narrow limits of "what is" and ask the tough questions about "what if."

I know we can't solve the world's most pressing problems overnight, any more than we can eradicate hunger or illiteracy or nuclear proliferation, or any of the dozens of other great challenges that confront us. But I know too that we must try. And so I'll end this talk where I began — by citing the wisdom of our founder, Joe Wilson.

He was an amazingly literate man who quoted Plato and Shakespeare with ease. Here's one of his favorites. It's from Robert Browning. To spare you my attempt at 19th-century English, I'll paraphrase it:

"One man seeks a little thing to do, sees it and does it. He keeps adding one by one and soon he hits a hundred.

Another man pursues great dreams. He aspires to a million, dies before he reaches it, but misses by just a little."

That strikes me as wise counsel. I know that all of you who are connected to the Center for Business Ethics share that philosophy. You're all reaching for the stars. Even if you miss, you will still have made a quantum leap forward.

All of us at Xerox are proud of what we have accomplished and sobered by how much we still must do. You have our commitment that we will keep trying.

And now let's open it up for discussion.

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

Question:

How do you address the issue of CEO compensation as part of the Xerox strategies for ethics and social responsibility?

ANNE MULCAHY:

That's a very timely question since our proxy statement came out today. I make a lot of money but my package now has a different profile than in the past. Everything is calibrated around the performance of the company, relative to criteria set by the board, which include reputation, corporate responsibility and ethical leadership, as well as the company's financial performance. So the board members make a broad set of discretionary judgments, based upon the progress of the business, as well as taking account of shareholder metrics.

We are out of the options business, which is where a lot of executives have made big money. Everything we do now is basically performance-related. Shareholders and the board set metrics on pay and bonuses, and what we call performance shares. So they're not just granted, they have to be earned, and they're consistent with the performance of the company. I think there are at least three key aspects to setting responsible CEO compensation. First, it needs to be connected to the right performance objectives, and not just one. Secondly, the board needs to exercise its discretion effectively so that compensation is fair and appropriate. And thirdly, the compensation must be entirely reflective of the company's progress, so we don't end up with a CEO getting paid lots of money when not all of the relevant constituencies have seen the same kind of value. So, I think we're making progress. Are we there yet? Probably not.

Question:

About 30 years ago, there was a set of business strategy cases about Xerox's "Social Service Leave" initiative. Does that program still survive?

ANNE MULCAHY:

Yes, and as a matter of fact the author of the program is here with us today. I'd love for him to say a few words because I think it is one of the most wonderful programs that Xerox has ever had. Let me introduce Joe Cahalan, our vice presi-

dent of Communications and Social Responsibility, who can give some of examples of what Xerox people are doing and what kind of impact the program has on the company.

JOE CAHALAN:

Actually, I didn't start the program; I came along the year it started, and I've been associated with it ever since. It is 33 years old, and it allows a group of people each year to take up to a full year off at full pay to work in the nonprofit sector, with a guarantee that they can come back to the same job at Xerox. Over the years, the causes that employees have elected to support have changed. You now find more dealing with hunger, AIDS and battered women than you did 30 years ago, when the focus was more on job training (although that still registers highly).

I can say — because I didn't create it — that the genius of the program was threefold. The first of three guidelines from the beginning was that all employees should be eligible, from factory worker to vice president of research and development — and both of those job categories have in fact been on leave. The second guideline is that leave-takers must apply for leave; so it's not a case of Anne Mulcahy going to the chief financial officer and saying, "Could you free up somebody to work for a year?" That's not a good way to go. The people who get freed up are the people who can be, and want to be freed up. And it's competitive. The third guideline (which I think was brilliant) is that a jury of peers — a group of seven Xerox employees — makes the final decision as to who goes on leave. The only appeal is to the CEO; and every CEO has been tested once, and only once, and they've all made, to my mind, the right decision.

Question:

You have, what, 20 to 25 people on leave per year?

JOE CAHALAN:

It varies. This year, it's about 12.

Question:

Did the program survive through the darkest years?

JOE CAHALAN:

We had to let a lot of good people go, so it seemed inappropriate to allow employees to take the year off. So there was a moratorium for two years. As soon as we

could, we put the program back in place. It was one signal to people — one very important signal — that the values had been maintained and that Xerox was through the worst of the crisis.

ANNE MULCAHY:

Although the Social Leave Program touches only a handful of people directly, it actually has an impact on every employee. Every single Xerox employee can tell you about the program, which tells you that it's pretty special.

JOE CAHALAN:

Because of the way the program was set up, 92 percent of the people who are on leave are addressing a social problem that they or their families have personally experienced.

Question:

You spoke about how Xerox is addressing the Sarbanes-Oxley Act. If this legislation had been in place during the Xerox crisis, do you think it would have prevented a lot of bad things from happening?

ANNE MULCAHY:

Yes and no. There's no question that Sarbanes-Oxley has brought a more systemic approach to understanding and mitigating risk in our company than anything that we had in place before. It has created a context of prioritization that's hugely important in our company. So, I can think about some things that would have created a degree of consistency, which may not have prevented all the problems but would have allowed us to fix them a hell of a lot quicker. We would have had something we could have deployed to create an environment for fixing problems. We had chaos. Everybody did it a different way so there was no consistency; there was no documentation; there was no process management.

Sarbanes-Oxley is really a process, and I think it would have helped us address so many issues more quickly if we had had that discipline in our business. The business controls, the discipline, the prioritization — all of these, I think, could have provided a much better foundation for improved decisions, and certainly better reactions.

Would it have prevented all of the issues? Absolutely not; and this leads me to mention one thing of which we need to be very conscious (no matter what the regulatory vehicle): leadership. It's about having the right people in the right places,

making the right decisions. There is no substitute for it. So, I worry when we are relying too much on process and regulation to actually provide risk-free environments. I think it is absolutely undermined if you don't have the proper leadership in place. There's nothing that's going to help me discover whether I have a particular weakness or problem in, say, Asia, other than a great leader who gets on the problem, brings it to the attention of the management team and takes action to fix it. This whole deal isn't just about preventing problems. You can't be in a big global business and not have large numbers of unanticipated problems which lead to mistakes — people making honest mistakes. The issue isn't necessarily preventing them. You need to know that once a problem is identified, it's dealt with promptly, and addressed so it doesn't really develop into the real crisis that it could.

Question:

How do you see the interaction between your Code of Conduct and the companies in your supply chain? And in the future, do you see your influence on suppliers as an important part of your corporate responsibility?

ANNE MULCAHY:

Absolutely, but we all have a long way to go. The portfolio of suppliers is just enormous, so we've begun with the big hitters — the strategic relationships. I'll name two. One is Flextronics, a manufacturer to whom Xerox outsources some of its production. It's a huge part of our business and, as part of our original discussions with Flextronics, we did a "way we work" values-based negotiation, which was fascinating. We insisted they be a Lean Six Sigma partner with us so that we could bring shared values and discipline to our working relationship. Their CEO and I sat down and had what was essentially a conversation about values. We considered what would happen if a problem occurred and I were to pick up the phone. We wanted to know how they would react and what they would do. We really tested this in a way that you just can't through merely negotiating terms in a contract.

The best relationships we have from a values perspective are the ones where we have trusting relationships that get tested; we make the right decisions together. The quality of leadership in a supply organization is hugely important to your ability to work within a common framework for ethics.

Another company is General Electric. GE does a lot of our back office operations. GE Capital is a huge strategic supplier for us. They actually made a bet on Xerox when the going wasn't good, because we had a culture with which they felt com-

fortable, and a leadership team they felt was anchored in the right business decisions. It was much more of a qualitative judgment about doing business with us than it was a quantitative judgment about the lucrative nature of the deals.

We have certainly incorporated a lot of specifications into our supplier dealings that have to do with business values and how business is conducted. I think it's getting more challenging but we must have clarity in our supplier relationships. One of the interesting things in the Sarbanes-Oxley process is that all material relationships have to be certified in order to get clearance as part of the overall certification for the company. We actually had a supplier who did not pass, and we had to remediate and invest a lot. I have to tell you that this supplier is forever changed, or they would not be doing business with Xerox. There are some real teeth now to the risk assurance process and the leadership associated with your supplier community. David, do you want to add anything to that? This is David Frishkorn [director, Business Ethics Office at Xerox].

DAVID FRISHKORN:

The question asked is very pertinent to the defense industry right now. You see a lot of initiatives where the top contractor is reaching down and making requirements of the entire supply chain in relation to codes of conduct. For example, Raytheon (this lecture's sponsor) sends a letter of request every year to Xerox because we're one of their suppliers. It says, "We want you to explain what your ethics and compliance program is like, what your code of conduct is." So we have to meet certain criteria to stay within Raytheon's supply chain. Xerox has not taken that step [with its own suppliers] yet. That would be a big task, and we don't have quite the same ethics risks, from a regulatory perspective, as the defense industry. We do address the issue in our vendor contracts with a paragraph dealing with ethics and code of conduct requirements. The message is: "We're not setting the standard for you; we're telling you what our standard is. We expect you to have a program in place that reflects this in your own business—and when you're on a Xerox site, you have to abide by our code of conduct as well as your own."

Question:

There's a lot of emphasis today on building ethical corporate cultures. In fact, the recent amendments to the Federal Sentencing Guidelines for Organizations require organizations to "promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law." Could you tell us about some of the strategies that you are employing to ensure this kind of ethical culture exists at Xerox and will continue to exist?

ANNE MULCAHY:

The answer lies in a theme I've already touched on but it bears repetition: leadership by example, leadership by decisions. This means "walking the talk." With every decision you make — every time you appoint a leader — you make a statement about what's important in your culture. You can never waiver in making sure your leaders are models for the behavior and values you believe in. I can tell you that we've made mistakes in the past, with people who always got the results, always delivered the numbers but, quite frankly, were not the leadership models for the way to work, the standards to be followed.

Just who you have in leadership is a statement that's hard to get beyond. I think it's disingenuous to suggest you can communicate anything or set expectations if they're not reflected in the decisions that you make and in your leadership appointments. Obviously, at Xerox everyone signs codes of conduct; we have all sorts of acknowledgements, training sessions, re-training sessions. We publish case studies based on reports to our ethics helpline, showing employees the consequences of unacceptable conduct. We want to make sure people know that if you walk outside the lines at Xerox, you don't get to stay working at Xerox. There's a level of consistency in ensuring that those consequences follow.

We may not do everything possible from a process perspective, but I think we do an awful lot now. We benchmark against companies like Raytheon and others, to make sure that we've understood as much as possible from a process perspective. But it's the powerful moments of truth that really put the teeth into the process and the program. These moments keep asking questions of our people: "Do you make decisions consistent with our value system? Do you appoint people who represent this throughout the company?" When you blow that one, credibility is instantly gone, and very difficult to restore. So sustaining an ethical culture depends on a combination of really good process, good discipline, on consistency of actions and leadership behavior that is totally aligned with what you're asking people to do.

Thank you.

*Kotter, John P. and James L. Heskett, *Corporate Culture and Performance*, New York: The Free Press, 1992.



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