

CENTER FOR BUSINESS ETHICS

RAYTHEON LECTURESHIP IN BUSINESS ETHICS

November 3, 2009

TURBULENCE IS INEVITABLE ...
MISERY IS OPTIONAL:
Ethics and integrity are your greatest assets
in good times and in crisis

Howard Putnam
*Former CEO of Southwest Airlines and
President, Howard Putnam Enterprises*



BENTLEY UNIVERSITY is one of the nation's leading business schools, dedicated to preparing a new kind of business leader — one with the deep technical skills, broad global perspective, and high ethical standards required to make a difference in an ever-changing world. Our rich, diverse arts and sciences program, combined with an advanced business curriculum, prepares informed professionals who make an impact in their chosen fields. Located on a classic New England campus minutes from Boston, Bentley is a dynamic community of leaders, scholars and creative thinkers. The McCallum Graduate School emphasizes the impact of technology on business practice in offerings that include MBA and Master of Science programs, PhD programs in accountancy and in business, and customized executive education programs. The university enrolls approximately 4,000 full-time undergraduate, 250 adult part-time undergraduate, 1,400 graduate, and 40 doctoral students. Bentley is accredited by the New England Association of Schools and Colleges; AACSB International — The Association to Advance Collegiate Schools of Business; and the European Quality Improvement System, the leading international system for measuring quality in management and business education.



Throughout the many years the Center for Business Ethics has been in existence, we have witnessed several periods of economic difficulty. However, never have we experienced such economic turbulence as that which has characterized the last two years. There have been many causes of the “Great Recession,” and certainly it will take several years before we will be able to say with any

confidence what have been its primary causes. And yet, I think it is safe to say that one important factor has been a failure of many companies to cleave to sound principles of business ethics. The weightiness of this cannot be underestimated because people around the world — many who are in remote places and have had no obvious connection with global financial centers — have seen their lives profoundly altered for the worse because of the economic failures in places like Wall Street and the City of London.

Howard Putnam has managed companies in the famously volatile airline industry. Some, such as Southwest Airlines, have soared, while others, such as Braniff, were rescued, but ultimately were unable to rise above the turbulence that led to their demise. In the process, Howard has become recognized as one of the leading business consultants not only of the airline industry, but of business generally; in this lecture he draws on his experiential riches and shares a rare wisdom that is able to reconcile integrity, good fun, and sound business practices.

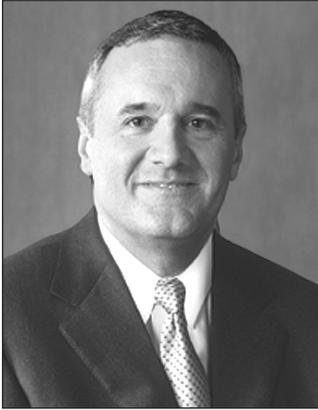
We are fortunate to share in Howard’s insights into how businesses can manage to keep on course despite the inevitable ups and downs of business cycles and how they can avoid creating additional problems by firmly embedding integrity into their organizational culture.

We are grateful to the Raytheon Company for sponsoring this lectureship series that enable us to examine business ethics from many perspectives. The fact is, although ethics is a requirement for strong businesses everywhere, it is a complex field that must be reexamined from many different angles. Only then, will we be able to develop the broad and deep understanding that will permit us to effectively conduct businesses ethically across many fields whether the skies are sunny and clear or dangerously turbulent.

W. Michael Hoffman, PhD

*Executive Director, Center for Business Ethics
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THE RAYTHEON LECTURE IN BUSINESS ETHICS AT BENTLEY UNIVERSITY is made possible through the generous support of the Raytheon Company. Raytheon is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation spanning 88 years, Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as a broad range of mission support services. The Company reported sales of \$25 billion in 2009 and employs 75,000 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 University 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 more than three decades, 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.

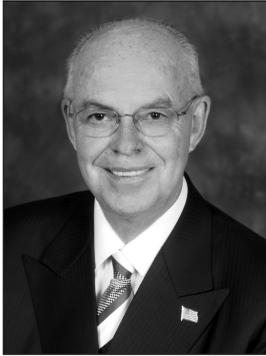
William H. Swanson
Chairman and Chief Executive Officer
Raytheon Company

SOUTHWEST AIRLINES was incorporated in Texas and commenced air service on June 18, 1971, with three Boeing 737 aircraft serving three Texas cities — Houston (Hobby Airport), Dallas (Love Field), and San Antonio. Today, Southwest operates 537 Boeing 737 aircraft among 69 cities. Year-end results for 2009 marked Southwest’s 37th consecutive year of profitability. Southwest operates more than 3,100 flights a day coast-to-coast, making it the largest U.S. carrier based on domestic passengers carried as of September 30, 2009. For more information, please see: http://www.southwest.com/about_swal.

Howard Putnam is currently president of Howard Putnam Enterprises, through which Mr. Putnam engages in consulting as well as business and motivational speaking and writing. He can be contacted through the following links: Howarddp@aol.com, or www.HowardPutnam.com.



(From left to right) W. Michael Hoffman, founding executive director of the Center for Business Ethics and Hieken Professor of Business and Professional Ethics; Gloria Larson, president of Bentley University; Howard Putnam, former CEO of Southwest Airlines and President of Howard Putnam Enterprises; and Patricia Ellis, vice president of business ethics and compliance at the Raytheon Company.



HOWARD PUTNAM learned to fly a Piper Cub out of a pasture on his father's farm. At 17, he entered the airline business as a baggage handler, and by 1976 he had attained the position of group vice president of marketing for United Airlines, then the world's largest airline. Howard later became president and CEO of fledgling Southwest Airlines where he and his team tripled revenues and profits in three years. He pioneered Southwest's legendary "fun" culture and excellent customer service. Then, recruited to rescue the financially failing Braniff International Airways, Mr. Putnam was the first CEO to successfully take a major airline into, through, and out of Chapter 11. The due diligence he reviewed greatly overstated the cash position by \$175 million, and he took on the challenge of saving a \$1 billion company with only 10 days of cash. "When you have no cash, your ethics, integrity, and your ability to communicate openly and honestly with 10,000 employees and all of your stakeholders are your only assets," Mr. Putnam notes.

He is the author of *The Winds of Turbulence*, and also works as a consultant and entrepreneur.

Turbulence is Inevitable ... Misery is Optional: Ethics and integrity are your greatest assets in good times and in crisis

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS
AT BENTLEY UNIVERSITY

November 3, 2009

HOWARD PUTNAM

President of Howard Putnam Enterprises

Professor Hoffman, thank you, and President Larson, thank you, for being here.
Ladies and gentlemen, welcome!

“Turbulence is Inevitable ... Misery is Optional.” this is an idea that I learned when taking Braniff International through chapter 11 bankruptcy. Every day was a bad day. Everybody was trying to cut a deal. Every lawyer, accountant, every stakeholder had an ax to grind and the only way that our small team was able to keep our heads on straight was to keep on course and not deviate from our integrity. By doing what we know to be right, we can make turbulence work for all of us.

Let me begin by saying, “God bless America.” I always put an American flag on a slide to remind myself and my audiences how much I appreciate what our service men and women are doing all over the world so that you and I can be here safely today.

Here are some of the “take-aways” from this talk.

- There’s no finish line in ethics, only a finished line. I’ve learned if you take toothpaste out of the tube, it’s very difficult to put it back. Similarly, once you step over that ethics line, you can’t undo it.
- Integrity is 24/7. You can’t just do it when it’s convenient for you.

- Some play the game; other change the way the game is played. As you are about to graduate and go out into businesses yourselves, look at the models out there, and see what can be improved on. Are you going to going just play the game or are you going to change the way the game's played? That was our challenge when I went to Southwest Airline as the second CEO, many years ago. I know all of you, as business students, have seen fancy, thick business plans and marvel at them. Ours at Southwest was on a cocktail napkin. It was just a triangle from Dallas, to Houston, to San Antonio. The man that had this idea, Rollin King, drew this one evening in San Antonio, Texas, and passed it across a table to Herb Kelleher, an attorney. Rollin said, "I think it is time to start a new airline in the state of Texas." Herb replied, "What are you telling me for? I'm an attorney." Rollin replied, "That's what I need. I need an attorney to help me with this." It took them four years to get Southwest Airlines in the air because all the other airlines were moving to the newly built Dallas-Fort Worth (DFW) airport at that time, and Southwest wanted to fly out of close-in Dallas Love Field. Southwest was not even incorporated at the time the other airlines and cities agreed they would move to DFW. Lawsuits came in from every direction, from the cities of Dallas, Fort Worth and larger competing airlines. Herb Kelleher, who is now the chairman emeritus of Southwest, was a fine attorney and brought the case to the United States Supreme Court twice, and eventually prevailed that Southwest had the right to fly out of Dallas Love Field. This is a story of some people with that Texas spirit who just wouldn't give up until they got their little company in the air.
- Your ethics and integrity will determine your reputation and legacy. They are your greatest assets. Don't let anybody ever tell you differently.
- Turbulent times give opportunities to grow in terms of your character and reputation. I'm certain most of you saw that the great event in January 2009,

when Captain Sullenberger of US Airways landed that Airbus with no engine power, successfully in the Hudson River. When the time to perform arrives, the time to prepare has passed. He was prepared. He even had glider training earlier in his career.

- When we are in turbulence, I've learned that we need to simplify, simplify, simplify. I always found that when I was a CEO, one of my biggest responsibilities was to take the complexity out and make it as easy as possible for my people to get their job done. Harry Truman, a president that I admire, said: "It is amazing what you can do if nobody cares who gets the credit."

On Turbulence in Life and Business

One of my mentors was Eddie Carlson, former chairman and CEO of United Airlines and co-founder of Western International Hotels [now Westin Hotels]. He frequently said: "Nobody sings solo. It's a team effort." It was in that spirit, that we wrote *The Winds of Turbulence*, a few years ago. Here is an example of turbulence: it is a photograph of a young lady who was born without arms. Her name is Jessica Cox. She is a college graduate whom I met five years ago. When we first met, she learned that I had been in the airline business and she told me she wanted to learn how to fly. I thought to myself, "Now, how do you learn how to fly with no arms?" However, here is a picture taken just a year ago when she flew a solo flight in Tucson, Arizona. She learned to fly with her feet and now has a private license that has been approved by the FAA. Jessica is a great role model of how to take turbulence and make it work for you instead of against you. I witnessed her put in her contact lenses with her feet.

Don Beck, a professor formerly of University of North Texas, helped me on a chapter in my book on turbulence. We learned that turbulence has stages. The following table identifies those stages:

Name	Type of Turbulence
Alpha	Blue Skies (Forward Turbulence)
Beta	Thunderstorms (Resistive Turbulence)
Flex	Innovation (Adaptive to Various Turbulences)
Gamma	The Pits (Chaotic Turbulence)
Omega	Fresh Start (Expansive Turbulence)
New Alpha	Redesign (Renewed Forward Turbulence)

If you can figure out what stage of turbulence you're in, it's a lot easier to fly your way out. Secondly, everything goes through cycles, including corporations, industries, countries and individuals. So if you can pinpoint where you are in the turbulence and then understand where you are in the cycle, it gives you a lot better opportunity to make more intelligent decisions.

We all like to be in is that first stage of turbulence, the Alpha stage, but that doesn't last very long.

Sometimes we move immediately into what we call, Beta, the thunderstorm. If you think back to 9/11, all those airplanes when they took off, they were all in the Alpha stage — the skies were clear, radars were working, the crews were rested and then something happened. Terrorists came forward toward the cockpit out of the passenger cabin. Unfortunately, the flight crews did not know they were terrorists. They thought they were hijackers, as they had all been trained over the years that you negotiate with hijackers. Here is the key. If you can't figure out what's going to happen in the Beta state, you need to make some changes immediately; go to the Flex stage. If you can't figure out what's going to happen

while in the Beta state, and you're not able to get to Flex, you're going to end up in Gamma — the pits, and, unfortunately, that's where those airplanes ended up on 9/11. Our son Mike is a Captain for USAirways based in Charlotte, and on September 11, he was grounded in Myrtle Beach just like all flights across the U.S. When he called me a few hours later to tell me that he was OK and on the ground, I said: "Mike, what do you do now if somebody knocks on the cockpit door and says, 'Let me in or I'm going to do thus and so?'" He replied, "Dad, the rules of engagement changed today. We can no longer negotiate. We'll depressurize. We'll do whatever we have to do to get the airplane on the ground safely. But we understand that we can no longer let anyone into the cockpit."

In the case of Braniff International Airways, we had to file for bankruptcy; there was no more Flex in the cash position. So Chapter 11 was Braniff's Gamma, the pits, but we had the opportunity to bring it back to a new stage, Omega. We got it reorganized with the courts and the creditors and got it flying again in a changed and smaller state of turbulence, New Alpha. You may have noticed that Don Beck named most of these Stages of Turbulence with the Greek letters: Alpha, Beta, Gamma, Omega, New Alpha, but there's one Greek letter I wouldn't let him use, "Delta."

I grew up on an Iowa farm and that's where I learned about integrity and honesty. My dad got the urge to learn how to fly after World War II. We didn't have any money, so he finally convinced my mother that if he sold enough cows and pigs, he could get \$600 and with this, could buy a used J-3 Piper Cub. When he brought the airplane home to the farm and landed, I thought, "This is ironic We don't have any electricity; we don't have hot water or even indoor plumbing, but we do have an airplane out in our pasture! I knew then that aviation was what I wanted to do and I was fortunate enough to have my father teach me how to fly at a very young age. Years later, I then taught my son, Mike, how to fly.

When I was 17 years old and just out of high school, I began working for a little airline in Chicago at Midway Airport, called Capital Airlines. I hadn't gone to college, but I was fortunate to get into a program at the University of Chicago later, when I was 25 years old, and through this, by studying during the nights, I was able to obtain a master's degree in marketing while still working in sales for United Airlines. The best part about my work, loading bags and working as a ticket agent, was that I met a very attractive flight attendant named Krista. Two years later she became my wife, and we have been happily married ever since. Capital Airlines then was merged into United Airlines, and I spend close to 20 years with United Airline working my way up. I think I had 13 different jobs before I was made the group vice president of marketing. My advice to you as students is that if you can figure out what it is that you want to do, take any job they will offer you. I knew I wanted to be in aviation, and although I was making \$200 a month loading bags, I loved it. I worked my way up from there. But you have to have a passion for what you're doing. If you don't, it's going to be a boring life; turbulence is going to be inevitable, and misery is not going to be optional.

Changing How the Game is Played

Then one day, years later, a call came from Mr. Herb Kelleher informing me that Southwest Airlines had an opening for the president and CEO position, as the first CEO had been terminated. So I decided to leave United Airlines where I was then the group vice president of marketing, to lead this fledgling, little company in Dallas, Texas, with only 12 airplanes and 1,000 employees. I understood that for this little company to succeed, it had to be focused on its people, and it needed a vision. To achieve this, we had to figure out what business we were really in, and then we had to further develop a culture that supported the business. What makes Southwest "Southwest," is its great team of people. After all these years, I continue to see this on a daily basis in the e-mails I get from people that have experienced Southwest.

When the company was getting started, the question we had to ask ourselves was, “Are we going to play the game as it is or change the way the game is played?” We chose to change the way the game is played.

I made a list of a few companies that have changed the way the game is played and you can make the list much, much longer than this. As an example, over the years, Apple has been exceptionally innovative and in so doing, they’ve sparked in us a passion to go buy Macs and iPhones and other innovations they have come up with. Why do they do it? My friend, Simon Sinek, is a sharp marketing man who has a book that has just been released called, *Start With Why*. It describes succinctly for me the essence of marketing, which is this: “People don’t buy what you do; they buy why you do it.” Too many companies try to tell people, including their customers and employees, *what* they do. But if you want to get people to get “buy in” and if you want to create a positive road for integrity and ethics, tell them why you are doing what you do and let them share the passion you have for it.

I mentioned that there are different stages of turbulence. Like most things, turbulence moves in cycles; and the cycles are getting shorter. To illustrate this, let’s consider what has happened to aviation in just 83 years. Here is a photo of an airplane called the Swallow that in 1926 flew the first air mail from Pasco, Washington to Elko, Nevada. When we moved into the World War II era, the planes still used propellers, but here is a photo of an airplane that you probably never heard of, called the P-59. It was the first jet airplane. It was built in secret at Edwards Air force Base in California during the early stages of World War II. They couldn’t let people know they were developing an airplane that had no propeller, so as you can see in this replica, there was a wooden propeller hanging on the front, which was removed prior to the test flights at the end of the runway. The purpose was to disguise the fact it was a jet engine. The test pilots would also dress up in gorilla outfits with a rubber cigar in their mouths. The idea was that if another airplane flew nearby and saw that the P-59 had no propeller and was being flown by a gorilla, who would they tell? It’s probably the only secret

that the government ever kept. While that airplane did not do very well, there was a lot of progress made with jet engines, and this led to the commercial jet aviation era. In this photo, there are three generations of airplanes. The one in the background is a propeller-driven Convair 580, and then there's the Pan Am four-engine Boeing 707 jet and beside it is the Northwest Airlines Boeing 727 jet. Based on the tail number, it turns out that this was the plane from which D.B. Cooper jumped in 1971. That was the first hijacking in the United States for ransom. Mr. Cooper jumped out over the Columbia River on the day before Thanksgiving and was never seen again. But this incident is one example of how somebody changed the way the game is played. It forced us to rethink our approach to airline security, including the way in which airplanes are designed. (In the case of the 727, it had a tail stair door that came down and was used by Cooper to exit the aircraft.) Thereafter, it had to be permanently fastened shut. New cycles start all over again. For example, we live near Reno, Nevada. Sixty miles east of us is Fallon, Nevada, which is the home of Top Gun, where a lot of experimental work in aviation is done. As you know, the U.S. is flying many unmanned aircraft in Afghanistan and other countries as well on recon missions. By some estimates, within 10 years, 50 percent of all military flights will be unmanned. So the cycles go on, and with them we can see that turbulence has stages.

Vision: What Business Were We In?

These cycles and stages of turbulence were evidenced in the development of Southwest Airlines. We began by asking ourselves, what businesses are we really in? We wrote a little vision statement and in the process we figured it out: We weren't an airline, we were in mass transportation. Returning to my friend, Simon Sinek, he also said this, "If you sell a product or a service, you're just a vender or a supplier. But if you can sell a vision or experience, now you can develop a brand." Think, for example, what you all have accomplished here at Bentley University over the years. I think especially of what you've done, Michael, here at the Center for Business Ethics over the last 33 years. You have developed a brand. You are creating a vision. You are creating an experience.

And when you do that, it is not a negative. It is very positive for people. And the more that the employees can see what a company stands for and what they believe in, the more opportunity there's going to be for ethical conduct and for people to have a passion for why their company does what it does.

When we were planning the why and how of how to develop Southwest Airlines, our officer group of eight or nine went offsite for a day and a half to a conference room at the University of Texas at Dallas. I think we only paid \$25 to rent the room. We even brought our own lunch to save money. I facilitated the meeting, which included Herb Kelleher, the chairman, and I said, "We're not going to leave this room until we can write on the wall, in 100 words or less, what we are going to be when we grow up." And it took us a day and a half to get there but the vision statement we wrote was as follows:

The mission of Southwest Airlines is to provide safe and comfortable air transportation in commuter and short-haul markets, from close-in airports, at prices competitive with automobiles and buses, and to involve customers and employees in the product and the process, making the airline a fun, profitable and quality experience.

That was 31 years ago; they don't use it anymore, but that's what we started with. It's not too strategic and it is too tactical, but it worked. I then spent 40 percent of my time over the next year as CEO of Southwest Airlines meeting with whomever would listen to me preaching the gospel of this little vision statement. And it worked.

I learned through this that if you ever had the opportunity to introduce a new initiative to an organization, don't think you are going to have one meeting and everybody will walk away saying "I get it!" They don't. One has to keep repeating the message over and over and over. That's why organizations have codes of ethics, core values, and small-group meetings every day. The key is for people to hear your message over and over again. This is a lesson parents know about

teaching their children; children need to hear a consistent message from their parents every day whether they want to or not.

Creating a Fun Culture

When I began at Southwest as the second CEO, I couldn't figure out initially, why everybody was so happy. There were no complaints ... no complaints from the customers and no complaints from the employees. And it turned out that the female flight attendant and customer service agents' uniform was a key ingredient in Southwest's culture and history. It attracted a certain kind of young lady, and in those days, there were only female flight attendants. They had nearly all been cheerleaders, drum majorettes, baton twirlers in high school or college. They were in show business. They knew they were going to look good in that uniform, but times were changing and we knew we were going to be hiring male flight attendants. So we went to our "People Department" and determined to interview all of these flight attendants to see if we could create a profile as to what made them all so great. What we learned through this was that the key for our business is to hire for attitude and teach the skills: hire for attitude, teach the skills.

I know many of you will leave here one day with your college degree, but when I hire people, I always look them in the eye for their passion and attitude before I look to see what was on their résumé. We found that cheerful and optimistic people were good decision-makers. They loved customers. They had a great team spirit. They were excellent communicators. We didn't teach them the announcements they would make on the airplane. They had freedom to add humor. We looked for good communication skills, self-confidence, self-starters, and a great sense of humor. Let me give you an example: I flew Southwest to Las Vegas recently. As everybody was standing up to deplane, the flight attendant made an announcement that said research had shown that if you have crossed your seatbelts before you deplaned, your luck would greatly improve when you're gambling here in Las Vegas. What was she doing? In a playful manner, she was getting the passengers to do her job, because she has to go through the airplane and cross all the seatbelts before leaving.

To encourage this kind of attitude the chairman, Herb Kelleher, and I would have contests that got everybody involved. For example, when we started service between Dallas and Oklahoma City and Tulsa, we created two teams, one for each city. I led one, and Herb led the other. The goal was to board the most passengers in the first 60 days, the winning team would have a steak dinner, and the team that lost would eat beans. My team lost, which meant that we had to serve the winning team. I dressed up with in a prisoner's uniform with a ball and chain. The chairman wore a crown and a robe, dressed as a king. The employees loved seeing the CEO and the chairman out there making fools of themselves.

In a similar spirit, every Halloween the current CEO, Gary Kelly, dresses up as somebody and goes on an airplane without anybody knowing who he is and serves peanuts. You ought to see what the passengers' reaction is. Recently, he dressed up as the lady character in the movie *Hairspray*. He had a little trouble with Transportation Safety Administration (TSA) over these activities, but they worked it out.

Herb Kelleher, the co-founder and the chairman emeritus, loves to have fun. One time, in the early days of Southwest, Herb and I were in New York on Wall Street, trying to raise money and having a difficult time of it. You'll find when you are the contrarian, nobody wants to listen to what you have to say, and in those days, if you didn't do business like United, American, Braniff, or Eastern Airlines, the people on Wall Street thought that you didn't know what you were doing. We had a little fleet of airplanes based in Texas with funny colors, no first class, or coat closets. We didn't serve food and we gave away the drinks during the daytime. We did that because almost all our customers were business travelers who didn't drink anyway. So it was easier to give a few drinks away than to keep track of money. One Wall Street analyst complained that we must have wasted a lot of money asked, "How many free drinks could you get between Dallas and Houston on a 50-minute flight." I said "Well, the record is seven Jack Daniels and water, and it is held by our chairman here, Herb." I just made it up, but Herb jumped right in and said "Seven? I thought I had eight!"

Stories like those go around through an organization and become part of the corporate folklore, and that's what we wanted. To develop an organization — be it Bentley University or Southwest Airlines — you want people telling stories about their experiences. And if they are good stories — and even if they aren't — they help to build the culture. Herb was great at that.

Why Did Southwest Work?

Why did Southwest Airlines work? When I was back on the farm, my dad always said that if you chased two rabbits, you won't catch either one. At Southwest, we decided to only chase one "rabbit" and that was mass transportation. We found that it was important to keep the organization as flat as possible so as to minimize internal bureaucracy and politics. It's also important to let people know over and over again "WHY" the company does what it does and what you as a leader are passionate about. We learned the importance of constant focus on the customer experience. If a company has a clear vision of its business — understands what business it is in — and then adds the people fit to pursue that vision, one's chances of opening and running an ethical organization are much greater.

We also focused on productivity. At one point in the early days, Southwest Airlines had only four airplanes. My predecessor at Southwest was a great entrepreneurial man named Lamar Muse. During his tenure, Southwest was about to run out of cash because the other airlines were trying to put us out of business by forcing us to stop flying out of Love Field. Lamar's intuition told him that he quickly needed to increase the company's cash and productivity. So he decided to sell one airplane, yet fly the same number of flights with three Boeing 737-200 aircraft as they had been doing with four. If a company could reduce its asset base by 25 percent and maintain the same amount of revenue, its bottom line would explode. Since we couldn't get the planes to fly faster nor could we start our flights earlier or stop later, Bill Franklin, our vice president of customer service, figured out that we could shorten the turnaround times on the ground to

10 minutes, which would permit us to fly the same number of flights with three planes as we did with four. Then they began to experiment on how to do it. This led us to remove the garment bag rack in front as a way of getting customers to their seats more quickly. We also found that if we didn't have seat assignments, we could train our customers to arrive at the airport earlier to check in and get a lower boarding number, so that they would get to board in the first group and get the seat that they wanted. We even learned that people would walk faster in the jetway if we played the theme song to the TV program, the *Lone Ranger*, which is the *William Tell Overture*. We could gain about 20 seconds in turn-around time. One thing we did until the Federal Aviation Agency told us to stop, was to have the push tractor on the tarmac give the airplane a nudge after the last person had boarded the plane. It is amazing how quickly you will sit down if the airplane starts moving. Although the details have changed, Southwest has kept that same philosophy, which was a kind of obsession with saving time a minute here, a minute there, and that's why Southwest has an excellent on time and safety record. The entire team understands the vision and goals. (By the way, in case you think I have stock in Southwest Airlines, I do not. From the ethical perspective, it wouldn't be right for me to speak about the company if I also held its stock.)

We also learned that if you want to take the mystery out of the organization, make it a family organization in which everybody shares in the profits and unethical behavior is not tolerated from anyone.

Before moving to another topic, I'd like to mention that my friend, Cam Marston, wrote a book, called *Motivating the "What's In it for Me?" Workforce*. He mentions that for the first time in the history of the workplace in the United States, there are now four generations working: "the Matures," i.e., people that are over 62; the "Baby Boomers," the "Generation Xers" and what would apply to most of you in this room, "the Millennials," born after 1980. I wish I had known about this concept when I was managing many years ago. You can't manage your entire workforce in the same manner because each group comes with a

different value system and personal goals. Moreover, when you go to the marketing side, you're selling to the same four different generations, each of which has its own particular aspirations and values regarding what they want to buy.

Braniff: The Cost of Getting it Wrong

Let me talk for a moment about my experiences at Braniff International Airways. Braniff was a much larger company than Southwest. Unfortunately, the due diligence that we were shown and reviewed was incorrect and out of date. There had been a great outflow of cash two or three weeks before we got there. It was only after Phil Guthrie, Southwest's CFO and I, had resigned from Southwest, then and still the most profitable airline in the U.S., did we realize that we've been asked to head what was the world's least profitable airline. It brings a lump to your throat when you have 10,000 employees and a billion dollars in revenue flying to nine different countries and you only have 10 days of cash. I wanted to pick up the phone and call Herb Kelleher back at Southwest and say to him, "Herb, I was just kidding. I didn't mean to resign." But it was too late. I made a bad decision.

I hadn't had any training in crisis management but I quickly learned that you have to focus. My second day on the job, the FBI showed up and informed us that there were people in purchasing who were under investigation for illegal kickbacks in buying our jet fuel. We then found out that there was systematic theft ring at the Dallas-Fort Worth airport. Baggage handlers were stealing from passengers' luggage. Finally, we were able to catch them simply because one morning I was helping unload bags on a B-727 for an hour and a young man whom I was assisting, gave me a tip on where to look and at what gates. On Christmas Eve, we had 22 of them arrested, fired, and put in jail over Christmas. It was front-page at the *Dallas Morning News* on Christmas Day. If I hadn't been loading bags, to stay in touch with the front line, we never would have been able to catch those 22. That did more to support the integrity of the company than anything else we could have done because the employees said, "Wow, somebody cares! They're not going to tolerate stealing, lack of integrity, etc."

We managed to keep the company alive for seven months, and finally had to put it into Chapter 11 bankruptcy, where in record time, 16 months, we completed the reorganization and got it flying again. During this period, we never thought to ask for a giant piece of stock options or a big bonus, like what we've seen in some corporations in recent years. Although we didn't create the problems the company faced, I felt it was my responsibility as CEO to get our employees back to work and work out a program for partial debt repayment. If you put your nose into something, you can't walk away and expect somebody else fix it. One needs to stay put and fix the problems. We did get Braniff flying again, but at that point Phil Guthrie, the CFO, and I determined that we had had all the fun we could stand, and so we decided to leave Braniff and started our own little investment company, and then that led me into speaking and writing a book a few years later.

The Power of Ethics, Role Models, and Perception

I want to close by sharing with you three things on the top of my leadership list: ethics, role models and perceptions. Ethics, role models and perception are the three factors that will determine your legacy.

Let's talk about ethics. The man in the middle of this slide is someone you've never heard of — his name is William A. Patterson, and he was the first CEO at United Airlines. He was the founder and president in 1926. A couple of years before he retired back in the late 1960s, the board of directors had its final directors' meeting with him. In appreciation for all he had done for his 40 years, they handed him a multimillion dollar check as a bonus. Mr. Patterson pushed the check back and said, "I don't deserve this. We have a pension plan for everybody in the company and I'm just one of 50,000 employees. I'll stick with the pension." Now how often would that happen today? What an ethical thing to do! And what a role model he was for the young people like me at that time. This kind of integrity was also demonstrated by Mr. Eddie Carlson, the co-founder of Western International Hotels; today it is Westin Hotels. United Airlines purchased Western International Hotels and Mr. Carlson became chairman and CEO of

UAL Inc., the parent company. He was always interested in his people, and always carried a little leather note pad with which he constantly took notes on passengers, employees, etc. When he would return to United's headquarters near O'Hare Airport in Chicago, he handed them out to us vice presidents, and we had 24 hours to get him a straight answer back. We'd skip the bureaucracy and bring our replies right to his secretary, Marian Levine. Mr. Carlson was so good at whipping his notepad out of his side pocket that it became known as the "Ready-Eddie." It's funny the little things you remember from your mentors. However, what I most strongly remember about Mr. Carlson was how important he thought people were and how much he valued their input.

Here is a photo of one of the most famous men in the world, but most people don't know his face. He is a great role model and patriot. He was the first man to walk on the moon, Neil Armstrong. He still lives in Ohio today and I still see him once in a while at the Reno Air Races in Nevada. What a role model he has been — very quiet, humble, ethical and someone who really stands for and behind the United States of America. Here is the last man who walked on the moon, Eugene Cernan. He lives near Houston, Texas and also attends the Reno Air Races frequently. We are all fortunate to have gentlemen like Armstrong and Cernan, who not only were patriots who loved their country but for me they were "classy" people and great role models.

Role models, ethics and perception. Let's consider perception for a moment. Perceptions become reality. I once stayed at a very nice hotel in Portland, Oregon. There I noticed a sign on which it was written:

← **701 - 707**

→ **709 - 718**

Anybody can see that there is no number "708." Why would that be important? Because that was my room when I stayed there 14 years ago. I pointed the sign out to the bell captain who was taking me to my room. He then went back and looked the sign again and then he said, "You know, I have worked here for five

years and I never noticed that before.” I then went down to the front desk and informed them, “You have the sign on the seventh floor that’s incorrect.” They could not have cared less. The next morning I walked every one of the 14 floors of the hotel and that was the only sign that was incorrect. I took a picture of it and pointed it out in later presentations as an example of how perception can become reality. A really nice hotel, but my perception was that management was not paying attention to the smaller, but important, details. On several occasions, people from Portland, Oregon, were offended because they felt that I was making fun of their hotel. I would say, “Get the sign fixed and I’ll stop talking about it.” I would never hear another word. So about five years later, it was the year 2000, my wife Krista and I were in Portland to take a paddle boat cruise up the Columbia River. As we got into the cab, I asked the cabbie at the airport to take us to the hotel. He kept the motor running as my wife and I ran inside go up the elevator to the 7th floor. The same sign was still there.

Perception becomes reality. They weren’t paying attention to the small stuff. And that can happen to a sign, a code of conduct or other things relating to ethics, or a contract that’s been negotiated incorrectly. Perception becomes reality. Here’s another example: It was on a safety card on a major airline for three years before they took it off. It says, “If you are sitting in an exit row and you cannot read this card or cannot see well enough to follow these instructions, please tell a crew member.” I sent it to a friend of mine who was an executive vice president of a major airline and told him “People are laughing at you. Safety is supposed to be your number one priority.” If you have a seat card that’s funny in this way, people are not going to think you are taking safety seriously. I never heard a word, and it took them three years before they finally change the card. I told my wife, “Someday that airline is going to be in big trouble.” When organizations — be it a university, a company, or a government agency — let little things get out of control, get ready, the bigger problems are not far behind. It only took five years until that airline ended up in Chapter 11 bankruptcy.

Balance is needed in an airplane propeller, like this P-51 at the Reno Air Races. An airplane will fly with two, three, or four blades, so long as they're all in balance. But if they get out of balance, the plane is going to crash and burn. I've seen the same thing in business — there are workaholics, alcoholics, and many other kinds of “-oholics” that all can lead a person or company to crash and burn. So I drew my own propeller ten or 15 years ago. It is hanging up in my office in Reno. My propeller has the following blades: “Family,” “Work,” “Community,” “Church, and “Personal.” Whether you're a student, a faculty member, or a business person, I would encourage each of you to stop and reflect on whether your life is really in balance?

Sometimes when our lives get out of balance is when ethics and integrity may be at risk. I still get out of balance, but my wife, Krista, has always been very good about in helping me stay in balance. For example, a few years ago, she asked me, “How many not-for-profit boards are you on?” I added them up, and I think it was six or seven. She said, “do you remember when you were in the 6th grade, your mother probably said you can have three outside activities and that's it?” I said, “Yeah.” She then said, “Well, you should resign from four nonprofits because you are way over your quota.” And she was absolutely right.

To build balance, once in a while we as a family sometimes do things that are a bit crazy. We try to get out of our comfort zone. For example, a few years ago as my Christmas present, my son Mike, the pilot, and I got to drive in a NASCAR race at the Charlotte Speedway. That was a real hoot. When you are going around the corner at 125 mph, you tend to forget all your troubles and problems. It gives the word “focus” a whole new meaning. I think this has helped make a better leader and manager out of me.

Two years ago, Del Jones, a reporter at *USA Today*, heard that I had made a parachute jump many years ago in Texas with our daughter, Sue. He, in a manner of speaking, challenged me to do it one more time. I love a good challenge, so I hooked on a harness to David Hart, a professional skydiver and former army Ranger, and

took a 13,500 foot dive. The only one who wasn't wearing a helmet was me, the customer — I think they were one short that day, and I thought that when you are falling from 13,500 feet, what difference is a helmet going to make? Our daughter, Sue, jumped with me also. That too was another great experience for adding balance to my life.

Now, I hope that you see the themes here: There's turbulence. It is going to happen. There are cycles. They will happen. The more you can understand what your vision is, what your aim is, what your flight plan is, what business you are really in, and what your passion is, whether you are a student or a business person, you will have a lot of great opportunities for success.

I have a web site, www.howardputnam.com, which I welcome you to visit. For quite a while, I have been writing a complimentary weekly e-mail newsletter. I offer it to any of you who want to sign up for it. The messages are short and to the point. Just go to howardputnam.com. It is issued on Mondays or Tuesdays and discusses examples of leadership, ethics, and integrity. Also feel free to pass along to others you know for whom it would be helpful. I want to close with a poem before we go to the Q & A. It's only a paragraph and was written for me by Art Holst. Art was a famous National Football League official for many years. He worked several Super Bowls. Art is in his 80s now, but he still does a lot of public speaking, and one thing he does really well is writing poetry. We were together a while back at a retreat, and I said "Art, someday write a poem for me that I can use once in a while." He said "What about?" and I replied, "Aviation has been my life. But could you write something about people, integrity, space, and such things?" He then went off and 20 minutes later he came back. This is what he wrote. He called it "To the Stars."

*Over 100 years have passed since Orv and Wilbur Wright,
upon the sands of Kitty Hawk, made that monumental flight.
But with our eternal searching to make things better soon,
We've gone from Kitty Hawk to Lindbergh to Armstrong and Cernan on the moon.
Now, we look beyond those clouds to travel to the stars,
but balance is the partner to the technology and schemes,
and dedicated people make reality out of dreams.*

So as we leave this session, I have a final thought to share: How you perceive the future will chart the course to get you there.

Thank you.

Below are highlights of Howard Putnam's question-and-answer session with Bentley University students, faculty, staff, and guests.

Question: Why did you move from Southwest to Braniff?

HOWARD PUTNAM: The motivation for moving from Southwest to Braniff was the challenge. Braniff was a much bigger company. It was in the same community as Dallas-Fort Worth and I just loved the challenge. I wanted to see if we could save that company. My wife says, "You know, if you hadn't gone, I would have always have to hear you say, 'I could have saved that company.'" And so she says, "Now I don't need to listen to that." It was the challenge.

Question: You spoke positively about the culture of Southwest Airlines. What was it like to trying to change the culture at Braniff?

HOWARD PUTNAM: When a company is successful and growing as was Southwest, the culture is pretty easy. A company with only 10 days of cash, 10,000 unhappy employees, the worst customer service I had ever seen in my life, management that lied to its employees saying there would be no salary cuts, when there would be salary cuts; there would be no furloughs, when there would be furloughs; there would be no cities in which operations would be closed, when there would be such cities, the employees finally said, "Who cares? If management doesn't care, why should we?" Who were they going to take it out on? They would take it out on the customers. So I went to Don Beck, who helped me with the turbulence stages, and asked him "What can I do to change the morale of this company quickly? I don't have time to fly around the world and meet with everybody. We only have 10 days of cash. Every day is a battle." And Don Beck said, "Give me 24 hours, and I'll get back to you." And what he suggested was the greatest communication vehicle I've ever been involved with. This is what he said, "Write all 10,000 employees a one-page letter, and just tell them, you're their last hope, and if we can't save this company, we're all going to be out of

work. Tell them that you need three suggestions from every one of them on how to cut cost, improve revenues, and improve quality in a measurable fashion.” And he said, “Write the letters to their homes and to their families. Don’t go through union leadership or anybody else. This is from you personally to the families. So we wrote the one-page letter and I asked Don Beck “How many responses do you think we’ll get out of 10,000?” He said “If you get 500, you’ll be lucky.” I said “Well, I’m going to put a p.s. in the letter that says that anybody who will take the time and has the gumption to sign their name, and address, and tell me where they work, will get a personal reply from me.” Well, I got 3,000 responses, 30 percent! That tells you how much built-up anger there was. This was an opportunity to let people get something down on paper and tell the president what they thought. I had to keep a company alive with only ten days of cash, and on top of that I then had the responsibility to write 3,000 notes back to people. I wrote them out and I would say something like, “Dear Mike, I got your note. We can do number 1. We can’t do 2, etc.” They would just be one-liners. If I was in a meeting like this one, I would sit in the back, pretending to listen, but I would be writing notes. When I went to dinners with my wife, I would have Krista drive, and I’d be writing notes. Even when I went to the men’s room, I’d write notes.

It took me 60 days, but I answered all 3,000. But during those 60 days, something amazing began to happen. The employees had never got a note from the president. They never had somebody level with them. Even if I disagreed with them, I told them so. Many would carry their notes with them. The flight attendants carried them in their purses and would show them to passengers. The word began to spread and morale began to change. People said, “Somebody cares again.”

Just before Christmas I got a letter from a flight attendant named Joy Clements. At this point, we still had the theft ring at the Dallas-Fort Worth airport and in her letter she said, “Mr. Putnam, I heard you speak at DFW the other day. You said there will be more furloughs.” I had told them that I would be flat-out honest. She said “Knowing that I’m going to be furloughed I went home to

Philadelphia last week, took my last pass to see the family for an early Christmas. All I had was \$250 that I used to buy Christmas gifts. When I arrived at Philadelphia, my Christmas gifts were gone. My fellow employees had stolen them. What are you going to do about it?" My first thought was to go to accounting and get a check for \$250. But I thought, "Wait, if the word spreads, how many more letters am I going to get saying that their Christmas gifts were stolen?" So I just wrote a personal check to her. If you really want to check the integrity in your marriage, try going home and explain to your wife why you wrote a check to a flight attendant for \$250. Fortunately, Krista had been a flight attendant and she believed me. I got a note back from Ms. Clements thanking me. Seven years went by and Krista and I were at a little restaurant in Dallas. I heard a baby crying in a table not far away. I didn't pay any attention but soon a lady came over holding the little baby and she opened her purse and without saying a word, handed me an envelope. I opened it and it was my note that she had with her seven years later. She told me she had been furloughed and got married. I asked her, "Why did you save that note all those seven years?" She said, "Because it came at a very down time in my life, and it showed that somebody cared." She said, "I kept it there as a reminder every day when I opened my purse that maybe there would be somebody else for whom I could put in a good word to help turn around morale in a difficult time." I still hear from a lot of Braniff employees after all these many years.

Question: What has been the impact of Southwest on other airlines?

HOWARD PUTNAM: The majority of airlines still have never figured out how to do with culture what Southwest has done. Southwest really puts their people as #1. In their 30-some-odd years, Southwest has never furloughed one of its employees. They've never had one airplane fatality in all these years. They had one car fatality when a flight slid off the runway and into a street and hit a car. Overall, they have just played it so well with their people and customers that it has been very difficult for other airlines to match it.

Question: How do you set priorities for decision-making?

HOWARD PUTNAM: We never said the customers were #1. Most companies do. We always said that the employees were #1. That's very different and you have to be careful how you do that. But we learned that if your employees trust the company as if it were their family and you hired for attitudes, they will transfer that to the customers. They'll perform the best customer service you could hope for because they know they're appreciated. So the way we set decision priorities was to put the employees first and see that attitude that was transferred to the customers.

Question: What was your greatest leadership failure and the lesson that you learned from it?

HOWARD PUTNAM: I'm impetuous and sometimes I have made decisions too rapidly. It just drives me nuts to go through committees, studies, and on, and on, and on. So sometimes I've made decisions that I might not have if I had had time to think over. My dad would say, "Let's sleep on it." I would have been better off sometimes if I had slept on matters for a night.

Question: I have experienced firsthand the culture of fun that is the trademark of Southwest. I'm curious, where did that come from because we don't often think of work and humor as coming together so closely as they do at Southwest? Did it ever backfire?

HOWARD PUTNAM: The culture came out of the uniforms that I showed earlier, and that brought with it those young original flight attendants and their personality profile. Fortunately, the early management let the employees do their own thing. If ever you just tell people, "You are going to have fun, and then slap their hands when they try to, forget it — the party is over. So once in a while, we had to bite our tongues when somebody would go too far. I was on a flight

that was about to make a steep approach to Love Field. Using the public address system, the captain said, “All right, folks, hang on, we’re going to do a slam dunk into Love Field.” Well, this was OK for those who got the basketball connotation but I saw a few people tighten their knuckles. So I waited until everybody got off the airplane and then went to the cockpit and congratulated everyone for a good landing. Then I said, “By the way, you might want to rethink the ‘slam dunk’ metaphor.” It had never occurred to him that it would come across the wrong way. Now if I had said, “Don’t ever do that again!” the word would have spread everywhere that we shouldn’t have fun anymore. Another time, long after I was gone, Southwest agreed to a TV series on A & E network and let the crew from “A & E” film passengers and employees in action. Someone asked Colleen Barrett, Southwest’s president, “Why did you let A & E do that?” She said, “Because we trust our employees. We know, they’re going to make a mistake once in a while, but we trust them.” How do you think the employees felt when they heard this? They thought, “Management trusts me.”

Question: You’ve mentioned that you were determined to become a CEO and you achieved that. Do you have any advice on how to achieve one’s goals?

HOWARD PUTNAM: I came off the farms and started loading bags. I then became a ticket agent. At the age 19, I was made a passenger service manager, in charge of a shift with about 30 flights. Whenever someone said “We need someone to do thus and so. Would somebody be interested in doing it?” I would say, “I’ll do it. I’ll do it.” That “can-do” kind of attitude still works today. I had no education for this or leadership training, but this job came easy for me. I enjoyed it. I liked to bring out people’s enthusiasm. After Capital, the airline for which I worked, was merged into United Airlines, United had all the psychologists coming to interview all of us young guys to see if we could make the cut. The man who interviewed me said, “Tell me, young man, what’s your long-term goal?” I said, “I want to be the president of the airline.” He laughed at me, and it broke my heart. The years went by and I never forgot that. I moved up

through the ranks and eventually was in a higher position than he was, but we never talked about that encounter. Finally, some 20 years later, it was announced that I was leaving United to go to Southwest Airlines and my assistant told me that there was a man on the phone who wanted to talk to me. I recognized the name and knew he had retired but I didn't know he had been diagnosed with cancer. When I got on the phone he just simply said, "I have never forgotten that conversation and I had to apologize." Two months later, he passed away. My advice: Have a goal and stick with it. It worked for me; I think it still works today.

Question: Your talk didn't focus on an organized ethics program, but more on a sense of integrity that was infused throughout the organization. You talked about family values, work values, goals, mission and passion. All of that has to do with ethics. Ethics seemed to be infused throughout your entire career and life. Can you talk a bit about that sense of ethics as opposed to ethics as an organizational function?

HOWARD PUTNAM: We did not have a formal ethics program at Southwest Airlines when I was there. We didn't know we were supposed to have one. It was just a way of life and a part of the fabric of the organization. In my case, it came from the Iowa farm. It came from working with animals, family, helping neighbors, and developing a sense of ethics that meant you don't lie or steal. It was just part of the fabric of our life. If I had the choice, I always tried to surround myself with people that had similar values. I trusted Phil Guthrie, my CFO at Southwest implicitly. We never socialized together, because we don't have the same interests. But when it came to business, we both had the same intuition on how to do business and how to treat people. The same was true for Herb Kelleher, the chairman emeritus of Southwest today. I've insisted on being surrounded by people that had the same feelings toward ethics and integrity. If they don't, they can leave. I don't want to deal with those kinds of people.

Thank you.



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