

CENTER FOR BUSINESS ETHICS

RAYTHEON LECTURESHIP IN BUSINESS ETHICS

October 7, 2008

BACK FROM THE BRINK:  
REBUILDING A COMPANY AFTER  
A NEAR-FATAL ETHICS BREAKDOWN

John A. Swainson  
*Chief Executive Officer*  
*CA, Inc.*



BENTLEY UNIVERSITY is a leader in business education. Centered on teaching and research in business and related professions, Bentley blends the breadth and technological strength of a university with the core values and student focus of a close-knit campus. Our undergraduate curriculum combines business study with a strong foundation in the arts and sciences. 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 custom executive education programs. Located minutes from Boston in Waltham, Massachusetts, the school enrolls approximately 4,000 full-time undergraduate, 250 adult part-time undergraduate, 1,400 graduate, and 30 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 (EQUIS), which benchmarks quality in management and business education.

THE CENTER FOR BUSINESS ETHICS AT BENTLEY UNIVERSITY 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 provide 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 offers an international forum for benchmarking and research in business ethics.

Through educational programming such as the RAYTHEON LECTURESHIP IN BUSINESS ETHICS, the center helps corporations and other organizations to strengthen their ethical culture.



Let me ask you a question: What have been the experiences that have taught you the deepest and strongest lessons? For me, and I suspect it is true for most of us, it has been those experiences that were most difficult. The same can hold true for companies. Sometimes a company needs to lose its way in order to discover just how important ethics is. John Swainson's story is about such a company, CA.

Thankfully, this is a tale of redemption, but it is also a cautionary tale. Many other companies — some of which were bigger, more powerful, and seemingly invincible — were not so lucky. Essentially, all that now remains of companies like Enron, Arthur Anderson and WorldCom are lingering lessons. Not so with CA. Through a transformative commitment to ethics, courage, and a tenacity that refused to give up, the company was saved, and today, it is dynamic and strong.

John Swainson's lectureship was like listening to a Hollywood drama. And yet every word of it was true. We at the Center for Business Ethics have been watching CA for years as we witnessed a crisis unfold and saw the company rebuild itself. We are proud of CA for its success. More importantly, however, we see in CA a clarion call that should rouse all corporate leaders who might be at risk of slipping into an ethical slumber. The unambiguous message is this, "Wake up! The commitment to ethics cannot be postponed, put on hold, or ignored."

We are living in turbulent times, politically and economically. Now more than ever, companies need to redouble their commitment to ethics and social responsibility. With over three decades since the founding of the Center for Business Ethics, we've seen progress, but more is needed. Here at Bentley, we aim to infuse our students with the kind of ethical formation that will motivate them and distinguish them as future business leaders. The Raytheon Lectureship in Business Ethics series, founded and organized by CBE, is a hallmark of this Bentley-wide effort. With Raytheon's valued support, I am confident that our students and faculty will continue to draw inspiration, understanding and new insight from the dialogue created by the lectures.

**W. Michael Hoffman, PhD**

*Executive Director, Center for Business Ethics  
and Hieken Professor of Business and Professional Ethics  
Bentley University*

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS AT BENTLEY UNIVERSITY is made possible through the generous support of the Raytheon Company. Raytheon is an industry leader in defense and government electronics, space, information technology, technical services, business aviation and special mission aircraft, with sales of \$21.3 billion in 2007. The company employs 72,000 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](http://www.raytheon.com).



**E**thics 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 over 30 years, to promote ethical business practices and cultures in the United States and around the world. And ethical leadership — illuminating and inspiring conduct that is instinctively ethical — is what the Raytheon Lectureship in Business Ethics is about. I'm proud that Raytheon can play a part in bringing to the Bentley campus highly respected leaders of companies that have a manifest and deep-rooted commitment to doing business in the right way. Their insights contribute much to an important discourse on how the business community can and should achieve ethical excellence.

**William H. Swanson**  
*Chairman and Chief Executive Officer*  
*Raytheon Company*

CA (NASDAQ: CA) is the world's leading independent IT management software company. With CA's Enterprise IT Management (EITM) vision and expertise, organizations can more effectively govern, manage and secure IT to optimize business performance and sustain competitive advantage. With more than \$4 billion in annual revenue and 13,500 employees, CA serves customers in over 100 countries. For more information, please visit [www.ca.com](http://www.ca.com).



(From left to right) Patricia Ellis, vice president of business ethics and compliance at Raytheon; W. Michael Hoffman, founding executive director of the Center for Business Ethics; John Swainson, CEO of CA, Inc.; and Pat Gnazzo, senior vice president and general manager for CA's Public Sector Business Unit



**JOHN A. SWAINSON** is chief executive officer of CA and a member of the company's board of directors. During three decades in the information technology (IT) industry, John has developed a rare combination of management expertise and technology vision that he is applying to the transformation of CA.

Under John's leadership, CA has increased its global presence and focused on its core strengths in systems, networks, security and storage management for the enterprise. At the same time, John has strengthened the company's management team, simplified its business unit structure, streamlined its distribution channels and fostered greater innovation across the company. In every case, he has been sharply focused on customers and on how IT can make their businesses more competitive.

Before joining CA, John spent 26 years at IBM, most recently as vice president of worldwide sales for IBM's Software Group. John serves on the board of directors of VISA, Inc., Cadence Design Systems and the Ridgefield (CT) Symphony Foundation. He holds a bachelor of applied science degree in engineering from the University of British Columbia.

# Back from the Brink: Rebuilding a Company After a Near-Fatal Ethics Breakdown

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS  
AT BENTLEY UNIVERSITY

October 7, 2008

## **John A. Swainson**

Chief Executive Officer, CA, Inc.

It's a pleasure to be in New England on a beautiful autumn day. Being on a university campus in October brings back a lot of great memories. But I am not going to reminisce about college and football Saturdays. I am going to spend the next 30 minutes or so talking about my company, CA, a company that lost its way and then found its way back. Some of what I will recount will make you shake your head in disbelief. But if I do this story justice, you will see that in the end, it's a tale about redemption — and there is a lot to be learned.

Before I get into the gory details, I want to applaud Bentley University and Raytheon for sponsoring this forum. Bentley has long been a leader in business ethics and Bentley's Center for Business Ethics was the birthplace of the Ethics and Compliance Officers Association, which now has more than 1,300 members. The strength of this organization speaks volumes about the importance of this issue and Bentley's leadership. Raytheon is not only a leader in the defense industry and one of Massachusetts' most important companies; it also is widely admired for the depth and excellence of its ethics and compliance program. Raytheon figured out early on that ethics and compliance were vital to its ability to survive and flourish in a global defense market. They do it right — with a focus on the core tenets that form the bedrock of an ethical culture.



That's an important point, because the story I'm going to tell you should serve as a vivid warning of what can happen when a company loses sight of those essential principles. I hope you will also find inspiration in my account of the long and difficult — but ultimately successful — battle fought by the people of this company to reestablish the organization on a solid foundation of ethics and compliance.

I came into this story in November 2004, when I was named the president and CEO-elect of what was then called Computer Associates. I arrived at the company's Islandia, New York headquarters having spent nearly 30 years at IBM in engineering, sales and management positions.

IBM was a well-oiled machine. It had well-thought-out processes, great internal systems and an ethics and compliance attitude that was ingrained in the culture. In short, IBM acted like a mature company.

When I joined Computer Associates, I recognized two fundamental problems:

- The first was a serious accounting issue and its effects, which I'll talk about in depth in a moment.
- The second was its lack of focus on its business. It had been going sideways for three to four years. It was diverse and unfocused. And in a rapidly growing industry, it wasn't growing all that much. (In the course of my remarks I'll explain why these were the case and how we worked to address these issues.)

As I got deeper into the company, I realized that these first two problems were symptoms of a third, deeper underlying problem: The company had never built a single, cohesive, ethics-based culture, in large measure because it had never adequately integrated its dozens of earlier acquisitions.

Let me give you a small example of this. When I first met employees, typically, they didn't tell me first what area of CA they were in, but rather what acquisition they came from, even if the acquisition was many years in the past. There were the Platinum people, the Sterling people and the Uccel people. There were very few self-described "CA" people. Their identities were firmly rooted in their former companies, not in the present. And they certainly were not looking towards a future with CA.

But back to the story of when I walked into CA in November 2004. The immediate priority was to address the aftermath of its accounting scandal, which centered on revenue recognition, and was exacerbated by obstruction of justice, including document destruction. The mess had dragged on for more than two years, and resulted in the firing and indictment of many top executives, including the CEO, CFO, head of sales and general counsel. The Board's investigation culminated in a Deferred Prosecution Agreement (DPA) with the government that required the company to pay more than \$225 million in restitution and institute a number of structural, systems and process changes.

### **Just Another Dream Job**

But since I walked on to the stage in the middle of this story, let me back up and give you a description and a short history of CA, the name we are known by today.

Simply put, CA's business is to provide large IT users the software they need to effectively manage their IT resources. There is a demand for our technology because all of the "stuff" in a data center has to be managed — that includes hardware, operating systems and applications. At the same time, organizations have to make sure their IT environment is secure, their data protected and that only the right people get access. Though you may not have heard of us, believe me, we're good at what we do. We help Chief Information Officers (CIOs) of some of the world's largest IT users manage their IT environments so that technology is an enabler of business success, rather than a drag on profitability and resources.

We generate nearly \$4.5 billion of revenue annually and have a market cap — depending on how Wall Street is feeling about us on a particular day — of around \$10 billion.

CA was started more than 30 years ago by a very smart, very tough entrepreneur, who — as an immigrant from China — in many ways embodied the American dream. He had a vision that software could be used to make IT more effective and more efficient. CA's initial focus was on the mainframe and over the years expanded to include the distributed environment as well.

The company was run like a family with a lot of cutting-edge employee benefits long before they were “Google-ized.” This included everything from breakfast and dinner programs, full-service fitness centers, child care and even Montessori schools, as well as a strong commitment to volunteerism and community service. It was a dot.com attitude, before there was a dot.com.

This way of operating served the company well for many years. It was known for being aggressive, entrepreneurial and opportunistic. It quickly grew from a startup to a corporation with thousands of employees. But as it got bigger, it didn’t institute the internal business process infrastructure that bigger companies typically have and always need to control their operations. With few internal controls or checks and balances, it was an environment in which bad behavior could flourish — the kind of behavior that very nearly brought down the company.

At the center of this story, and really, at the center of any accounting scandal, is one the seven deadly sins: greed.

Greed makes people do things that they know they shouldn’t. Greed makes people think they are invincible. Ultimately, it makes them think they are invisible. Greed makes honest people do dishonest things. Greed makes ethical behavior disappear and when that happens, everything deteriorates.

CA’s tipping point came in the mid-1990s when its Board of Directors put in place a stock option plan that promised to reward three top executives — including the founder and his heir-apparent — with payouts totaling more than \$1 billion, if the company hit certain stock price targets. I am sure that the Board at the time felt this decision was a good idea. CA was growing quickly and they wanted to incentivize and retain the company’s leadership. But, even in the compensation-exaggerated, go-go dot.com years, this plan was way over the top.

So the payout was predicated on moving the stock price upwards and keeping it there for a certain time period. To do that, they had to consistently hit the numbers Wall Street expected. Anybody who works in a publicly traded company knows of the pressure to make the numbers. If you miss Wall Street’s predictions on earnings per share or revenues, the market can punish you and take away 5 to 10 percent of your value in a matter of hours. That doesn’t make shareholders happy and when shareholders aren’t happy, senior managers soon are made unhappy. And, since so much senior executive compensation was tied to the stock price, the pressure to make the numbers became intense.

In an effort to keep the stock price up and cash in on a \$1 billion award, the top managers of CA started to play with revenue. Accounting rules are very clear on how revenue is recognized. Simply stated, if you close a deal on September 30, it is recorded as a September quarter event. If it closes one day later on October 1, it is recorded in the December quarter. In a business like CA's, which does business with large companies and typically aggregates them into large deals, missing a few days could have a dramatic effect on a quarterly result. In short, you can make or miss a quarter based on the timing and the signing of a few of these large deals.

Although current accounting standards dictate that all final documents must be received before the close of the quarter, at the time CA's revenue manipulations started, the standards allowed some flexibility in recording a completed deal. If the transaction was completed before the quarter end, the company could have a few days after the quarter close to receive the final paper work.

The management of CA saw this loophole and charged through it. They started keeping the books open days after the close of the quarter — not simply to assemble the paper work from agreements already made — but so that they could sign additional deals they needed to reach their numbers.

In doing that, CA's senior managers not only violated the spirit of the accounting standards of the day — they broke the law. If at quarter's end they needed another \$50 million in revenue, they kept the books open until they got it. Most of the time, they kept them open for five days. Later on, prosecutors would refer to this as CA's "thirty-five day month." But if anything, the characterization was mild: during one month, CA's managers kept the books open an extra nine days.

You've probably already figured out how this system perpetuates itself. If you move \$50 million in the current quarter back to the previous one, you're left with a \$50 million hole to fill. So you fix that by taking it from the next quarter and so on.

By the time the practice ended in mid-2000, CA was moving hundreds of millions of dollars across quarter-end boundaries every fiscal year. In order to compensate for this they also entered into deals that weren't legitimate or didn't make much sense. For example, these senior managers created so-called phantom deals. They worked liked this: CA would book a sale of software to a company for a certain amount. In exchange, CA would purchase software or services from that customer for the identical sum. In reality, no software changed hands or was installed, but both companies booked the revenue. Desperate people do desperate things.

For a long time, CA had a reputation as a tough, but fair company, but as this revenue situation got worse, its behavior toward customers, partners and employees became increasingly aggressive. By the time the stock plan was paid out in the late 1990s, employee morale was dropping, customer relationships were deteriorating and rumors about CA's business practices were swirling. In January 2002, after a series of scathing investigative stories by The New York Times, the government began to investigate. It appears in retrospect that CA's senior management spent the next two years conspiring to block the investigations of both the Board of Directors and the government.

The attention of key members of CA's senior management team was focused solely on putting roadblocks in front of the investigations. Preoccupied with saving their own skins, CA's leaders really didn't have time to think about the company's future.

The investigations came to a head in late 2003 and 2004 with more than 15 executives fired, of whom seven were indicted, and the initiation of a Deferred Prosecution Agreement (DPA) with the government in September 2004. The CEO — who was one of the executives fired and then indicted — was later convicted for his role in the scandal and is serving a 12-year prison sentence.

So that's the company I came to in November 2004.

## To the Brink and Back

CA was operating under a DPA with a full-time government examiner on the premises; the company's reputation had been through the shredder; its business was stagnant; competitors were having a field day with our customers; and we were losing our best people. It was a nightmare.

The Board of Directors had done a great job in getting to the bottom of the accounting problems and in stabilizing the company. Enough cannot be said about how they kept the place afloat. Less resilient companies would have gone belly-up. But the company now had to get moving again.

On my first day at CA I sensed there to be three distinct tasks:

- The first was to fulfill the terms of the DPA and successfully complete the agreement with the government. Let me take just a moment to give you a short primer on DPAs.

The government has used DPAs over the past decade when it has determined that a company has broken the law, but believed that an outright indictment would put the company out of business, cause thousands of employees to lose their jobs, and further punish already injured shareholders.

With a DPA, the government agrees to set its prosecution aside, providing that the company fulfill a series of reforms within a determined time period. If the company satisfies the terms of the agreement, the government drops its prosecution and the company can move on. A DPA is a way to give a company another chance, but only if it completes tough conditions and is able to demonstrate to an independent observer that these conditions have been satisfied.

- The second key task was to get the company back on a growth track — and that meant reevaluating our product portfolio and radically overhauling the way our sales forces interacted with our customers; and,
- The third was to re-energize our employees so that they would believe in the company again and support its transformation.

While the list looks pretty simple, the problem was that all these had to be done at the same time. What we had to do was akin to a musician who makes music by strapping a bass drum on his back, cymbals on his elbows and knees and a kazoo in his mouth. In short, a lot of effort to make one, complete sound.

While we didn't work on these issues in a linear fashion, for the sake of clarity I will take you through each task one at a time, starting with our successful effort to satisfy the terms of the DPA.

The DPA set out a distinct set of requirements: The first was an admission of wrongdoing by CA. That was the easy part. The company had screwed up, pure and simple. The second part was a list of specific conditions and corporate reforms it had to undertake including:

- Terminating those who were responsible;
- Appointing a new management team — that's where I came in;
- Adding several new independent directors to the Board;
- Establishing a compliance program and disclosure committees and providing companywide ethics training;
- Paying \$225 million in restitution to shareholders;
- Changing a number of business procedures and upgrading IT systems;
- Hiring a chief compliance officer;
- Reorganizing our finance function;
- Establishing a stronger internal audit program, and, probably most importantly —
- Instituting a “tone at the top” that clearly indicates that the CEO takes responsibility for the ethical behavior of the company and that anything short of ethical behavior would not be tolerated.

As I indicated earlier, the court that supervised our DPA also named an independent examiner to oversee our efforts. For the next two years, Lee Richards, a New York attorney, actively worked with us to change our policies and practices and develop a robust corporate culture to ensure that the type of accounting scandal that occurred would never happen again.

The list of DPA requirements were all very necessary and aimed at making us a more efficient operating company, an ethical and effective competitor, and a better corporate citizen. Even without a DPA hanging over your head, EVERY company should aspire to meet these goals.

As noted, one of the terms of the DPA was that we hire a senior-level chief compliance officer. Getting the right person in this role would prove critical to our success in rebuilding CA's culture. We hired Pat Gnazzo, who was the chief compliance officer at United Technologies Corp. (UTC) for 10 years. At CA, Pat reported directly to the Audit and Compliance Committee and had "unfettered access" in building and executing the compliance and ethics programs. He had the ability to button-hole any executive, including me, and he routinely did. Pat is a great leader and compliance officer and he brought best practices from his time at UTC and from around the industry.

Pat set up a compliance hotline, a state-of-the-art ethics training program and significantly improved our investigation capabilities. Probably most important was his unwavering commitment to the proposition that good business ethics is good business. As basic as it is, it is important to remind everyone that we don't win unless we win ethically. Anything else is unacceptable.

So, to wrap up this portion of the talk, I am happy to report that we met all the criteria of the DPA and the government agreed in May 2007 to dismiss the pending charges.



## Rediscovering Our Strengths

The same time that we were working to meet the requirements of the DPA, we were actively engaged in overhauling our business. As I've said, when I joined CA, the company had no longer been growing. Part of the issue was that its leadership had been preoccupied with the burgeoning scandal. As the company increasingly felt besieged by government investigators and hostile media reports, CA became more inwardly focused than outwardly focused. That meant the company was not paying sufficient attention to market changes, the changing needs of our customers, and its responsibility to shareholders. But the problem went deeper. It had roots in the way the company had grown in the first place. Although CA had once been the world's largest independent software company — reaching \$1 billion in revenue even before Microsoft — more than 50 acquisitions had turned it into a conglomerate of software assets instead of a software company. What's more, the company's paternalistic, founder-based heritage continued to shape its organization and management long after the company had outgrown those roots. CA's managers relied on gut feelings rather than hard data produced by strong systems and processes and measurable metrics. We had to rebuild the company on many levels, but everything depended on our ability to repair customer relationships and regain trust. We also had to restart the innovation machine in the company to deliver exciting new software products to the market.

When I joined CA, I knew the company had a reputation for problematic customer relationships. I knew that our products were considered solid by customers, but often the lack of relationships — especially with senior managers — impeded our ability to sell. Addressing this shortcoming became a very immediate priority.

During this period, we spent a lot of time talking with customers. I personally went to most major customers who had problems with us over the years — and it was eye-opening. While not pleasant, it helped me formulate ideas on what we needed to do to get them working with us again.

It quickly became clear that our sales force was structured and compensated in a way that led them to behave very transactionally. In other words, they were more focused on closing the deal in front of them than with establishing enduring partnerships with customers. That isn't the way you build a business for the long haul.

Customers also complained that they never saw the same CA sales person twice. And the sales people they saw didn't seem to have a long-term interest in them or their business challenges.

Too often a CA sales person would show up at renewal time and then disappear to work on other deals. Magically, when it was time to sign a renewal in two or three years' time a CA sales person would be knocking at the door again. We changed that. We assigned our best sales people to a small number of customers, and gave them responsibility for selling new software to those customers.

One reason our sales people weren't spending time with customers was that they were spread over too many accounts. So we redeployed them to a few thousand key accounts, and we now serve the rest through a network of partners.

We also changed the way we set their quotas and paid them. These changes required our sales force to engage with customers, to know their business, and to work with them to make their IT systems more efficient. Instead of a sales force that only shows up at renewal time, we now have a sales force that's deeply engaged in working with customers. It has made an enormous difference in both our relationships with customers and our success in selling new software.

Having spent 30 years in the IT industry, I have learned many things, chief among them: To be successful in selling new software, you have to have new software to sell. And when I came to CA, I saw that we had a real problem in this regard. The CA innovation machine had been virtually shut off during the accounting fraud years, and the product portfolio was tired, to put it mildly.

One of my first tasks was to assess our whole product portfolio to determine what would be the drivers of growth. I devoted three months to product development meetings, learning the strengths and weaknesses of our offerings. By the end of this process, we had a pretty good idea of a basic strategy, and also what we needed to build or buy to realize that strategy.

We set in place the product roadmap for the company. In the first two years, we made more than 15 acquisitions, totaling more than \$1.5 billion. Most of them were on the small side, but a few of them were in the \$200 million to \$300 million range. Unlike the CA of old, we weren't just buying distressed companies so that we could acquire their customers. We were now buying state-of-the-art technology that would bolster our current offerings and in some cases, get us into adjacent markets where there were natural synergies. We have a program of strategic — not opportunistic — acquisitions. And, we worked to make sure that we did more than just integrate the technologies. We made sure we did everything to integrate the new people into CA.

I also found that the market was confused about what CA stood for and its overall strategy. Because of all the acquisitions it had made, CA had products in virtually every space of the software market. As I told you earlier, CA provides software that manages large IT environments. But at the same time, we had products in just about every space: applications, Enterprise Resource Planning (ERP) software, and consumer software. There was even a CA product designed for doing individual tax returns. Why a vendor of enterprise software would be selling something like that is anyone's guess.

So, we defined a corporate technology vision and gave it a name: Enterprise Information Technology Management, or EITM, which is focused on helping customers unify and simplify their IT environments and tying their IT resources to their business objectives.

This is not a technology discussion, so I won't go into the details, but suffice it to say that IT in large organizations has become incredibly complex, hard to manage, and sometimes is not doing what it is supposed to do to help drive business success. We are dedicated to fixing that.

We also determined early on that our own IT systems in CA and the business processes were not serving the company well, and needed to be radically changed to get the data and process efficiency required to run our business properly. For example, we didn't have profit and loss data by business unit, or by geography or by product. For a top software company to have such horrible systems was a disgrace.

But it was more than embarrassing; it put the company at risk, because the lack of controls and inaccessibility of data were the very things that allowed fraudulent behavior to go on undetected at the company for years. So we started a major retooling effort to implement an ERP system and retire our ancient legacy applications, which proved essential to satisfy the requirements of Sarbanes-Oxley part 404.

### **The People Behind the Technology**

Finally, all our hopes and dreams for CA, and our ability to achieve the objectives I just talked about, depended on our success in re-energizing our employees. We needed to transform CA into a company with a global, performance-driven culture. And we had to communicate a clear strategy with a compelling rationale for our employees to stay the course with CA, despite their being tired, disillusioned and lacking in trust for their management. To that end, we've made performance and accountability important parts of our core values as well as key business priorities. And we aligned our performance management system more closely with CA's goals, objectives and compensation. We continue to strive to let employees know what is expected of them and what role they play in ensuring CA's success.

I firmly believe that you can't communicate enough. If you think you've done an outstanding job of getting your message across, you still haven't done enough. Go even further. Over the nearly four years I've been at CA, I've done hundreds of town hall meetings across the globe. Sometimes it is in front of hundreds of employees at our bigger offices, while there have been times when it is has just been me and a few employees around a table having coffee. I supplement these meetings with an internal blog where I communicate with employees about what's on my mind, or deal with questions on their minds. I write the blogs myself and they are only changed when the legal guys wear me down and make me. As you might imagine, my most recent blog was about CA and the financial crisis.

Of course we have lots of other internal communication vehicles, such as employee memos, video leadership perspectives and a question and answer forum called "Ask John." Employees can write directly to me at this mailbox and I get back to them.

We poll our employee population every year and we have seen significant increases in morale and trust in senior management. What I am most gratified by is that more than 98 percent of our employees surveyed clearly understand the importance of core values and ethical behavior.

In conclusion, I think we've made a lot of progress. We've completed seven consecutive quarters of solid performance. We have put all our regulatory issues behind us, and we have our strongest product portfolio in years based on our Enterprise IT Management strategy. Our customer satisfaction continues to improve as we become better partners to them. Of course, there is still a lot to do, but I am very pleased with the progress we have made and continue to make. We have a vision of what it takes to be the clear leader in the enterprise management software space.

We also understand that all the hard work and all we have accomplished can be lost in the blink of an eye if there were another major ethics breach.

Four years ago, media reports referred to us as “Computer Associates, the scandal-ridden software maker.” The only words I liked in that description were “software maker.” We then progressed to “CA, the struggling software maker.” Now we are referred to as “CA, one of the largest independent software companies.”

### **A Small, But Very Real Victory**

When it comes to ethical behavior, you have to prove yourself each and every day. Every employee, from senior management to the first-day employee has to believe it and live it. Ethics is something that has to be top-of-mind all the time. I have seen first-hand how unethical behavior can spiral out of control, destroy lives and destroy companies.

CA — an organization of more than 14,000 dedicated, hard-working men and women around the world — a company upon whom thousands of customers rely — was very nearly brought down by a handful of people at the top who lost their way.

Today, we are back on track. Employees are proud of where they work. Customers want to do business with us. And we are being measured by the value we provide to them and our shareholders. That is the way it should be. Regaining our reputation and our credibility has been a long and arduous process. We can't and won't go back.

Thank you.

**Below are highlights from John Swainson's question and answer session with Bentley University students, faculty and guests.**

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If we were a new group of employees and you had two to five minutes, could you explain what your company's core values are and how you would communicate them in a way that they could be adopted, for example, by CA salespeople in their interactions with customers?

**JOHN SWAINSON:** I could recite our core values, but you know most of them. What I would rather do is to use a very simple metaphor that was taught to me about 30 years ago, which is this: "Never do anything that you would be ashamed to have told to your mother." If you're doing things in business that need a lot of flamboyant explanation and hyperbole to describe them, then maybe there is something that you're doing that's not quite right. And if you get this simple idea into your brain, and you are able not to be ashamed to talk about your activities to anyone, then I think you are well on your way. Of course, you can talk about integrity, trust, performance, and other related values... and at CA we do just that through our code of ethics, and we go through these with our employees, but ultimately, the essential principle comes down to not doing anything that you would be ashamed to describe to your mother.

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How did you go about rebuilding the relationships of trust among your customers?

**JOHN SWAINSON:** That's a very interesting question. I've been asked how we approached customers after it became known that there was a corporate environment in which there clearly was something wrong. The answer is that we approached them with the good deal of humility. That was the starting point. You can't walk into your customer's office and expect that they are going to understand right off the bat that everything is going to be different just because you're the new guy on the block.

Now, I must tell you that when I began this position, I had 26 years of experience and knew a lot of CA's customers already. This gave me a fair amount of personal credibility. I brought that personal credibility to the table and it at least allowed me to have an audience with them. This gave me the opportunity to say with some credibility, "I wouldn't have taken this job, if I didn't think the situation

could be fixed and we weren't going to make substantial changes." I went on to describe the things that I thought were wrong and the things that I was committed to fix. I asked them for their input on what they would like to see change. As you can imagine, the range of reaction was all over the map.

I'd like to tell a story about what I discovered early on as I went about talking to customers, particularly outside the New York area. I experienced various levels of outrage — sometimes about things that had happened long in the past. When I called on our customers in Manhattan, things could be a bit rougher. This all helped give us a little humility. Part of the reason why I was hired was because I came from a company that had a good reputation for business ethics. I also came with a willingness to sit down and listen to customers — to hear them through, including sometimes listening to horrendous stories. It was a cathartic process and eventually led to the other side where we were often able to find a basis on which to do business, if we were to make the changes we had described.

There was one case when a customer from a very large insurance company said to me soon after I began my job, "My boss, the chief executive officer, is concerned because it is our policy not to do business with unethical companies and we're not sure if we can continue doing business with your company. It was a \$10 million a year relationship. I was told that I would have to meet his chief executive officer and maybe even see his board and tell them what I would do to turn this around. So that is what I did and I'm pleased to tell you that it has turned into a great relationship and one that has doubled over the last four years. It is these kinds of experiences that demonstrate just how serious these issues are.

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**I would like to know what you think the impact of the financial and housing crisis will be on your company and the industry as a whole. How do you see us moving forward from it?**

**JOHN SWAINSON:** The simple answer is that I do not know. In the short term, we have a very conservative business model in which we book everything on long-term contracts. So in any given period, there is not a significant change to our financial statements. However, we do business with most of the big financial institutions and we are watching and looking with concern about what will happen. To some extent, I am somewhat eased by the fact that our software tends to be very deeply embedded in the infrastructure of these businesses.

They literally cannot process a statement or a transaction without our software being involved. So, to the extent that these businesses continue in some form, even if under a different label, our technology will still be used. But right now, it is anyone's guess as to what the impact of this is going to be.

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**Could you explain what specific ethics measures your company implemented immediately after the scandal and how were these measures received by the employees? Furthermore, do you think that similar policies could have worked in other accounting fraud cases, such as those of Enron or WorldCom?**

**JOHN SWAINSON:** Every company situation is different, so I would be very reluctant to say that what we did would have worked in those situations. In the case of Enron, after the scandal broke, there was no company 90 days later. The accounting problems there were so fundamental that when the problem was exposed, the company basically collapsed. At CA, with the exception of the problem I mentioned earlier, there was no widespread phantom revenue. All of the money had been moved from period to period and while it was a very serious problem, still there were real customers and they were paying real money for real products. So the basis of the company was sound and that was what enabled us to rebuild. We still had real people; we still had a real company. I would argue that in some of the other cases of corporate scandals, the companies did not have any of those or they were missing one or more essential component. This difference made it possible for us to build an ethics and compliance program on top of something that was real. You cannot build a program to save a company like we did on something that is not real. If a company's financial statements are based on phony accounting, then what is there to build on? And that, I think, was very much the case in Enron.

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**Could you mention specifically what you did do at your company to create an ethical environment?**

**JOHN SWAINSON:** Over the course of a couple of years, we put in place a whole series of programs, some as basic as creating a code of ethics that told people, "This is what it means to be a CA employee." We turned that into a pamphlet, and we taught everybody what it meant. Supporting this, we gave them cards they could attach to their employee badges, and to solidify this message,



we built ethics into the employee evaluation process. We took the notion of an ethical culture and embedded it into everything we were doing.

That was the first piece. The second piece was that we created feedback mechanisms for people to tell us if there was something going wrong. In big companies, there are often people who know that there are unethical decisions being made, but they do not know how to communicate these things to upper management. Therefore, we gave our employees anonymous hotlines and other anonymous ways to make their concerns known. To respond to their concerns, we put in place a mechanism to investigate [alleged] wrongdoings.

Thirdly, we created proactive measures, such as ethics courses. We made attendance at these courses mandatory and we still do a significant amount of education. Beyond that, I gave an enormous number of speeches in which I conveyed the message that we almost died because a few people made some bad choices, and I emphasized all the measures we had taken to prevent a repetition of these problems. I tried to make it very simple to get it to register with people.

Lastly, in terms of compliance, we obviously put in place more accounting controls. Previously, we had no functioning internal audit organization. Can you believe that a company with 14,000 people and \$4 billion in revenue on an annual basis had no internal audit? Ultimately, we did a significant amount of structural, cultural and educational changes to rebuild our company. Together with our ethics and compliance officer, we must have given thousands of speeches, videos, and letters and notes to people. It all adds up.

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**DR. HOFFMAN:** Would you say that these activities were part of creating a “tone at the top?”

**JOHN SWAINSON:** Yes, every message and follow through helped create a “tone at the top.” The CEO has to do it. You cannot delegate it. The chief compliance officer is your partner in this. He or she helps you by prompting you on best practices, but the CEO has to make the message resonate. As a CEO you must be prepared to stand up in front of a couple of thousand employees and say, “Look, this is the way we are going to do it; if you do not want to do it this way, go somewhere else because that is how we are going to do things here at CA.” If you are not prepared to do that every day, then you are not prepared to be a CEO. This is, has become, and maybe always was an absolute prerequisite for the position of chief executive officer.

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**When implementing those new internal controls, was it easy? How was the transition process for the customers and the employees?**

**JOHN SWAINSON:** Internal controls were integral to Sarbanes-Oxley. The notion is that for everything a company does [that has a financial impact], you have a way of validating it. Sarbanes 404, in particular, prescribed a set of tests to insure that these are in place. These are part of building the compliance structure of a company. Internal controls originated as a business notion that pervades everything an employee does. The Sarbanes-Oxley Act in particular prescribed the set of tests a company needs to complete in order to ensure that the company is compliant. Ethics is more than that. Ethics is culture; it is not simply structure. Structure is something that you can hit with a hammer. Culture is something that people have in their heads. They are two very different approaches, and you have to do both. You cannot build a culture without structure; and conversely you cannot build the structure without culture. We did both of them at the same time. Also, there were a significant amount of external controls that we had to endure as well. We had to pass Sarbanes 404, and the terms of the Deferred Prosecution Agreement (DPA). Ultimately, we had to pass in the court of our employees' opinions and in the court of our customers' opinions. So, at one point, we had four tests going at once.

Thank you.





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