RAYTHEON
LECTURESHIP IN
BUSINESS ETHICS

The Integrity of Management and the Management of Integrity

MICHAEL C. RUETTGERS
CHAIRMAN OF THE BOARD
EMC CORPORATION

CENTER FOR
BUSINESS ETHICS

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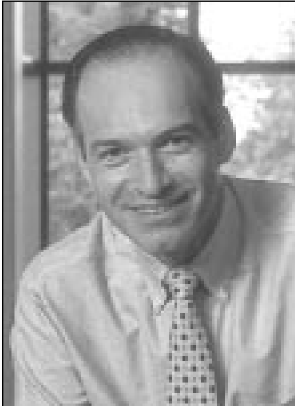
BENTLEY

BENTLEY is a business university. Centered on education and research in business and related professions, Bentley blends the breadth and technological strength of a university with the values and student focus of a small college. Our undergraduate curriculum combines business study with a strong foundation in the arts and sciences. A broad array of offerings, including Information Age MBA, Master of Science and certificate programs at the McCallum Graduate School, emphasize the impact of technology on business practice. Enrolling approximately 3,900 full-time undergraduate, 400 adult part-time undergraduate, and 1,300 graduate students, Bentley is located in Waltham, Massachusetts, minutes west of Boston.

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

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



All of us at Bentley were honored to welcome Michael Ruettgers, chairman of the board of EMC Corporation, as our speaker for the inaugural Raytheon Lectureship in Business Ethics. After five very successful years of valued sponsorship by Sears, Roebuck & Co., the nationally recognized lecture series moves forward with the support of Raytheon Company. At a time when the relentless globalization of business is affecting relationships between corporations and communities, it is gratifying to launch the new series with two corporations that are globally oriented but locally based, with strong ties to the Boston area. Mr. Ruettgers's address establishes the Raytheon Lectureship in Business Ethics as a compelling next chapter in the series.

As a business university, Bentley strives to be at the frontier of business practice in its teaching, scholarship and co-curricular activities. An emphasis on ethics and social responsibility is infused through every facet of campus life — from case studies introducing freshmen to the world of business to a concentration in the MBA; from research on corporate governance and compliance with the Sarbanes-Oxley Act to studies of Internet shopping in the workplace; from a culture that promotes student engagement in community service to a play that explores ethical dilemmas in accounting practice to a student-faculty partnership that designed a model academic integrity policy.

Since its founding at Bentley College 28 years ago, the Center for Business Ethics has worked tirelessly to generate thought-provoking discourse. The corporate leader lecture series is a hallmark of that aim. With Raytheon as the new series sponsor, I am confident that our students and faculty, as well as the business community at large, will continue to draw inspiration, understanding and new insight from the lectures.

Joseph G. Morone
President
Bentley

The Raytheon Lectureship in Business Ethics at Bentley College is made possible through the generous support of the Raytheon Company. Raytheon is an industry leader in defense and government electronics, space, information technology, technical services, and business aviation and special mission aircraft, with annual revenues of more than $18 billion. The company employs 78,000 people worldwide. Raytheon aspires to be the most admired defense and aerospace systems supplier, through its world-class people and technology. It has built a reputation for adhering to the highest ethical standards in the industry. The lectureship series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States.

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

Ethics in business is about so much more than following rules.

Fundamentally, it is a matter of creating the right culture in our organizations, so that people have the ability and support to make decisions that are not only effective but are consistent with the values and principles we hold dear. It is about trust, about what you do when no one is watching, about treating the name of one's company as if it were one's own. The leaders of a business or an organization need to set the example. Leaders need to beg for the bad news. Raytheon has worked very hard in establishing an ethical business culture that is accepted by our employees and woven into the fabric of the way in which we work. Our continued growth and profitability depend on our ability to protect our reputation.

Raytheon has supported the Center for Business Ethics at Bentley College for many years. We are honored now to sponsor its Lectureship in Business Ethics. We recognize the enormous value of the leadership given by the center for nearly 30 years, to promote ethical business practices and values in the United States and around the world. Ethical leadership — illuminating and inspiring ethical conduct and values — is what the Raytheon Lectureship in Business Ethics is about. The series will bring to Bentley College highly respected corporate leaders who have a deep-rooted commitment to doing business in the right way. They will share ideas and engage in discussion about how all of us in the business community can encourage ethical excellence. I hope you find this lecture series useful. Please let us know.

William H. Swanson
Chairman and Chief Executive Officer
Raytheon Company

EMC is the world leader in computer information storage systems, software, and services, and the only company in the world dedicating itself 100% to comprehensive, automated networked storage solutions. These solutions simplify and automate the management of customers' entire computer storage environments, raising their productivity and lowering their total cost of ownership. Headquartered in Hopkinton, Massachusetts, EMC has more than 17,000 employees worldwide and finished 2003 with revenues of $6.24 billion.

Michael C. Ruettgers
Chairman of the Board
EMC Corporation

Mike Ruettgers, chairman of EMC's Board of Directors, leads all facets of EMC's proactive corporate governance, with a special focus on shaping the composition and expertise of EMC's independent and fully engaged board. Ruettgers served as executive chairman of EMC's board for three years and completed his tenure in that position in December 2003. He assumed the role of chairman of the board on January 1, 2004.

EMC is the world leader in products, services, and solutions for information storage and management and has dedicated itself to information lifecycle management: helping customers extract the maximum value from their information, at the lowest total cost, at every point in the information lifecycle. EMC has more than 20,000 employees worldwide and finished 2003 with revenues of $6.24 billion.

Ruettgers has been with EMC since 1988, and served as CEO from 1992 until January 2001, leading the company in a decade-long trajectory of accelerating profitable growth. From his arrival through year-end 2000, EMC's revenues grew from $120 million to nearly $9 billion. During the 10-year bull market from October 1990 to October 2000, EMC achieved the highest single-decade performance of any listed stock in the history of the New York Stock Exchange.

During his term as CEO, Ruettgers was named one of the "World's Top 25 Executives" by *BusinessWeek*; one of the "Best CEOs in America" by *Worth* magazine; one of the "25 Most Powerful People in Networking"

in 2000 by *Network World*; and "CEO of the Year" for 2000 by *Massachusetts Investor's Digest*. In 2001, *Fast Company* magazine named EMC "The World's Most Customer-Centric Company," based on EMC's fanatical devotion to customer service.

Ruettgers has been a frequent speaker at influential venues around the world, including the World Economic Forum, the Economic Club of Detroit, the Executives' Club of Chicago, the Harvard University Nieman Fellows seminars, the Park Distinguished Lecture at Cornell's Johnson Graduate School of Management, the INSEAD Global Leaders Series Lecture, the Raytheon Lectureship in Business Ethics at Bentley College, and major IT industry conferences. He is also a frequent contributor of articles on key policy issues, including the urgent need to reform math and science education, the use of digital technologies to improve healthcare, and the responsibility all organizations have to protect and preserve their information.

Ruettgers spent much of his early career with Raytheon, where he played a key role in the Patriot Missile Program. In 1999, Babson College recognized Ruettgers for being an "information age visionary" and presented him with the honorary degree of Doctor of Laws. In May 2000, Worcester Polytechnic Institute conferred on him the honorary degree of Doctor of Engineering. In November 2002, Ruettgers was inducted into the Industry Hall of Fame, joining a select group of the innovators, entrepreneurs, and leaders who have helped shape and expand the global IT industry.

Ruettgers sits on the Board of Trustees of Lahey Clinic, on the Executive Committee of the Board of Trustees of Holy Cross College, and is a member of the Massachusetts Business Roundtable, the Massachusetts High Tech Council, and Business for Better Schools. He holds a BS from Idaho State University and an MBA from Harvard Business School.

(Left to right) Joseph Morone, President, Bentley College; Patricia Ellis, Vice President, Ethics and Compliance, Raytheon Company; Michael Ruettgers, Chairman, EMC Corporation; W. Michael Hoffman, Executive Director, Center for Business Ethics, Bentley College.

The Integrity of Management and the Management of Integrity

THE INAUGURAL RAYTHEON LECTURESHIP IN BUSINESS ETHICS AT BENTLEY COLLEGE

Wednesday, October 8, 2003

Michael C. Ruettgers
Chairman of the Board
EMC Corporation

Thank you very much, Mike [Hoffman] for that introduction and good afternoon everybody. I was quite honored to be asked to deliver the inaugural Raytheon Lectureship in Business Ethics at Bentley College. I am a Raytheon alumnus. I joined Raytheon in 1968 and worked there almost 15 years — and I've recently joined its Board of Directors.

It was during my time at Raytheon that I ran into my first business-related ethical confrontation. At the time, the chairman of Raytheon's board was Charles Francis Adams, a direct descendant of two former presidents, and he was succeeded as chairman of Raytheon's board by Thomas Phillips. The stamp of integrity that

these leaders put on Raytheon was apparent even to a new college hire. Throughout the company, you could feel that ethical behavior was expected. There was an expectation that you would behave ethically and, just as important, that the door was always open, so if you saw something that bothered you, you could take it up a couple of levels for advice.

This culture of integrity was really important to me because, in the mid-1970s, I got a promotion and moved to a new division within Raytheon; part of what I did was new business development, which included responsibility for doing business in Kenya around vocational training. Specifically, we were providing structures in Kenya to teach vocational skills. So two or three times a year, I would travel to Africa to see how things were going and also to look for more business.

The second time I showed up in Kenya, I was approached by people who said: "We can help you get the contracts you're interested in, if you're able to do something with us." I was completely unprepared to be asked for a bribe, but with the exposure to Raytheon's culture and the common sense I had, I told them "no" on the spot. Now I have to confess that I went back to my hotel room and called my boss and said, "This is what just happened and I've told them 'no.' Was that the right thing to do?" And the answer was, "Absolutely yes — you did the right thing."

It was also not a surprise to me that later on, in the early 1980s, when the defense industry was hit by a number of scandals, Raytheon avoided most of those. In fact, the tenor at the top was set by Adams and Phillips, who kept the company away from the scandals that most of the other defense companies became entangled with.

With that background, my topic today is "the integrity of management and the management of integrity." I want to cover three things: First, the challenges of living a consistently ethical life; second, the causes of bad behavior in business — in my view often triggered by the lack of a proper frame of reference; and third, some recommendations on how to build an ethical business culture.

There is an old parable about the "boiled frog." Now I don't know why anyone would want to boil a frog, but the story goes that if you put a frog in a pot of boiling water, he'll try to jump out. But place him in room temperature water and gradually turn up the heat, and he stays in and eventually is boiled. It seems to me that ethical confrontations are similar. When facing an obvious breach of ethics, you jump out to safety. But when the line between right and wrong is not so obvious, you can get boiled.

Life is full of ethical complexities and ethical challenges. In the game of life, there isn't a space you land on that says: "Draw an ethics card now." That means integrity is a lifelong task.

History shows us there will always be a few who are incorrigible and unteachable, and maybe even oblivious of what they are doing wrong. Even the best intentioned, most principled people have ethical lapses occasionally. But the great majority wants to act ethically. Unfortunately, among this majority, some people can be swayed to act against their better nature if they perceive that being honorable puts them at a financial or a career disadvantage.

Peter Gomes, Harvard professor of Christian Morals, put his finger on this dilemma. In his book, *The Good Life,* he writes: "In a dishonorable world, will the honorable be disadvantaged? If everyone's doing it — and I don't do it — what happens to me?"

In the late 1990s and early 2000s, the temptation of fast and potentially immense wealth put many of those considerations to the test. Some feel this period spawned a new kind of highly self-indulgent, ethically challenged business executive. I'm not so sure. I think human nature is a constant through time.

Our country — in fact, the world — has seen plenty of egregious corporate behavior in the past. To give just a few examples:

- In 1960, the Eisenhower administration brought price-fixing charges against virtually every company in the electrical equipment industry.
- In the early 1970s, the officers of Equity Funding Corporation of America masterminded a scheme to create fictitious insurance policies by the thousands and deceive other major life insurers into buying them for cash.
- In the 1980s, we had the thrift crisis with the massive insolvency of the savings and loans associations and we also had the collapse of Drexel Burnham Lambert.
- In the second half of the 1980s, we had the Japanese real estate bubble. As a sign of how crazy things got, a square mile of real estate in Tokyo was briefly worth more than Manhattan. According to some economists in Japan, in 1990, the aggregate value of land in Japan was 50 percent greater than the value of all land in the rest of the world.
- And in the early 1990s, the top executives of the seven largest American tobacco companies testified in Congress that cigarettes were not addictive.

So I tend to agree with Federal Reserve Board Chairman, Alan Greenspan, who said: “In the 1990s, there was no increase in human greed, just an increase in the opportunities for greedy behavior.” That may sound like a convenient excuse for bad behavior, but there are times when rapid changes in the environment seem to outrun our ethics. For example, today we have parents and teenagers wrestling with the legality and ethics of online music file swapping. And we have professors calling for a new code of ethics to help students understand how to treat the intellectual property of others, especially when the Web makes it all too easy to cut and paste someone else’s thoughts and pass them off as one’s own.

We seem to have had an increase in opportunities for misbehavior without a counterbalancing increase in the checks and balances that organizational cultures need to prevent bad behavior. Put another way, many business cultures were never properly designed — or perhaps never properly upgraded — to help regular people do the right thing in the face of the financial temptations that the late 1990s presented.

I believe that, during the 1990s, the corporate world lost its ethical frame of reference and became hypnotized by the easy and enormous wealth creation of the dot-com era. Let me explain.

I often liken the dot-com era to the California Gold Rush of the late 1840s and 1850s. People came from all over the world looking to make their fortune. Early success brought a rash of bad behavior like claim-jumping and even the murdering of prospectors.

During the dot-com era, compensation expectations skyrocketed. In the late 1990s, the thinking seemed to go this way: If you worked for an “old economy” company, you could make a living. If you worked in the high-tech economy, you could have a reasonable expectation of making a million. But if you worked in the dot-com economy, you had a shot at making a billion dollars. And more than a few people actually did.

The impact of these expectations though went beyond investors into the executive suite and the board room. The now classic case of a corporate culture that allowed the self-interest of the individual to run amok is Enron. Sherron Watkins, widely known as “the Enron whistleblower,” characterized Enron’s culture as an “intensely narcissistic,” “dog-eat-dog hierarchy” given to “near psychotic levels of competition” where people had a “sense of entitlement to great wealth” and would strive to “close a deal at all costs.” And the Enron board, which certainly looked distinguished and sophisticated on paper, remained, in her words, “obedient and loyal to senior management and generally incurious.”

Where did this sense of entitlement to great wealth come from? I believe the daily reports of dot-coms creating wealth for under-30 entrepreneurs in the mid-1990s caused the frame of reference for compensation to become seriously distorted. Chief executives of "old economy" companies saw all of these people less than 30 with little business experience becoming billionaires. And that caused them to lose sight of their own compensation.

Consider some of the highest-paid executives prior to and during the dot-com era. My source is *BusinessWeek's* annual "CEO Compensation" listing, which captures not only annual salary and bonus but also long-term compensation (typically stock options) to arrive at a total pay figure.

In 1989, the median total pay for the top 10 CEOs in the U.S. was about $13 million. Move ahead five years to 1994 and the top-paid CEO, from Morton International, received total pay of $26 million. That year, IBM's Lou Gerstner got about $12 million. And the median pay of the top 10 climbed about 11 percent to $14.5 million.

Go another five years forward, right into the heart of the dot-com era. In 1999 the top-paid CEO, Computer Associates' Charles Wang, received well more than half a billion dollars — $655 million, to be precise. Number 2 on the list, Tyco's Dennis Kozlowski, got $170 million. IBM's Lou Gerstner (#6) received $102 million. GE's Jack Welch (#7) got $93 million. So in the space of five years, the median compensation for the top 10 had skyrocketed 760 percent to $110 million. The thinking of the old economy CEOs seemed to be: Look, I run a real company that makes a real profit, so I should be paid at least as well as the dot-com guys.

This trend continued in 2000, when the highest paid and second highest paid executives, both from Citigroup, received $293 million and $225 million, respectively. That year, the median pay for the top 10 had gone from $110 million to $130 million.

The bubble started to burst in 2001. The median pay dropped a bit to $112 million. And then in 2002 median pay dropped substantially to about $56 million — a direct correlation to the bursting of the dot-com bubble.

My point here is that these extraordinary compensation packages permeated not only the corporate but also the quasi-government sectors, dramatically resetting salary expectations everywhere.

For those of you who have been watching the drama around the NYSE and Dick Grasso's compensation, Mr. Grasso did a great job in running the NYSE during a

particularly turbulent time. But based on what I just said had happened in the corporate board room, it's hardly a coincidence that the acceleration of his compensation began in 1999, because all these superstars on the NYSE were making these vast amounts of money.

Within this frame of reference, it's perhaps easier to understand how Dick Grasso's pay package grew to $139 million. As one journalist observed, over his career, Grasso made a lot more than Alan Greenspan but a lot less than Jack Welch. But more often than not, Grasso was put in Welch's compensation circle.

Along with erasing any reasonableness around compensation, one of the other byproducts that came out of the dot-com era was a practice known as "vendor financing." I can remember being in a meeting with a small management team from a brand new dot-com — actually, it was their third dot-com. In the past three years, these guys had already created two dot-coms, taken them public, and gotten out of them. So right away my suspicions were raised because I know most investors like to have management stick around for a while.

These entrepreneurs wanted to form a business that combined storing lots of information with networking, and they needed partners to help them on both the networking and the storage side. Their proposition to us was: "EMC, we're going to be buying more storage equipment than networking equipment and because we value your partnership, we would not expect you to invest as much in our company." I asked: "How much money are you looking for from EMC?" They said, "We have one of the networking vendors who will fund us to the tune of $350 million."

Now the way vendor financing typically worked is that if you agree to buy $50 million worth of equipment from me, my company will loan you $100 million. Of course, the first question an alert CFO might ask is: "If I order $100 million from you, you'll loan me $200 million?" And the answer with these guys was "yes." I had to laugh and say: "EMC is not the high roller you think we are. The most we've ever done in these kinds of partnerships is, say, $5 million, and that was an unusual case." Now I had seen this kind of behavior in the late 1970s, where companies that engaged in this practice went out of business. Just as I learned in the 1970s how something like vendor financing could cripple a company, you — tomorrow's business leaders — have been witness to comparably wacky practices today that can get businesses in trouble.

Over and over again, the bad behavior of a relative few calls into question the behavior of everyone. I say a relative few because there are some 15,000 public companies in the U.S. and, so far, the problems have engulfed dozens but not hun-

dreds of companies. Naturally, this bad behavior invites copycat activity because people don't want to be put at a perceived disadvantage by following the rules.

For example, in the late 1990s, many dot-coms would offer stock options not only to friends and family but also to people they were doing business with or who were selling to them. When we saw this practice emerge, EMC established a policy to prohibit our sales reps from participating in these options giveaways. Naturally, our sales guys felt that EMC's policy put them at a disadvantage compared with other companies' sales reps. So, they approached me and said: "Look Mike, everyone else is doing it." (It's the same thing we all used to tell our parents as kids.) I said we're not going to allow anyone to accept options. About six weeks later, there was another attempt to change my mind. And they said, "Mike, you're right, we shouldn't allow individuals to have access to these options, but we should put them in a pool and then we'll all share them." And again I held firm and said "No, we're not going to do that either." The perception was that by playing by the rules we were somehow disadvantaged.

Now, the bad behavior of a few also makes employees suspicious of management and suspicious of each other. It leads investors, consumers, and employees to presume the entire barrel is bad, and not just a few rotten apples. It calls into question the ability of government and regulatory bodies to hold culprits accountable for their bad behavior and corrodes the trust on which businesses, markets, and capitalism are built.

At bottom, businesses are not just economic machines but also social systems. So how do we build an ethical business social system?

I see two broad streams of action: first, managing integrity inside the organization; and second, trying to shape the individuals who will fill the integrity pipeline that feeds the organization.

For the former, the responsibility clearly sits with the senior management team. These leaders must provide a clear context for behavior — what's allowed, what's prohibited, and where to go for advice on the grey areas. This means carefully designing the values, code of conduct, and the processes that define the playing field within which individuals can manage themselves — and then communicating these values relentlessly, especially through actions and behavior.

Edwards Deming, the quality expert who helped the Japanese transform their industrial management methods after World War II, was fond of saying: "Quality is made in the boardroom." The same is true about integrity. A company's commitment to integrity flows from the commitment, action, and credibility of its

leaders. The litmus test becomes: How frequently and convincingly do they talk about integrity? Is it simply a bullet point on a PowerPoint slide? Or a thread woven into the stories and observations they tell and retell when communicating the company's culture to employees, customers, and investors? Do they simply assume ethical behavior? Or do they go out of their way to regularly survey employee perceptions about whether the company conducts business in an ethical manner? And do they make it a point to publicize sound ethical decision-making by employees, even when that good behavior has meant leaving some business on the table or walking away from a deal?

And have they inadvertently created a shoot-the-messenger culture? When EMC started into the storage mainframe business in the early 1990s, one of our competitors was run by a very strong-willed CEO. His style was to be very aggressive with people who brought him bad news. He epitomized the shoot-the-messenger character. As a result, he found himself in the situation of making some bold promises to investors about product development schedules while deep inside his company's product development organization — and unbeknownst to him — there was chaos. His company wound up missing delivery schedules by several years. The share price was devastated and never recovered. He created an environment within his company where bad news was so unwelcome that no one ever told him what was really going on. So you have to be willing to create a culture that encourages truth-telling and the immediate surfacing of bad news. That way, you hear the bad news early enough to do something about it.

To this list of questions that get at a company's commitment to integrity, I would also add: Do the leaders subtly encourage an ends-justify-the-means approach to business? Or do they weed out great performers who may deliver great results but with no regard for the company's code of conduct?

And is integrity one of the core competencies used to recruit, assess and develop senior executives? I heard a recruiting rule of thumb that's usually attributed to Warren Buffett. He said that in looking for people to hire, you look first for three essential qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you. Think about it. If you hire someone without integrity, you really would prefer them to be dumb and lazy.

Clearly there are a 100 dimensions to building a culture of integrity — and employees are sensitive to their presence or absence. In my experience, employees can "feel" a company's integrity — as I did when I worked at Raytheon — by reflecting on:

- How they're treated
- How customers and suppliers are treated
- What's the priority given to shipping only the highest quality products
- How honest the company is with itself about its flaws and shortcomings
- How truthful the advertising is
- How attentive the board is to the goings-on at the company
- And so on.

So integrity goes all the way across and through an organization but it can be no better than the intent and behavior of the top people.

Given my role in leading EMC's board over the past three years, I'd like to say a few words about the actions that boards can take to create trust in a company. First, it's important to build a board that is simultaneously diverse and cohesive. I find that most boards do not operate optimally until the individuals have coalesced into a group with a shared mission. Directors need the chance to build relationships with one another, develop trust, and gain comfort in freely expressing their own ideas. It's the chairman's responsibility to create these opportunities.

But a cohesive board is not a passive board. On the contrary, it's an engaged, questioning, outspoken board that is willing, should the need arise, to tell the emperor when he or she has no clothes. For governance to help reestablish a climate of trust among investors — and I realize it's going to be a long, slow process — directors first need to trust one another.

Yes, in years past, many corporate boards supported management with a loose system of checks and balances — and some still do. And as long as the senior management team was "doing a good job," it had a free rein — in hindsight, clearly too free.

Without question, corporate governance needed a kick in the pants to do what it was designed to do: which is to perform the critical review function by asking tough questions and probing the assumptions of management. The SEC, the NYSE, and the Sarbanes-Oxley Act have squarely delivered this kick — as has all the high-profile coverage of governance failures.

Higher standards for governance are a good thing. I also believe boards can — and must — play a significant role in shaping and reinforcing an anti-greed culture because of their power over compensation. As the resignation of Dick Grasso underscores, the next wave of emphasis and scrutiny in corporate governance should come from the executive compensation and stock option committee. Just

as most boards have had to transform their audit committees from what used to be a peripheral and somewhat sleepy committee to an intensely demanding and engaged decision-making body, so boards will have to reshape their compensation committees. And indeed they must.

They will replace what was often a rubber stamp of management's recommendations with a more deeply informed, involved, and independent-minded committee; a committee that will not hesitate to put a throttle on excessive compensation and that emphasizes long-term rather than short-term performance and precise rather than fuzzy performance goals.

As one governance expert put it, the compensation committee is not supposed to be "the tooth fairy." The strengthening of the compensation committee is a positive trend. The quickest way to stem greed is to closely review the incentive practices that ultimately drive corporate behavior.

As many of us have seen in business time and again, leadership failures are usually failures of character. You can't legislate character. But you can build and sustain a culture and incentive systems that demand integrity, discourage greed, and accord character equal importance with performance when it comes to career advancement.

Laws and regulations, at best, can coax corporations to move in the right direction. Real and lasting reform must come from within corporations through the way they reward and censure management.

Now I could discuss what EMC does to manage integrity, but in a way I already have. The precepts I've put forward are ones that we at EMC totally believe in and try our best to follow. And if you'll allow me a commercial, I can tell you that we take great pride in having moved years ahead of any legislation to ensure that our internal controls are rigorous and that we act with out-in-the-open accountability for performance and full and open disclosure.

Let's turn from managing integrity inside the corporation to shaping the integrity pipeline that feeds organizations. There's a great sentiment in Max DePree's wonderful book, *Leadership is an Art*. He writes: "Understand that what we believe precedes policy and practice... our value system and our world view should be as closely integrated into our work lives as they are integrated into our lives with our families..." But how?

We can laugh, for example, when Jay Leno conducts one of his classic man-on-the-street interviews, collars a hapless college student and asks him to finish this sentence. "Let he who is without sin …" And the sheepish response from the stu-

dent is, “Have a good time?” But it’s rare today to find ethics education taking its place beside reading, writing, and arithmetic.

By my back-of-the-envelope calculations, most of us spend nearly 20,000 hours in school in grades K through 12 and four years of college, and even more if you count graduate programs. But with the exception of those fortunate enough to get an education at Bentley or to major in philosophy or religious studies, most of us probably get only the most glancing introduction to ethics and moral history, let alone a systematic exposure to the ethical challenges we all face in daily living and how to think through them.

Now this is a huge subject that goes beyond the bounds of my remarks today. But I was interested to see the results of a recent Aspen Institute survey of MBA student attitudes about business and society, a 2003 study titled “Where Will They Lead?” Nearly half of the MBA students surveyed said that the priorities communicated during business school contributed to the recent corporate scandals. Only about a fifth of MBA students say their schools are doing a lot to prepare them to manage value conflicts. And 1 in 5 respondents said they are not being prepared at all. The classroom is one of the key places where character and judgment get built. So clearly there’s a lot of work to be done.

Just as clearly, some institutions are in the forefront of ethical thought and practice. And so I applaud Bentley, with its Center for Business Ethics, for its pioneering contributions to business ethics and especially for having led the way in teaching professors how to incorporate ethics education across the business curriculum. Real leadership is about trusteeship for the future.

To fulfill this role, boards, corporations and business schools should be using the scandals of the past few years to educate tomorrow’s leaders about the real-life consequences of their actions and their responsibilities to investors, employees and themselves. My own sense is that today’s scandals have received so much coverage that almost everyone has gotten the message, and therefore we probably won’t see a repeat of this for another 15 years. That is, until we get the next batch of senior managers who don’t have a first-hand frame of reference about how bad it was and how bad it can easily be again.

To conclude, past attributes business leaders were expected to have typically began with intelligence, vision, the willingness to accept responsibility, and the ability to motivate others. Today, the first attribute on the list — the one without which the others really don’t make sense — is integrity and the responsibility that comes with integrity, which is actively creating an ethical culture. This work is never over.

Our Founding Fathers liked the saying, "Eternal vigilance is the price of liberty." Substitute the word "integrity" for liberty and you know exactly where I stand. Eternal vigilance is the price of integrity. I've really enjoyed giving the inaugural Raytheon Lecture. My thanks to all of you for your kind attention this afternoon.

Below are the highlights from Michael Ruettgers' question and answer session with Bentley College students, faculty and guests.

Question:

In your speech, you talked about the board of directors and its need for cohesiveness. First, how do you think that boards of directors can become more cohesive when they meet so seldom during the year? Secondly, in companies where the CEO is also chairman of the board, how do you feel that he or she should participate on the board, without using undue influence?

MICHAEL RUETTGERS:

As to the question about cohesiveness, I want to say a little about small group dynamics. I don't know whether you've studied this but, typically, groups won't work together as a team until there is a magic number of interaction hours; there's lots of empirical data on this. Teams need to get at least 60 hours of "face time" before they can become effective. Given that a typical board meets maybe 10 times a year for four hours, and you have board members coming and going, it is imperative that you get the directors to spend the 60 hours together as a group. Unless you do that, you don't know what the talents and resources are. I serve on Raytheon's Board – we have 14 members – and believe the important thing is to spend enough time with each of the directors individually so you have a sense of what they bring to the board meetings. Turns out most people don't lose their identity when they join a group. Instead, you get strength out of their combined talents. For instance, if we are in a small group and I know you are expert in some area and we're addressing that area, then I would be foolish not to take advantage of your knowledge. But if I don't know about this, and you are reluctant to share it, then we lose the opportunity to leverage what you know. So it is very important, I believe, for the board to spend enough time together and become cohesive enough, so they know what the members' strengths are.

The second question was about the roles of chairman and CEO. Can they be performed well together or should they be separate? At EMC, we've separated the chairman and CEO roles for over ten years. The chairman runs the board and the day-to-day management of business is left to the CEO and the rest of the management team. There is a lot of discussion today about the need for separation of the two roles. I think that unless a company has that tradition, it can be a little bit awkward. What works just as well is having a strong lead director. He or she can help organize the board, communicate with the CEO and make sure concerns get

raised in the board meetings. In my view, if you have both a chairman/CEO and a strong lead director, that governance model is fine.

Question:

To what extent are you seeing a coming together of the corporate integrity and sustainability movements?

DR. W. MICHAEL HOFFMAN:

I'll give Mike a break, and let him catch his breath. When you talk about sustainability, I think you are talking about an aspect of corporate social responsibility or CSR. When you talk about business ethics, you're concerned with integrity within the company — the individuals who make up the company doing the right thing — and the conduct of the business as a whole. CSR is concerned particularly with how the company deals with its external stakeholders and society in general. These two movements — business ethics and corporate social responsibility — have been running on parallel tracks that haven't been intersecting much, either within the corporation or outside. Ethics officers within the corporations quite often don't know who the public affairs officers are, or the people who make decisions on philanthropic initiatives. Business ethics has its own trade association, the Ethics Officers Association. Corporate social responsibility effectively has one — or at least a membership organization — called Business for Social Responsibility (BSR). These organizations need to move closer together. Mike, I don't know if you have any reflections on that.

MICHAEL RUETTGERS:

Well, one of the advantages of being an executive chairman, and not having the day-to-day stuff, is that you do get to look at the bigger picture. We at EMC have been very concerned about the quality of education here in Massachusetts. I, together with other business leaders, have been behind MCAS — the Massachusetts Comprehensive Assessment System, a series of tests designed to measure the performance of students and schools based on state standards — and making sure they stayed in place. The next big challenge is healthcare. The state runs a deficit right now. Half of the $20 billion state budget is healthcare. Half of that figure in turn grows unconstrained at about 16 percent a year. This means that the state budget deficit, without control, is going to grow 4 percent a year. That is unsustainable over time. We are not that far away from a situation like Louisiana, where the governor says, "I am at a point where I have to make a choice between old and the young. I can spend money on healthcare, or I can spend money on education." I don't think we want to be in that situation here.

There are things that can be done to improve the productivity in healthcare, which is what we are working on. But here is a case in which businesses are responding to what I would argue are critical social factors. I don't think we want to be in a situation of having to choose between the old and the young.

Question:

Mike, there were about 200 Bentley alumni at Arthur Andersen, and I think most of the students in this room will build careers in professional services in one sort or another. Early in their careers, the most likely ethical conflict that they will run into is the kind that affected Arthur Andersen's Houston office: the conflict between the desire to keep your clients and the pressure to do the right job. Do you want to comment on that, please?

MICHAEL RUETTGERS:

What's interesting about the Andersen case is that some people thought the firm was being penalized because of the way it handled its client Enron. In fact, Enron was really the last straw because Andersen had been criticized a number of times before. They had been asked to make amends and they didn't. So there was a clear pattern of unethical behavior that had somehow become part of the corporate culture. It might be that the things that Sherron Watkins said about Enron were typical of Arthur Andersen too. Their judgment was critically flawed in some very ethically sensitive areas. In many cases, I suspect that the culture was such that it prevented people from seeing, or stopping to think about, the consequences of their decisions.

Question:

In your remarks, you mentioned a study that said nearly 50 percent of students believed that the communications learned while in business school have led to the corporate scandals going on today. Do you believe that there is an over-emphasis of the bottom line mentality in the classroom today? If so, how would you handle that without losing focus on why we are all here in the first place?

MICHAEL RUETTGERS:

I have to confess I haven't been to school for a while, so I'm not sure exactly what you're being taught. But the survey certainly said that. It's clear that the market in which MBAs compete is intensely competitive and it's natural to look for an advantage — not an unfair advantage, just an advantage. This can make people very focused on certain things. At EMC, there is a lot of focus on results — not all bottom-line — but a lot of focus on results. For example, we set quarterly goals

that have cash bonuses associated with them and you're expected to make those quarterly goals. So, is there emphasis on performance? Yes. Does it necessarily translate to the bottom line? No. We've tried to be very balanced and cautious about this. We've seen with Enron and the like what can happen when management and auditors lose perspective. At Enron, the consequences of ethical missteps were enormous and dramatic. Remember, though, that we can often find ourselves in situations where the scale of potential damage might be smaller but the consequences of not doing the right thing will be with us for a lifetime. So when you make decisions in these areas you have to be really careful and thoughtful.

Question:

You stated before that people need structure to resist bad ethical behavior. Whose responsibility is it to provide the structure? Does it lie at the top, or with the whole company?

MICHAEL RUETTGERS:

The company's leadership has responsibility and power and also accountability. It is up to the leader — in American businesses, typically the CEO — to set the moral tone of the company and to give ethics priority resource allocation.

Thank you.

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