

College of Commerce and Finance
Villanova University
Center for Responsible Leadership and Governance

**Achieving Responsible Leadership and Governance:
*Meeting the Challenge for Change***

October 13, 2004

Conference Highlights

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Introductory Remarks

Mr. Herbert Aspbury, Former Regional Managing Director of Chase Manhattan Europe, Chair, Advisory Council, Center for Responsible Leadership and Governance

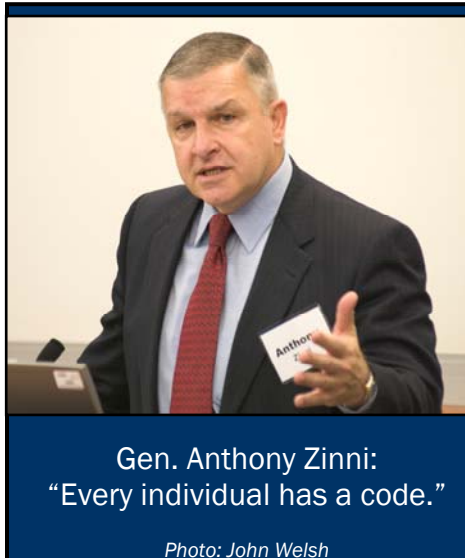
- I am extremely proud of the way Villanova University has evolved, and the dynamism of what it has become. Though the University's history is to be respected, the last 25 years have truly made our current reputation. At Villanova we wear on our sleeves not our high rankings, but who some of our graduates are. Our graduates have a strong equity stake in Villanova, and we are fortunate that our degrees have appreciated tremendously over the years. The people we educate go on to distinguished and successful careers as leaders. A university is known by the people it produces, and there is no better example for Villanova than General Anthony Zinni.



Gen. Anthony C. Zinni, USMC (Ret.), special envoy to the Henri Durante Center and former U.S. envoy for Peace in the Middle East – “Leadership and the Exercise of Responsible Power”

General Zinni addressed organizational and individual dimensions that he has found essential for the cultivation of responsible leadership. At the organization level, the set of values that drive the decision making process of the company must be infused within all of the organization's stakeholders, and be reinforced through its reward system. At the individual level, leaders must be introspective in determining what drives them, and work to ensure that they are getting people to behave in an ethical way that brings fulfillment. Gen. Zinni concluded by recommending a number of actions that the responsible leader should take. Highlights of his remarks include:

- All enterprises have five distinct parts: (1) the leaders themselves, (2) the led, (3) the organization and its structure, (4) the processes, systems and style that characterize how decisions are made, and (5) the organization's approach to strategic thinking and its impact on their strategic vision. A company's values are infused into each of these areas.
- While many companies and organizations reward productivity, it is less common to find a company that lives its ethical code and rewards ethical behavior. Because "you get the behavior that you reward," more companies must assert that "this is who we are" and corporate leaders must make more decisions based on the values and code of their company. For global corporations, this may mean avoiding a practice that may be legal in a foreign country, but is in opposition to the values of the company.
- "What defines you?" In addressing leadership, it is important to step back and find out more about the individual, as "every individual has a code." By learning how an individual defines himself or herself (i.e. as an accountant, soldier, brother, or husband), the leader must consider what this definition says about the person's values. This personal code affects how the individual will accept or follow the code of the company.



- From the leader's perspective, an introspective approach for considering questions of "Who am I," "How do I think," "What do I value," and "How great is my integrity" helps to define one's identity and personal code. Once this definition is developed, the leader can "live a life that matters" by living and following the code. In living the code, you must develop a balance between mind, body, and spirit, not be afraid to "scare yourself once in a while" and push your limits, and also take time away from your responsibilities to regroup.

- The organization must consider how "the led" view leadership. As a simple definition, leadership may simply be viewed as getting other people to do what you want. At a deeper level, leadership may entail getting people to do what you want in an ethical way that brings about fulfillment, respect, and success. The healthiest organizations define success by more than the bottom line, and will likely ascribe to this latter definition.
- The organization must also consider the extent to which its code "sinks in" with employees. Is the code understood? Are its employees in a position to receive the code, and how do their personal codes affect this transmission? Do the employees live the code, and do customers recognize this? Such questions can be answered by testing employees to determine the extent to which they follow the code in the workplace, and customers to learn if they see the code in action.

- There are many varying traits, attributes, and styles that leaders possess to achieve success; however, it is difficult to define a core base of traits that are common to all leaders, and also how these traits may contribute directly to overall performance. One study of great leaders found traits such as intellect, determination, and courage to be most important, while a study of U.S. Presidents identified curiosity as a critical trait. Within the organization, these traits must be instilled or developed from the beginning to make them understood and rewarded. Similarly, there are many different leadership styles that can effectively be employed. It is important that leaders understand the effects of their style, and capitalize on the benefits of their personality, while staying true to themselves.
- The responsible leader must recognize that he/she is responsible for the decisions made for him/her and therefore analyze the structure of how decisions are made within the organization. How are alternatives presented and what ethical bases for decision making are utilized? It is imperative that feedback is built into this system and that the leaders are receptive to this information. This feedback helps the leadership to understand whether the organization works the way they think it does.
- At high levels of seniority, decisions become less clear, and the decision-maker is often forced to choose between the lesser of two evils or two goods. Because there are degrees of good and bad inherent in all decisions, a consistent ethical code is critical. “Don’t confuse hard work with good work, and hard decisions with good decisions.”
- A good leader must recognize the value of words, for they are the “most powerful thing humans have.” Saying something like “I’m proud of you” to a subordinate can have an important effect, and helps to build a positive, healthy environment. Similarly, in communication, it is important to never misrepresent the truth, and to speak simply and directly.
- A good leader leads from the front, being a part of what the group or team does. The leader should only use his/her power (“Because I said so”) as a last resort, and take time to ensure buy-in and understanding. This can be accomplished through listening to concerns and being a mentor to the followers.

Panel Discussion – “The Practice of Responsible Leadership and Governance”

Participants in this discussion included Judith Samuelson (Executive Director, Business and Society Program, the Aspen Institute), Rosemary Crane (Company Group Chairman, Consumer Pharmaceuticals and Nutritionals, Johnson and Johnson), Eric Pillmore (Senior Vice President of Corporate Governance, Tyco), and Robert Knowling (Chief Executive Officer, NYC Leadership Academy). Moderator Stephen Stumpf (Fred J. Springer Chair in Business Leadership, Villanova University) encouraged the panel to structure their remarks around defining leadership from an organizational and personal standpoint, providing examples of behaviors that display responsible leadership, and sharing processes through which their organizations develop and

assess responsible leadership. The following reflects highlights from the presentations by and discussions following each speaker.

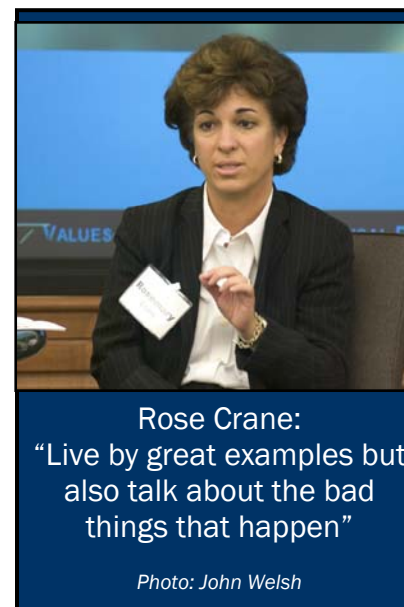
Judith Samuelson:

- A responsible leader puts the definition of sustainable development into practice. “Sustainable development should be seen as meeting the needs of the present without compromising the ability of future generations to meet their own needs.” Key to this definition is the concept of time frame. As the responsible leader puts an emphasis on long-term value creation, a balance must also be achieved with regard to short-term financial success and performance for shareholders.
- Businesses must develop systems where dissonance and feedback are encouraged. By fostering courage and risk-taking, behaviors such as innovation (Prudential with AIDs patients and life insurance) and speaking out (Norwegian cruise line with self-destructive business model through dumping fuel) are encouraged. In light of the new controls imposed under Sarbanes-Oxley, the best companies will realize the potential of this grace period to consider the mission of their organization and create long-term value.
- A firm’s business model has become even more critical as business operations are increasingly occurring in “the field of gray.” The responsible leader is becoming more aware that business has the capacity, talent, and resources to tackle most global problems.



Rosemary Crane:

- Leadership is defined when the leader is under pressure. It is in these situations that a company’s ethical code is tested and it becomes clear how important these values are to the organization. In the case of Johnson & Johnson, its credo is the core that holds the company together, especially in light of its decentralized operations. Johnson & Johnson relied upon its credo in making its decision to pull Tylenol off the shelves, “taking an enormous short-term hit to protect the credibility of the company.”
- Johnson & Johnson assesses responsible leadership through performing credo surveys. The goal of these surveys is to examine their principles, how their leaders stand up to them, and measure the extent to which the



credo has become part of the fabric of their business. Executives are judged based on how they address issues in which the various elements of the credo are in tension with each other.

- In conveying company values to employees, it is important to “live by great examples but also talk about the bad things that happen.” Reward systems must be structured to take both good stories and improvements made to bad stories into account. Because culture is created through corporate history and existing leaders and employees, it is possible to rebuild and redefine one’s corporate culture.

Eric Pillmore:

- Emerging from its recent scandal, Tyco’s new management team has strengthened its principles. It has recognized the importance of establishing a “web of accountability” through which its people can “push back” and provide feedback. To enable this process, multiple “open” communication outlets are critical to ensure that bad leadership behavior surfaces immediately.
- Functional mentoring is also of great importance, especially in a growing company. Executives in charge of a smaller operation must develop new skills to effectively and responsibly lead a larger organization. Leaders must also model ethics from the top down.
- Integrity, excellence, teamwork, and accountability have been established within Tyco as foundational values. Though it is impossible to measure values, it is possible to identify and measure behaviors that reflect these values. In their yearly assessment, Tyco leaders are evaluated and rewarded based on how they put these behaviors into practice.



Robert Knowling:

- The job of a leader is to set the vision of the organization and support this vision with explicit values. Because a values-based organization has a better chance than others of fulfilling its mission, the criteria for how you screen for talent, measures to reward and recognize performance, decisions to dismiss people, and feedback mechanisms in surround sound (360 degree feedback) must reflect these values.

- The responsible leader must be a model of the behaviors expected of everyone in the organization. Anytime a leader walks past substandard performance, a new, lower standard has been established.
- A paradigm shift has occurred within the New York City Public School system, where principals now believe that they are accountable, effective, and responsible as leaders. The goal of an 80% attrition rate of existing principals has been established, in an effort to ensure a different set of outcomes from principals. Succession planning, external recruitment and internal promotion from the teaching ranks have served to develop a new cadre of people.
- The lack of independence in management relations with compensation consultants has created an environment where CEO and executive compensation has spiraled out of control. “We cannot continue the game of hiring compensation consultants who must come back and recommend paying above the average.” Because few executives will step forward to be the model to change the path we are on, Congressional legislation or a mandate from powerful shareholder interests are the only sources of change.



Robert Knowing:
 “Anytime a leader walks past substandard performance, a new, lower standard has been established”

Photo: John Welsh

John Brennan, Chairman and CEO of the Vanguard Group – “Developing Responsible Leaders”

Mr. Brennan’s remarks focused on describing the values-based and competition-driven culture that has been established at Vanguard. Points of discussion included the importance of having integrity at the top, external recruitment and internal promotion strategies, and processes for developing leaders from within. Highlights from this discussion include:

- Responsible leadership should not be something for which you get credit, because it should be expected and inherent in all that you do. Clients should never have to say thank you for not stealing our money. In the words of Knute Rockne, “One man practicing sportsmanship is far better than fifty preaching it.” The same can be said for responsible leadership.
- Vanguard is an organization that places an incredible value on people with integrity. Moreover, no activity is permitted to compromise this integrity. As part of their pledge

to their clients, Vanguard crew members earn trust by adhering to high standards of responsibility, including being committed to evolving, competing, adapting, and changing. Though it is not always easy to put together in one package, there is a critical focus on character, integrity, and ethics, and competition and performance.

- “There is no skill set that you can bring to our organization that could be more important than the character we see in you.” This is reflected through the decision not to hire an applicant if even the slightest doubt exists about his/her character, and also through the policy that if existing employees make one ethical mistake, they are dismissed. “If you’re having performance problems, our goal is to work with you to succeed. If the problem relates to ethics, it’s ‘one conversation’; there is no second chance.”
- In looking for leaders, Vanguard possesses an uncompromising view of the importance of ethics and character in our leadership team. It is non-negotiable because bad behaviors and good behaviors start at the top, and people emulate the boss in words and actions. The ideal leaders are doers, “people people,” love external competition, and hate internal office politics. Leaders at Vanguard are expected to put personal integrity above all else, lead by example, subscribe to the philosophy that they can never have a bad day, recognize that the entry level crew member is more important than they are, and reach a balance between being demanding, compassionate, and human.
- When looking externally for leaders, the company is very selective because it wants to realize a return on investment for its people, and have people work at Vanguard for their entire career. As such, extensive interviews are required to gauge the individual’s character. “We’d much rather teach someone about project management, business strategy, and the like than attempt to teach someone to care about others or to be trustworthy.” The most important screen that is applied in the interview process is the question, “Do I believe this person will be trustworthy?” Another way of thinking about this question is to ask if you would want the individual in question to be your child’s first boss.
- Vanguard prefers to promote from within because it knows its own people best. The senior leadership team is committed to being involved in this process of shaping the future, rather than delegating this responsibility to others. In recent years, as the company has grown, there has been a shift from an individualized “sink or swim” approach to a more systematic program of professional development. Critical to this new program are a rigorous initial assessment (including aptitude and psychological testing, role playing activities, and presentation skills) and immediate face-to-face feedback, systematic



Jack Brennan:

“There is no skill set that you can bring to our organization that could be more important than the character we see in you”

Photo: John Welsh

developmental assignments, and performance measurement and candid feedback.

- The most important part of our process of developing responsible leaders is the developmental assignment phase. There is not a straight line in career development, so Vanguard will often move its developing leaders to very different positions. “We expect our best people to stay with us forever. We want them rounded out, we want to see them stressed to their best, and we want to support them through the whole process.” The developmental assignment also serves as “an incredible, subtle cultural control mechanism,” where potential problems can be caught immediately (such as a sub par employee who was being sheltered by their old boss).
- The last statement in the Vanguard pledge says that “We will adapt, evolve and continuously improve, because you should expect excellence in all that we do.” In addition to modeling high ethical standards, leaders must be ferocious about winning, growing, and creating a vibrant organization. Vanguard is not satisfied with just being an ethical company; they must also be a winning, competitive company.
- Because Vanguard “competes ferociously where it competes,” it has adopted a number of rules of engagement. Crew members and leaders may not cut corners to win, may only compete for clients where a permanent “marriage” is foreseeable, must compete with a long-term perspective, and promise their clients that the day they meet them is “the worst we’ll ever be, putting ourselves on the hook to keep making continual improvements.”
- As part of this continuous improvement, Vanguard has institutionalized a “perpetual state of dissatisfaction.” This includes a “don’t ask who, ask why” operating philosophy, through which the company can identify candidly where improvements are needed, find a solution, and not assess blame. An open debate is fostered, looking at all sides of an issue, and so that nothing is hidden when making a decision (an actual Devil’s Advocate is employed). Tools and support are provided through a Six Sigma program to help leaders identify improvement opportunities, make change, and ensure that changes remain in place. Finally, though leadership recognizes that the company competes in a “relative” world, it runs the company around “absolute” standards of quality. This is manifested through Vanguard being the low-cost provider in the mutual fund industry, with its ability to lower its expense ratio, even as the company has grown.
- The discussion following the formal presentation focused on issues of executive compensation, the impact of short-term trading (“good companies do not care about the transactional holder”), motivations for serving on corporate boards, the interrelation between leadership and stewardship, and strategies for infusing a new value set throughout an organization (“you have to be ruthless if you want to make change and enforce a new value set”). In addition, attendees and panelists discussed the value of having an engaged management team that recognizes that “character is an elixir,” an open culture and environment where people are engaged with the leadership team, and surveying management and co-workers about ethical practices. Through these and other avenues, it is possible to build a strong culture throughout the organization.

Dr. Jonathan Doh, Director, Center for Responsible Leadership and Governance - Closing Remarks and Reflections

- From General Zinni, we learned that incentives and rewards must be built into the system to effect responsible leadership. We discussed the importance of defining one's self, knowing one's self, knowing people, listening and speaking straight, and leaving a legacy behind.
- In the panel presentation, there was a rich dialog and exchange. Ms. Samuelson brought to our attention the definition of sustainable development, arguing that sustainable development and responsible leadership were two sides of the same coin. Mr. Pillmore shared his views on the web of accountability and a compelling story of an organization that has gone through trauma and is now working to restore trust. Ms. Crane gave an example of a firm that was able to maintain this trust through its use of a credo to underscore and support everything it does. Mr. Knowling discussed how visions, values, and responsibility are critical not just in private sector corporations and educational institutions, but all organizations.



Center Director Jonathan Doh summarizes the discussion and charges the participants to be “ambassadors for responsible leadership”

Photo: John Welsh

- From Mr. Brennan, we heard a compelling story of a company in which character is an elixir. He talked about debate, dissent, and argued that a healthy organization encourages pushback, a theme that we heard throughout this conference.
- We've had strong examples of companies where doing well means doing good, and other companies that are still struggling with this notion. We have learned much through this contrast. If character is an elixir, we hope responsible leadership is contagious. It is our hope and expectation that you serve as ambassadors and advocates for our mission, the Center, and the gospel of what we are trying to achieve.