



ETHICAL BUSINESS LEADERSHIP

EBL IN ACTION

Companies make mistakes, and sometimes even the best companies find themselves in the midst of a crisis. While many companies are unable to rebound from such disasters, others are able to regroup, learn from their mistakes, and return to prosperity. One company that has done just that is Xerox.

In 2000, Xerox was on the brink of bankruptcy and was the target of an expanding SEC investigation. Just eight years later, the company has returned to the forefront of the document industry, reporting revenues of \$17.2 billion in 2007.

Recently, David H. Blake, Chairman of the Beta Gamma Sigma Center for Ethical Business Leadership, sat down with **Anne M. Mulcahy, Chairman and CEO, Xerox**, and discussed the role that Ethical Business Leadership played in the company's turnaround.



David H. Blake: You've done a remarkable job at Xerox since taking over under some very difficult circumstances, both in terms of business and some other issues. I wonder if you can tell us how you went about establishing – or re-establishing – the culture that you wanted to have as far as ethics in business?

Anne M. Mulcahy: Well I would begin by saying that big companies are always about teams and leadership cultures, not about individuals. So there's no misunderstanding about what turned Xerox around, it was Xerox people who inherently had a very good culture; very values based. I think that companies can lose their way. Xerox certainly did from a business perspective and had significant challenges – liquidity challenges, business model challenges and regulatory challenges. I think that as you are changing so much in the business, it's hugely important that people understand there are a set of principles and values that you're going to run the business by.

There's nothing quite as painful as reputational damage. As much as people focus on balance sheet issues, I would say that the bigger problem for us is the reputational damage that a company can suffer. And it's the people who put it back together, who want to have pride in a company, who want to work for a company that certainly is a good business and a profitable business, but a company that they can feel proud to be a part of. I think it was inherently very much what Xerox people wanted – to have a company that was known for values and integrity. It was clearly leading them in a direction they were already very much on and wanted to be on.

DHB: How did you bring that to the surface?

AMM: When you're leading a company in a state of crisis, it's hugely important to create a vision for why people should stay; why it's worth it. A big part of that story is really the kind of company you want to be a part of. That's a description of what you want to be known for, and as much as you can talk about it and describe it, it's far more important that you actually demonstrate it and live it. For the leadership at Xerox, this was a time when they had to make the kind of choices that demonstrated to people that they weren't compromising the values of the company as we made tough business decisions about what had to happen in the company. That we very much stayed aligned in terms of things that we care a lot about. Things like diversity, sustainability and respect for individuals, and that good business should be about being a good company. That these things aren't in conflict, they're actually synergistic. I think people began to see that you didn't have to make those trade offs.

DHB: Did a group of you sit around and say, "What are the values we want to come up with?"

AMM: We actually didn't have to come up with a set of values. The company had been founded very much on a values system and it had been very much a part of the history and the legacy of the company. I think it was very comforting that we actually embraced those values and a little bit of the return to the past and said these are the values that served this company so well over decades. We're going to make sure that we live them, that they're real, that everybody identifies with them in terms of the way they conduct business. I think it was more of a restoration of an existing culture and values system that was very much part of the company's heritage.

DHB: We return to the past and people are feeling good about that. Now of course it has to get infused throughout the organization. I'm sure that you want everybody to abide by those principles and understand those values. How was that brought about? Xerox is a very large company and is spread out all over the world. It's not an easy thing to do.

AMM: It's very challenging. We're on the ground in 160 countries. You recognize that your risk is extraordinary when you're that global, that distributed in terms of the way you conduct business. But it actually comes back to the basics. It's process and it's people. I begin with people. As you think about integrating all of the good principles for conducting business through all of the business processes, the most important elements are the right leadership and making sure you have the right people on the ground. As much as the senior leadership team needs to set the tone at the top and conduct themselves very much aligned...the reality is that leader in Egypt really represents the brand, and that you have to make sure that your leadership really emulates the kind of value system that the company expects. In a company that certainly cares about performance, you have to give equal, if not more, attention to the quality and caliber of the leadership.

Then you do have to make sure that it permeates – that the messages and the approach permeate – everything you do. If they are words sitting in a file drawer, clearly they will not be meaningful. They will not be what people turn to. It has to be real. It has to be integrated into the business process. It has to be on that checklist of how people get promoted, about how we reward people. It has to be consistent. If there's one thing I've learned, it's that the one thing worse than not having a really strong code of conduct and value system is to have one and not act consistently with it. Because then people truly dismiss it as not having integrity and not being really meaningful in the environment they work in.



DHB: Is this woven into the evaluation process?

AMM: We heard from people early on that there needed to be consequences; that people needed to see not just the positive side, but that when there was a violation of business policy or business ethics, that people had to see that there was really clear accountability for that. Although you cannot publicize that by situation, you can give people kind of what we call “sanitized examples” of how we create accountability around any kind of serious breach of business ethics. We try to do both, clearly modeling it on the reward and recognition side, but as importantly, create accountability so that there is no confusion about how you get hired, promoted and fired.

DHB: So people know that each year this is part of the evaluation and reward system?

AMM: Absolutely, and over time people get it. Word travels quickly – the good and the bad. I think if you are consistent in the application, people understand the kind of people that are getting promoted and the kind of people that don’t make the cut in this culture and environment.

DHB: We all know hiring is an art at best and it certainly is not a science. Are there special things that you do to try to understand the character of the person as it fits within the Xerox culture, and the Xerox commitment to business ethics?

AMM: Well it’s not a science. I think we have a very robust hiring process in terms of the qualities that we’re looking for, and the kinds of questions and tests that we use to make sure we screen the best possible candidates. We clearly do (rigorous) background checks on everybody...but at the end of the day a lot of it does come down to good judgment, and you will make mistakes. I think as important as screening the right people and hiring them, is making quick assessments about who is going to make it and who is not.

It’s interesting at Xerox, we found that people do self-select to some degree because we are a company that’s known for diversity; very focused on community engagement. We’re not the highest paying company, but we do find that people come to us because they know us by reputation. There’s nothing quite as powerful as that self-selection process that happens when people knock on your door and say, “This is the kind of company that I’d like to work for.” It’s (also) pretty clear in a short period of time if you don’t fit here culturally. They actually choose to leave because if you’re not comfortable in an environment that is very team oriented – that’s very much about respecting diversity in all aspects, respect for the individual – then this is not going to be the kind of place that you’re going to feel comfortable in.

DHB: What about the person who really is good at performance – meets the numbers, succeeds at the numbers, is just a crackerjack, as my father would say – in every sense, but needs some real help on ethical principles? What happens then?

AMM: That is the most important and common moment of truth for a company. The minute you trade off and say, “Great performer, I’m going to let it slide,” you have just defeated all the work you have done to communicate the priority of values and ethics in the company. This really is the most important example and we have a very, very clear approach there. That is, we pay for performance, but we hire, we promote, and we fire on behavior. There are no

excuses or trade offs that get made, and certainly there are people that can be helped and coached, and certainly adapt their style. If people can be trained and shaped, that’s great. If they can’t, we don’t want them at Xerox.

DHB: Every now and then, things do go wrong. This is just a fact of life. What happens when things go wrong? What causes you to fall off the track, so to speak?

AMM: If things aren’t going wrong, then you just don’t know that they’re going wrong. Part of this is having a company where you’re surfacing things that are going wrong. We do audits throughout the company on a global basis. We report to our audit committee whether they’re satisfactory or not satisfactory, and some of these involve code-of-conduct issues. Lots of them just involve business failures – we were setting targets, we wanted 95 percent satisfactory, 98 percent trying to get better every year. Finally I said, “What I think we need to do is actually take on the tougher problems and not be targeting perfection here.” What we ought to be doing is actually enabling people to bring forward the problems in the business. We have to take the burden of making sure that people are educated and they have the tools that they need to do their job; that they have the decision criteria that they need to make the right decisions. We try to enable an environment where mistakes can be made and corrected.

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Anne M. Mulcahy
Chairman and CEO, Xerox

I think one of the big lessons that came out of the crisis that we went through was that problems are generally known somewhere in the organization. The longer they stay undiscovered by the people who can solve them, the bigger they get and the uglier the issues become. One of the things that you have to have in a company like Xerox is people who have courage to give you the bad news, to be honest critics, to put problems on the table because they are there. If you’re not hearing about them, they’re just getting bigger and tougher to fix.

DHB: Is there any concern that some people are getting too far away from that crisis sense?

AMM: I think we all worry about losing a little bit of the intensity and the focus that you have in a crisis. It’s hugely important, particularly in the competitive world that we operate in, that we don’t lose some of those lessons going forward. That’s why we really try to ensure that we’re always focused on communicating what we represent as a company, not taking for granted the asset of a good brand; ensuring that people take this franchise very, very seriously. So I think it takes reinforcement and you can never take it for granted. It takes work. We have a heritage for being really good at things, but it doesn’t mean that you can take them for granted. You constantly have to invest in making sure that you stay on top of your game, whether the topic is innovation or whether it’s diversity or sustainability. It is something that constantly has to be re-learned and focused on, or else you do lose your way.