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THE ETHICS OF TEAMS:
Playing Fair in Business

Steve Pagliuca
Managing Director, Bain Capital and
Co-Owner of the Boston Celtics
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, founded in 1976, 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.
What do professional sports, venture capitalism, and politics have in common? Here are two things: 1. All need to be governed by ethics to flourish, and 2. Steve Pagliuca. Over the years we at the Center for Business Ethics have had the good fortune to have had many extraordinary leaders speak on business ethics. With Mr. Pagliuca we have something unusual: We have someone with exceptional accomplishments in three distinct domains — professional sports, venture capitalism, and politics. With that background he accomplished something that defied logic: He spoke on all three topics in a way that retained depth, sophistication, and the insights that are reflective of his considerable accomplishments. He is the managing director of Bain Capital, one of the world’s leading global private investment firms, co-owner of the legendary basketball franchise, the Boston Celtics, and someone who also ran for the Democratic nomination for the United States Senate. In this one talk, he was able to get to the ethical heart in each of these domains, while recognizing the unique and salient issues associated with each.

In this speech, Mr. Pagliuca hones in on an extremely valuable ethical insight that is often overlooked, namely: Ethics is what permits our species to achieve its greatness by creating the social context that permits us to work effectively in teams. Without ethics, teamwork wouldn’t stand a chance. With ethics, teams can bring out the best in their members. Ethics provides the framework of trust that allows teams to succeed. And in making his point, he added a concept to my own ethics lexicon for which I am personally grateful: Ubuntu, an African term which he described as follows: “You only succeed because others help you succeed. You are, therefore, morally obligated (and wise) to help others succeed.” According to Mr. Pagliuca, it was ethics that led the Celtics to recapture their glory, a failure of ethics that led to the recent financial crisis, and the need for better ethics that will rescue our often dysfunctional political processs.

I have long been a believer in the universality of ethics. Steve’s talk adds weight to this perspective and helps us to understand why this is so.

W. Michael Hoffman, PhD
Executive Director, Center for Business Ethics
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Bentley University
The Raytheon Lecture in Business Ethics at Bentley University is made possible through the generous support of the Raytheon Company. Raytheon is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation spanning 89 years, Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as a broad range of mission support services. The company reported sales of $25 billion in 2010 and employs 72,000 people worldwide. It has built a reputation for adhering to the highest ethical standards in the industry. The Raytheon Lectureship in Business Ethics series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States.

Learn more about Raytheon online at www.raytheon.com.
Ethics in business is about so much more than just following rules. Fundamentally, it is a matter of creating the right culture in our organizations, so that people have the ability and support to make decisions that are not only effective, but consistent with the values and principles we hold dear. Raytheon has worked very hard in establishing an ethical business culture that is accepted by our employees and woven into the fabric of the ways in which we work. Our continued growth and profitability depend on it.

Raytheon has supported the Center for Business Ethics at Bentley University for many years, and our sponsorship of its Lectureship in Business Ethics is an important commitment for the company. We recognize the enormous value of the leadership given by the center for over three decades, to promote ethical business practices and cultures in the United States and around the world. And ethical leadership — illuminating and inspiring conduct that is instinctively ethical — is what the Raytheon Lectureship in Business Ethics is about. I’m proud that Raytheon can play a part in bringing to the Bentley campus highly respected leaders of companies that have a manifest and deep-rooted commitment to doing business in the right way. Their insights contribute much to an important discourse on how the business community can and should achieve ethical excellence.

William H. Swanson  
Chairman and Chief Executive Officer  
Raytheon Corporation
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BOSTON BASKETBALL PARTNERS LLC is the private investment group that owns the Boston Celtics franchise, based in Boston, Massachusetts. The Celtics are one of the most successful franchises in the world of professional sports. The team was founded in 1946 and in 2008 it won its 17th NBA championship, more than any other team. Steve Pagliuca is a managing partner and serves on the managing board of Boston Basketball Partners, LLC.

(From left) Steve Pagliuca, managing director, Bain Capital, and managing partner on the Managing Board of Boston Basketball Partners, LLC; Patricia Ellis, vice president of Business Ethics and Compliance at the Raytheon Company; and W. Michael Hoffman, founding executive director of the Center for Business Ethics and Hieken Professor of Business and Professional Ethics at Bentley University.
STEVE PAGLIUCA is a managing director at Bain Capital, a leading global private investment firm based in Boston. He is also co-owner and managing partner of the World Championship Boston Celtics basketball franchise. Mr. Pagliuca joined Bain Capital in 1989 and, along with his partners, has built it into an international investment powerhouse with more than $65 billion in assets under management. An active member of many charitable and philanthropic organizations, Steve serves as the president of the Boston Celtics Shamrock Foundation, the chairman of the Massachusetts Society for the Prevention of Cruelty to Children, and a trustee of the Bain Capital Children’s Charity. He is a frequent contributor on television, radio and print media of expert commentary on global economic issues.
The Ethics of Teams: Playing Fair in Business

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS
AT BENTLEY UNIVERSITY

April 7, 2011

STEVE PAGLIUCA
Managing Director, Bain Capital and Co-Owner of the Boston Celtics

It’s an honor to be here today to speak at the Raytheon Lectureship in Business Ethics series. I am excited to talk about my professional experiences as part of several great teams and the ethical framework that helped to drive their success. As U.S. Supreme Court Justice Potter Stewart once said, “Ethics is knowing the difference between what you have a right to do, and what is right to do.” His pragmatic approach to each case earned Justice Stewart the reputation as a centrist who adhered to no particular wing of the court. His ability to see beyond his own self-interest for the betterment of the collective is a quality that makes for good business as well.

Ethics has played a vital role in the success of every team I’ve been on, and it gives me great pleasure to share my practical experiences in the worlds of business, sports and politics. I will focus on how creating an ethical culture in each arena fosters a vision shared by the collective team.

Personal Background

Over the course of my business career, I have been fortunate to work for KPMG in Europe, Bain & Company, and most recently, Bain Capital. At Bain Capital, I’ve been part of a team of partners who’ve built the firm into one of the leading investment companies in the world. And the successes we’ve had as a team at Bain Capital allowed me to pursue my dreams in sports and public service.
In July 2002, I joined Wyc and Irv Grousbeck to buy the legendary Boston Celtics. Our goal was to restore the luster to an amazing community asset — and, of course, win a championship. I’m extremely proud to say we’ve been able to do both.

In the summer of 2009, our wonderful longtime senator, Ted Kennedy, passed away. He had been a friend and inspiration to me. We were facing the financial crisis, record unemployment and exploding healthcare costs, so I decided to jump into the special election for the Senate seat, given my extensive experience with our healthcare system and in creating jobs by helping build successful companies.

This diverse set of experiences has given me 30 years to learn what makes some teams great, and what makes others spectacular failures. And one of the most important lessons I’ve learned is that the most spectacular failures have not been failures of intelligence, or failures of skill, or even failures of hard work, but failures of principle and of vision.

**Ethical Behavior in Context**

I don’t think of ethics as a set of limits or as a set of negative rules, but rather as a path to success. I’ve found that ethics, more than anything else, can actually be a roadmap for success. Embracing a set of guiding principles and the circumspection to think about your team in a wider and larger societal context can actually be the key to winning in the long term. I also recognize that no one has a perfect mark on an “ethical scorecard.” This definitely includes me, as it is often difficult and sometimes impossible to precisely define “true north” on all ethical issues. Sometimes, the complexity of our modern world leaves one to make decisions that range between “bad” and “worse.”

My basic thesis with respect to team ethics is that it is critical for a team to develop a set of “ethical guideposts” in order to make the tradeoffs explicit. To be successful, the organization needs to perform this test and make it part of its everyday culture and approach. Let’s look at where a failure to do so leads.
In the 1980s, I watched as the managers of thrifts entrusted with the savings and loans of millions of Americans rushed into new types of debt investments that they didn’t understand. Lured by the promise of high returns, they put their members’ finances at tremendous risk, leading to widespread bankruptcies.

Early in this decade, corporate leaders at Enron, MCI, and HealthSouth embraced shady accounting principles to make their companies look healthier and more profitable — and ultimately, to earn greater financial rewards for themselves.

Just over two years ago, we experienced the worst global financial crisis in our history. It started with persistent price declines on housing stock. It turned out that a combination of government policies and actions by consumers, mortgage originators, rating agencies and banks had left the country with massive bad debts in “securitized” home loan portfolios. These bad debts almost led to the collapse of our banking system and caused what we now call “The Great Recession.”

Business leaders aren’t the only ones that have made mistakes. Barry Bonds and Mark McGwire fueled their home-run derby with illegal steroids. The Tour de France has been plagued by scandal; a series of champions who were crowned in Paris were later disqualified. Every day seems to generate another article about blood doping or steroid use or other inappropriate or illegal behavior. Too many sports heroes have fallen from grace in the eyes of their fans.

And in Washington, D.C., our elected leaders have often fallen into the trap of running a permanent campaign, unwilling to make the tough — but necessary — decisions required, and instead, focus on finding the best political path for them or their party. Bipartisanship has seemingly fallen by the wayside at a time when our country is most in need of real leadership.

For example, in 1982, there was an outcry and great fear when the national debt crossed $1 trillion. The “National Debt Clock” was invented to highlight this issue. Today, the national debt exceeds $14 trillion, and unbelievably, we are now adding over $1 trillion to the national debt every year. In the face of this crisis, there has been precious little substantive discussion about how we can fix this
massive problem. And the political system has “kicked the can down the road” for the last 30 years.

Whether in business, sports, or politics, these ethical lapses have a common theme: people setting their own interests or the interests of their narrow community above their larger obligations to society. In each case, these men and women violated ethical boundaries because they thought that doing so would help them succeed. They didn’t do evil for the sake of evil, but because they honestly believed that taking that one little step might give them an edge. Once they crossed that line, however, they continued much farther down that path than they’d ever intended. Their definitions of success and their goals blinded them to the problematic and flawed decisions they were making.

The natural response to these crises — and to observing smart and powerful men and women who made serious ethical mistakes — is to try to legislate ethics by putting into place a set of legal prohibitions. But by focusing on the “don’ts,” the importance of ethics gets lost. I believe there is a better way for teams to work.

**The Celtics Story on Ethical Success**

The championship run of the 2008 Boston Celtics team was built upon a well-defined mission and the adoption of a clear “ethical framework.” For those of you who follow basketball, you know the classic Celtics formula that dates back to the Auerbach era. It doesn’t matter if you have the hottest hand or the **baddest** moves: If someone else has a better shot, you pass. The Celtics culture also adheres to a code of strict meritocracy based on ability, not race, color or creed.

As I mentioned before, in 2002 I was thrilled to be asked by Wyc and Irv Grousbeck to work with them in order to purchase the Boston Celtics franchise. I was struck by the wisdom, passion and intelligence of these two gentlemen, as we did our due diligence in order to consummate the acquisition. When we announced the deal on September 28, 2002, we quickly began to talk about the challenge of turning the franchise into a winner. I was impressed by the Grousbecks’ desire to tackle this challenge, but more importantly to do it in the
“right way.” The first thing we did in early partnership meetings was to establish a set of principles and define a mission for the franchise and ourselves. After much discussion, we agreed that the two most important strategic imperatives were to (1) develop the franchise off the court into a leader in community outreach in professional sports and (2) build a team on the court that would win an NBA championship within the next five years. We absolutely knew we could succeed in our community efforts and really hoped we could achieve the goal of winning an NBA championship.

We shared a belief that we were buying something much greater than just a basketball team, and in fact, the Celtics franchise was an asset of the entire region. We felt that the “right way” to start was to re-invigorate “Celtics Pride”

The 2008 NBA Finals champion Boston Celtics celebrate their victory. Steve Pagliuca is at center.
and strengthen our relationship with the fans and the entire community. Our ownership group started the Boston Celtics Shamrock Foundation and rapidly expanded our community-relations efforts. Our entire ownership group drove this program and helped us set a tone that carried throughout the business operation, and even onto the court. We recognized that becoming a leader in the community would enhance the franchise both on and off the court. Today our ownership group, the BCS Foundation, and our players have become community leaders. We are proud to be extending the power of the Celtics brand to give back to our community every day.

In terms of the sport, the franchise had not won a championship since 1986, and it had also drifted away from many of the principles that Red Auerbach and his great players had built as the foundation of the Celtics championship legacy. After the deal was announced, we flew to Washington D.C. to speak with Red Auerbach. We wanted to bring him back into the fold and get his advice about how we could move forward and recapture those winning principles emblematic of a championship culture. Red became an enthusiastic friend and partner in our quest until his passing in late 2006. Red helped us lay out a roadmap about how to bring back the family tradition and championship culture that he had nurtured since the day he joined the franchise in 1950. He suggested that we bring back some of the great heroes of the Celtics past and revitalize the integrity that is fundamental to the roots of the franchise. So Wyc and I talked to many former players and NBA veterans. We wanted to bring in a person who understood the vision, someone who had the potential to bring back a championship to Boston and, most importantly, revive the tradition of Celtics Pride. We were thrilled when we were able to hire Danny Ainge as our head of basketball operations. We were even more pleased when he helped bring Doc Rivers in to coach the team and develop a sense of mission and a championship culture. Why did we pick them? Because they stood for something. They stood for the principle that the team is more important than the individual.
We knew that Doc and Danny were great athletes — but I don’t think we realized the extent to which their success was not just rooted in hard work and shrewd play, but in the philosophy to compete in basketball the “right way.” After several years, we were rewarded with a team that Danny Ainge transformed by assembling an all-star cast of veterans, and drafting a group of excellent young players. Doc realized that he now had a team that could win a championship. The first thing he did was to shine a bright spotlight at the practice facility on the place where Banner 17 would hang. At every practice, the team would have to look at this blank spot on the wall and also see the 16 previous banners earned in the glory years. This literal spotlight focused the team on the championship mission. Doc then introduced us — the team’s managers and players alike — to a powerful African concept called *Ubuntu*. This translates as the “belief in a universal bond of sharing that connects all humanity,” or more simply, “humanity toward others.” You only succeed because others help you succeed. You are, therefore, morally obligated (and wise) to help others succeed. The big question in all of our minds was how could we take this incredibly talented group of stars, the “Big Three,” who had led their teams in scoring and every aspect of the game, and mold them into a true Celtics team. They had been perennial leading scorers in the NBA, but it seemed at times that there would not be enough shots for each of them, given that they had to share one ball on the parquet. So I think the core of our success — what made 2008 different — was not any individual, but Doc’s plan to imprint the entire organization with the ethical framework embodied with the word *Ubuntu*.

That year, the NBA asked us to play our pre-season in Rome and London. This may sound exotic, but believe me, that’s not how the players saw it; you leave your loved ones behind for weeks on end and by definition, you never play in front of a hometown crowd. Well, Doc Rivers took the *Ubuntu* philosophy and applied it gently and relentlessly. A trip in the early fall had us going to Rome to practice and play our first preseason game in the famed PalaLottomatica arena in basketball-crazy Italy. Doc not only used this opportunity to practice with his mostly new group of players, but also to take them on memorable cultural outings to the
Sistine Chapel and the magnificent Colosseum. The team spent time thinking out loud about how empires — secular and religious — get built. Let me say that there aren’t many rooms in this world that can make the members of the Boston Celtics look insignificant, but the Sistine Chapel turns out to be one of them.

I’ll never forget watching the team stand together on that first game in Rome, huddle up in the locker room, and shout, “Ubuntu!” We won that first game in Rome, and by the time we stood out on the floor of the Boston Garden for our first home game, I could feel that this season was going to be special. The spirit of Ubuntu prevailed. We were a team; the individual members — players and non-players alike — were committed to each other.

We had a great season and made it to the playoffs. In the first round of the playoffs, we were to blow out a supposedly weak team: the Atlanta Hawks. The team started playing as individuals and suddenly, we found ourselves tied at 3-3 in the series. The team had to play a decisive game in the Garden just to get into the second round. The night before the game, Doc and Danny took the players aside and reaffirmed the commitment and sacrifices that they needed to make to be true to the spirit of Ubuntu. They highlighted the perceptions that the Celtics had reverted to in pursuing individual success against the Hawks. The team responded and pulled together for a victory in that climactic Game 7. From then on, the power of Ubuntu was apparent and unstoppable.

The philosophy of Ubuntu — an embrace of an ethic beyond victory and beyond the individual — turned out to be the foundation for our success. Ethics and winning went hand in hand. Rather than being a straitjacket on our actions, ethical behavior and a shared sense of mission drove us to success. Ethical decisions in sports often rest upon being thoughtful about how you draw the line between personal self-interest and the interest of the team. The concept of Ubuntu forces every player to think about that line.
So we accomplished a lot in that season of 2008. We had the best record in the NBA and we reached the pinnacle in the sixth and final game to win the championship against a great Laker team by 39 points. As the confetti rained down, the whole stadium was caught up in *Ubuntu*. Doc Rivers became the first coach in the NBA final who was doused by Gatorade. In that instant, it all seemed so easy. But if we look back, the spirit of *Ubuntu* shaped the players’ shared vision as they internalized not only their role on the team, but the team itself as more than a collection of individual stars. The players learned not only to look to their coach and management for mentorship, but to one another. They created a mentoring community where the power of the collective was far greater than the individual.

**Business Ethics – The Subprime Crisis**

For the Celtics, ethics shaped who we were as a team and defined the decisions we made and the way we approached the game. Ethics wasn’t just a set of rules. Sometimes, people whose sole focus is to play by the rules, rather than to embrace the spirit of ethical actions, make big mistakes — mistakes that harm not only themselves, but the community at large.

As I look back on my career, nothing makes this lesson clearer than the recent subprime crisis. Many commentators and regular Americans have asked over and over again, “Why haven’t there been any prosecutions for the people that caused the financial crisis? Why aren’t those people in jail?”

Well, the painful truth is they may have not technically broken any laws. In fact, not only did they not break any government laws, but most groups involved with perpetuating the subprime crisis acted in a way that provided them with short-term profit. They acted as cogs in a system, a system that at its heart was motivated not by principle, not by a vision of the whole economic truth, but by narrow self-interest and a belief that you could profit from the system.
It’s now a familiar story. Mortgage originators aggressively sold their products with little or no money down, with no requirements for proof of income, with interest rates that started affordable but increased over time. Consumers took advantage of the money and used it to buy homes with no money down, hoping that in the long run, they could afford the interest. The mortgage originators sold these mortgages to banks.

And then the investment banks, whose job is to facilitate financial transactions, helped bundle these mortgages into securitized bulk packages and sold them to willing investors. These banks relied upon their own analysis and rating agencies to review mortgage backed securities packages and rate their credit quality. These rating agencies — who were paid by the banks making the products — were paid based on the number of products they rated. They gave the vast majority of these mortgage-backed securities Triple A ratings, using historical data that predicted that there was very little chance these products would ever default.

Government agencies, hedge funds, banks, and trading desks at major investment houses bought these securities. As more people lined up to buy these supposedly Triple A securities, prices went up, and the volume of these products swelled into the hundreds of billions of dollars per year.

Each player in the chain was following the rules. And each player received great short-term rewards. Borrowers bought and moved into homes they couldn’t afford because mortgage originators offered them money to do so. Mortgage originators loosened lending standards and issued more and more loans because investment banks could package these securities and find willing investors. Investment banks packaged these securities and sold them off to investors, who bought them because rating agencies said they’d never default. Rating agencies said they’d never default because they relied on historical models. These sales generated large fees for the rating agencies and profits for the banks. The investors bought these products because the rating agencies said they were safe, and they paid relatively high interest rates.
So the people making the loans weren’t bearing the risk of default. The people evaluating the quality of the loans weren’t investing any money in the loans. The people selling the products had no responsibility for their quality or long-term success. And government agencies and other buyers of mortgage-backed securities didn’t have the knowledge or the wherewithal to stop investing in securities that everybody else was buying. They had no incentive to go against the consensus groupthink. They all believed that they were promoting home ownership in America, which was a noble cause.

Now, I confess I didn’t know any of this in 2007 or 2008. The venture capital business is very different, as you need to take full responsibility for a company’s success. Venture capitalists don’t buy and sell “company backed securities.” They invest in real businesses that employ real people. And if those companies do well and grow revenues and profits and hire more people and expand, they are successful. And if those companies go out of business, they fail. VCs put their money and reputation in every transaction. They don’t rely upon credit rating agencies to gauge the safety of an investment.

At Bain Capital, we have a practice of being the largest investor in our own funds, and this ensures that our partnership commitment is completely aligned with the interests of all of our investors.

And so this whole world of subprime securities caught us all by surprise. But if you start to piece together all the facts, you realize that the problem isn’t just stupidity, it is a moral problem as well — a problem as spiritual and philosophical as it was tangible and economic.

You see, the government, banks, credit rating agencies and mortgage originators lived in a siloed world. They saw only their narrow slice of the pie and never looked beyond that slice to see how their actions affected the whole pie. They followed the rules scrupulously. Teams of lawyers and rating agencies approved every mortgage-backed security and for a few years they succeeded in growing a large subprime business. But following the rules simply isn’t enough.
Ethical thinking and ethical behavior requires that we take responsibility for our actions and how our actions affect the community at large. And doing that requires an ability to step back and not just ask, “Am I following the rules,” but also “How is what I’m doing impacting the world in which I live?”

After seeing the horrors of the financial crisis, many of the key actors are looking back and saying, “What if?” Consumers are looking back and asking, “What if I was more prudent and hadn’t taken on that massive mortgage to finance a better lifestyle or get more consumer goods?” Mortgage brokers who lost their jobs and whose companies defaulted are asking, “Maybe I shouldn’t have received that extra bonus by loosening those policies with respect to loan origination.” Many of the banks that had dominated the American banking system suddenly needed government assistance just to survive. In hindsight, they are now wishing that they had stuck to their core business, and had not taken the short-term profits they made from packaging and reselling securities that in the final analysis, they didn’t understand. There are many investment professionals that now deeply regret risking their investors’ funds in mortgage-backed securities. I think all of these men and women would take back their excesses — take back their destructive actions — if they knew then what they know now.

But then no one in the chain did. They let the success of packaged securities overwhelm their ability to see the big picture. Nothing prompted them to ask the hard questions about what this could do to America, to their clients and to their firms. They had surfed the wave without asking too many questions. And in failing to ask those questions, they didn’t just commit acts of ignorance — they committed acts that helped lead to the economic collapse. This meltdown has caused — and is still causing — untold hardships for millions of average Americans struggling to get by.

So just as the philosophy of *Ubuntu* allowed the Celtics to triumph by serving each other and working for the team over the individual, the narrow specialized role of each link in this chain failed because they didn’t consider the broader implications of their actions. Vision and principles aren’t just nice words; they’re words that
matter, and in the long run, determine who succeeds and who fails.

Those who chose principles over short-term gain, and vision over a narrow perspective of just following the rules, are the ones who turned out to be the winners. The actions of consumers, government, bankers, and rating agencies were all links in a chain that almost destroyed our economy. Many of these actors thought they were pursuing the noble goal of increased home ownership in America, but no one stepped back to examine the ramification of their individual actions as part of the larger picture. A siloed mentality of passing the products to the next level in the chain for short-term gain clearly left systemic ethical thinking out of the equation.

**Politics and Ethics — The Long and Winding Road**

My experience in politics has taught me that ethical behavior doesn’t ensure success in the short term. In summer 2009, my good friend and American hero, Senator Ted Kennedy, passed away. The Senate had lost its lion, and the country seemed to be losing its way. We faced record unemployment and exploding healthcare costs, and worst of all, it seemed Americans were losing their belief that our future could be better than our past.

In September 2009, after much thought, I decided to run for Senator Kennedy’s seat. While I had no prior political experience, I believed that my knowledge of how and why businesses grow, my understanding of national and global economic forces, my experience as a member of many successful teams, and my 25 years of healthcare expertise would be valuable in helping to get the country back on track.

Recognizing that I was a novice in this arena, I fell back on my natural instinct— to build a team. I started by interviewing several prominent national political consultants. Each had their own individual style and observations, but the message from these conversations was that winning an election isn’t about coming up with the best ideas and most effective strategies for dealing with the problems at hand. In fact, the basics of what I was learning would have very little to do with my business insight or my love of my country.
The cadre of consultants that I interviewed said being a successful political candidate boiled down to five simple rules:

1. Winning campaigns don’t necessarily focus on the real issues at hand — like the deficit and tax increases — even if there are apparent solutions and obvious right answers.

2. Facts and data are nice when talking about issues, but poll-tested phrases and little stories are better.

3. Stay on message. Avoid giving honest answers about difficult and unpopular subjects — like taxes or entitlement reform — and quickly pivot to safe territory where you can deliver poll-tested language and little stories — see #2.
4. Special interest groups are important as they supply endorsements, campaign volunteers, and money to fuel campaigns and fund victory.

5. At some point, you will have to be willing to “go negative” and run inflammatory ads attacking your opponents — it’s the only way to win.

It’s easy to see why the people that run the majority of the political campaigns in this country give this advice to their clients — because in most cases it works. But these campaign tactics aren’t just used during election season anymore; they have become the rules that govern our national political discourse. And you don’t have to look very hard to see these strategies in use.

In the 2010 congressional elections, despite facing record budget deficits and runaway national debt, almost no one from either party had the courage or political heft to stand up and mention the possibility of tax increases or put on the table a serious plan to reform entitlement programs.

The desire to win the next election, and the election after that, forces too many in Congress to adopt very tortured sets of logic in order to proceed forward on a daily basis. This hampers the whole legislative body from taking meaningful action on many of the difficult issues of the day.

I’m sure you’ve all heard the old adage, “never let the truth get in the way of a good story.” Our politics are driven by poll-tested phrases, misleading slogans, and inflammatory buzzwords rather than good, hard facts and honest debate. The “death tax,” “back-alley abortions,” “Harry & Louise,” “tax and spend,” “government takeover of healthcare,” “socially conscious,” and the Constitution itself have all become brands and buzzwords, stories if you will, that take the place of real discussion of the issues.

As one example, think back to summer 2009. Healthcare was the primary topic in the public consciousness and the President was endeavoring to lead a real,
fact-based discussion of the growing crisis surrounding the cost of healthcare in America. Amid this debate, he asked an honest question, “Is end-of-life care worth the expense?” This honest question — designed to provoke debate and seek solutions — gave rise to one of the catchiest political buzzwords in recent memory: “death panels.” By August of that summer, fully 86 percent of Americans had heard of death panels. Thirty percent thought that this was actually a vital element of the President’s healthcare plan. So, unfortunately, these tricks seem to work.

As voters, we are often frustrated by the lack of “straight talk” in our political candidates. They’ve made pivoting an art form. As Sharron Angle, last year’s Republican nominee for Senate from Nevada, explained, “We wanted [the press] to ask the questions we want to answer so that they report the news the way we want it to be reported.” Controlling the news cycle and managing the message is priority one.

With respect to special interests, the tide is going the wrong way. In 2000, PACs and lobbyists spent roughly $1.6 billion in political campaigns. Last year, those organizations contributed almost $3.8 billion. Not only is this growth alarming, it’s completely understandable — because the money works. A recent study by the University of Rochester suggests that just $10,000 more in contributions from PACs markedly changed how a candidate voted.

As for negative ads, in Senate races from 1992 to 2002, almost 35 percent of all television ads were negative and inflammatory. By the 2008 presidential race, this percentage had jumped to almost 50 percent.

As I launched my campaign, I struggled with how to reconcile my strong views about many issues, my desire to argue using fact-based analysis, and my intention to focus my campaign on a positive and issues-oriented approach. To paraphrase Aaron Sorkin, the great screenwriter and creator of the TV show The West Wing, “the voters aren’t stupid, they just get treated that way in an election year.”
I decided to stay true to my core values and go against political conventional wisdom. I set out to assemble a team of like-minded political veterans who would agree to run a highly issues-based campaign. After many interviews, I was fortunate to find Doug Rubin and Will Keyser, experienced political strategists who shared this view. We started a “political boot camp” at my house and for 10 straight days, I went to school on how to be a candidate.

As a team, we decided that we were going to respect the intelligence of the electorate. We ran an issues-oriented campaign. We took a “no PAC money” pledge. We released policy papers explaining not just what our ideas were, but why we thought they were the best ideas. We challenged our opponents to defend their ideas using logic and facts, not buzzwords and sound bites. Rather than hiding in silence or pivoting away from questions, we accepted interview requests from all across the state and used these interviews as a chance to engage in the discussion of things that really mattered — things like job creation and healthcare reform.

And I’m proud of what this approach allowed us to do. For three weeks in late November of that race, we forced a revealing discussion about healthcare reform.

At the time, two conservative Congressmen, Bart Stupak and Joseph Pitts, had introduced an amendment to the healthcare reform bill that prohibited the use of federal funds to pay for any health plan that included coverage of abortion. Many women’s groups were justifiably upset about the amendment and some Democratic members signaled they would vote against national healthcare reform if it were to be included in the final bill.

While some of my opponents were swaying in the wind, changing their policy opinions day-to-day, based on the latest release or pressure from special interest groups, we forced a real, substantive debate about the merits and benefits of the President’s healthcare reform proposal. While I’m strongly pro-choice and was no fan of this amendment, I viewed this as yet another tired political trick — shift the
debate to a divisive issue to ignore the more fundamental issue — that more than 30 million Americans lacked access to adequate healthcare.

Unfortunately, several of my opponents chose to hedge their bets on where they stood on healthcare reform, even some who had voted for or supported the original bill. They allowed themselves to be distracted from the issue. This was a race for a critical Senate seat; a race to see who would take up Senator Kennedy’s mantle and push for healthcare reform. Instead, it was quickly becoming a fight over a red herring issue.

We decided to call a press conference to make sure people knew where I stood and why. In my remarks, I tried to focus on the important issue at hand, saying, “I hope my opponents can begin to see this historic debate in those terms, and not fall prey to the traps of the old politics. Healthcare reform has failed for generations because we’ve lacked the leaders in Washington who were willing to stand up and be counted and who refused to be derailed. We are at the crossroads today, and we cannot detour and turn our backs on women and families who need fundamental reform in healthcare to survive.”

In this challenging moment, we ran the issues-based campaign that our team had committed to run. The healthcare bill was far from perfect, and later became more politicized by backroom deals. We were driven by the belief that America needed to join the rest of the industrialized world and provide healthcare coverage for the 30 million citizens that did not have coverage — including many who couldn’t get coverage because of preexisting conditions, which I believe is fundamentally wrong.

In the end, we didn’t win the campaign. But, as I said in the beginning, ethics isn’t about small victories or negative constraints. It is about embracing a set of guiding principles and thinking about oneself in a wider and larger societal context. Viewed this way, winning happens in the long term, not the short race.
Many of you have faced, or will most likely face, a similar ethical dilemma. Years ago, a number of Harvard Business School students were posed the following question by researchers at Harvard:

“Most people who come here, including you, have achieved a good measure of success in their lives; but no life is a 100 percent success. Can you remember a time when you experienced a significant measure of disappointment, discouragement, or failure?”

With few exceptions, students could not name any such experience. Furthermore, in the transcript of these same interviews, one student who had been very successful at a major consulting firm described the corporate culture of the company where he worked in the following terms:

“There was definitely an attitude in the office that you cannot admit that you made a mistake, that [you] should not admit that you were wrong, or that you didn’t know something.”

That student’s response is quite telling because it equates success with the “good” and failure with the “bad.” If the conventional ethos only emphasizes winning, then it begs the question, at what price? If I had listened to those political consultants that urged me to only focus on winning, then I would have lost my ethical code, my individual vision for why I was running in the first place: to help others, not to help myself.

After my Senate run, many people, even those who disagree with my policies, have expressed their appreciation for the issues-focused campaign we ran. Since the campaign, I’ve been able to work with Governor Patrick on issues of job creation and innovation in Massachusetts. I have spoken extensively and written about how we can use our strength in life sciences and technology to build an economy that will help create jobs for the next 100 years in our state. I have continued to provide advice and fact-based input to our leaders in healthcare, especially ways that we can control rising costs and still maintain a high-quality healthcare system.
I want to make perfectly clear that I did not lose the election because of my ethical approach to politics — that is not the point I’m trying to make. I admire and have great respect for the hard work, intellect, and dedication of each of my opponents in that race and for those that have dedicated their careers to public service.

The primary reason I lost the election was because as a novice, it took me 10 weeks to become a good candidate in a 12-week race. This was far too late to secure victory. Not to mention that it is not easy to run as an unknown candidate from the private sector and win your first time out.

The agony of defeat was made even more acute by the fact that I had the best campaign team of all the candidates. My motto in the aftermath was “Great Staff, Bad Candidate.”

Upon reflection, running for Senate was a transformational experience for me. It exposed me to the pressures and tradeoffs that face our elected leaders on a daily basis. It provided me with a much deeper understanding of the reasons that our political system struggles to address the big challenges we’re facing. I gained a new appreciation of how we have to work to change the system so that leaders can succeed in their goal of moving our country forward and addressing our most critical issues.

**Closing Thoughts**

I hope these stories have helped illustrate how ethical behavior is critical to success. I’ve learned as an investor that you can never accurately predict the consequences of your actions. But if you stick to the principles you know to be true, over the long term, you will win.

I believe these interesting stories lead to some clear “guideposts” about how to embrace an ethical framework in your professional lives.
The first is the importance of developing a shared vision of who you are as a team — a vision not of what you want to do, but of who you want to be. In the case of the Celtics, that vision was embodied in the idea of Ubuntu. At Bain Capital, it’s been the total commitment and alignment with our investors, whom we put first in every decision. In a political campaign, it is understanding that you need to stick to your core values in order to successfully navigate the complex decisions and challenges that you will face.

The second is to monitor your own actions with respect to that vision — to put the team’s identity above your own self-interest. Pass the ball if the next player has a better shot. Ask the question “Am I taking short-term action for a quick profit or creating long-term sustainable value?”

The third is to look beyond your own piece of the puzzle to examine ethical issues outside of your specific responsibilities. Never justify actions as being appropriate just because they are technically “legal.” Look beyond your individual silo and be aware of your responsibility to the larger economic ecosystem. Always be willing to ask yourself the big, tough, ethical questions and don’t be afraid to look stupid if your actions don’t follow the wisdom of the crowd.

Finally, make sure that when you join a team — or build one — it is an organization that has high ethical standards.

Keep in mind that an increasingly complex world will introduce new and confusing ethical challenges, confounding your old ways of thinking. In such moments, remember your vision, commit yourself to it, and lead by example. This process might be unsettling and even scary at times — veering from the norm always is.

Over the course of a career, we will be derailed many times. Still, when we fall off the track, it is imperative to ask ourselves, “Why did this happen?” “What have we learned?” “How can we do better?” and “How can I do better?” Only by
asking these questions can we improve the lives of all Americans and preserve our ethical culture for future generations.

Over the course of my own career, I have been privileged to be part of some fantastic teams — including KPMG, Bain and Company, Bain Capital, the Celtics and my Senate campaign. Each of these organizations, and the people in them, has had an enormous role in shaping an ethical approach to the world. I have benefitted greatly from their friendship, their wisdom and their embodiment of an ethical framework as a critical part of their lives.

In closing, I applaud the work of Bentley University and Raytheon Lecture Series to preserve this ethical framework of America. I want to observe that America remains the most ethical and respected place in the world and for good reason: The vast majority of Americans live by a set of principles espoused many years ago by our founding fathers. These principles have served to make this a great country.

Thank you.
Below are highlights of Steve Pagliuca’s question-and-answer session with the Bentley University students, faculty, staff and guests.

Question: Was your presentation a political speech?

STEVE PAGLIUCA: No, it wasn’t a political speech. I really tried to make this so it was not a political speech. This was really a speech about what has been happening on both sides of the aisle and what has been happening to [public] discourse. As I’ve been working on this [speech] over the last three or four weeks, I would pick up the paper and see things like the fact that we can’t solve the budget for 2010, which was last year’s budget, and we haven’t even started the budget for next year. We don’t seem to be moving anywhere because people are in a partisan fight.

Question: Are there principles that you’ve followed in forming a winning team and how can we apply them in other situations?

STEVE PAGLIUCA: Across the three areas of experiences [that I discussed in my speech], there were commonalities regarding what makes a winning team. First of all, you want to join a team with which you have a shared vision because if you are trying to go in a different direction [it can lead to problems]. If, for example, your objective on a basketball team is to be the leading scorer on the team while the team is trying to win a championship, those two will not be consistent; they’ll be out of balance. So you should go someplace else. You really need to think about what you’re trying to accomplish and ask yourself if you share the vision of the company or institution that you decide to work with.
The second principle is that when you are making a decision that will affect your career, it will also affect the trajectory of the company or organization you’re with. It’s very hard to tell exactly where to draw the line; it’s not black and white. The world is very gray. I think a key factor in great organizations is that they step back and say “Okay, are we making this decision just for short-term self-interest or is this the right long-term decision?” The process of stepping back and asking if a decision is good for everybody or just benefiting an individual is a question you have to ask every step along the way.

Thirdly, great teams have great coaches, or mentors in business. You want to join an organization that aims to develop people not only on a technical basis, but on an organizational, cultural, and ethical basis.

If you take those three things [into account], you can have a very successful career and also grow in terms of your own understanding of the right decisions to make.

Question: Back to how you brought back the spirit of the Celtics, how would you recommend that one bring back the team spirit of an organization that’s either starting up or one that lost its team spirit?

STEVE PAGLIUCA: Generally, there are two things: start from the top, and then go to the leader and say, “The organization has lost its direction, spirit, or focus.” I also think it’s very important when you take a job, to exhibit what I call “at cause behavior.” What that means is if you are sitting at your desk and you see that someone is doing a calculation wrong, or the door is open and people in a meeting can’t hear, you need to get up and fix the problem even though that’s not specifically your job.
You have to look into the mirror and say, “With everything that goes on in the entire organization, I’m part of the problem and I need to figure out what I can do to fix it.” Too often I see people lower down in an organization who think that they don’t have any power. Actually, they have enormous power if they communicate their view in a professional, positive way. That causes change from the bottom and that also causes people on the top to listen and change.

Question: In the venture capital activities of Bain, when you’re looking to acquire a company, to what degree do ethics come into play? And, if a company that you may be investing in does not have the greatest ethics, do you see that as an opportunity to make that company better?

STEVE PAGLIUCA: I think ethics come into play at every step of the way. For example, when we talk to people at a company and they tell us that sales are going to be up to 20 percent and the next day they report they’re down 20 percent that obviously shows that there’s no clear communication within the company. If we see shady accounting practices, we will say, “If it’s gone too far we don’t want to take that challenge,” and we don’t take that challenge. Often we step back and say to a new management team that there will be a new way of doing things. We work with management to design what we call the “100-day blueprint” in which we plan all the things we’re trying to achieve. Part of the blueprint involves identifying issues of credibility, shady practices, and questionable decisions. If there are [such problems], then how do we address them? If we feel we can address them and put the business back on the appropriate ethical track, we proceed. If not, we put down our pencils.
Question: As a manager, be it in sports or business, you are judged by your success. I’d like to use Danny Ainge in the Celtics as an example. In 2008, he made that trade which might have cost them a championship. How do you — as a company or as an organization — balance performance, team performance, and the effects of these in keeping a team’s brotherhood intact?

STEVE PAGLIUCA: That’s a great question. It was a very hard process and always is. I’ll never forget the day when Kendrick Perkins flew from Houston to the Celtics facility in Waltham. It was 90 degrees and he had on a wool suit and was pouring sweat. So I suggested he take his jacket off and he eventually became a very close friend to me and my family. Danny Ainge has the difficult job of calculating and figuring out what’s best for the team in terms of on-court basketball performance. All our players know that, and Danny is very straightforward with the players. At the end of the day, sometimes it’s very painful when Danny does all the analysis and says we have to go in a particular direction. What I love about Danny is that he is one of the highest integrity people that I have known in my life. What I love about him is that he doesn’t really care what the crowd says or what anybody says. When he makes a decision he talks to the player and explains why he made the decision. It’s painful but that’s part of Ubuntu. His job is to do the best thing for the team and if we need a certain player who can shoot and we can trade another player who will increase the chance of winning a championship, Danny has to do that and he does it in a straightforward and honest way. Now if you step back, [and consider the case of the Kendrick Perkins trade], we were all saddened when Kendrick left, but we traded him to a fantastic team and he signed a $40 million-plus contract, so we were very happy for him. You always have to ask, “How’s that going to affect our team from a chemistry standpoint, from a corporate standpoint, and from a band-of-brothers standpoint?” versus “What do we get from the new player?” In this case, Danny made a tough decision that I think will work out well for all sides.
Question: Every company seems to have a code of ethics now. Do you have any ideas about how to know if a company or organization is holding to that right vision beyond what their website says?

STEVE PAGLIUCA: SEC-registered businesses are required to have a compliance officer and thick codes of conduct. I personally think that the real issue is to do research and get to know the company with which you are interviewing. Look at what they’ve done, what they stand for, and how they treated you in the interview process. Talk to ex-employees and then find out what is really the practice [of the company] because the key issue is the practice of these policies, not what’s written in the code. In today’s Internet world, you can take the code from the best company and put it on your website. What’s important is how the company thinks about those things and what their practices are. From these you can really get a good read on the company and get a feeling for the place and their behavior.

Thank you very much.
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