



## Episode 2: Eric Pillmore, former SVP of corporate governance at Tyco, on rebuilding trust after crisis

### Transcript

**Mike Kearney:** Go back to the early 2000s. Remember some of those iconic corporate scandals? The ones that really rocked our economy? The ones that were on the news, seemingly every night? Well, we're talking about one of those today, Tyco International. And it's been almost 15 years since they made headlines. But what's interesting is, today, they have really bounced back by instituting some of the most rigorous corporate governance practices, while at the same time building a highly ethical workforce.

**Eric Pillmore:** There's a very large conference room that you're seated in when you meet with them. And on one side of the conference room are blown-up pictures of all the folks that have been prosecuted by the SEC on one wall, that you're staring at while you wait to meet your maker, being the head of the enforcement division.

**Mike Kearney:** Welcome to Resilient, where we hear the stories, really the firsthand accounts from leaders on risks, crisis, and disruption. We get those stories by jumping on a plane and meeting our guests on their home turf. My name is Mike Kearney, and I lead Deloitte's Strategic Risk practice.

For this episode, I had the opportunity to sit down with Eric Pillmore, the former senior vice president of corporate governance at Tyco, in the middle of Romare Bearden Park in Charlotte, North Carolina. And if you've ever been to Charlotte, especially in the spring, it was one of those beautiful mornings and we just had to do our podcast, our conversation, outside in front of Bearden Park's waterfalls. This is going to become abundantly clear when you hear some of the background noise and the water.

I've now had a few days to reflect on this conversation with Eric and, for me, it was fascinating. You're going to hear how Eric explains how he helped build a world-class corporate governance program at Tyco after the new leadership team was brought in to bring the company back to its glory. And really, to put the pride back into the brand, especially through the eyes of Tyco employees.

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**Mike Kearney:** So Eric, it's now ... can you believe it's been 14 years since it happened? Just take us back to 2002 and give a little context on what happened.

**Eric Pillmore:** Well, Memorial Day weekend 2002, the board of the company, at the time, concluded that there had been some wrongdoing at the top of the company. It really was disclosed through some art transactions that the CEO was involved in in his personal life. And he was involved in trying to disguise the tax exposure on some art transactions and that led to an investigation that the board conducted in the spring. They fired Dennis Kozlowski in May, right in that weekend, and then began a search for CEO to lead the company out of the ashes of the crisis. And the crisis, to define it, was basically a larceny charge against the CEO and the CFO for the theft of \$600 million dollars—about \$400 million in stock and about \$200 million in cash that they had wired to their personal bank accounts. And the stock was the sale of their own holdings back to the company without public disclosure through the SEC.

**Mike Kearney:** So you actually had a personal friendship with the new CEO Ed Breen. Tell us how you got involved, because you were not at Tyco when all of this went down.

**Eric Pillmore:** No, I wasn't. I had worked for Ed for four years in a company called General Instrument, which was ultimately acquired by Motorola. And I left Motorola to embark on an Internet startup phase of my career, which didn't turn out so well. But at the end of that phase, the Tyco situation occurred. I had been reading everything in the media about Enron, WorldCom, and Tyco. And I'll be honest with you, I was eager to get involved in some way, I didn't know how. And of course, when Ed's announcement was made that he was leaving Motorola as the chief operating officer and going to Tyco, the opportunity came up. I had probably a half dozen people knock on my door that day and say, you know, you really should call Ed and see if he'd be interested in having you at Tyco. We think you'd be a great team.

**Mike Kearney:** So, Eric, most people run away from the fire, why did you run toward it? I'm curious.

**Eric Pillmore:** You know, Mike, the best way I can explain it, it was bigger than Tyco. As you recall, I'm sure, the financial markets in the US were really in crisis. And I guess in a small way, I felt like, the ability to step into the fire like that and right the ship and present truth to the markets about what a great company this was and how strong it was, how strong the assets were, how strong the customer base was. We could in our own way restore confidence in that company and maybe, in a smaller way, restore confidence in the American financial markets, which I'd believed in for years. And I didn't feel like the media was giving, you know, corporate America a fair shake with Enron and WorldCom kind of swirling around the markets.

**Mike Kearney:** So, Eric, you reach out to your old friend Ed, and you say, "I'm interested." What did he say? And what ultimately became your role?

**Eric Pillmore:** Well, I said, "I'm interested in being the CFO." We had about an hour meeting at a hotel in downtown New York the third day he was on the job. And at the beginning of that meeting, I had my 10 classic PowerPoint slides on why I should be the CFO, that I had worked on for four days. And what he said to me is, "Look, you're not going to be the CFO. The CFO is currently in the job. We haven't decided yet what we're going to do with him, but I don't see you filling that role. But at the end of our conversation [which I didn't know was going to be such a short period of time, an hour away], "I want you to tell me what job you want."

**Mike Kearney:** So what did you say?

**Eric Pillmore:** Well, I said, okay, and I listened for an hour to what he had been through the first three days and what he'd uncovered. And of course, we're talking, August of 2002, Sarbanes-Oxley had just been passed, companies were beginning to react to that, and Tyco was obviously going to have to react to that in the midst of crisis. So I said to him, "Look, why don't I come in for three years and run interference for you as the head of governance?" And he said, "That sounds like a good deal." He said, "We're going to announce it tomorrow morning."

**Mike Kearney:** So he didn't give you a whole lot of time?

**Eric Pillmore:** No, and he said, "Can you start tomorrow?" And I said, "No, I can't. I've got to resign from my CFO role in this other public company [and] tell my board. I should be ready in a couple of weeks to join you." And that's effectively what happened.

**Mike Kearney:** And so you were responsible for governance. Can you explain, what were the top two or three things that you were asked to do?

**Eric Pillmore:** For us, I think at the time, the thing that I felt was important—and this really came from Ed, from the board, from the top investors of the company—was just basically listening to what they had to say. And what people wanted was, they wanted the company's reputation restored as quickly as possible. So to do that, we had to get the bottom of what happened. What were the root causes that had led to the fraud and the larceny that had occurred? And how do we make sure this doesn't happen again? And that has to do with people changes, leadership changes. It has to do with process that either didn't exist or was flawed. And really training and communication for 240,000 people ... mainly though the 400 people in the holding company at headquarters where the fraud had occurred.

**Mike Kearney:** And so, what's interesting is, I know that there was a lot of changes both at the board level and management level. But for you personally, what benefits do you think there were for bringing an outsider into this corporate governance position?

**Eric Pillmore:** Well, I think from an outside perspective, it was a fresh change. Early in Ed's stay, I was effectively his first hire. It spoke to the priority that he placed on the governance, ethics, and compliance side of things in the company. I think it spoke to the public markets how important it was for him to kind of clean the slate and move ahead, and be transparent about what was wrong and how we were going to fix things. And I think, had it been an insider, there really would have been questions in the board's mind, in the public market's mind—whether that was current debt investors, future debt investors, or future equity investors in the company.

**Mike Kearney:** What about when you came in to Tyco, as a newcomer? And this is obviously very public. Was there anything that really surprised you? Or what's something that you learned coming in that maybe you didn't know before?

**Eric Pillmore:** I guess the thing that surprised me was the conscious effort to influence a group of people, 30 to 40 people at the headquarters, in a way that they would look the other way as the wrongdoing occurred. And it really happened through six-figure compensation, paid out every quarter to those individuals. I think I was shocked at the amount of money and the frequency at which it was paid. But when you step back and you say, "Why wasn't there a whistleblower in Tyco? Why was there one in the FBI, the Enron situation, the WorldCom situation, and those three ladies we all know were on the cover of *Time* magazine?" It wasn't anybody from Tyco.

**Mike Kearney:** So let's talk about the actual crisis itself. Was there any insight that you could provide, or is there any insight that you could provide, on how leadership framed the crisis? Was it all just about moving beyond Dennis and his team? Or did you frame it as an opportunity to create a better company long term?

**Eric Pillmore:** I think Ed framed it, the first week he was in the job. And that was to say, we're going to be transparent about everything we find. And the most visible thing that happened, I think, within the first 30 days, we published an 8K that highlighted all the wrongdoing we had uncovered to date. And we followed that process for the first 180 days of the turnaround, which I think was really important. I think he framed it as, let's take this company to the gold standard of governance. And the way he did that is, he was influential in bringing in Jack Krol, who is the former chairman and CEO of Dupont, as the lead director to kind of take the lead, run the governance committee, and be lead director of the new board, and really set a standard of governance. We would beg, borrow, and steal the best practices from every company around us, but also become one of those that would be a leader in corporate governance of the world.

**Mike Kearney:** As the gold standard. You know what, I love doing these podcasts at this park outside because I think everybody can hear in the background the gentleman blowing all the leaves. So this is fantastic.

Let's talk about the investigative process. I'm always interested in how you get the truth. Obviously, it probably took some time, it took some digging. But maybe if you could explain the process, that would be great.

**Eric Pillmore:** I think, I mean, the benefit we had was, there was an ongoing investigation already being conducted by the board. They had retained an outside law firm, an independent law firm, to conduct the investigation. They were focused primarily on prosecuting the CFO and the CEO and getting to the bottom of what it would take to successfully prosecute those two individuals. I think, for us, from a management standpoint and from a board standpoint, we had to go beyond that. And in some cases, legal advice says, don't dig into root cause, don't dig into what went wrong and all the evidence that supports that, because that could create liability for the company. And that could result in a higher payout from a shareholder lawsuit standpoint. I'm thankful that Ed and the board gave me the latitude to not go that direction and instead dig in and really get to the bottom. Because I think, for us, it taught us a lot about the culture of the company, it taught us where the core of the wrongdoing had occurred, and it helped us understand where it had not occurred, and where we really need to focus our efforts, as part of the cultural turnaround along with all this Sarbanes-Oxley process, and procedures, and all that.

**Mike Kearney:** So, what do you think drove Ed and Jack to push so hard that they were open to you digging, maybe harder than other organizations or other folks would be comfortable with?

**Eric Pillmore:** I think as I gained credibility in doing the work we were doing, they continued to give me more flexibility to go deeper, with the understanding there was some liability we were going to create. But I think we saw the value of being transparent about that immediately, and sharing that with investors, and having that actually lift the company out of crisis, rather than not look under every rock and always being questioned: What else possibly went wrong? And what possibly could go wrong in the future?

**Mike Kearney:** And Eric, it's interesting because I've read a lot about that. It seems like Ed developed quite a bit of credibility with external stakeholders as a result of being so open and transparent. Any thoughts on that?

**Eric Pillmore:** Well, it started, you know, it's funny, Mike, you asked that. Because it started the very first day he showed up. That Monday, in late July, I think it was the 28<sup>th</sup>, 29<sup>th</sup> of July of 2002, he had 30 of the top 40 investors at his doorstep. And one of the things I tell folks is, you know, make sure you listen to the people who care most about your company and those are the people who are betting their life savings on it and other investors' money on it. And those folks had some of the best advice for Ed that, quite frankly, we followed very closely as we looked at the steps we took. You know, they were insistent on a complete change out of the leadership team, they were insistent on a complete change out of the board. And having those edicts and that mantra to kind of carry, made it, you know ... it wasn't difficult to make those decisions, to make a wholesale change at the board because investors insisted it happen.

**Mike Kearney:** It's interesting what you're saying. And I think it may be a good lesson. When you're in a crisis, listen to your stakeholders.

**Eric Pillmore:** Right, oh, exactly.

**Mike Kearney:** Don't shun them.

**Eric Pillmore:** Exactly.

**Mike Kearney:** Eric, I know there were extensive changes made to the board, both in terms of composition and process. Let's first focus on composition. Can you talk about some of the changes that were made there?

**Eric Pillmore:** Sure, I think it was really important, as we thought about the makeup of the board, we had to look at a diverse background for the mix of board members to address the diversity globally, the diversity of our customer base, the diversity of the industries we were in. So as we went out and recruited the right board members, it was really important we got a diverse mix we could input into the company. Now, we had to do that in phases, which a lot of folks don't understand. And the reason we had to do that is, had we had 100 percent change at one time, there would have actually been a change of control that would have been declared. And a number of people would have been paid out millions of dollars as a result. So we had to take it in stages. And it actually worked well because we could phase the first kind of group out and phase the first group in. Within about nine months, we had a brand new board.

**Mike Kearney:** So no board members were retained after the nine months?

**Eric Pillmore:** There were two board members that were retained as advisors to the board for a year.

**Mike Kearney:** But non-voting.

**Eric Pillmore:** But non-voting, yeah. They were able to sit in the meetings until being asked to be excused by the new board. So they provided some history, provided some input. But other than that, they had no actual right to vote on any of the decisions that were made.

**Mike Kearney:** And Eric, I read that there was a challenge because you came up with some pretty tough criteria. Can you just respond to the challenge of finding the right people based on that criteria?

**Eric Pillmore:** Yeah, I think initially our feeling was this is going to really be tough because of the standards we've set. But I think what we found was, once we recruited the key members of the board early on, which included Jack Krol as lead director and Jerry York as chair of the audit committee, they became the magnets for recruiting the very high-quality folks that followed. And I think that, along with this passion of leaders in corporate America to participate in the turnaround of the financial markets, made it much easier than we ever envisioned when we started out.

**Mike Kearney:** It's interesting in some respects that that first hire may be the most important, because, to use your words, they're the magnet that brings all of those other people in.

**Eric Pillmore:** Absolutely.

**Mike Kearney:** How did you balance a focus on governance and a focus on running the business and growth?

**Eric Pillmore:** Yes, this really came from Ed. I think, you know, one of the agreements that he and I had is that I would really focus on a lot of the wrongdoing and the investigation, and his focus would be on the employee base and the customer base going forward. And Ed's view was that we need to make sure we reach the employees and get their confidence in the turnaround of the company, because those are the folks that are going to touch customers every day. Now, one of the hidden benefits I think we had was, the Tyco brand itself was damaged pretty badly as a result of the crisis. But most of our customers were buying product and services from sub-brands. And unless they're reading the *Wall Street Journal* every day, they viewed Tyco as their local salesperson or their local service person. And that was ADT, that was Mallinckrodt, that was, you know, our plastics business, our electronics business, which had been branded Tyco Electronics but wasn't really tied in the minds of the customer to the corporate wrongdoing. So we, to some extent, we were able to insulate ourselves. And actually sales grew every quarter through the turnaround sequentially, as we went through that. Which, to be honest, shocked us. Our bigger concern was with suppliers, where we had suppliers very concerned about our financial viability and threatened to cut us off. And we had to go out and spend time with suppliers, building confidence that we felt we could generate a lot of cash early in the turnaround and be confident that, you know, we could support ourselves through that period. And that we were worthy of, you know, taking on credit positions with our suppliers.

**Mike Kearney:** So reflecting on it, obviously, there was a need for change at Tyco. So there was a burning platform to implement these practices. What's the different between Tyco—and I know you consult with a lot of boards and other public companies. I know that you've said these are the things that companies do all the time. So what's the difference? Where do you see the gap, maybe, between what you did at Tyco and what certain companies do today?

**Eric Pillmore:** You mentioned the burning platform. The burning platform made it easier. You had a lot of people in similar kinds of jobs asking me, well, what's different about your role? Well, the reality is, we had the burning platform. We had a group of investors just anxious to see the company turned around. So they were very supportive of the implementation of these practices. And we had a board behind us, a CEO behind us. And it made it much, much easier to do, I think. So that helped. I think, from a standpoint of implementation, I think the global ... when I talk to groups and I talk to clients ... the global nature of the implementation is something we really have to be sensitive to in the world we operate in. You know, ethics is defined differently in Europe and Asia and in the US. And even within

various countries in Asia, you know, in some places like Japan and Korea to implement an ombudsman line and ask people to make a call to an independent party is kind of unheard of. You've got to figure out other ways to draw people out and speak up when something is going wrong. They're very unlikely to make a phone call on an 800 number in one of those countries.

**Mike Kearney:** You know, Eric, I'm going to pivot to another part that I was going to ask you about. But I want to go there now: the ethical conduct guide. There's a lot written about it. What I found fascinating is that you shut the company down for a day to train all 240,000 employees. That's a lot of people. A lot of lost revenue. Can you maybe share that? Share some details on that?

**Eric Pillmore:** Sure, sure. Well, the first quick story I'll tell you about the guide for ethical conduct is, I spent about four weeks writing the original version, which one of our board members, George Buckley ... at the time, one of our new board members, who was very active in the turnaround, the former CEO of 3M. He basically ripped the first version in half and told me to start over.

**Mike Kearney:** Literally or metaphorically?

**Eric Pillmore:** No, he did.

**Mike Kearney:** He did!

**Eric Pillmore:** He did in the meeting to make a point. And he said, "Look, I'll help you." And so we were on the phone for the next three weeks, couple of times a week and video conferences—he was actually based in Chicago at the time. And so he helped me rewrite it using the Brunswick code of conduct guide, which was the company he was COO of at the time. And it turned out to be a best practice. The other thing I will tell you is, you know, to get 240,000 people to acknowledge that they've signed the guide—which was one of the requirements of the board. They said, "Look, we want to make sure people get it, and they acknowledge they understand it, and if they have any wrongdoing to report, they're aware they have to report it at that time." Well, in my, you know, brilliance, sitting kind of alone one night, I decided I could collect 240,000 signatures from around the world—individually.

**Mike Kearney:** It will be a lot of emails.

**Eric Pillmore:** Yeah, and not only did I do that for one year, I did it two years in a row, with faxes and emails and .... Talk about a disaster in terms of trying to collect, you know, and verify that you've got all 240,000. Needless to say, we went to a new process with a system where we actually had the 24,000—which is still a big number—supervisors certify that they had collected signatures on average of 10 employees each, and that they were certifying they collected those certifications and had them on file, and then we just audited those. But simple stuff that you don't think about that could have saved us a lot of heartache.

**Mike Kearney:** The mechanics of 240,000 people. Who made the decision or how was the decision, maybe a better way of saying it, made to shut the company down for a day? I mean, I think when you just think of the size, that's incredible.

**Eric Pillmore:** No, great, great question. Jack Krol is a former naval officer, Navy Nuke, actually. And the military, it's pretty traditional and I'm, myself, from a military background. If you really want to make a statement about an issue, say it's a safety issue or an ethics issue, it's not unusual to have a stand-down. Now, you might have it on a base. But to have it at 2,400 locations around the world on the same day is

pretty unusual. But the idea, the concept, came from Jack's military training. To say, "Look, we think this is important and we want everybody to be engaged in a dialog, on this one day, to put emphasis on it, including the board of directors."

**Mike Kearney:** And Eric, I also understand that one of the things that Ed had done is that he was a master kind of storyteller. And he was able to bring to life kind of the stories of employees in the field. Any reflection on that or ...?

**Eric Pillmore:** The best story was, you know, the interchange he had, which I think is pretty well-known, with a Tyco employee. Where the Tyco employee told him, "Look, the day that I can put my Tyco t-shirt back on, and go to a soccer game, and not feel ashamed as an employee of Tyco is the day you can say you've turned this company around—and not until then." And so, that kind of became our mantra almost, that we're not done yet. And I mentioned the three-year period that I had told Ed I would help him, you know, that turned into five. Because I think it did take longer than we anticipated. And I think if you asked Ed today, he would tell you that the actual turnaround itself probably took 10 years.

**Mike Kearney:** You know, I love it because it's a very visual representation. You know, you've won your employees' trust back and they're prideful of the organization when they put that t-shirt on. How did you win the confidence back of employees beyond what you talked about? And even investors? And even regulators? I know that that's potentially three different questions, you can take whichever one you want.

**Eric Pillmore:** No, well, I think the employees, the town halls were really important. And I think the actual quarterly ... we found people were as interested, if not more interested, in the quarterly compliance report, that highlighted four or five cases of wrongdoing and the discipline, than they were in the actual financial results of the company. And so that got a lot of press and a lot of reading, and we broke it out by the five different divisions of the company. I think from an investor's standpoint ... and it was particularly in the short term, it was the future bondholders, the people who were going to buy the fixed income securities. We actually went before them with a very comprehensive governance presentation to talk about what we had found, the processes we had implemented, and how we were going to monitor those processes to ensure there wasn't going to be future wrongdoing. Or if there was, they would hear about it in a transparent way. That was really important from a governance standpoint. I think the leadership change out, you know, the complete revamp at the headquarters of the headquarters team and the scrutiny we put on the leadership at each of the five divisions to make sure there wasn't wrongdoing there .... We did have to make leadership changes at one of the five divisions. I think investors and employees reacted very favorably to those changes. And I think from a regulator's standpoint, we had some very early meetings with the SEC, which to me are very interesting. For those folks in your audience that have been down to the SEC, there is a very large conference room that you're seated in when you meet with them. And on one side of the conference room are blown-up pictures of all the folks that have been prosecuted by the SEC on one wall, that you're staring at while you wait to meet your maker, being the head of the enforcement division. And they typically leave you sitting there for, I think, 45 minutes to an hour on average. At least that was our situation.

**Mike Kearney:** That's a little intimidating.

**Eric Pillmore:** Yeah, so you're sitting there looking at these folks and knowing it's best to be transparent and truthful in whatever you're going to tell them. But obviously, that was the stance we took, and we



didn't know everything that they wanted us to know at the time. They were anxious for us to find out more sooner. But as we found it out, we disclosed it. We paid some penalties for the wrongdoing of the prior management. But I think, all in all, it was a very fair settlement with the SEC.

**Mike Kearney:** And Eric, now that you've had a chance, you know, many, many years to reflect on this, did any good come out of this for Tyco?

**Eric Pillmore:** Oh, I think, if investors held on to their investment, obviously, we cared a lot about people's investment. We returned to them their original investment, even at the peak of the company and a very nice return after that. We restored the jobs of 240,000 people, which I think was huge. That was very high on Ed's list. And we created, basically, what's now eight or nine different companies—public companies—all thriving in their own industries. And we felt, at about the five-year mark, it was important to kind of give them the opportunity to be in a niche by themselves, rather than in a conglomerate. And that just happened to be kind of the sign of the times, I think. And our board also felt that individual boards of each of those seven companies originally—which, I think are nine now—to really put the proper focus, the board needed to be focused on those industries, particularly given where the companies were in their life stage.

**Mike Kearney:** I want to go on to some questions on personal reflection. And I guess now that you've had a chance, again, to think about it, is there anything that's part of the process you may have done differently in your role?

**Eric Pillmore:** For sure, yeah, I think, a couple of things, Mike. I think, number one, with the global breadth of the company, I would have much earlier on anointed some governance ethics champions around the world that knew the culture locally, that had built credibility already within their businesses, and could help us implement things a lot faster—like the guide for ethical conduct—and build a team there. I was reluctant to do that and, clearly, that's something I should have done in the very early stages. I think the other thing that would have helped is engaging operating management in the divisions. I engaged operating management at the top of those divisions, but I didn't spend the time in the field globally—on the ground in Asia and in Europe—really engaging those folks and getting their buy-in. And as a result, I think in the early days some of these things were viewed as edicts coming down, and they didn't move as fast as they would. We eventually got the buy-in, but it would have come much faster had we done that.

**Mike Kearney:** Do you have, maybe, two to three recommendations that you'd tell folks that are listening, around how you prevent maybe a crisis like this or risk management practices that can be put into place?

**Eric Pillmore:** Yes, obviously, our big problem in Tyco was a situation at the holding company that occurred. You know, the outside audit firm at the time ... to the extent internal audit was doing work, to the extent there was management doing risk assessment, it was all being done in the product divisions. The CEO had basically said to internal audit, "You don't need to audit the holding company. I have control over that." And internal audit probably could have looked into that statement a little bit deeper. But I think to ignore both large holding company operations like that .... Or even more importantly, I think one of the things we've learned in the work that we did globally was, the further some of these operations were away from the center, and the more independent the leader of those individual operations felt he was or she was, the more risk there was of wrongdoing. We actually had—which is a

very public case in Singapore—we had a woman, three or four levels down, actually post-crisis in the company, pull off a \$7 million dollar theft of cash by building up a balance, a debit balance in the payables account, in a subsidiary that was buried, you know, three or four levels down within one of our businesses. And fortunately, we had a very persistent internal auditor who refused to allow her to say, “You can’t see all my account recs.” And out of that he dug into the bank recs, he dug into the account recs, and uncovered it. And it was a high-speed chase to the airport, and the woman was eventually caught and prosecuted. We got the money back. But there’s an example of, she felt she was far enough away, nobody was ever going to touch her. And I think we saw that in pockets around the world. So I would, you know, I would highlight that. And basically say, too, one of the things we did, through one of the tools we developed, was train up field leadership, you know, people that were in key VP jobs around the world, on how to risk assess their international operations. And we did that through what we call the passport to ethical leadership, which was ... in the middle of the document, was about, you know, six or eight ways that fraud can occur in the top six or seven areas of risk. We laid all that out for folks and then trained the 25,000 leaders around the world on it.

**Mike Kearney:** Now that you once again had time to think about this, what advice would you have for executive teams and boards based on your experience at Tyco?

**Eric Pillmore:** Well, I think from a crisis standpoint, obviously it’s: be transparent, get to the bottom of the facts, leave no stone unturned. I think human nature tells us, “Don’t look there.” But I think, to be honest, over time those things are going to come out. Get to the bottom of them as quickly as possible. We had one example where we uncovered a very significant, multibillion-dollar write-off, right before it was time for Ed to make his initial, kind of, engagement with Wall Street in the spring of ’03. And it wasn’t the news we wanted to roll out. But we rolled it out that day, and the stock price actually went up. So that tells you what investors are thirsting for in a turnaround. I think, from a just normal operation’s standpoint, don’t discount the value of strong financial controls. Don’t discount the value of people in the finance organization and even people in the operations side of things, who have a strong bent for financial controls. Now, growing the business obviously is very important. But to have that balance on the control side, and really have people thinking about what could happen is really critical. If you’re going to ever prevent things from happening, you have to have that kind of jaundiced eye toward, you know, potential wrongdoing. I think it’s important.

**Mike Kearney:** So you joined this in 2002. When did you step back, maybe, sit in your chair, kick your feet up on the desk, and say, “We’ve turned this?”

**Eric Pillmore:** You know, it goes back to, you know, the constituencies that we were meeting with from the beginning. We met with employees, and those initial town halls were brutal. I have to tell you, I questioned, why did we do this in the early days? But as I reflected on it, I saw the benefit of the venting and the healing process. You know, as people healed and they saw and they gained confidence in terms of Ed’s ability to run the company operationally and to be transparent with the wrongdoing, the tone of the town halls totally changed. You know, we put together some very positive videos that we started to play, both externally and internally, and we started to track our governance progress. I guess, with employees especially, we tracked ... there’s a company called Governance Metrics, which measures, you know, the health of governance of the top—at the time it was 3,500 companies. And we were in the bottom 1 percent of those companies when we were in the depths of darkness in 2002. By 2005, we were in the top 1 percent, and I showed that chart at the town halls along the way. Well, at one town

hall in '05, I got a standing ovation from the employees. And I basically put it back at them and I said, "Guys, you did this. This is your doing and this is why the company is regarded the way it is today—as one of the top companies from a governance standpoint." And I think, likewise, with investors, you know, when they started asking us to cut back our governance spending, they started questioning how much we had invested in that and how many headcount you have on that. Fortunately, we had been fairly lean in terms of what we did. But when they started asking that, we kind of knew that things were in pretty good shape.

**Mike Kearney:** You know, Eric, I could walk in your shoes for a minute and realize how great it must have been to you, personally, knowing that you had gone on this journey for three years, I guess at that point in time, and how satisfying it must have been getting that standing ovation.

**Eric Pillmore:** It was great, really great.

**Mike Kearney:** What an incredible story.

**Eric Pillmore:** Great feeling for the team.

**Mike Kearney:** It's interesting when I reflect on Tyco. I've learned a lot more about it today, a lot more in my prep. I think oftentimes people take away the headlines of when the crisis hits. But I think we've reframed this story, not necessarily from the crisis back in 2002. But what great leadership can do to an iconic company, how important employees are, and ensuring that they are living up to the highest ethical standards, how important financial controls are, and probably most importantly, why good governance really matters at public companies in the United States. And there's so much more that we could debrief on. But I'd like to just ask one last thing. If you were to impart to the folks that are listening, what is the one thing, maybe, one takeaway after all these areas that you'll want to share with them?

**Eric Pillmore:** I think that it is the importance of the character of leadership. I think, as a board member, participating in the hiring of leadership management within the company, the character of people is so critical. And the character at the top, obviously, influences—as a board member, you may be able to influence the hiring of the CEO and the hiring of some of his key direct reports. But every one of those steps you take to bring in leadership, if you're not carefully examining the true character of those folks and how they're going to operate under pressure, and really getting at good ways to evaluate that, you really put yourself at risk. And likewise, I think, if it's junior people that are interviewing with the company, you want to look at the character of the leader you're interviewing with. If it's middle management where you're hiring employees off the college campus, that character is so important. And, you know, companies that have been around for a long time, like Deloitte, like GE, you know, it's been a mantra for those companies for a long time, and they don't compromise on it. And I think that leads to the sustainability of those companies long term.

**Mike Kearney:** What a great way to end it. Character matters. Thank you, Eric.

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