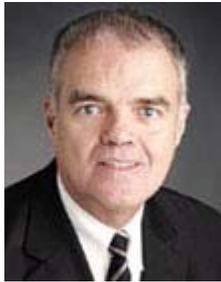


Alcoa's William O'Rourke: Ethical Business Practices, from Russia to Sustainability

William O'Rourke Jr. , Julia Taylor Kennedy

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[William O'Rourke Jr.](#)

JULIA TAYLOR KENNEDY: Welcome to Just Business, a series of interviews on global business ethics. Today I'm talking about a range of business ethics topics with William O'Rourke, vice president of sustainability and environment, health, and safety at the aluminum producer, [Alcoa](#).

O'Rourke has been with the Pittsburgh-based company for more than 35 years. But we're going to start our conversation with a critical three years of his career. From 2005 to 2008, O'Rourke served as president of Alcoa Russia, growing the business to \$1 billion in revenue and overseeing an investment program that exceeded \$500 million.



[Julia Taylor Kennedy](#)

I've asked him to talk about the ethical challenges that come with working in Russia and how he faced them.

William O'Rourke, welcome to Just Business.

WILLIAM O'ROURKE: It's good to be here, Julia.

JULIA TAYLOR KENNEDY: Let's start with your career at Alcoa. How did you get there and why have you stayed for 35 years?

WILLIAM O'ROURKE: I graduated from law school in 1975 as a patent attorney. Alcoa had a need for a patent attorney at the time, and I came here. Since then I have been given a number of other opportunities and challenges in other departments. I have continued to be challenged and rewarded, and that has been a pretty nice environment.

JULIA TAYLOR KENNEDY: So it stayed interesting.

WILLIAM O'ROURKE: Yes.

JULIA TAYLOR KENNEDY: How have ethics figured in your career over that time?

WILLIAM O'ROURKE: It's interesting. Since thinking about this interview, I have thought a lot about ethics and how they figure in our life, not just in our work. I believe that the ethics are personal. They are grounded in our values, which come from others.

Throughout my life, I've been fortunate to have a lot of excellent role models along the way. My parents and my family, especially my father, have really taught me a lot. I have a lot of examples where my father actually taught me ethics and morality without saying a word. It was his conduct and his actions that did—even from being my basketball coach. He wouldn't start me on the team because that would look wrong to the public, things like that.

I've been very fortunate with teachers, coaches, priests, commanding officers in the Army, and especially supervisors. I was really most influenced by Alcoa CEO [Paul O'Neill](#). He was the CEO from about 1987 to 2000. In my mind, he had the best moral compass that I've ever seen. He treated all others with dignity and respect. He knew right from wrong, and he wouldn't tolerate the wrong way. It was Paul O'Neill who grew Alcoa. He acquired the aluminum industries of Hungary, Italy, and Spain. But when he went to Russia in 1996, he described the business climate there as a cesspool, where Alcoa can't and won't do business.

JULIA TAYLOR KENNEDY: Let's talk about building Alcoa Russia. Russia is still famous for rampant

corruption and was ranked 154th out of 178 in last year's Transparency International rankings, of course 178 being the most corrupt nation. Russia was the most corrupt of the G20.

I'm curious about what the climate was like six years ago when you started as president of Alcoa Russia and why Alcoa changed its mind about entering that market.

WILLIAM O'ROURKE: We changed our minds over that nine-year period from 1996 to 2005. Then on February 1, 2005 we bought the assets. Giving a brief background of what we bought might be helpful.

We paid \$257.5 million and we got substantial aluminum manufacturing assets in the cities of Samara and Belaya Kalitva. There was also a sales and accounting office in Moscow of about 500 people. These plants that we bought were real big. For example, the Samara plant sat on 388 acres, had 129 buildings, the largest forging press in the world, the largest extrusion press in the world, and a 5-stand rolling mill. They had 8,000 employees at this one plant. That is really big.

These manufacturing plants were about 50 years old, and they delivered components to the aerospace industry of Russia. This was the first 100 percent ownership of the business and was considered to be of strategic importance to Russia. So you can imagine that we were going to be watched by the government.

The assets were state-of-the-art when they built them 50 years ago, but they were totally neglected since [*perestroika*](#). Over those 13 or 14 years since *perestroika*, there were three different owners of these facilities, and they had been so neglected. As an example, we took 30,000 tons of steel scrap out of the facilities in the first six months that we were there.

Why would we go there? We went there because we saw commercial opportunity. The per-capita consumption of aluminum in Russia was about 4 kilograms per person in 2005. It's 30 to 35 in most Western European and North American countries. We expected aluminum consumption to increase in Russia, and we wanted to be there and ready to respond whenever the demand increased.

Our job was to put those facilities back in good order, but we had to change the culture that was there as well. Safety was deplorable. There was no safety or protective equipment that the employees were wearing. Rules were not followed, and incidents were accepted as part of doing business. These two facilities that we bought averaged almost five fatalities per year for 50 years.

JULIA TAYLOR KENNEDY: Wow.

WILLIAM O'ROURKE: That's a shame. And it was accepted as part of the business. Let me note that the first full calendar year that Alcoa owned the facilities, which was 2006, there were zero fatalities there. That might be one of our biggest accomplishments.

It was one area where we had to change the culture.

JULIA TAYLOR KENNEDY: So how did you go about doing that? Did you bring your own people in? Were you educating managers that were already at the plant?

WILLIAM O'ROURKE: There are 15,000 Russian employees that were there. We brought in 62 expats from nine different countries. We were going to try to lead the way.

JULIA TAYLOR KENNEDY: I just want to clarify that when you talk about expats, you mean Russian expatriates who are in the U.S. and then are sent back to Russia because there is some cultural knowledge there?

WILLIAM O'ROURKE: That was one, but the ones I was talking about originally were 62 people from other countries around the world that we sent into Russia to operate there.

What we did was to actually pair each expat with a Russian leader. By the way, that was a mistake. The Russians believe in hierarchy, and they want to know who the boss is. When we tried to set up pairs of bosses, it was bad. So in six months, we eliminated that and just put one boss into each job, which was good. We had a lot of learning experiences like that as well.

On the safety side, we let them know what the rules were. We issued the safety equipment. We had a group of people in one of the poorer cities that didn't wear their safety shoes the second week. When we asked them why, they said, "These are the best shoes I've ever had in my life. I'm not going to wear them to work." So we issued another set of shoes, and they wore them to work.

We took a lot of the Alcoa policies, values, and procedures. We taught them what the rules were. We taught them that they had to be followed. We put in sanctions. If you violated the rules, there were repercussions for that.

The Russians are an intelligent people. I think they have the highest literacy rate on earth. When the rules are explained and they are enforced, they understand and they follow them very well. That's why they are some of the safest facilities that we have now.

JULIA TAYLOR KENNEDY: I'm sure, from an employee standpoint, it's better not to get injured, so if there is a way to prevent that, they're going to try to follow it.

WILLIAM O'ROURKE: You would think so, yes.

JULIA TAYLOR KENNEDY: So it sounds like that element of safety was hugely successful.

I'm also curious about bribery, because so much of what we read about Russia has to do with corruption between the government and major corporations, and the issue of corruption with Western firms going into Russia. Did you face any challenges along those lines?

WILLIAM O'ROURKE: Definitely. The first year that I was there, I had a capital budget of \$100 million, and I spent \$20 million. You think, how in the world can that happen? It's because we made a decision not to pay the officials—the police, the mayor, the tax authorities, and especially the import/export authorities. The goods don't move if you don't grease the palms of the authorities. They get held up indefinitely.

We made a conscious decision that we won't condone it, we won't participate in it, and we didn't. I had pressure from my Russian colleagues who had been in the country for years and years. They wanted to pay. They would say, "Just give me \$10,000 or \$20,000, and I can get everything moving." We said, "No, we aren't going to do it at all."

Interestingly, I had pressure from inside Alcoa as well. I'm going to my boss in staff meetings periodically and he's telling me, "Make those capital investments happen. They have to happen on time. Do whatever it takes."

Now, he wouldn't say, "Go ahead and pay this," or to grease any palms. But the implication was there to get this thing done.

JULIA TAYLOR KENNEDY: Where did that come from you to say, "I am sticking to this strategy. It might happen more slowly, but we're going to make this happen without following the normal way of doing business in this country"?

WILLIAM O'ROURKE: It's the culture of Alcoa to do it right. We were making a major investment in this country. We also have an obligation to make an investment in the cultural change of the people and let them know that we do follow the laws and the rules.

There's a culture in Russia that I saw. If you are in the stream of cash and you don't take some, you're an idiot. Also, if you have power and you don't exert it for your personal benefit, you're an idiot. The Russians are underpaid almost everywhere. They have little hope of prosperity, so they extort. I had one employee who was stealing aluminum from our plant. We interviewed him and asked him, "Why would you do this?"

What he said was, "If I have the opportunity to steal and I don't, I'm stealing from my family."

How about that as an attitude?

But we can't be hypocrites either. You have to think of the way business was done in the United States not too long ago, 50 or 60 years ago. These people have only been free for 15 years now. If we give them some time and show them the way, they will do what's right. I really believe that.

JULIA TAYLOR KENNEDY: Let's go back to your story. In the first year, you were only able to spend about a fifth of your budget for capital investment. How did you eventually get there and get all the investment done so that you could then produce at the level you wanted to for the Russian market?

WILLIAM O'ROURKE: The second year, there was \$150 million that was spent; the third year, there was \$200 million spent. I could almost feel that in 18 months, it was like a curtain lifted and the goods started to flow. It was as though the authorities knew, "Oh, you don't get money from them. You might as well just let it go."

We had the mayor of one of the cities actually stop a caravan of trucks bringing an aerospace plate furnace into his city. He saw all this money and investment coming into the city. He actually stopped those trucks and said,

"They're not going to move until I get some money, and I've determined that it's 25,000 U.S. dollars. "

He was told that the furnace could rust before he would get a kopeck. He held the trucks for 72 hours, but then he let them go and they came on into the city.

Periodically, I would go to the federal officials, who were watching us very closely, and let them know that we were having trouble getting some of our goods and services out of the customs office. The federal government officials also told the import/export officials and tax authorities to lighten up and respect these guys. That's what happened over the period of 18 months—our recalcitrance to participate, the federal Russian government helping us along the way, and then people realizing, "You aren't going to get money from them."

Then it started to work, and we have now made the investments.

JULIA TAYLOR KENNEDY: The first time this happened when you went in, were you surprised? Were you prepared for this?

WILLIAM O'ROURKE: We were prepared. We had identified a number of areas where we would run into obstacles, and this was one of them. Another one was the Russian mob. The mob will show up and they will pressure you. That didn't happen at all, by the way. Maybe the federal Russian government got that out of the way. I don't know.

But this was one that we anticipated, and we just said we won't condone it or participate, and we didn't.

JULIA TAYLOR KENNEDY: Alcoa is still in Russia. There are reports that some other Western firms are pulling out of the country. From afar, have you seen them be able to maintain this policy of no corruption?

WILLIAM O'ROURKE: Yes, very much so. We audit our facilities on a regular basis, of course. When we went into Russia, we had to pass the [Sarbanes-Oxley](#) requirements in the audits. We did that the first time, to the surprise of an awful lot of people throughout our organization. But we continue to go in on a regular basis and review the way they do business and how they do business.

We pulled out all 62 expats. In fact, the last one will come out next month. All of the leaders there are now Russian nationals in the organization, which is good. I've become friends and acquaintances with most of them. I respect the way they have been able to adapt to the Alcoa culture. We put a lot of these individuals into Alcoa facilities around the world for a while so they could see how Alcoa operates elsewhere, and they've been able to make that happen.

Another thing that's happening which is good is that we are finally making money in Russia. We were losing money for the first four years, and now we've turned a corner.

Our investments, by the way, have actually pulled other investments in. One of the areas that is our biggest business in Russia is making the sheet that makes aluminum cans for beverages. The can makers, such as Rexan, Ball, Can-Pack have actually moved into Russia and built can-making plants, and they get supplied from our Samara facility for the metal that they use to make those cans. Our investment has actually attracted other investments into the country.

JULIA TAYLOR KENNEDY: I don't want to engage in asking you to bash other firms or anything, but I am really curious. When you were doing business in Russia, did you see other Western firms giving in to the mode of entering into corruption in order to turn a profit a little quicker?

WILLIAM O'ROURKE: Yes.

JULIA TAYLOR KENNEDY: The reason I'm asking is because I'm trying to get a sense of whether it could affect the culture within Russia of doing business if, say, there was a code of ethics—I know they're not supposed to offer bribes—but if there was a stricter code preventing Western firms from entering into corruption when they are working in the developing world?

WILLIAM O'ROURKE: No, I don't agree that we need one. The rules are already in place. There are codes that are out there. It's really the personal conviction of the leaders that's required. It's the conviction to do what's right and set the tone where they expect others to do what's right in the organization as well. That's what we need. It's probably the training and education of leaders, and especially the people graduating from the business schools around the world.

JULIA TAYLOR KENNEDY: So it should come at an earlier stage, at the MBA level, to have business

ethics a little more integrated into the curriculum. That might be a place to instill those types of values?

WILLIAM O'ROURKE: I think so, but also in the engineering schools and the other schools as well—sales and marketing, finance, and even medical, health, and other professions.

JULIA TAYLOR KENNEDY: **What do you think of efforts like the [MBA Oath](#), which originated at the Harvard Business School? Some professors and students came up with this oath that business students can sign, to certain ethical practices once they get into the workforce. What are the drawbacks and benefits of that idea?**

WILLIAM O'ROURKE: I think it's very good. We have all taken oaths in our lives, whether it was vows at the altar when you are getting married or—I was a commissioned officer in the United States Army. I took an oath when I graduated from law school and went into the bar of Pennsylvania. I even took one as a Boy Scout.

What's most important is that you have to have a conviction that this really important and it's something that you should want to follow. If you just ask everybody in the business school to sign this oath and send it in, that wouldn't be enough. You have to have a firm conviction from the leaders that are there that "we expect you to abide by this." We all know that the doctors are expected to abide by the [Hippocratic Oath](#). They take that, and they take it seriously.

I'm in favor of that. I have talked to other business schools about the MBA Oath, and they don't like the idea that it came out of the Harvard Business School, which is a shame. It shouldn't matter. Harvard Business School isn't trying to own it. They are just trying to get other people to adopt it.

If we could adopt it in a fashion and a method that says, "This is important to me and I'm going to follow it," that would be helpful. It would set the tone, as you are getting into the business world or coming out of your business school, that you are really going to do what's right.

JULIA TAYLOR KENNEDY: **Let's fast-forward to the present. You are still working in areas that have a lot to do with responsibility, ethics, and sustainability. Tell me about your role as vice president of sustainability and environment, health, and safety, which seems like a lot to take on, and what kinds of initiatives you are working on now.**

WILLIAM O'ROURKE: It's a great role to have in Alcoa because we like to follow this area very well. They like to look at what a responsible corporation would do, whether it's on the health side, the safety side, or the environmental side. We have been doing this for years.

It's interesting how it comes down to leaders. We had a visionary in the company in the 1980s, Dr. [Patrick Atkins](#). He knew what was possible. He published our first long-term environmental goals back in 1993. An example of one was that we were going to reduce our greenhouse gas emissions by 25 percent by the year 2010. We actually reduced them by 46 percent, which is pretty good.

Last year we decided that we needed new long-term goals, and we have set these. We have set them in emission areas, water usage areas, waste reduction, and recycling.

We are now integrating a lot of the sales and marketing efforts into what we do on the environmental side. We're trying to sell our product based on environmental attributes. If you look at aluminum, it's infinitely recyclable. In fact, if you throw away an aluminum can properly, it will become an aluminum can again in 60 days and then again in 60 days, and again. Seventy-five percent of all the aluminum ever made is still in use on the earth today, which is wonderful.

We also lightweight anything that moves, whether it's a car, a truck, a van, or the package that goes on the car, truck, or van. By using aluminum, you're using a lighter-weight material. You use less energy.

So we think we have the answer in our product for the future, for energy reduction, and we like to take that seriously.

What we have also done very recently is to tie our executive compensation to some of these sustainability metrics that we have. Eighty percent of your bonus is paid on financial performance, as it probably should be. But we now pay on the basis of your safety performance, and in the environmental area, we have added either greenhouse gas emission reduction or reduction in energy usage to everybody's bonus payment.

We also pay on the basis of diversity. We have to improve the diversity statistics in different job grades throughout the company. That's a component of executive compensation, which is pretty good for the company.

JULIA TAYLOR KENNEDY: So many companies had to hold steady or even cut back sustainability budgets with the economic downturn over the past couple of years. How did it affect your budget for sustainability?

WILLIAM O'ROURKE: That's when we put more of an emphasis on energy and greenhouse gas emission reduction because it also carries a financial reward for it. That's when we asked all of our locations to cut their energy requirements, which also cuts their costs, which was great. So it went hand in hand with the need for cost reduction over the last couple of years.

That downturn hurt the aluminum industry more than most. We are finally coming back. But in the middle of that, we have named our first chief sustainability officer of the corporation. We have a CEO who is extremely interested in this area. He's probably our top marketing person when he talks about lifecycle assessments and lightweighting and recycling. That's [Klaus Kleinfeld](#). He has really put an awful lot of impetus into this. In fact, in the quarterly business reviews that started last year where each of the businesses come in on a quarterly basis to New York City and they review their financial performance, they now have to review their sustainability performance. There are sheets and scorecards based on all the goals that we have set for ourselves, and each of the businesses has to say how they are doing with regard to that area, as well as their financial performance.

So we have taken that downturn as an opportunity to show how sustainability can actually help in the performance of the company.

JULIA TAYLOR KENNEDY: Something I've heard from a lot of the people that have come on this program is that there is a growing demand from the public—not just from leadership within organizations or from the government, but either from consumers or from potential employees—for sustainability initiatives.

You hear all the time about consumer activism. But it's a little more interesting to hear at recruitment fairs that companies are getting asked questions by potential employees about their sustainability initiatives and their employee engagement. I'm sure that happens at Alcoa as well.

How have you seen that change over the years? Did that enter into your calculus, for example, when you decided to work for Alcoa? How have your attitudes around these kinds of issues changed over your time at the firm?

WILLIAM O'ROURKE: That's a good question. It's fun to watch. In the whole world, we probably saw in the 1960s that people were more socially conscious. We got away from that through the 1980s and 1990s, where people were more conscious of their dollar. More of the smarter people went into business school rather than going into medical school, and they wanted to become millionaires in a week rather than wait for a career.

I think we're coming back now to the area where employee engagement, responsibility, sustainability, and community service is becoming more and more important. We want to know that our employer is a good neighbor in the community where we operate, or we don't want to work for them.

It's interesting. When I started to work, that was probably more of a general concern. It's coming back again and it's becoming, not just a general concern, but a specific concern in a number of different areas. We have some specifics there.

We measure employee engagement in our company, as others do. The engagement scores have been increasing dramatically recently, in the last three years, throughout the company. Regardless of the country where we operate or the business that we're in, the engagement scores are going up.

Another area that is increasing is volunteerism. We use October as a month of service for the company, and we ask every employee to volunteer with some community effort. In the last three years, the number of people participating is dramatically on the increase.

I have talked to prospective employees. Most of the ones recently that I have talked to have been in the environment, health, and safety area, and of course they would ask a lot about the environment, health, and safety. But I participated recently with some procurement recruits, and they are asking that question.

What we can do in Alcoa is just refer them to our sustainability report, which is online, and you get a real sense of responsibility. Others have acknowledged that we are doing that. We have been on the Dow Jones Sustainability Index for the nine years that that has even been in existence. Fortune lists us as one of the most respected corporations. There are a number of areas where we can point to that, and you need to shine in those areas.

An issue we have right now in the world is, how much of it is real and how much of it is greenwashing? A lot of greenwashing is going on right now. But we're going to have a narrowing of a lot of these certification lists and rating agencies, and we're going to get that down to the ones that are real, and we'll know which ones are really doing a good job and which ones aren't. We're getting better at that.

But this is a good movement. It's going in the right direction.

JULIA TAYLOR KENNEDY: William O'Rourke, it has been wonderful to have you on the program. Thank you so much for your frank answers and all of your ideas, both around the corruption question and the sustainability question. It has been great.

WILLIAM O'ROURKE: It was a pleasure to be here. Thank you.

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