

Relying on a Strong Corporate Culture to Navigate Through a Challenging Business Environment
Arthur W. Page Society Annual Leadership Conference
September 14, 2009

Thank you Bob. I am pleased to be with you today – the top communicators in business.

At Darden, I marvel at the range of issues our communications team handles. Their work helps me appreciate the time and talent you devote to what you do, and the value you provide.

Indeed my respect for what you do was underscored during the years I was responsible for Investor Relations at Darden and had to deal with the complexity associated with just that one dimension of communications.

Now some of you may be asking – “who is Darden?” Well, while you may not recognize the corporate name, you’re familiar with our family of restaurant brands: Red Lobster, Olive Garden, Longhorn Steakhouse, The Capital Grille, Bahama Breeze and Seasons 52.

From just one Red Lobster restaurant in 1968, we’ve grown to nearly 1,800 restaurants today; and in the process we helped create an entire industry segment – the \$70 billion-a-year casual dining restaurant sector.

I can assure you that all that growth did not take place under stress-free conditions. There were booms and there were times – like today – when the social and economic environment was not so rosy.

But we’ve been successful. And our success is due in large part to a culture that our founder Bill Darden instilled when he opened that first Red Lobster more than 40 years ago. A culture that General Mills, which acquired us in 1970 and spun us off 25 years later, also helped nurture.

I'm sure that if there's one thing all of you know a lot about – it's operating under stress. Because there aren't many times when an organization doesn't place a great deal of stress on those charged with communicating its stories, regardless of economic conditions.

So again, I appreciate what you do every day for corporate leaders like me and for our organizations – to successfully define and promote our values and accomplishments, which I recognize is particularly challenging during times like these.

This morning I'd like to talk with you about the role a strong corporate culture plays in helping an organization navigate through the kind of tough business environment we're experiencing today.

For us in the restaurant business, it's hard to recall when things have been tougher as we confront consumers who faced with either job security concerns; imprudently high debt levels; much reduced home values and investment portfolios; or some combination thereof; have eliminated their dining out occasions or scaled back on how much they spend when they do go out.

On top of all that – as is the case for most other businesses – we're dealing with the resulting cash flow decline at a time when credit availability has tightened sharply; reinforcing the need for aggressive expense management.

I believe that a sturdy culture nurtured over time is essential to navigating these very rough seas.

So let me give you an idea of what's steering us – which is staying true to the culture at Darden – as we work our way through this environment.

A reporter from *USA Today* recently asked me, "what is the smartest thing Darden has done in this environment?" My response was an easy one. I said, "We've worked as hard as we can to protect our people."

In this environment, one of the things I've heard repeatedly from some leaders in our industry, and from others who've been featured in the media, is "an economic crisis is a terrible thing to waste."

And for a lot of companies what this means is that they see these difficulties as an opportunity to take reductions in staffing levels, in benefit levels and in other employee-related costs.

I understand that this is an unprecedented period of stress, and what that means is that for some organizations their very survival depends on those kinds of reductions.

But for others, these types of reductions are not imperatives. And employees know it. As a result, when the reductions are made a bond with employees is broken.

As things recover, a company can add new people, it can pay a little more or add back to benefit levels here and there. But I submit that it will be very difficult – and in some cases impossible – to restore the bond with employees.

And the long-term costs of breaking the bond should not be underestimated.

We're in a service business and we talk a lot about how in order to create truly memorable experiences for our guests, our employees have to bring a level of passion and commitment that goes beyond the mandated tasks associated with their job.

They have to be willing to bring discretionary effort. And to get them to make that kind of contribution, we do our best to build a culture that engages and inspires our people.

The Darden Culture

Indeed at Darden, we believe that building and maintaining a strong, people-focused culture is the single most important reason we've enjoyed more than 40 years of success and become the world's largest full-service restaurant operating company in the process.

And we believe that no organization – whether a corporation like Darden, a university, a hospital or a public relations agency – can accomplish anything meaningful unless it creates, and then nurtures and sustains, a great culture.

One that is performance driven, but one that gets superior performance by creating and maintaining a compelling place to work, a place where people can grow.

This was the lesson of our early leaders and it continues to shape our organizational outlook today.

For us to build the right culture and sustain it over time, a key aspect of your work as communications professionals is critical – and that’s listening. We have to listen to our employees.

And that’s why, among other things, every year across the company we survey our employees to understand how engaged they are and try to discover what we can do to improve that level of engagement.

I’ll talk later about this in more detail, but we’re delighted that despite the tough economic and political times our employees are even more engaged today than they were before the recession started.

Even in an industry with historically high turnover in the hourly ranks – and where “disengaged” employees typically outnumber “actively engaged” employees – that’s not the case at Darden.

In fact, our “actively engaged” hourly employees outnumber the “disengaged” 4-1.

So what – beyond listening to our people – do we do at Darden to build the right culture? One that motivates employees to bring the discretionary effort that drives success?

While a lot of things go into it, i think there are four key elements that have made, and continue to drive, the *right* culture at Darden.

- First, in order to drive the *right* culture we stress the need for people to work for something greater than themselves.
- Second, the *right* culture is a culture of inclusiveness where we embrace and foster diversity.
- Third, it's a culture that values getting involved in and supporting our communities.
- And fourth, it's a culture that encourages us to dream big dreams.

Indeed, in our employee survey, we ask people to tell us what their big dreams are.

Nourish & Delight

Let's start with this notion of working for something larger than yourself.

At Darden, we believe that to get up every morning ready to do a great job in any business but especially in a business like ours where many tasks involve very hard work, physically and emotionally, people have to feel they're working for more than just a paycheck.

They have to feel there's some larger purpose to what they do.

At Darden, that larger purpose is to make a positive difference in the lives of others, which we describe internally as our commitment to nourishing and delighting everyone we serve.

Now as a restaurant company, we certainly want to nourish people in the literal sense by providing them with delicious, high quality meals that sustain them.

But we also mean a lot more than that. We want to nourish the spirits of our guests – to delight them with service and ambiance that enables them to re-energize or to connect with family and friends over a great meal.

We also want to nourish and delight our employees by contributing to their material and social well being, and to their personal and professional growth.

And finally, we want to nourish and delight our partners which include our vendors, the communities where we operate and the communities where our employees live by contributing to their success.

Meaningful Differences

In order to nourish and delight people, however, you have to know something about them.

So given our national footprint, and the workforce and consumer base we have as a result, diversity and inclusion is an imperative for Darden in order for us to achieve our larger or core purpose.

We are also committed to fostering diversity and being inclusive because we're convinced that we learn and grow together as people, and as a business, by bringing meaningful differences to the table and then understanding and embracing those differences.

To us, diversity and inclusion are so important that we provide intense diversity learning experiences for all our leaders. Experiences that range from a full week for officers, to two-and-half days for each of our 1,800 restaurant General Managers and Managing Partners.

In these sessions, we explore the assumptions we all bring to the table and we learn to talk constructively about our differences so that we can use them to our personal and professional benefit.

One episode vividly illustrates for me what it means to be truly aware of and sensitive to our differences.

Before noon on the morning of September 11, 2001, when it became apparent what had happened in New York, Washington and Pennsylvania, my predecessor as CEO, Joe Lee, held an employee meeting in front of our main headquarters building in Orlando.

Given the air travel ban, his first words to us of course were about our need to determine whether all of our people who were traveling were safe. The very next thing he mentioned though was that Darden had a number of Muslim employees who were going to be under a lot of stress in the coming days and months. The Darden family, Joe said, needed to be attentive to that.

I believe Joe's orientation and remarks that morning – while we were still in disbelief – said a lot about how ingrained diversity and inclusion are at Darden.

We do a number of things at Darden – beyond our diversity learning experiences – to help underscore that diversity and inclusiveness are business imperatives to us.

One is our sponsorship of six employee networks.

These include our African American, Hispanic, Asian, Women's, Family and Pride networks, each of which is open to anyone and each of which develops a three-year business plan that ties to our corporate objectives.

Community

The third dimension of what we think is a strong and winning culture at Darden is our commitment to serving the communities where we work and live. And we honor that commitment through a combination of volunteerism and corporate giving.

We have a program for example that provides every employee at our restaurant support center, or corporate headquarters, with 16 hours each year of paid time for community service during regular work hours.

And our restaurant-level employees are equally active in their communities.

During the holidays for example in lieu of an employee party, every one of our Longhorn Steakhouse restaurants participates in a community service project as a team.

And we back employee involvement with financial contributions through our foundation and through direct corporate donations that totaled more than \$6.5 million in fiscal 2009, which is 1% of our pre-tax profit.

One last example is the Darden Harvest Program, which we used to distribute food with a fair market value of \$85 million to community food banks across the country this past fiscal year.

In addition to supporting our communities, we also support our own. And a milestone development occurred ten years ago when we established a program called Darden Dimes to help colleagues in need.

Darden Dimes has helped employees weather the after-effects of hurricanes and other natural disasters, severe medical problems and other personal tragedies. Participating employees donate at least 10 cents from each paycheck to the Darden Dimes fund which raises more than \$500,000 annually.

A typical example is a recent Darden Dimes contact by one of our restaurant teams looking to help a pregnant employee who was in an abusive relationship. She received \$600 for a deposit on an apartment which enabled her to move to a safer environment.

Now, as we work on our larger purpose of nourishing and delighting everyone we serve – and we do so with a passion for diversity and inclusion and for serving our community – there is one final thing that we think drives the *right* culture at Darden. And that's our willingness to dream big dreams.

Dream Big

Our collective big dream is to create a great company.

And to us a great company is one that is a winning company financially, and one that is also a compelling place to be because people can achieve their personal and professional dreams.

What that means is ours is a culture that focuses not only on our aspirations for the company but also on our individual dreams. And that starts with placing no pre-conceived limits on what any employee can accomplish.

One of the great things about the restaurant industry is that it's the industry of opportunity for millions of Americans. Half of all adults have worked in the industry at some point in their lives.

So, as a result, we assume that everyone who walks in our doors can go all the way to the top provided they're willing to work hard and that we give them the right tools and the right work environment.

I'm proud to say that with hundreds of examples of people who began as hourly employees at Darden and have risen through the ranks to various levels of management – we've got plenty of evidence to support our point of view.

Consider Anthony Gatling. He joined Red Lobster 11 years ago as a server without a college degree. Today he is a Senior Director of Operations leading 32 Red Lobster restaurants while completing his Doctorate in Organizational Behavior.

Or take Dave Pickens. He began his career as a line cook at Red Lobster in 1973 also with no college degree. Today he is President of Olive Garden – a \$3 billion-a-year business.

Then there are the 1,800 general managers in our system. More than 500 of them, 30% of our total, rose from the hourly ranks and now run businesses that register between \$3 million and \$10 million a year in sales.

Each coaches and develops more than 100 people. Each earns on average between \$80,000 and \$100,000 in total cash compensation a year. And they come from all walks of life.

Navigating Through This Environment

We believe that when you add it all up – when you combine the compelling larger purpose we see in our work, our commitment to diversity and inclusion, our commitment to building our communities, and our focus on achieving our collective and individual dreams – Darden has the *right* culture.

The critical question then is, during these challenging economic times, are we continuing to build that culture or are we making decisions that are eroding it? As this recession tests us, are our decisions being made with our culture in mind?

When we saw the business climate deteriorating in early 2008 we agreed we had to take steps to strengthen our business, but we also agreed that we would work as hard as we could to do so in ways that protected our employees.

We have not changed our policies on contributions to 401(k) plans or regarding medical insurance for example. Nor have we laid off restaurant support staff, and we've worked hard to not reduce restaurant employees' hours.

What we've done is work with our restaurant team members to give them the hours they're used to, although they might accumulate them differently.

For instance, if they were working only the dinner shift during the week they might work a lunch or dinner shift on the weekend or come in a couple of hours early to help with prep work.

Rather than reducing employee-related costs, we've taken steps to pare other expenses. We've cut down for example on travel to meetings and the like and stepped up our use of phone and video conferencing.

We believe those are the places to cut back, not at the front lines where service has to be generous and noticeable. Because when you reduce staffing, not only do you break the bond with employees, the customer experience suffers.

You breach trust with customers at a time when their restaurant visits are dearer than they've ever been.

As we navigate this environment, and try to do so in a way that is true to our culture, strong internal communications has been vital. We want to make sure that our employees understand the economic and business climate.

And so we conduct at least quarterly meetings with our officers to review the business environment and our results. And our senior executives at the enterprise and brand levels also provide quarterly updates to their teams. In addition, every Monday an update about operations is distributed electronically to every restaurant General Manager and Managing Partner to share with his or her team. Included in that ops update are promotions and other success stories highlighting the discretionary effort employees are putting in to go above and beyond to satisfy a guest.

We also publish quarterly newsletters that each brand distributes to its employees.

And we have continued to hold our annual restaurant general manager/managing partner conferences where these leaders come together for three days to plan for the year, participate in professional development exercises and celebrate success.

They also spend 40 minutes with me or our COO, Drew Madsen, learning about how things are going enterprise-wide and the outlook ahead.

And that leads me to one of the most reassuring messages that I'm proud to be able to deliver to our employees these days.

People want to know that the company they work for is doing well, that it's growing and creating the individual opportunities that I just spoke about.

And the strongest piece of evidence I can give them is that – thanks to them and the extra efforts they make every day for our guests – we are still adding new restaurants.

When we reported our fourth quarter earnings at the end of June, I was happy to report that our revenue grew nine percent thanks in large part to the 71 new restaurants we added over the previous year. Each one of those restaurants creates about 150 jobs for its community and the expansion they reflect is a real testament to the culture we have built.

Our employees appreciate our work to continue to live our culture in the face of the weak economy. Our latest employee survey, which covered 60% of our workforce, underscores this.

Among other findings, the survey indicated that:

- All levels of employees are strongly engaged across the enterprise. On a 1-5 scale, with 5 being the highest, engagement levels among the various categories of employees – from hourly team member to officer – all exceeded 4. And that is an increase over the previous year's results.
- Our results are above industry benchmarks on all categories across all brands, and they're very consistent across categories.
- Our employees' intent to stay at Darden far outpaces the industry. For instance, 31% of our culinary team intends to make a career with us versus just an 11% industry benchmark for culinary staff.
- And among managers, 63% of Darden restaurant managers and 73% of General Managers/Managing Partners plan to spend a lifelong career with Darden versus the industry manager benchmark of just 19%.
- And when asked what they consider to be our greatest strength as a place to work, the number one answer for team members and managers is "employee attitudes."

Most importantly, every day, decisions by our employees demonstrate that they fully understand the importance of delivering a great experience for our guests.

They recognize that 50 percent of customers leave a business because of a bad experience but that customers are three times as likely to be loyal to a business if they feel like they have a bond with the product or service.

Letters from our guests illustrate this best.

Many thank individual servers like the Red Lobster waiter who gave back the \$100 tip from one couple who thought they had given him \$20. "I'm a very good server but I don't deserve \$100," he told them.

Others thank thoughtful managers such as the Capital Grille managers who phone guests the day after their visit to make sure it was enjoyable.

Or the Red Lobster General Manager who paid a couple's parking ticket when, after they found the Red Lobster parking lot full, they pulled into a neighboring restaurant's lot and got ticketed.

In the end these are what truly set our restaurant brands apart – these discretionary efforts on the part of our employees. And our culture plays a significant role in creating the level of engagement necessary to create exemplary discretionary effort.

Said another way – before our brands can live in the hearts and minds of our guests, they must first live in the hearts and minds of our employees.

So despite these economic times, when you visit a Darden restaurant you should expect a couple of things.

First, an exceptional guest experience. Because we know you have an even lower tolerance for service shortfalls in this environment.

Second, you should expect servers and managers sporting smiles. They know that's important when people are experiencing more anxiety than they might normally.

You should expect it because we simply have not changed our culture to reflect the economic challenges. Instead, we've continued to focus on ensuring that everyone knows what our values are. And in making decisions about how to navigate this environment successfully, we've continued to live our values.

This conference's theme, values under stress, is right on the mark.

Every winning company has a unique culture that is the foundation for its success. Ours matters tremendously because our business is so people intensive.

Because of our culture, our employees are highly engaged and motivated and our guests experience the value of that, whether they join us for a family celebration, a night out with friends, or a client dinner.

And what our guests experience should never waver, whether the economy is vibrant or vulnerable, because our culture should never waver.

So after this recession ends and the economy turns, the companies that win will be those that did not walk away from their culture. They will be the ones who continued to invest in their people, who protected them as best they could.

I hope that you've gotten some sense of our culture and how it's helping us navigate through a difficult environment. And I hope you will visit our restaurants to see for yourself if I've captured our culture accurately.

Thank you and we look forward to seeing you in our restaurants.