James A. and Linda R. Mitchell/American College Forum on Ethical Leadership in Financial Services *The Proceedings*

What happens when business ethicists and chief executive officers sit down for a day-long discussion of ethics in the financial services industry?

We had an opportunity to find out in January when that occurred at the Ritz Carlton in Rancho Mirage, California. A small group of senior financial services executives met with a similar number of business ethicists from academe for a day of dialogue on Saturday, January 13, 2001.

Host **James A. Mitchell,** chairman and chief executive officer (retired) of IDS Life, began with the purpose of the program--namely, to provide an opportunity for people who do not usually interact on a regular basis to engage in dialogue with one another. He hoped that such interaction would encourage organized reflection on ethical leadership by the "philosophers" (the ethicists) and the "practitioners" (the chief executives).

...determining ways to create greater value in and for an organization through ethical behavior.

Jim Mitchell's underlying assumption for the session was that ethical leadership is good business and that consistent ethical leadership motivates employees to behave ethically--which in turn leads to increased productivity, better customer service, and more profits.

Through their shared insights, the participants would help examine and test that assumption. The guiding theme of the forum was to concentrate on determining ways to create greater value in and for an organization through ethical behavior.

Hopes for the day

The opening round involved articulating issues and questions about what the participants hoped to gain from the proceedings.

Jim Mitchell's hope was to begin a conversation between the practitioners and the philosophers that would contribute to raising ethical behavior in the industry. He hoped that the conversation would continue after the meeting and provide new models for ethical behavior.

Patricia H. Werhane,who holds the Peter and Adeline Ruffin Chair of Business Ethics at the Darden School of the University of Virginia, recommended that participants investigate how companies can spread ethics throughout their organizations.

Thomas W. Dunfee,vice dean and director of the Wharton Undergraduate Division and the Kolodny Professor of Social Responsibility in Business at The Wharton School of the University of Pennsylvania, indicated he would like to gain insights into the background, perceptions, and context associated with issues facing insurance executives, to enrich his understanding of how leaders in those organizations approach ethics.

Laura L. Nash,senior research fellow at Harvard Business School, hoped the following questions could be addressed: Why do core values break down in organizations? How does leadership operate? What is driving business leaders? What would it take to drive "enabling and ennobling"

leaders? How do people define what are enabling and ennobling relationships in business?

Samuel H. Weese,president and chief executive officer of The American College, said it was important for all executives not to wear rose-colored glasses in wrestling with such issues, and that it would help to discern areas in which reality doesn't match up to ideals.

On a practical note, **Robert L. Senkler,** chairman, president, and chief executive officer of the Minnesota Life Insurance Company, said he hoped to gain ideas to bring to a course on business ethics he teaches at the Carlson School of Management, University of Minnesota.

Samuel J. Foti,president and chief operating officer of The MONY Group, said he is disturbed by the fact that decisions having ethical implications are made haphazardly every day, on an ad hoc basis, and by accident they workout. He said he hoped to find a methodology that would give him confidence that ethical decisions are being made daily in an organized way at all levels of his organization. He said he would like to help people develop a process for arriving at the correct answer, and was seeking a framework for such a process.

Drayton Nabers, Jr., chairman and chief executive officer of Protective Life, expressed his interest in organizational ethical behavior. He said his central concern is discovering ways to build right behavior and excellence into an organization. He is not too concerned with how to determine what is right for individuals, since most times that is fairly clear. He is more concerned with how a company can be structured to adhere to its core beliefs and maintain excellence on a continual basis.

W. Michael Hoffman,executive director of The Center for Business Ethics and professor of philosophy at Bentley College, expressed his interest in the question of how leadership can encourage decision making based on core values. He also said it was important to examine how the participants make different and possibly conflicting sets of values interact and interrelate in their organizations.

Duska: *Much can be gained if financial services executives engage in meaningful dialogue with business ethicists.*

Kirk O. Hanson,senior lecturer in business administration and director of The Stanford Sloan Program, Graduate School of Business, Stanford University, expressed his interest in determining how insurance organizations are structured, the cutting-edge issues in insurance, and the broader social context of the people in the industry.

Bruce J. Nicholson, president and chief executive officer of Lutheran Brotherhood, said he was looking for more exposure to academic thought on how ethical education could be carried out effectively, so that his ethics education programs could be improved.

Studies show that companies that take their ethical responsibilities seriously get their direction from top leadership. With this in mind, **Ronald F. Duska,** holder of the Charles Lamont Post Chair of Ethics and the Professions at The American College, told the group that much can be gained if financial services executives engage in meaningful dialogue with business ethicists. Duska, who helped Mitchell organize the meeting, said he hoped it would serve as a model to continue the conversation between "philosophers" and "practitioners."

The meeting focused on five questions:

1. What enables your organization to operate ethically?
2. How is an insurance company to respond to a practical issue like genetic testing?
3. What organizational processes facilitate ethical behavior in companies?
4. What are the advantages for a company in acting ethically?
5. What are the obstacles to ethical behavior in organizations?

What enables your organization to operate ethically?

The responses to this question varied. However, a primary insight was that, if an organization is to be ethical it must have a core set of values, first of which is a commitment to serving others. Such core values provide the *raison d'etre* of the institution.

Jim Mitchell stated that, in his view, every company has a variety of constituencies or stakeholders, from the customer to the employee to the owners and the community. The organization has a responsibility to each of these various constituencies. In an ethically successful company, people honor the promises made to all these constituencies, balance their interests over time, and treat all with fairness.

A second insight was that, for an organization to operate ethically, it must provide a climate wherein individuals in the institution can maintain their integrity. That integrity involves a *wholeness of life,* which is achieved when personal ethical values fit comfortably with the goals of the institution. Processes are needed that not only *enable* those in the enterprise but *ennoble* them--give them higher aspirations for which to work, as well as give them a framework for daily decision making. In such a culture the individual's integrity is not compromised in pursuing the goals of the institution. (That vision must be articulated by and reinforced by the central leadership, with its insistence on fairness and keeping commitments. The senior executives must all "walk the talk" themselves.)

Processes are needed that not only
enable *those in the enterprise but* ennoble *them...*

Pat Werhane claimed her own organization experience has shown her the need for core values. For example, in her current institution, The University of Virginia (UVA), one can appeal to the values enunciated by its founder, Thomas Jefferson. Such an approach is immensely helpful because anyone arguing for moral integrity can work his or her arguments around those values. Werhane's evidence that this approach works is found in a UVA poll of what alumni remembered most about their days at UVA: the University's appeal to Jefferson's values and its code of ethics.

Does such an approach work elsewhere? Tom Dunfee noted that The University of Pennsylvania is a large and complex university with an integrity program. Because of that program, during his years there he has never had to compromise his ethics. However, he took note of a difference between the outlook of MBA students and undergraduate students at The Wharton School. The MBAs develop and enforce their own integrity program, while the undergraduate integrity standards come from outside the school environment. Consequently, these standards do not seem to elicit the same commitment. The undergraduates see the Wharton environment as very competitive, while the MBAs do not. This affects their sense of community. The conclusion he drew from this is that, to be effective, standards of integrity should come from within an organization, not be imposed from without.

Laura Nash spoke about institutional integrity at Harvard from three different perspectives--as a former graduate student, as a faculty member, and as the parent of a Harvard student. Like every institution, Harvard mirrors the human condition and consequently struggles with ethical issues. No institution, financial or academic, will be without these ethical struggles, including failures. The importance of learning from such failures became a powerful theme throughout the day.

Nash reiterated the central importance of core values, pointing out that at Harvard those core values lie in questioning assumptions and providing value to society. As a classicist, she finds it invaluable in promoting core values and understanding the human condition to look at stories, particularly stories about heroes, to see how successful leadership operates. She then finds it helpful to apply those stories to both theoretical and working views of capitalism. In her research in business ethics she has developed the notion that a working view of capitalism is about value creation, not merely in the sense of monetary value, but in the sense of products and services that improve the human condition. Further, she believes that while leaders need to build enabling relationships, it is even more important that they build ennobling relationships.

Nash: *A working view of capitalism is about value creation... products and services that improve the human condition.*

Sam Weese offered the perspective of one who started out as a college professor and became CEO of an educational institution, The American College. Educational institutions must survive like a business. The College's major challenge as an academic institution is maintaining high academic standards and quality of courses, while meeting the market's demands for access to designations or degrees. The American College must service a very practical-oriented constituency--the financial services industry--while maintaining its own ethical integrity.

Weese noted that his position has given him a fairly good insight into how business is run and he finds it somewhat disconcerting, perhaps, that the business world is sometimes more ethical than the academic world. For him, the basis of an organization's ethical practice is fair treatment of its constituencies—in the case of the College, its students and employees. In such a context to ensure high standards requires both an academic background—to really appreciate the demands of quality education—and an appreciation of the demands of the business world.

Bob Senkler reflected on the core value of his company, Minnesota Life. The company's guiding value is keeping its promise. The company sells a promise to pay. To sell such a promise requires that the customer must trust the company, which requires honesty. He also noted that to keep this promise the company must survive. Senkler said the challenge lies in taking the company's vision or purpose and driving it into the organization in a practical way. He pointed out that since one can win in a lot of different ways it is important to be imaginative in creating new solutions to problems.

Senkler returned to the theme of failures. He has found that a valuable technique for encouraging ethical behavior is to start out every meeting with a confession of wrongdoing. Since most people like to do the right thing, a great deal can be learned by looking at what can go wrong. He believes that economic justification for his company's ethical behavior is evidenced by the fact that Minnesota Life was untouched by recent class action lawsuits that rocked the industry.

Senkler: *A great deal can be learned by looking at what can go wrong....*

Sam Foti said he has been in the industry for 26 years, and believes that his current organization, MONY, is firmly committed to ethical behavior. From Foti's point of view, a lack of ethics is very noticeable in an organization. You know what ethics is when you see it. You feel it. You know when it is not there. He said he sees it as a shortcoming to approach ethics solely from the perspective of a series of things not to do, similar to a set of laws that are merely negative injunctions. He reiterated the theme that leaders need to infuse an organization with the goal of value creation.

Drayton Nabers reiterated the importance of vision and core beliefs. He noted that an important epiphany for him came in reading a book of lectures by IBM's Thomas Watson that said the single most important ingredient of that company's success was adherence to its core beliefs. Nabers said he believes his organization's most important belief is: "The customer comes first." Business is created to provide value to the customer. The ethical leader strives to achieve a win-win-win situation between customers, employees, and shareholders.

Michael Hoffman related that the central focus of his program at Bentley College is to have professors teach ethics throughout the curriculum rather than to require a discrete course in ethics. One of the processes that Bentley College uses is the "Gadfly Business Ethics" program. Every May eight business professors take a two-week business ethics workshop to encourage them to teach business ethics and to show them ways to integrate it into the curriculum.

Students should be taught to make decisions based upon core values. They need to learn how to recognize an ethical dilemma, how to think it through, and how to put their decision into action.

Finally, they need to learn how to be ethical leaders.

Kirk Hanson raised the issue of what to do when a system lacks core values such as the Jeffersonian values alluded to by Werhane. What does one do when there are no anchors in the mission of an institution? What does one do when the values of an organization are diffuse?

Hanson noted three areas business ethics needs to concern itself with if it is to be effective. It needs to raise questions about:

1. how to structure organizations so they promote ethical behavior.
2. what constitute breaking or cutting-edge ethical issues.
3. the broader social context (where people find their meaning of life). For example, what are the views on what makes life meaningful for the new technological entrepreneurs? Those views will drive their notions of what is ethical, and what core values are important for their businesses.

Hanson: *What does one do when there are no anchors in the mission of an institution?*

Bruce Nicholson could show the practical effects of an organization having core values other than profit maximization. Lutheran Brotherhood is an organization whose clients are members of the Lutheran Church. While it operates as a conventional insurance company, it is driven by the core values of Lutheranism, so that the profit motive is less noticeable. Thus, his organization views itself as a professional asset management firm—a values-driven organization. He is convinced that people want to work for a company with values, and has found that having a strong set of values is an advantage in obtaining and retaining key people.

He is currently engaged in creating a vision for change. In 2000, he articulated values of his organization and suggestions for communicating them to its workforce. A values survey of Lutheran Brotherhood's workforce showed that the respondents saw customers as their first responsibility. Doing the right thing, keeping promises, treating people fairly, and respecting the whole person followed from that value. Nicholson reiterated Nash's theme that telling stories is the best way to communicate these ideals.

Nicholson: *People want to work for a company with values...*

Ron Duska rounded out the discussion of core values by noting that one of the core values of The American College is to raise the level of ethical consciousness in the financial services industry. Solomon S. Huebner founded the College specifically to develop *professionals*—for Huebner, this meant people with expertise who behave ethically. Since one of the College's primary missions is to improve ethical behavior in the industry, it follows that it should foster an ethical consciousness among industry leaders. Studies have shown that, as leaders go, so go companies. For companies to take their ethical responsibilities seriously, direction must come from top leadership.

How does an insurance company respond to a practical issue like genetic testing?

The participants considered a case study used by Kirk Hanson at Stanford, involving the impact of genetic testing on business in general and the insurance industry in particular. The participants were asked to address this issue as an indicator of how companies answer ethical questions.

"Genetic testing is one means of determining susceptibility to certain

> hazards and can be done from a sample of blood or other bodily fluid. Such tests...offer a basis on which to minimize the risks from exposure to certain health hazards and the possible tragedy of chronic or terminal diseases....Genetic testing can be used for either screening or monitoring purposes....some companies believed that genetic testing might give them a degree of protection from liability if a worker chose to stay in a job after being notified that he or she was genetically susceptible to a disease that could be triggered by exposure in the workplace...."*
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> **Excerpted from "Genetic Testing in the Workplace," by David P. Boson, published by the Graduate School of Business, Stanford University.* *Copyright © 1998 by the Board of Trustees of the Leland Stanford Junior University; all rights reserved.*

Among a number of questions, the Stanford University case asks whether unfair discrimination may result when an individual is found to have a genetic abnormality, as well as who should be informed of genetic test results. The case also asks whether there should be prohibitions against using genetic information to determine eligibility for insurance and to set premiums, and how basing insurance decisions on genetic traits differs from basing them on pre-existing health conditions.

How is an executive to deal with such a cutting-edge issue?

The participants' initial approach to how genetic testing would affect insurance was to be clear about the function of insurance: risk management. With insurance, coverage is provided to a selected pool of individuals. Genetic screening is one way to obtain information about the risk factors of individuals who want to be in the pool. At first glance it seems desirable to acquire such information to determine whether individuals at risk should be excluded from the pool. However, this approach raises questions.

- On what basis should people be let into the pool?
- While insurance companies and fellow risk poolers have a right to some information about applicants to the pool, do they have a right to information that can be acquired by means such as genetic testing?
- Does genetic testing reveal too much information?
- Would it close out too many of those desiring insurance?
- Would it shrink the pool unduly?
- Would companies that don't require genetic testing suffer adverse selection?

Several executives noted that it is important to keep in mind that one of the primary goals of insurance companies is to grow and prosper by selling insurance, not by denying it. Companies are not looking for ways to exclude people and shrink the pool. However, there are still issues of fairness in providing affordable insurance to all the people who are in the pool, which may result in reducing the number of high-risk individuals.

Genetic testing: Issues of fairness
in providing affordable insurance...

To clarify the problem, Bob Senkler used an example of a voluntary insurance environment where a small number of people were in a pool in which one person had Huntington's Disease with a 50 percent chance of dying soon. Does the insurer, for the sake of the expense of the risk management for other members of the group, have the right to know that? He said that, with a small group that was pooling voluntarily, the insurance industry believes it has the right to any information that is known to the participants. As an applicant, if I know my presence in the pool will substantially raise the costs to others, then shouldn't the companies have a right to know that, if it is information they deem important and they require it of everyone else?

Sam Foti raised the paradox of insuring risk: If the onset and progression of most diseases could be predicted, then that would diminish the risk management element. Since it is the lack of knowledge that makes the insurance product valuable, too much knowledge would eliminate the insurance business.

The discussion turned to the question of what drives a company to consider a person to be "uninsurable." Is it the responsibility of companies to insure everyone at a certain price? Will the future give rise to mandated universal coverage?

Pat Werhane questioned whether the industry had a right to information that was not voluntarily gathered. Bob Senkler noted that insurance companies have a right to engage in investigations of a claim. One could add that they also have a responsibility to the other policyholders to check on the legitimacy of claims, and to conduct sufficient investigation for prudent underwriting.

Laura Nash was interested about the rules governing information used to exclude people or to calculate risk. Upon examining requirements for the use of testing or screening information, the participants generally agreed upon the principles of "voluntariness" and equality of information—that is, that providing genetic testing information should be voluntary and, if requested of one, it should be requested of all customers.

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and equality of genetic testing information...

The conversations turned to discussing what the actual capabilities of genetic testing are and what can be learned from it. Drayton Nabers suggested that genetic testing might not be necessary since, in fact, most policies are contestable within a two-year period and it was not clear how much productive capability genetic testing has, and for how far out. He noted that there are already great predictors of longevity without genetic testing and that legislation in the United States would probably kill genetic testing anyway. Jim Mitchell noted that even with genetic testing, you could not know the exact date of death.

Nash wondered about the impact of genetic testing on privacy and how this information would be controlled. It was noted that the insurance industry has a strong track record in safeguarding confidential information. Hanson wondered whether there is surveillance to check on whether voluntary reporting is accurate. In response, Nabers noted that most investigations are for claims on disability policies, not for issuing insurance. Foti pointed out that he did not think most people were aware that the insurance industry is legally permitted to, does, and should monitor fraud on disability claims.

Talk of disability insurance, with its attendant claim "surveillance" issues, moved the discussion to how companies handle what Foti described as "undesirable business." He said his company has chosen not to participate in certain areas of business, such as disability insurance, believing they may be undesirable for any of three reasons:

- From a public relations perspective it can get the company involved in messy operations, such as monitoring or denying claims, with which the public will not be sympathetic.
- The business doesn't sit well with the conscience of those engaging in it.
- From an economic perspective it just won't make the company enough money.

Ron Duska asked if companies didn't have the responsibility to remain in some undesirable areas of business. This led to a discussion of viatical insurance practices. Foti's company will not deal with viaticals because of the fact that the insurance company wins if people die early. This puts the company in direct conflict with their customer. Senkler noted that the living benefit is a cleaner version of viatical insurance. It finances long-term care. This was his company's preferred solution to undesirable products—to see a need and create a viable solution, while avoiding the undesirable aspects.

Nash indicated that the disability insurance business had not always been seen as undesirable, but that with the proliferation of lawsuits against the industry, the environmental conditions had changed.

The conversation then turned to the impact of gene therapy on the life insurance industry. Bruce Nicholson said that radical improvements in gene therapy might not leave much of a life insurance industry. The expectation of life since 1900 has doubled through improving medical

care. It may double again in 20 years based on gene therapy. That would make long-term care and annuities much more important products than life insurance.

Pat Werhane wondered how the insurance industry would create other opportunities for business with all these changes. Since longer life expectancy reduces the market for life insurance, where would the insurance companies go?

Sam Foti expressed concern that in the face of the life insurance industry survival issue, not enough people in the industry are deciding things based on their company's core values or mission statement. Companies must remember what they are. If the companies become simply cash accumulators, that may deflect them from their original purpose, since they would no longer be insurance companies.

The discussion of genetic testing concluded with the following questions that need to be adequately addressed to handle issues like genetic testing:

- What is fair to the prospective insured, the already insured, and the companies?
- What will be the ethical way for insurance companies to handle the increasing problems of protecting and/or invading privacy?
- How will insurance companies appropriately adapt to new markets and new technologies?

What organizational processes facilitate ethical behavior in companies?

"Ethics is good business." In the afternoon session, the group was to address this popular mantra of the financial services industry. However, the participants first dealt with the question of what practices are necessary to develop an ethical organization. The group identified and discussed the following:

- commitment of the leader to ethics;
- accessibility to the leader by others in the organization;
- openness and integrity;
- the use of stories to illustrate desired behavior;
- compensation systems aligned with ethical values;
- ethics audits; and
- early detection of problems.

Commitment

It was generally agreed that the most important factor in having an ethical company was to have the chief executive committed to ethical practices. CEOs must constantly attempt to "walk the talk," and explain their decisions in terms of the values of their organizations.

Accessibility

People need to feel comfortable calling the leader about areas of ethical concern. Drayton Nabers said he has tried to create an open organization where people feel free to communicate with him. He has an open-door policy regarding matters of integrity.

Openness and integrity

Nabers stated his company believes that "Sunlight is the best disinfectant," and that "Integrity trumps the numbers every time." Several members of the group noted that the business ethics literature is filled with stories of companies getting into trouble by trying to hide things. This includes lower-level managers keeping information from executives higher up in the chain of command, and companies trying to hide things from the public. Eventually the truth usually comes out.

Nabers: *Sunlight is the best disinfectant....*

Stories

Several participants reiterated the theme that stories are an effective strategy for facilitating ethical behavior since they convey pictures of what counts as ethical behavior. Stories encourage such behavior by giving an example of how a role model would make decisions ethically. Kirk Hanson noted that stories and anecdotes carry the message and content for teaching ethical behavior. A good example is the Johnson and Johnson voluntary recall of Tylenol. Stories from one's own organization can be even more effective. Further, if one wants to assess the ethics of a culture, an effective way is to discover the stories that govern the culture. If stories about a sales manager who exploits people are the usual fare, the culture will embrace that kind of behavior.

Motivation through compensation

Perhaps no industry has been taught the lesson of the effects of compensation structures on behavior as forcefully as the insurance industry. Front-end loaded commissions drove a large number of the needless replacements in the 1980s that led to the civil-suit settlements in the 1990s. The group generally agreed that compensation needs to be aligned so that it rewards behavior that reflects ethical values. Compensation packages that encourage unethical behavior need to be revised. Bruce Nicholson stated that his company has offered incentives to employees who achieve ethical goals. Most in the group agreed that the compensation systems have to be studied and examined in light of whether and how they affect ethical performance. Jim Mitchell described American Express' policy of basing 25 percent of each supervisor's annual bonus on the results of a "360-degree feedback mechanism" that asks about the extent to which that supervisor practices the corporate values.

Ethics audits

Some participants wondered whether and how a company and its employees could be evaluated on ethical behavior. Would it be necessary to set up some sort of ethical behavior audits? Pat Werhane cited the fact that Unilever encourages "triple-bottom-line" results—they measure environmental benefits and social benefits along with profits. Nicholson noted that the Lutheran Brotherhood has gone to a "balanced scorecard."

Early detection of problems

Bob Senkler said that early detection of problems was key to steering an ethical course. The more quickly a problem is detected, the more quickly it can be fixed. However, he noted the importance of not "shooting the messenger"—the person who brings the problem to the attention of senior management.

But how does one know whether these practices are successful? Sam Weese wondered how the executives know they have been successful in promoting ethics among their people. Could it be that employees are just agreeing with executives because they are the bosses?

Senkler: *Growth is a byproduct of sticking to the fundamentals of your business....*

Mike Hoffman stated that one way bosses can know if they have been successful in promoting an ethical culture is if ethical dialogue and openness is present. For example, does your staff feel comfortable in helping you avoid ethical mistakes by challenging your decisions and behavior?

Senkler suggested that external criteria are a measure of success with ethics programs. He suggested that organizations should ask why and how they are attaining growth and what created it. "Growth is a byproduct of sticking to the fundamentals of your business," he said. In this way growth could be an external measure of ethical success but only if it is checked against one's basic commitment of fidelity to clients.

What are the advantages for a company in acting ethically?

The discussion returned to examining the truth of the statement "Good ethics is good business."

Is it really advantageous for organizations to operate with consistent ethics? Jim Mitchell recalled for the group that Jay Forrester, professor emeritus of the Sloan School of Management at MIT, estimated that most organizations waste 75 percent of their energy in internal bickering and in-fighting and direct only 25 percent of their energy toward serving customers. In Mitchell's view, a highly ethical organization should be able to direct much more than 25 percent of its energy toward its customers, creating the opportunity to make the economic "pie" bigger so that each of the constituencies could obtain a bigger piece. Drayton Nabers maintained that in today's service economy, only companies that provide good service (that is, fairly and ethically) will survive. Nabers claimed that a company without integrity wouldn't flourish that long; rather, it would have a life of six to seven years. He said he believed there is a direct correlation between success and failure in companies, depending on whether they operate with or without integrity.

Mitchell: *A highly ethical organization should be able to direct much more than 25 percent of its energy toward its customers....*

However, some of the group thought that it was possible for companies that engage in dubious ethical practices to succeed. Sam Weese asked what had happened in cases of insurance companies that seem to have flourished even while engaging in questionable replacement practices.

Tom Dunfee suggested that while good ethics is *usually* good business, that is not always the case. He believes there are cases of unethical companies surviving and sometimes thriving. So there must be another motive for being ethical besides advantages. However, whether Dunfee was correct, Nabers reiterated that, with his company, "In difficult decisions, integrity trumps the numbers every time."

Ron Duska pressed the issue by asking whether integrity always wins out over the numbers. He raised the challenges to remaining ethical that companies face when confronted by the fourth-quarter pressure for profits. Fourth-quarter attempts to meet goals seemed to create a culture that short-changed ethics--for example, by encouraging the notorious habit of easing underwriting restrictions to help bolster sales.

Nabers said he believed that was a distorted view. There is nothing wrong with that pressure. Ethical organizations can handle the pressure of increasing the bottom line because it is always there. However, he noted that growth and business projections should be realistically achievable to help alleviate undue pressure.

Bob Senkler noted that, when ethical problems are detected, his company does not worry about the economics of a problem. They just get it fixed. The advantages might be long term only, but short-term thinking about economic advantages in the face of a problem is counterproductive.

How can one tell if good ethics leads to good business? Are there any studies that show good ethics *is* good business? Laura Nash stated that there are studies about the effects of ethics on corporations, but said she thought that empirical data do not show that companies that behave ethically are more productive and profitable. Current studies of this issue seem to be indeterminate.

Michael Hoffman agreed with Drayton Nabers, in there being a correlation between success and integrity. Hoffman stated that there are studies that show employees are more loyal to a company with ethical values. These employees are also more apt to report unethical behavior. Employees who do not report unethical behavior usually cite two reasons: 1) they fear retaliation, and 2) they believe nothing will happen anyway. Hence, a leader must set up procedures for protecting those who report unethical behavior and making sure reforms are pursued. This means the leader must be accessible.

Pat Werhane mentioned a study by Trevino and Weaver that shows companies with ethics departments have fewer problems with compliance than companies that have compliance departments. Their studies show that the ethical tenor of a company is raised if they have an ethics program over and above a compliance program.

At this point Weese asked whether The Insurance Marketplace Standards Association (IMSA) has been effective in improving sales practices in the insurance industry. A brief discussion ensued about the pros and cons of this organization. Bob Senkler stated that the organization has three goals: 1) to bestow a type of "Good Housekeeping" seal of approval on insurance companies, 2) to persuade insurance companies to live according to standards set by IMSA, and 3) to seek ways to enforce these standards. All three of these parts need to function effectively for IMSA to be effective.

What are the obstacles to ethical behavior in organizations?

The final session of the day began with a consideration of what the participants saw as obstacles to ethical behavior in companies and how these obstacles might be overcome. A number of people suggested that the group might be looking at things through rose-colored glasses. Ron Duska claimed that some agents he works with are unhappy with the pressures from insurance companies to sell their products. For example, some agents think they have seen annuities sold to people for whom they were not suitable. There was a brief discussion of bonus annuities and the ethics of companies who participate in selling them and companies that do not. This raised the issue of how ethical companies can avoid being at an economic disadvantage if they refuse to sell products they deem unsuitable, but which other companies have no qualms about selling.

Bruce Nicholson expressed concern that there are areas in the industry with no real growth—where agents are getting paid for mere transactions, not for creating value for customers. Part of this is due to front-end-loaded commissions, cited as an obstacle to ethical behavior since they may incent transactional sales, and not the creation of value.

Bruce Nicholson, Laura Nash, Drayton Nabers, and Ron Duska wondered whether an obstacle to being ethical can be self-denial—when a company believes it is ethical, thereby bringing about a fall. This hubris was characterized as pride, arrogance, or being in denial. Believing that we are ethical and becoming complacent about it can lead to real trouble.

Hanson: *Running an ethical organization takes time and commitment.*

Duska suggested it is important to remember that the best of people are susceptible to unethical behavior. He told the story of Abraham Lincoln, who threw a man out of his office. A cabinet member asked Abe what happened. Abe said, "He tried to bribe me." "Is that why you threw him out?" the cabinet member asked. "No," said Abe, "I threw him out because he got too close to my price." Duska said that the lesson of the story is always to be humble about the ability to overcome forces that motivate one to act unethically on the individual or corporate level. Everyone is capable of falling.

A major obstacle to ethical behavior is pressure from stockholders, policyholders, and boards for bottom-line success. Kirk Hanson suggested that most of us know how to judge what is right and wrong, he said. The real problem is putting structures in place that lead to ethical behavior. Hanson stated that there is no simple or definable model for making decisions. It is a process, not a checklist. Running an ethical organization takes time and commitment.

Conclusions

At this point the participants summed up the discussions of the day. They developed a list of suggestions, which could be added to the processes defined above for enabling ethical behavior in organizations.

- Organizations must be clear about ethical values.
- It is helpful to tell stories about heroes in organizations.
- It is important to recognize people who demonstrate ethical values. Jim Mitchell noted that his company recognized people who demonstrate its values with "Values in Practice" awards.
- Organizations need a process for individuals to discuss ethical questions with peers and others.
- A leader has to make hard decisions and then talk about them.

- A leader must know where a company is going, and know and communicate why it is worth making sacrifices for. (Again, the theme of core values arose.)
- A CEO has to "walk the talk."
- Leaders also need to be ready to talk about bad decisions they made and why they went wrong. As Bob Senkler noted, there is enormous value in looking at the bad things that happened in the industry.
- Little things mean a lot. Discussions developed about how little things are important for ethical and effective leadership. The disrespect demonstrated by the use of four-letter words—and their inappropriateness—was noted as an example.
- Finally, it is extremely important to be clear about what constituencies one serves, and the order of service priority under various sets of circumstances. The participants generally agreed that in the past the companies paid too much attention to the needs of career agents rather than to the needs of clients. With the changes in the industry, priorities need readjustment. This will create tension within an organization, but it is a necessary part of being an ethical leader.

Motivating ethical behavior

Bob Senkler said that it was important that employees know the priorities of their leaders and that at his company they use the newspaper in senior management meetings to look for problems in other companies and then to find out if those problems exist in his. He wants to make sure his middle management discusses ethics at their meetings. Ron Duska asked if there were troubleshooters in the company to look for problems. Drayton Nabers said his company has a yearly risk assessment program in which every manager lists potential problems. He emphasized that what they do not know can really hurt them.

A CEO has to "walk the talk."...

In summary, the group agreed that explicitly encouraging ethical behavior can reduce problems in companies. Helping employees know what behaviors to avoid is important, as is a proper assessment process and reward system that reinforces the pursuit of the core values.

Conclusions

The session concluded with reflections about what to take away from the meeting. Nabers mentioned the importance of thinking more deeply about one's organization to find out what one doesn't know, because what one doesn't know can certainly hurt. The executive "practitioners" agreed that this forum provided them with such an opportunity. Dunfee, Werhane, and Hanson expressed the gratitude of all the "philosophers" to the CEOs who took time from their busy schedules to spend the day concentrating on ethical issues. The dialogue helped the "philosophers" come away with a better understanding of the nature of the industry and the ethical issues and pressures faced by its companies—an understanding that, as Nash said, will aid them in talking with students and encouraging support for ethics from their institutions.

- **Executive Summary**

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