2002 Proceedings

SECOND ANNUAL
FORUM ON ETHICAL LEADERSHIP

THE JAMES A. AND LINDA R. MITCHELL/AMERICAN COLLEGE FORUM ON ETHICAL LEADERSHIP IN FINANCIAL SERVICES

THE AMERICAN COLLEGE
THE LEADER IN FINANCIAL SERVICES EDUCATION

The second annual James A. and Linda R. Mitchell/American College Forum on Ethical Leadership in Financial Services took place January 19, 2002, in Boca Raton, Florida. As in the first forum, this day-long meeting involved six financial services company executives and six business ethicists from academia. The participants who convened to discuss contemporary ethical issues that confront the financial services industry included:

On the cover: MDRT Foundation Hall, on the campus of The American College, Bryn Mawr, Pennsylvania.

The practitioners:

James A. Mitchell, Chairman and Chief Executive Officer (Retired), IDS Life Insurance Company, Minneapolis, Minnesota (Host)

Richard A. Liddy, Chairman, GenAmerica Financial Corporation, St. Louis, Missouri

Larry R. Pike, Chairman of the Board, Union Central Life Insurance Company, Cincinnati, Ohio

Frederick J. Sievert, Vice Chairman of the Board, New York Life Insurance Company, New York, New York

Ronald E. Timpe, Chairman, President, and Chief Executive Officer, Stancorp Financial Group, Portland, Oregon

Charles R. Wright, Executive Vice President and Chief Agency and Marketing Officer, State Farm Insurance Companies, Bloomington, Illinois

The business ethicists:

Ronald F. Duska, The Charles Lamont Post Chair of Ethics and the Professions and Professor of Ethics, The American College, Bryn Mawr, Pennsylvania (Co-Host)

Norman E. Bowie, The Elmer L. Andersen Chair of Business Ethics, Carlson School of Management, University of Minnesota, Minneapolis, Minnesota

Thomas Donaldson, The Mark O. Winkleman Professor of Legal Studies, Director of the Wharton Ethics Program, The Wharton School, The University of Pennsylvania, Philadelphia, Pennsylvania

Laura L. Nash, Senior Research Fellow, Harvard Business School, Harvard University, Cambridge, Massachusetts

Robert C. Solomon, The Quincey Lee Centennial Professor of Business and Philosophy, The University of Texas at Austin, Austin, Texas

Patricia H. Werhane, The Ruffin Chair of Business Ethics, Darden School, The University of Virginia, Charlottesville, Virginia

Executive Summary

The James A. and Linda R. Mitchell/American College Second Annual Forum on Ethical Leadership in Financial Services took place January 19 in Boca Raton, Florida. The forum was unique in bringing together six senior financial services industry executives with six business ethicists from prestigious universities. The forum was expected to provide a day of dialogue and reflection on ethical issues facing leaders in the financial services industry. Both the academics and the practitioners hoped that the day would "raise the bar" in terms of sophisticated ways of thinking about conducting business with integrity and exploring the role of the leader in bringing ethics to the organization.

This year's forum is the latest in The American College's continuing efforts to emphasize the importance of ethics in the financial services industry. The forum, founded by the retired chairman and chief executive officer of IDS and his wife and funded by the College's Mitchell Center for Ethical Leadership, is the institution's most recent response to the challenge posed by Solomon S. Huebner when he cofounded the College 75 years ago—that ethical behavior was critical to ensuring professionalism in this industry.

The group began by discussing whether it was true that good ethics makes for good business. In general, the executives thought that, in the long run, that was the case. Even in the short run, when faced with the choice between lower profits and an ethical path, the enlightened leader will (and should) choose the latter. Academics and executives both agreed that pursuing ethics for profit motives is not the only reason to do the right thing. At times one must just do what's right.

The focus then turned to the discussion of various cases. The first case dealt with the disturbing practice of raiding other companies' agents and producers. The case was based on a real instance in which an insurance company was practically dismantled by a rival company, which hired away the first company's general agent as a way to recruit people from the first company's largest agency. The clear intent of the rival firm was to induce those agents to bring along their books of business.

The group discussed the circumstances under which hiring other companies' agents is acceptable. Clearly, circumventing restrictions in the manager's contract that prohibited this practice was not. All agreed that encouraging recruited agents to "move their books of business" is unethical. This led to a discussion of the problem of to what degree a new hiree could safely share information about relationships formed with others at the prior company.

The issue of the "sanctity of contracts" arose in this context because, in this case, the manager had a noncompete contract with his first employer. How inviolable are contracts, particularly in an industry that depends on the sanctity of contracts? How much loyalty is owed to one company over another? What happens when contracts outlive their usefulness? All of these questions were discussed in the context of the case.

Next, several of the participants offered for discussion situations, or "dilemmas," that they had personally experienced. These scenarios led to dialogue about the following issues.

- What happens when a young executive, relying on his own ethical intuition, decides to investigate a high-profile producer for ethical reasons and, even in the face of opposition from superiors, eventually to suspend the producer?
- Should a company pay a disputed death claim, when it seems like the right thing to do, even though it was not technically required by company policy?
- Should a company terminate or discipline a veteran reliable producer when, as a newly minted manager, she encouraged unacceptable sales practices and then tried to cover them up?
- What sorts of ethical constraints fall upon a chief executive officer when he is resetting rates on existing annuity contracts?

After discussing the scenarios, the group examined what is needed to foster an ethical climate within an organization. The group discussed the importance of company leaders—at all levels of their organizations—serving as ethical role models for others. The group shared different techniques that they have used or recommended for driving ethics through the company. Finally, the group emphasized the importance of sharing positive stories of how individuals in companies have dealt ethically with controversial situations. These positive stories provide the role models for ethical behavior.

In conclusion, the participants believed the day was valuable time spent in reflecting on the day-to-day ethical challenges of business and ways they could instill ethical practices in their organizations. Taking time out to "just talk" among themselves about these issues would help them, they said, to encourage ethical decision-making and effect change where necessary.

Sharing perspectives at the Mitchell Ethics Forum are (from left) Chuck Wright, State Farm Insurance Companies; Ron Timpe, Stancorp Financial Group; host Jim Mitchell, IDS Life Insurance Company (retired); and co-host Ron Duska, The American College.

The Proceedings

Hopes for the Day

In the forum's opening round, business executives and ethicists shared their observations about the ethical issues facing the financial services industry and their goals as participants in the roundtable.

Ron Duska, co-host of the forum and holder of The Charles Lamont Post Chair of Ethics and the Professions at The American College, opened the discussion and expressed hope that this year's forum would provide an opportunity for dialogue between leaders in the financial services industry and business ethicists. He hoped that it could be as successful as the previous forum in bridging the gap between philosophers and practitioners. He noted that the forum fulfills one of the missions of The American College, as founded by Solomon Huebner—to assure that ethics and professionalism would permeate the financial services industry.

Tom Donaldson, The Mark O. Winkleman Professor of Legal Studies at The Wharton School, saw the forum as an important step in the evolution of business ethics, an area of study that has grown immensely since the 1970s. He said that the forum opens up a unique opportunity for dialogue between practitioners and philosophers that could result in increased sophistication in combining issues of integrity with issues of commerce. This type of event—designed to bring together people in leadership positions, poised at the very front line of activity in business, with people engaged academically with the issues—offers an opportunity to raise the discourse to another level.

Duska: The forum fulfills one of the missions of The American College, as founded by Solomon Huebner....

Dick Liddy, chairman of GenAmerica Financial Corporation, pointed out that ethical issues do not come nicely packaged and labeled. He said he wanted to compare his experiences in handling ethical issues with others' experiences. He also said he is intrigued by whether or not the different life experiences of today's leaders have caused companies to approach ethics in a different way. He observed that leadership today comes largely from a generation of people who have never really known hardship.

Fred Sievert, vice chairman of the board of New York Life Insurance Company, pointed out that his company really believes that good ethics makes good business. He said New York Life has put into place extensive training programs in ethics, but that all the training, literature, and communications in business ethics do not guarantee strong ethical behavior throughout an organization. Organizations are collections of individuals, each one of whom has his or her own set of moral values and ethical beliefs. He told the group that what he would like to do is to talk about ways that leaders can instill good ethical

Tom Donaldson (left) of The Wharton School, University of Pennsylvania, joins Dick Liddy (second from left), GenAmerica Financial Corporation, and Fred Sievert, New York Life Insurance Company, in discussing the cases of the day.

practices in their organizations, and what they can do to reinforce, recognize, and reward ethical behavior and decision-making—the key to promoting ethics in organizations.

Larry Pike, chairman of the board of Union Central Life Insurance Company, indicated that he is looking forward to a discussion of how leaders can make sure the movement that emphasizes ethics continues. Ethics is not about the bottom-line financial statement or return on equity, he contended, but about how you treat people and resolve conflicts as you work. "Once you put a stake in the ground that ethics is your position as the CEO, you put a tremendous amount of pressure on yourself," he commented, "because once you have committed to managing ethically, everyone is watching you, and one misstep can destroy five years of work. In short, you have to 'walk the talk.'"

"Once you have committed to managing ethically...you have to 'walk the talk.'"—Pike

Laura Nash, senior research fellow at Harvard Business School, recommended diversifying the voices with which universities and businesses ask ethical questions and staying open to the answers those questions elicit. Nash started out as a classicist and likes to go from listening to the voices of the ancient Greeks about leadership, to the modern sounds of contemporary business executives when they talk about business ethics issues. She makes a career of listening to diverse voices that ask the questions and talk about their values and their leadership experiences. Currently she is investigating people's notions of success, which is extremely valuable in resolving ethical issues. Consequently, she said, such a dialogue as provided by the forum fits nicely into her program.

Bob Solomon, The Quincy Lee Centennial Professor of Business and Philosophy at The University of Texas at Austin, said that he approached business ethics as a philosopher, thinking about questions like "What is the good life?" and "How does that apply to the world of business?" Rather than policy issues, which most employees can do nothing about, he is intrigued by questions of personal responsibility, personal character, and personal virtue. For him the good corporation is one where people know who they are, what they are doing, and how they fit together and fit into the well-being of the larger society. He saw the day's conversation as being important in helping further this type of discourse. He maintained that people are not "hard wired" but are ethically malleable throughout their lives, and they tend to be influenced by the groups with which they associate. While this malleability can lead them simply to reinforce ethical prejudices that they already have, it can also enable them to shed those prejudices rather quickly when they are exposed to a new ethical mindset.

Werhane: You don't do ethics in the morning and the evening and then go to work to do business.

Norm Bowie, holder of The Elmer L. Andersen Chair of Business Ethics at the Carlson School of Management at the University of Minnesota, pointed out that even though Arthur Andersen had extensive ethics programs, it still did not prevent the company from destroying Enron-related documents. Consequently, he said he feared that the area of business ethics was actually behind where it had been in the 1970s. His experience also leads him to be interested in determining which of the issues are problems of individual responsibility and which are problems of systems. In the context of the forum, he asked, how many of the issues faced are issues about leadership and how many are the result of systems? Can there be a group of people that make a difference, and can a group such as this one be one of those? He said he was participating in the forum in the hope that, as a group, participants could shift the momentum toward making such a difference.

Pat Werhane, holder of the Ruffin Chair of Business Ethics at The University of Virginia's Darden School, indicated she works off the assumption that most business people are good people. Darden's ethics program tries to show how ethical values are really integrated into business—that you don't do ethics in the morning and the evening and then go to work to do business. She focuses on what causes good managers to behave ethically, and so believes it is important to think about how to integrate ethics all the way down and through the organization. There may be very good people at the top, but sometimes there are some not very good things going on in the middle. In light of the recent Enron scandal, she commented on the difficulty of reinforcing ethical values throughout an organization and expressed her concern about cases in which good managers get involved in unethical situations from which they are unable to extricate themselves.

Chuck Wright, executive vice president and chief agency and marketing officer of State Farm, noted that the company was founded in 1922 by a farmer who felt that farmers were getting a raw deal on auto insurance. So the company was started to right an ethical wrong. He emphasized that State Farm is meticulous in its concern over ethics.

Wright related how the company once dismissed 53 individuals who participated in a scheme where somebody had given each of them a $1,000 cashier check made out to an obscure college, to endorse and submit to the company with a form they were to sign for a matching grant. The company had given the school $53,000. A senior member of the administration who was investigating this case thought discussing the issue was irrelevant since the company wouldn't fire 53 people, but the company did fire them because of the obfuscation encountered when talking with the people. After a termination review, half the firings stood up.

This is not a systems solution, this is a leadership solution, Wright said. He noted that even companies with strong ethical foundations encounter unethical behavior and that exposure to ethical dilemmas is ongoing. How individuals handle these dilemmas can be a turning point in that person's career and in that company's behavior.

Ron Timpe, chairman, president, and CEO of Stancorp Financial Group, indicated that his company was founded by a group of people in Portland, Oregon, who wanted a local company that could take care of their needs and service their claims without depending on big companies in the East. He underscored the importance of building strong relationships in business and the community to perpetuate ethical behavior. He also observed that doing "what's right" becomes increasingly difficult as the number of constituencies a company serves multiplies, particularly when those constituencies compete or conflict. He indicated that his company's recent change from a mutual company to a stockholder-owned company added one more constituent to be served.

Mitchell: The forum serves as a catalyst to encourage a conversation among financial services executives and ethicists.

Jim Mitchell, sponsor of the forum, concluded the opening remarks by indicating that one of his goals in establishing the forum was to provide adequate time for executives to reflect. While that is "baked" into the job of philosophers, he said, he thinks most executives do not take sufficient time to step back and think about what is the right thing to do. He hopes the forum will provide a catalyst to encourage a conversation among financial services executives and ethicists. His hope is that if he can encourage people to reflect on what is good, true, and right, they will come up with good answers. He said his goal at the forum is to promote the business case for ethical leadership, since one "can actually make the whole economic pie bigger if one can develop an ethical organization." He noted that an ethical organization leads to people being more engaged in their work, which is being increasingly recognized as an important component of a successful organization.

Is good ethics good business?

Mitchell's opening comments triggered a lively discussion of the question of whether ethical behavior in organizations pays off. Mitchell cited the work of a survey conducted just last year by management practices expert Marcus Buckingham that found that 26 percent of American workers are "engaged" (loyal and productive), while 55 percent are "just putting in time" and 19 percent consider themselves "actively disengaged" (unhappy and spreading their discontent). What if a company got most of its employees "engaged"? It could more than double its productivity, Mitchell asserted. He said he believes that less wasted effort is the essence of why ethical leadership is actually more profitable as well.

Werhane noted that organizational behavior specialist Jeffrey Pfeiffer made the argument that developing your employees pays off. Laura Nash added that in a new book, *Good Work,* Howard Gardner, Bill Damon, and Mihaly Czikscetmihalyi, compared the professions of biogeneticist and journalist. "They found that one is a very deflated, pessimistic, disillusioned group—the journalists—while the biogeneticists are very upbeat and excited," she said. "It points out that when people do good work—work that is contributing to society effectively—they feel good."

However, Pike had a concern: Suppose you can't prove that there is an advantage to ethical behavior. One still needs to treat people right. "So we should still decide that we are going to do the ethical thing whether we get a better bottom line or not," he said. "And I don't like to see that we have to prove that ethics pays off."

Solomon: Good ethics and a better bottom line are not antitheses.

Solomon raised the question of whether "managing" employees is necessarily treating them right. Sievert pursued it, noting that New York Life is especially noteworthy for establishing systems and training. An employee survey showed that 80 percent of them strongly agreed that employees exhibit ethical business behavior, and 86 percent know where to go in the organization to get assistance when there is an ethics problem.

In response to Solomon's question, Pike responded that you try to guide the employees in the training by determining what they want. Solomon then raised the point that perhaps they "don't always know what they want." In that case, there is a place for what he called "enlightened leadership" to give employees opportunities to better themselves—to make their jobs more exciting, to be more creative. However, he added, "At what point can you use what I will loosely call 'enlightenment' as an excuse to interfere with your workers, but in a way that's positive for you and for them?"

Mitchell suggested that what he wants is to get employees excited about serving customers. Building employee satisfaction is a good possible outcome, but it is not the primary goal. In his corporate experiences, he said, he would convey this goal of placing the customer first to every employee and prospective employee. "This is what we stand for, and if you want to behave that way you should want to come here; and if you don't, you should not." Mitchell noted that a number of people self-selected out, but the ones that selected "in" were focused on serving customers well.

Werhane made the point that not one size fits all. Some employees want to be left alone, others need challenges and want to participate. With all the talk of participatory management, it is still a fact that some people don't want to participate.

Guests at the dinner that concluded the forum are (from left) Sandy Pike and her husband, Larry Pike, Union Central Life Insurance Company; Ron Timpe, Stancorp Financial Group, and his wife, Ivy Timpe; co-host Ron Duska, The American College; and Pat Werhane, Darden School, The University of Virginia.

Donaldson noted that the conversation raised an interesting issue about how to keep score about ethical behavior. In Europe some conceive ethics more broadly so it involves not only customer satisfaction and shareholder wealth, but the environment and social contributions.

Nash wondered whether Pike and Mitchell disagreed about whether good ethics is good business. Pike thought that was not the case, reiterating that one does something because it is the right thing to do, not to achieve a better bottom line. Liddy interjected, "You also do it even if it jeopardizes your profits."

Solomon suggested that good ethics and a better bottom line are not antitheses. "There will be cases in which you have to choose between the ethical and profitability, but in 95 percent of the cases you can think of there will be no conflict at all. With a little bit of moral imagination even a stark moral dilemma might become a business opportunity."

Liddy noted that Wright's case where 53 agents were terminated was a painful decision that cost a lot of production, and Wright concurred that it was clearly unprofitable. However, Timpe suggested that the long-term implications were worth considering.

"In the longer term I think it was better," Wright said. "Sometimes it is tough to do in the short term. But if you do, it pays off in the long run because you are not dealing any longer with those kinds of activities that are not to be tolerated."

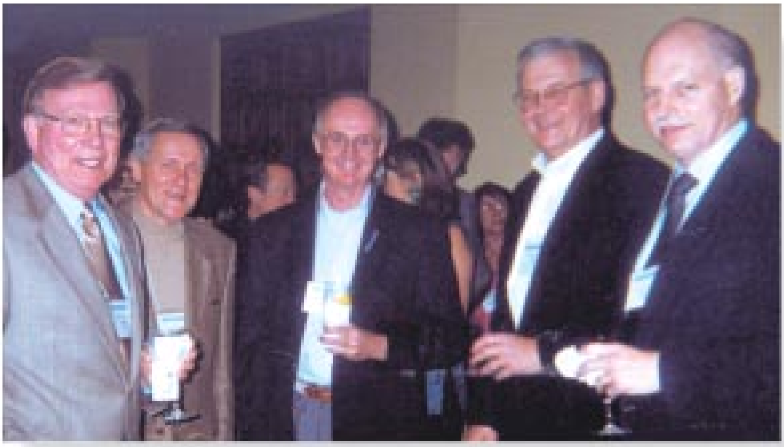
Liddy concurred. "Sometimes you do things not only because it is right but because it sends such a penetrating message to the whole organization. Sometimes it hits profits badly and is perhaps a more painful experience for a stock company where there are quarterly earnings reports, and it's not easy to explain why you did what hurt the quarter's earnings."

"I believe there is a strong correlation between good ethics and good business." —Sievert

Sievert stated that there are always examples where a specific ethical decision could hurt profitability in the short run, as in the business decisions made as a result of the events of September 11. Companies were not going to worry about death certificates and "extensive proof" that someone was in the building or, as Wright suggested, terrorism exclusions. The resulting humanitarian and ethical business decisions could hurt profitability, Sievert added.

However, he continued, "I believe there is a strong correlation between good ethics and good business. In our business, in most cases, the interface between the customer and the company is through the agent. If the agent is exhibiting strong ethical behavior, and the customer believes the agent is a person with strong business ethics, in the long term the persistency of our business—and persistency is probably the single greatest factor in future profitability—is significantly enhanced.

"I believe at corporate headquarters you are going to make some decisions that are the right ethical decisions and they are going to cost the company



Co-host and ethicist Ron Duska (fourth from left) of The American College welcomes corporate executives (from left) Larry Pike, Union Central Life Insurance Company; Chuck Wright, State Farm Life Insurance Companies; Dick Liddy, GenAmerica Financial Corporation; and Fred Sievert, New York Life Insurance Company.

in the short run. I do it everyday. But over the long haul, you know there are so many ways in which it is likely to enhance your long-term image, reputation, and profitability."

Bowie raised another issue: What about the companies in *Built to Last*? He said it seems that so many are not surviving the long term and many of them are ethically sound.

Donaldson suggested the problem was too large to solve. "My sense is the question put on the table is such a big gorilla that we are never going to cage it entirely. In other words, does good ethics in the long term converge with traditional performance profit or return on investment or whatever?

"We have a lot of data on that already. The survey that was done on that over a couple of years ago was interesting. The vast majority of international corporations showed a positive correlation."

"Preserving this activity of ethical behavior we are talking about—you do it because it's right." —Donaldson

Donaldson noted that some of the studies were not "lagged," so the "causal arrow" may not have been perfectly demonstrated. "But in a way, I'm not so sure it's bad that we don't know for certain. In one of his works, [the philosopher] Kant said—imagine what it would be like if we knew there was a heaven or a hell. Imagine if we knew for sure that our good acts would bring us to great everlasting pleasure and our bad acts to the flames. In effect, every moral act would become a self-interested and selfish act. Preserving this activity of ethical behavior we are talking about—you do it because it's right. I'm not so sure in the end it is so important that we know there is a direct convergence."

Case study: The ethics of agent recruitment

After the introductory comments, the participants considered the following case study.

A general agent of a life insurance company, who had built the largest agency in the company, was offered a job as the first-line manager for three merged agencies of a rival company. He explained that he had signed a noncompete contract that included the provision not "to induce agents to leave the company for a two-year period." He was assured that the merged agencies did not want to violate his contract or become embroiled in a lawsuit. They wanted to "build an agency, not recruit one." They offered him what he considered a "huge" guaranteed salary—which he tried to convince himself was warranted, based on his talent and track record. He took the job.

After about a month on the job at the new position, the vice president of the company and the legal counsel informed the manager that the company was going to assign someone to recruit the manager's former agents. Since that person and not the manager would be doing the recruiting, it would not be a violation of the manager's contract, they said.

Although the manager refused to supply a list of his former agents ranked by production history, he suggested ways that his new company could find such a list. At first, the company recruited agents without the manager's direct involvement. It wasn't long, however, before the company was leaving voice mail messages for potential recruits to call the manager about this "great opportunity and transition money." Ultimately, the manager and his new company recruited more than 20 people from the largest agency of the manager's former company. According to the manager, the new company's professionalism, educational programs, products, and services were far superior to the old company's, and the agents, for the most part, flourished in their new environment.

However, the loss of 20 agents virtually dismantled the manager's former company, and a 2-year federal court lawsuit ensued. More than 50 people were deposed, and the manager personally attended more than 200 hours of depositions. His new company supported him, calling the lawsuits merely the "cost of doing business." After all, its legal counsel devised the strategy to circumvent the covenant not to compete.

Listen to the manager's own words: "I didn't envision the consequential events and had stopped feeling very good about things long before the lawsuit. I still think it would pass the 'smell test' if I made the decision to join again today. But when I knew for sure that things were wrong, I didn't feel I had what I considered the 'luxury' of telling them that I opposed the plan and let the chips fall where they may. Maybe I thought of my family first or maybe I lacked courage, but when I interviewed with them I believed in their high integrity and never anticipated having to make this kind of call . . .

"Looking back, I should have demanded, up front, that no effort be made to recruit agents from the former company. Revealing the covenant, and receiving their approval to 'build a new agency, not recruit one' was not enough. Replacements were never done or anticipated, but the high moral ground must be maintained in every part."

There were costs—some tangible, some intangible. The old company eventually left the career business. The protracted litigation was expensive, and the accompanying stress it caused for all parties involved was damaging. Finally, there was the ethical cost to the manager by his failure to honor both the letter and the spirit of the noncompete contract.

As the manager concluded: "Wholesale raiding of a former employer's people is just not a defensible practice. Any rationalization to the contrary can only be considered as simply that."

Participants were asked to discuss their reactions to the case, keeping the following questions in mind:

- Who do you think acted ethically in this case? Who did not? Why?
- Have you ever personally experienced a situation similar to this in your company or in another company?
- To what extent are such practices widespread in the financial services industry? What are the implications?

The ethics of changing companies and raiding agents

In answer to the question about the extent of such practices, Pike said he thought that the story was not unusual and not atypical. "The industry is in a lot of turmoil, especially today. A lot of field forces are disturbed because of corporate decisions and change in direction or emphasis. . . . and when that happens agents become more likely to make a change."

Timpe suggested that the issue is much broader than raiding agents and raiding business. "If we lose an information technology person to another company, they know all of our staff and the ones they like and the ones to work with."

Pike: Companies are all better off if they do not raid each other.

Solomon suggested that it was not unethical to bring on an agent from another company. What *is* unethical is circumventing the restriction in the contract.

There was general agreement that it is not unethical to hire a manager or agent from another company if there is no contract prohibiting the practice, and there is no ethical issue involved if a manager brings agents from his or her former company to the new company if there are no restrictions on doing so.

From Sievert's perspective, there is no ethical problem in hiring an employee who happens to know other outstanding employees from the same company who would like to move to the new organization. It is not an ethical issue, he contended, as long as these agents are not being enticed to make the switch by an overly inflated salary or in violation of a prior nonsolicitation agreement.

Still, while the participants recognized that there is bound to be some "swapping" of financial services professionals among companies, they condone neither the "cannibalization" nor the "raiding" of the industry. In the long run, Pike said, companies are all better off if they do not raid each other, which he described as "disturbing the balance within the family." Nash agreed emphasizing that predatory behavior is detrimental to the industry.

But this all needed some qualification. The participants made an important distinction between hiring someone, say, in the systems or underwriting area—who simply brings personal knowledge and experience to his or her next job—and hiring a producer who brings a book of customers. There is a good possibility, Wright noted, that when producers change companies, they also bring clients and therefore disrupt the relationships those clients had with the agents' former companies. When agents are encouraged to move their books of business and then write replacement policies that are in the agents' and companies' best interests—but not the customers'—there is an ethical problem.

Using information

Solomon, bringing up a slightly different but related question, wondered where to draw the line when it comes to the transfer of information from one company to another. What is okay? What is a contract violation? What is ethical? Bringing one's expertise is different from bringing confidential information.

Panelists disagreed on these issues. Donaldson did not question the ethics of wooing agents by using information that developed out of a manager's earlier relationships with the agents at the manager's former company. Barring legal restrictions, he said, the transfer of information is just part of living in a free society. By contrast, Liddy perceived it as taking advantage of personal relationships in order to make recruiting work.

Sanctity of contracts

This led to a lengthy discussion of an aspect of the issue raised by Bowie—the issue of the sanctity of the contract. He said he believes that "contracts are absolutely sacred and are moral instruments," but that the harsh reality is that, as he was told by an attorney, contracts only work if they are between parties of equal power. The attorney claimed that contracts "are just another piece of business strategy . . . if you can use a contract to further your aim, you do it, and if you can break the contract and further your business aim, you do it."

Sievert: You may be able to renegotiate a contract. But to knowingly break it would be unethical.

There was vociferous denial that this is true. Timpe said, "I don't believe that." Wright agreed and added, "I don't believe that the majority of business entities operate by that dictum." However, Bowie said that his experience has led him to stand by his assertion that sometimes business strategy involves the breaking of contracts.

Sievert pointed out that while he asks the legal department to lay out legal risk, he would never view breaking a contract as a legitimate legal risk that he wanted to take. You may be able to renegotiate a contract. But to knowingly break it would be unethical.

Wright added that renegotiating is a pretty straightforward thing, but to assert that in every case, the stronger party views a contract as something they can break when dealing with a weaker party is something he doesn't believe.

Mitchell suggested that the forum participants may be a biased sample because insurance executives' jobs involve selling promises to other people that they need to keep 20, 30, or even 50 years later. As Nash summed up, "It is fundamental to the insurance culture."

The business leader meets the ethicist as Chuck Wright of State Farm Insurance Companies chats with Laura Nash of Harvard Business School.

Timpe added, "The only thing we have to sell is reputation. And if we don't have a trust in reputation, nobody should give us a penny of premium. And you have to protect that and not be cavalier in any kind of way because we're a small enough industry and will soon be found out. So we go over the essence of the contract and get a good feel for the spirit of the contract. To violate that isn't worth it in terms of reputation."

Donaldson suggested that the group ought to consider whether the market system works well or works poorly. If one does not assign some kind of sacredness to one's bond, word, or contract, increasing evidence suggests that the whole system doesn't work nearly as well.

Liddy observed that some industries and some people view contracts as situational. "You cannot rely altogether on the goodness of people enforcing the contract that is written," he commented. You need to know with whom you are dealing and their reputation for honoring their word.

Nash added an insight from Kenneth Arrow, who said that no matter how strong a contract is between a renter and a landlady, you still kind of want to know the character of the person renting the building. It comes down to this: Do you really know the fundamental character of the people representing the organization?

Concluding the contract discussion, Pike noted that one question is whether a company is going to challenge a contract. "You get a lawyer, who gives you the legalese. Sometimes you have a contract that is flawed and you want to see if there is a way to do what is right.

"But there is the situation when you have a contract where the person has not been served properly and you want to find a way to make the person whole," he continued. "For example, a spouse of an employee who signs a release for a life pension for the employee rather than a joint life pension. The spouse doesn't understand the full impact of the decision. The employee does

Also sharing in the evening's activities were Sandy Pike (wife of Larry Pike, Union Central Life Insurance Company) and Bob Solomon, The University of Texas at Austin.

understand, and the pension terminates on the employee's death. Do you find a way to make the survivor whole even though the contract is 'legal'?

"This is another way of looking at contracts that is not just negative," Pike concluded. "There is a way that an ethical manager should look at the contract. Ask: What is right in this case and what can I do about it? Can I do it in terms of what is right for everyone, including the company or organization as well?"

The ethical manager should look at a contract in terms of what is right for the company and what the manager can do to make the people served by the contract whole, Pike said. However, as Timpe noted, sometimes conditions change, and when that happens, the contract may no longer be an accurate reflection of the circumstances. Even when honorable people try to distill the true essence of the contract, he further noted, there can be differences of opinion.

Whatever the situation with contracts generally, all agreed that the manager in the case study above had acted unethically. At what point he lost his ethical footing was open to debate.

When did the manager lose his ethical footing?

Bowie believed that the manager remained on ethical ground (albeit shaky) until he personally answered voice mails and spoke to his former agents about recruiting them to his new company. For Liddy, the "watershed point" was earlier than that. He asked, why didn't the manager take a stand when the new company's legal counsel told him that assigning someone to recruit his former agents did not violate the noncompete contract?

Nash: The compensation [in the case] should never have passed the "stink" test.

For Werhane, the manager's ethical downfall occurred even earlier when he accepted a salary that he knew was too high. Nash agreed, adding that only self-deception would allow a reasonable person not to question the "unspoken conditions" contingent on such an exaggerated salary. Putting it bluntly, the compensation should never have passed the "stink test." The manager's character is flawed, according to Nash. "Ask yourself if you would even want this kind of person representing your organization," she said. "If so, what does that say about your organization's fundamental character?"

Timpe pointed out that resolving the conflict between knowing something is ethically wrong and having the courage to confront it, which was the manager's dilemma, is a growing problem in business today. He advised that a good benchmark of whether you should speak up about an issue is when "your throat gets dry and raspy and you just don't want to talk about it." In that case, he added, most likely "you are in over your head," and need to bring it to someone's attention.

Loyalty

But what about the loyalty of the agents in the case study to their former company? Do they have any ethical responsibility? Solomon wanted to discuss the loyalty elements that are quite apart from the contractual aspects. He suggested this sort of thing happens in academia all the time, and there is no raising of ethical issues. But there can be ethical issues attached to it. He asked, would ethical questions be raised if the entire African Studies department at Harvard moved to Princeton?

Nash noted that there are questions raised about Harvard letting other institutions grow professors whom Harvard then snatches up. Nash points out "there has been a lot of criticism over breaking a covenant with our profession. It is not a written covenant, but is breaking it right?" Solomon suggested, "There is something going on. But I don't think it is just a question about contracts and respecting contracts."

In Timpe's opinion, it is a question of fair play. There is a sense of fair play that should transcend any legal aspects—what he calls "a responsibility versus a contractual" issue.

Timpe: A sense of fair play should transcend any legal aspects.

Solomon concurred with the notion of some sort of fairness, because it was not merely a matter of respecting contracts or just a matter of loyalty either. "The agents themselves have to feel some degree of loyalty," he said, especially in a case where the company made a significant investment in the agents' training and education. "There ought to be a real sense of obligation to the company for a certain amount of time."

Long-term loyalty is important on both the company's and the agent's sides, Werhane noted. Erosion of loyalty leads to what Werhane defined as the "pack-your-own-parachute mentality."

Solomon agreed, noting that business schools today are teaching MBAs to "have their bags packed at all times," that the notion of company loyalty is misplaced, and that they can expect no company promises. But just as companies have the right to expect agents to be loyal to them in return for the industry training they receive, agents have the right to expect longer than just a six-month or one-year company career. "Loyalty is a two-way street," Solomon said.

How to keep valuable employees

At this point the question turned to how to keep valuable employees. Mitchell asked why it is inappropriate for his company to hire the three best programmers from another company. Liddy said he would have a problem with this if it involved taking advantage of information transfer or bringing over clients.

Sievert raised the example of the insurance industry in Australia in the 1980s, which was nearly destroyed because companies went out and paid exorbitant amounts of money to buy agents from other companies. "They started to move throughout the system, nearly bankrupting a number of companies. The practice was very damaging to the entire industry because agents moved and were encouraged to move their books of business."

But to the question raised by Mitchell, Sievert continued, "If I hire an employee who happens to know three outstanding employees of that former company who would love to come to my company, I don't see it as an ethical issue to give them consideration. I'm not forcing them to come, but I'm not going to overpay to entice them either."

"Agents have to have some sense of loyalty...." —Solomon

Timpe countered, "But is there a level of 'raiding' where one gets uncomfortable?" He thought that there is a level where there is a concentration of people from one enterprise that makes him uncomfortable, but situations where one brings in a few people who wanted to come of their own free will are okay.

Pike suggested that there is a type of understanding—for example, in a mid-size city where there are only a few insurance companies—where you learn very quickly that you don't raid three, four, or five people. If you do, it will happen to you later on.

Solomon raised the following point. "If you are a company that does have a spectacular training program and makes huge investments, it seems to me that there ought to be a real sense of obligation to the company for a certain amount of time on the agent's part." But, he said he didn't know how to spell that out. "I can easily see how if you had another company that was essentially predatory and using your training system for their agents, it would be understandable why the courts would come down very heavily on that. . . . It seems to me that the agents have to have some sense of loyalty because apart from contractual obligation, this is the company that taught them how to do what they do."

Timpe said it was an issue of responsibility versus contractual obligations, and Sievert indicated that his company invested a lot in a system of training and rewards that has led to loyalty and the consequent loss of very few agents.

As for his company experiences, Mitchell added, "I thought we needed to provide a good enough value proposition for them prospectively that they ought to stay with us. Some of that was because of loyalty. They pretty well knew who we were, what they could rely on us to do, and were familiar and comfortable with various practices and products, so that inertia was on our side. We should be able to demonstrate to them that they could make at least as good a career with us as with another company. Sometimes we succeeded, sometimes we didn't."

A related issue: the "bag packers"

Donaldson raised the issue that the expectation of loyalty goes against the grain of what is being taught in most business schools today. "Today we are encouraging our MBAs to have their bags packed at all times," he said. "In fact, we are saying this whole notion of loyalty is misplaced, and we can't promise anybody anything. We may not be able to promise, but if I hear people here correctly, loyalty is a two-way street, and if we train people, we expect something out of them. We may also hope that they can expect something more than a six-month career with us or a year-and-a-half career. In fact some very good economists have shown that to be efficient we need for people to develop company-specific skills, and we need for them not to always have their bags packed and their talents created in a way that's usable anywhere."

"There is always this great temptation on the company's side to break some of that loyalty contract…this 'pack your own parachute' mentality." —Werhane

Werhane picked up on this theme. "It becomes a really important issue because if you create long-term loyalty, as managers get older, they get paid a lot and it would be cheaper to hire two junior people. As you know there is always this great temptation on the company's side to break some of that loyalty contract, which I think has started this 'pack-your-own-parachute' mentality."

"I know a young man who has changed jobs seven times in the last five years," she continued. "Each time he does better and makes about five times as much. He has gamed the system, and I don't think that's anything unusual. He learned in business school you survive in investment banking by gaming the system. He gets an 'A' in gaming, but it is amazing how there is no sense of loyalty. He doesn't take anything with him when he goes. He has nothing in his bags. He doesn't take any of his friends, but he moves like lightning through these jobs. He sees himself as an independent contractor. He is an exemplar of a number of MBAs that we are graduating."

Liddy interposed that his company was one that hired recruits from other companies. "I would look at it like this. It's desirable to have different

Co-host Ron Duska of The American College and his wife, Brenda Duska, share a jovial moment at the post-forum dinner.

business models so different companies have different things they do and do well. Some companies purport to appeal to the independent contractor and to the entrepreneur. Not everybody starting in a career knows exactly where they are and what they are going to be good at. As they grow in their maturity and in their practice, they find that they like where they are and they want to stay there forever. That is called loyalty to some, momentum or inertia to others, or simply a great value package that simply meets their needs.

"Others graduate who say they want to be on their own," he continued. "They think they provide more value to their clients individually than through the company that supports them. So they are looking for a place where they can tuck in that provides them the kinds of support that entrepreneurs need. I don't see that as a moral issue or an ethical issue. I see it as simply a different value package."

Mitchell concluded this discussion by asserting first that companies such as investment banks demonstrate through their behavior what they are. Werhane's young man is getting paid "hazardous duty pay" because the company has no loyalty to him either, he said. That is, a great deal of what an employee owes a company rests on the particular situation.

In essence, the practitioners agreed that the ethical issues raised in the case study are not uncommon in the industry. Pike pointed out that corporate decisions to change direction or shift emphasis have left the financial services industry in turmoil. When a company is in turmoil, managers and agents are more likely to make a change. As the financial services industry changes, ethical dilemmas will continue to emerge.

Individual case discussions

In the afternoon session, several real-life ethical dilemmas were presented for discussion.

Dilemma #1: The young president and the veteran producer

Several years ago, the young president of a securities broker/dealership learned that the company's leading life insurance salesperson also had a sideline of creating and selling unregistered oil-and-gas limited partnerships. These sideline activities were not authorized by the broker/dealership. The securities broker/dealership was owned by a large life insurance company. The dealership sold mutual funds, variable annuities, and a few registered limited partnerships. Virtually all the insurance company's agents were licensed with the broker/dealer.

The company's leading life insurance salesman, who exerted powerful influence with top executives as well as the sales organization, was both feared and admired. He argued that the oil-and-gas limited partnerships were private placements and not subject to company approval. The young president, facing a law that was not entirely clear, thought the placements violated the spirit of the law, and it was clear to the president that a securities company is responsible for supervising the activities of its representatives.

Hence, against the strong opposition of the life insurance sales executives and with scant support from senior management, the president, on the basis of his intuition, authorized a compliance audit of the salesperson and his local manager. This resulted in the salesperson's surrender of his securities license and withdrawal from private business placement. He eventually returned to the partnership business and established his own broker/dealer practice, but soon afterwards, the NASD fined him and suspended his license.

Even though the salesperson's limited partnerships were private placements and, as such, not subject to company approval, was the president justified in authorizing a compliance audit? Did the spirit of the law, if not the letter of the law, dictate that the securities company was responsible for supervising the activities of its representatives? What impact does a corporate environment that tolerates looking the other way have on an individual's intuitive sense of right?

Several issues arise in this case. A young executive had to make a decision unpopular with his company. He had to rely mainly on his own intuition.

It was generally agreed that such a situation can be a common problem for many executives early on in their careers.

Liddy offered two observations. First, it needs to be recognized that taking such an ethical stand is not always a comfortable thing to do, and second, at times there may be no resource to whom a young executive can turn to validate such a stand. He wondered to what degree colleges and companies enable or encourage people to take the kind of stand where a person could be transferred, given bad reviews, or ultimately fired?

Liddy: Taking such an ethical stand is not always a comfortable thing to do.

Solomon was interested in exploring the basis for the executive's intuition that this was bad. Liddy noted that several things might cause a young executive concern. In his own career he tried to avoid shady deals that he didn't want to go to jail for. This might be one of those situations. Second, some situations just don't pass the "smell test" because they might "push the tax envelope." Third, this might be a case of a salesman who loved to push the envelope in dealing with exotica for customers. Fourth, it seems from the description of events that programs which the company had fully analyzed and on which it had performed due diligence never seemed good enough for this agent. Finally, Liddy noted that while the agent's behavior may have complied with the letter of the law, it violated the spirit of NASD regulations.

Werhane remarked how this was an excellent approach to ethical issues. Take the "smell test" in the beginning and then look for justifying reasons for the activity.

Sievert pointed out the difficulty the young executive faced because of the tremendous amount of pressure that comes from the top when you are dealing with high profile, influential agents. He doesn't think most young executives would pursue the issue as courageously as the young executive.

Liddy reflected that when he faced similar situations he would encounter resistance, but he would have had leverage since the company would not fire him over a compliance issue. But of course, in cases involving high-powered producers, there are always politics that have to be dealt with. Wright thought it remarkable that the young CEO had acted so appropriately at the time, and Liddy added that he would like to think that there is willingness by those in similar situations to take such risks.

Enjoying the pre-dinner reception were (from left) Jo Liddy (wife of Dick Liddy, GenAmerica Financial Corporation); Pat Werhane, Darden School, University of Virginia; and Tom Donaldson, Wharton School, University of Pennsylvania.

Donaldson pointed out that this kind of story tells more about an organization than all the compliance rules, ethics programs, and codes of ethics. To find out about a company, listen to the stories. Nash wondered what drove executives to take such stands—dependence on the rules, or a strong sense of self? Liddy suggested that in his experiences it was often a concern for the company's interest and the company's culture that allowed him to take a stand.

Pike related his experiences with these sorts of issues. "I came up through the underwriting function of life and health insurance where you decide who is going to get coverage and at what price. You often came into conflict with agents who were major producers. You saw something, and you had to take action on it because it was the company's money. I got to the point where I learned to say, 'I'm not going to underwrite any business from this source in the future.'"

"Timpe pointed out the complexities in pushing issues like this and noted that such situations have to be handled with prudence. "This reminds me a little bit of what I call the constraints of responsibilities. You were faced with the idea of doing what's right for the company. But in your position you have to be prudent rather than short fused. Many times from the practitioner's point of view the rest of the organization is ahead of you on dealing forcefully with situations, but they don't have the total responsibility, the constraints that sometimes you have in the executive position, and you have to be more prudent.

"Sometimes you want to go on your intuition, but that will cause more damage than the prudent, thoughtful approach," Timpe continued. "I think that's a constraint of responsibility that often puts you in a timing situation, where you can't just pull the trigger, but have to do the prudent thing."

Dilemma #2: Disputed death claim

On a Friday evening, an agent sold a life insurance policy to a young father. The agent took the application and medical information, but he did not take any cash. He submitted the application that night. On Sunday, the father was killed in a car accident. On the father's desk at home was a signed check to the insurance company for the amount of the premium. Apparently the agent did not accept the check because there was a minor medical issue, which in all probability would not have led to a much higher rating. The insurance company's claim department denied the death claim, in accord with the recommendation of the legal department. Because there had been no cash received, the company said, there was no contract in force. The agent, feeling tremendous guilt for not accepting the check and knowing the widow and her two young children personally, appealed the claim.

What should the person with oversight for the claims department do? Pay the claim? What responsibility does the agent have in this situation? If the company pays the claim, what sort of precedent does it set?

Bowie: "Ethics is the exercise of responsibility."

Regardless of the legal responsibility, practitioners and ethicists agreed that paying the claim was probably the right thing to do. If the agent gave the applicant misinformation about when payment had to be received, or if he did not take the check because of a potential health issue that would have affected underwriting the policy, the agent bears some ethical responsibility for the situation. According to Sievert, if the company's key values are financial strength, integrity, and humanity, paying the claim—even at the risk of establishing a precedent and thereby creating future legal issues with waiver and estoppel—is the right way to go. Bowie observed that in this case, the agent was faced with something over which he had control and, at the same time, was in a position to alleviate suffering. "Ethics is the exercise of responsibility," Bowie said.

Dilemma #3: Big business and the environment

A waste disposal company—a subsidiary of a large company with substantial financial resources—wanted to build a plant in a depressed area of a Gulf Coast state on land owned by a Midwestern university. After the disposal company had already spent hundreds of thousands of dollars on the project, it discovered that an insurance company owned the mineral rights (valued at $6,000) to the parcel of land. Until the university or the disposal company owned those mineral rights, the project was at a standstill. The future of the project rested with the insurance company, which was being pressured by many different factions.

Although the university owned the land and unknown to most had already agreed to sell the land to the company, several of the university's professors were opposed to the construction of the waste disposal plant because of environmental concerns (Would the plant be an environmental hazard?) and social concerns (Was building the environmentally questionable plant in that location exploiting the area's low-income, minority population?). Other businesses in the county were against the plant because they feared wages would escalate. Both groups wanted the insurance company not to sell. On the other hand, local government officials and local citizens who were looking for more jobs wanted the plant to be built in their state because it would provide more jobs and thus provide more revenue for the state.

Eventually, the insurance company sold the rights to the university for $250,000 ($244,000 more than the amount at which the rights were valued), basing its decision on the belief that the plant would raise the standard of living and improve the quality of life in the area. Was this an ethical decision? Was the company simply rationalizing a financially attractive (but perhaps unethical) outcome?

"Some things are simply wrong in themselves and cannot be tolerated." —Wright

While one participant called the insurance company's decision "an elegant solution," a colleague said it was simply a "shifting of responsibility." Another noted that, although it made little difference in the end, it was probably better from a social and human perspective to sell the rights to the university instead of to the mega-company that owned the waste disposal subsidiary.

Would it have made an ethical difference if the insurance company had received less money in payment for the mineral rights or had donated the $250,000 to charity? Several panelists thought so. One participant suggested that the insurance company should have given the money to a charitable cause in the state in which the waste disposal plant was built, because it sounds as if the company "put the screws" to the university or the mega-company by holding them up for $250,000 for $6,000 worth of value. Two others suggested that if the company was not going to donate the money to charity, it should have refused payment.

Dilemma #4: Unacceptable sales practices and a cover-up

A new manager, a 15-year highly successful producer with a stellar record of service to the company and its policyholders, was requested to fill a line management position with responsibility for servicing a group of agents. The agent accepted the challenging position, even though it meant relocating her family (she was a single mother of four) from their hometown and her relatives and support system, as well as a substantial pay cut.

The new manager was learning her new position and doing a fine job for about a year until a red flag indicated that a few agents in her group had an unusually high percentage of policy changes at renewal time.

Because of rate reductions in the location, she suggested to her agents that they unilaterally add on coverages to their policy-owners' policies. She said the policy-owners would receive notice of the increased coverage when they got their renewal notices, and if they did not want it, they could simply let the company know. The manager told the agents that she used to do this when she was an agent and that policy-owners rarely objected to the increased coverage. Several agents did as she suggested for a short period but stopped because the practice just did not seem right to them.

The high rate of policy changes soon came to the company's attention, and the manager was asked to investigate. She agreed, denying any knowledge or involvement in the policy changes. She told the agents who had done what she suggested to alter their records to indicate that the *policy-owner* in each case had authorized the change. She then submitted the falsified records to the company. Further investigation by the company revealed the manager's involvement in the activity. When confronted, she said that she authorized her agents to change the records because she felt responsible for suggesting the added-on coverage in the first place and did not want her agents to get into trouble over her bad advice.

The manager offered to resign from her management position and resume personal production, but the company terminated her employment. The agents were given a second chance. What ethical principles influenced the company's decision? How much consideration should the company have had for the manager's plight (a single parent who had just relocated her family)?

The company's integrity and fairness to policyholders, not the manager's personal situation, should be the motivating forces behind the decision, Wright said. "Some things are simply wrong in themselves and cannot be tolerated," he said. "What message would that send to others in the organization?"

Perhaps if the manager had admitted that she instructed the agents to change the policies but had not instigated a cover-up to conceal her wrongdoing, the company would not have viewed her actions as a fatal error, another participant suggested. It was the cover-up, most participants agreed, that really sealed the manager's fate.

Solomon questioned whether we are becoming a culture that actually *condones* lying.

What troubled Werhane is that when the manager was an agent in her former company, she changed policies there, too. She noted that there was a pattern of unethical behavior that more than justifies the company's decision not to let the manager resume production.

Disturbed by the manager's readiness to lie, Solomon questioned whether we are becoming a culture that actually *condones* lying.

Mitchell thought it was the coverup aspect of the case that made it open and shut for him that she should be terminated. She did some bad things but had she admitted her wrong actions one might have disciplined her but might not have fired her. Werhane added that she also asked other people to cover up, too.

Donaldson pointed out that this case exemplifies the importance of looking at the basis of actions and not just the consequences. Consequences sometimes have to give way to principles. "She justifies her action and her lying by appealing to the desirable consequences of the lie: 'I wanted to protect these people who were innocent'...."

Nash pointed out that we probably don't give our students enough examples of people who have taken an uncomfortable stand and sustained it over time for the sake of a principle.

Liddy thought the acceptance of lying might have to do with the society looking at things as relative and situational. In such thinking the lying gets justified, not as lying, but in the grand scheme of things because nobody was hurt and maybe some people even benefited, or I was trying to protect someone, he said. Or worse, from Solomon's point of view, is the now-common shrug of the shoulders, "So, I lied."

Pike suggested that some lying is aided by philosophers who say there is no way to judge. Bowie noted it was an important issue, but thought it comes from pseudo-social scientists in high schools who partake in post-modernist thinking. It's a very serious issue. Donaldson noted that even at the high school level they have a relativism that's "baked in"—as Pike said, they think "my truth is my truth."

"What is the leadership responsibility if lying becomes pretty easy in a culture?"—Nash

But Donaldson thought it permeates the financial services culture in some areas, too. "There is a culture that winks at some stuff, that puffs truth. We get used to there being ten buy recommendations out there by analysts for every sell. The glowing predictions made about the future, especially internally by CEOs, sometimes their own people, are rosy to the point that defies reality. And we come to live with the behavior. That makes it a little easier to then say, 'So, I lied.'"

Liddy pointed out that one example is author Stephen Ambrose. "Here is a person held out as one of the best examples of historians caught in the middle of something that is essentially a lie, and he seems to be more or less brushing it off. Another example is Joe Ellis, the Pulitzer Prize winner who lied about his war exploits. But people suffer for their lying. It's not a cost-free situation." Liddy pointed out that credibility suffers, too.

Nash raised another question: "What is the leadership responsibility if lying becomes pretty easy in a culture? We can talk about bad consequences of lying and monitoring people, but what is there to do?"

Mitchell responded by recalling Pike's earlier comments about being careful what you lay out. "You have to 'walk the talk,'" Mitchell said. "My experience is if I 'walk the talk' almost all of the time, then I will be forgiven when I don't, if I admit it. If I do that occasionally it's actually better, because they knew I wasn't perfect anyway. And if I pretend I'm perfect, that doesn't leave enough room for others to make their contribution, and it gets in the way of my credibility."

Nash asked whether doing this wasn't tougher in an unforgiving, short-term market. To this, Mitchell replied that it is not as tough as people make it out to be. Most people who say it is so hard haven't tried it.

Timpe concluded the discussion with the following: "I have a kind of God-mother-and-apple-pie answer that I believe in. Establish relationships in your organization that are built on trust and respect and openness. People will feel uncomfortable and know they will get 'got' if they aren't honest, and if that's expected of them. So the words 'We don't lie' are very important in the culture. You respect your customers and fellow workers and deal with them with trust and respect and openness. It's not perfect, but it's an attempt."

Dilemma #5: Managing spreads

Every month an insurance company reprices one-sixth of its fixed-annuity portfolio. In setting the interest rates for the next 6 months, the lower the interest rates to be credited to existing annuity policy-owners, the higher the profit the company could report to its owners. The process was so complicated that virtually no policy-owners—or field people, for that matter—understood it. In such a context, the temptation to maximize near-term earnings was great, and it was always a challenge to balance the interests of different stakeholders.

Mitchell suggested that when trying to assess such a situation, he imagines his mother as the client, and asks himself the following question, "If she had as much knowledge as I do, would she think I was treating her fairly?" That is his ethical yardstick. He added that he thinks that managing spreads is a complicated issue for both the annuity and life lines because there is huge leverage given the millions of dollars involved. "A difference of only a few basis points can translate into tens of millions of dollars."

"An important craft of ethics is to make it possible for people to find out how you price something." —Donaldson

Donaldson recalled an investor who says he loses sleep over the time he sold a $23 million derivative instrument which, when he recalculated, was only worth $500,000. Should the investor tell the client? It was such a complicated transaction that in all probability no one would ever know. For Donaldson, it seemed that the best way to avoid such temptations is to put the transactions in plain view. "An important craft of ethics is to make it possible for people to find out how you price something."

But Sievert added that even when you make your numbers public, so few people understand the rationale behind the numbers and how they were generated that it can be a difficult ethical issue. "If the pressures to increase company margins are great, this is one way to increase margins with a good chance that no one will ever question it," he said. "But this is wrong."

Timpe concurred that there are going to be pressures to squeeze profits. It helps "always to reference the initial pricing assumptions in any recommendations," he said, noting, "We have actually started going to the board once a year, where an independent actuary has to state changes of assumptions about these kinds of things. I wanted to have some disclosure."

Sievert indicated that pressure to increase earnings often comes from the top. However, he continued, when you are the one putting pressure on people to improve earnings, it is very gratifying when the people below come to you and say, "If we established an interest-crediting strategy for these products, we think it is inequitable to different classes of policyholders to deviate from that strategy."

Duska asked why the long-term market doesn't take care of these pricing strategies. Mitchell responded that the effects may not show up for 10 to 20 years. Pike said he thought that if you go too far your rates will be disintermediated pretty quickly. But Mitchell pointed out that you are talking about customers who typically have 7-year surrender charges and tax penalties, so they don't have a lot of choices.

"The broader the field, the more options you have, and the more gut wrenching the decisions can be."—Wright

Pike noted, "If I'm an agent I can swallow two years of bad rates and keep the business, but you've got to be careful. Sometimes when the rates were down or up you would be a little out of sync, but they would match up over time."

Sievert suggested that if "you exactly follow your nose and you follow the formula and you reduce interest as appropriate, you have no ethical issue. That's what you should do. . . . The ethical question arises when you say to yourself, 'In this environment I can go another 10 basis points, and it is not going to hurt the consumer that much. Besides, they are not going to know it and I'm going to get more profit.' That's where you have a problem."

"The ethical decisions you can make that fall pretty close to the line are not the difficult ones," Wright noted, concluding that the tough decisions are "the ones where you have a wide field in which to operate, lots of different considerations, and many diverse interests to satisfy. The broader the field, the more options you have, and the more gut wrenching the decisions can be."

The ethical organization

As was demonstrated by the last case, important components of ethical programs are programs and procedures that minimize ethical risks or temptations. Along those lines the participants began to discuss issues regarding what it means to be an ethical organization. As Mitchell noted, "We have all had some successes here in trying to develop an ethical organization." The following questions were raised to help focus this discussion.

- What successes have you had in helping people in your organization behave ethically and with integrity?
- What are the advantages of a whole organization that behaves with ethics and integrity?
- What are some obstacles to an organization's behaving ethically and with integrity?
- How can a leader discover whether someone in the organization has an ethical problem or potential problem?
- If the leader discovers someone whose behavior is unethical, how does the leader help the remaining people in the organization behave with ethics and integrity?

Establishing ethical behavior

"My philosophy is this," said Pike. "You don't get people to act ethically by threatening them but because they have learned that that is the best way to behave. . . . How do you build such a system?"

Liddy gave an example of an ethics success story. About 50 years ago, he explained, his company started a monthly advisory panel of randomly selected employees. These employees would meet once a month for a couple hours; no one could serve more frequently than every 2 years. All questions the panel debated were anonymous. Sessions were tape recorded so that notes could be made from which answers to the questions could be written and distributed to all associates. As soon as the notes were made, the tape was erased to protect the questioners' anonymity. Topics ranged from dress codes to flexible work hours to problems with supervisors to strategic initiatives to diversity issues. Because people loved to read their peers' answers and were assured that their own privacy would be protected if they directed a question to the panel, it was a wonderful forum in which to stress values, Liddy said. The program fostered a strong ethical culture throughout the company.

"It is a long-range project to establish integrity and ethics company-wide."—Pike

Pike gave another example. An operational management group that started with 25 people but grew to 50 was given authority on the company's human resources issues, corporate planning, preparation of budgets, and setting priorities. This group formed task forces in various areas, such as benefits and strategic planning. "We didn't *tell* them what the company values were; they were the people who *developed* these values," Pike said. Because they were integral in helping to establish the company culture, he explained, "Employees understood that if you violated the ethics, your job was at risk." According to Pike, the company saw a real change in how people treated each other as a result of this initiative. "You can't talk about ethics as a single, separate entity," he said, adding that ethics must embrace everything in the organization's culture.

He also pointed out that establishing an ethical culture takes time, noting, "It is a long-range project to establish integrity and ethics company-wide."

Sievert stressed the importance of company leaders being ethical role models in their organizations. "Nothing beats living it from the top, demonstrating solid ethics, and taking action when appropriate," he said. He related an occasion when taking such ethical action involved making a difficult (and perhaps unpopular) decision: firing a high-profile agent when it was discovered that the agent had been guilty of unethical practices and lied about his actions during the ensuing investigation of his behavior. People learn to take ethics seriously, Sievert said, when they know that there are consequences for unethical actions and that these consequences are enforced.

"The most powerful signal you can send is an act that either strongly rewards or strongly punishes someone when the issue is based not on money or profit but on ethics and character," Donaldson said.

Wright: The "common thread" in an organization with ethics and integrity is "the involvement of your people...."

Werhane commented on the fact that in business there seems to be much more negative reinforcement than positive reinforcement. "Sometimes we do more punishing than rewarding," she noted. "We always hear bad news. We don't always talk about the good news, and there *is* good news." Besides stories of wrongdoers who end up in jail, she suggests, there should be positive stories that illustrate the rewards of doing the right thing.

In Wright's opinion, the good news *does* get around. It may take a little while for people to hear about companies that have done the right thing, he said, but in the end, the word gets out. Moreover, what really serves the industry well is to act ethically and with discretion, whether or not there is a public acknowledgment of that conduct.

The key is involvement, he continued. He maintained that any time you get involved, whether it is on a specific issue of integrity or simply another problem facing the organization, you win by virtue of having wrestled with the issue together. He also said that the "common thread" in an organization with ethics and integrity is "the involvement of your people in what's going on in your company."

Pike added, "My philosophy is to go in and have them want to do this, not because I have threatened them, but because they want to and have learned that this is the best way to do it, the ethical, integrity way."

Though he said he was optimistic, Timpe expressed concern about the results of a high-incentive, high-reward profession. High-incentive compensation has spread throughout our society. Not only are agents given high incentives, but CEOs now have a huge proportion of their compensation, along with senior officers, based on compensation incentives.

To Donaldson's question, "Do you think ethics has gotten worse because of the better matching of incentives to shareholder wealth in upper management, as in the case of Enron?"—there were several responses. Liddy pointed out the difficulties. Not being convinced there is a direct correlation, he said he recognizes that to pay a flat amount irrespective of performance seems inadequate. But it is not good for large amounts of compensation to be paid to executives of underperforming companies. The alternative seems to be to tie compensation to incentives, but incentives tend to make people want to push the envelope. Research is needed to study this issue.

"The most powerful force behind ethical behavior is somebody at the top who really believes in and practices the organization's ethics." —Solomon

Timpe suggested he still has a question about how corporate performance and highly inventive compensation tie together. "Logic says it should. But on the other hand, you need really good people and when the corporation is going through hard times, you better be paying people a fair amount of money to work on improving performance."

The rewards are financial as well as ethical. Sievert reiterated that there is a strong correlation between good ethics and good business, citing an example of how ethical and financial success are intertwined. "In our business, much of the interaction between the customer and the company is through the agent. If the agent is exhibiting strong ethical behavior and the individual who trusts that agent as an adviser believes that the agent is acting for the individual's best interest, that relationship enhances the persistency of our business." He added that although some decisions may cost the company in the short run, making the right ethical decision enhances long-term profitability.

Obstacles to Ethical Behavior

The conversation turned to other obstacles to ethical behavior besides the compensation system. "Ethics has got to start with the leader in the organization," Wright declared. "You have no chance if you lack ethics at the top," adding that the chief executive "has to make certain it is practiced at top levels in the organization."

"Lack of leadership in an organization is an obvious obstacle," said Solomon. "The most powerful force behind ethical behavior is somebody at the top who really believes in and practices the organization's ethics." Leaders with integrity motivate others in the organization to act with integrity, the participants concurred. However, Solomon remarked that he had worked with an organization where there was an extremely ethical leader who did what he said, but bumped up against a crust of senior management who had been there for a longer time, who were not going to cooperate with the leader. What does one do in that case, with that kind of obstacle?

Several participants suggested that such a situation might require "cleaning out" some of those levels of senior management.

Liddy remarked that not all leadership comes from the top. Inside the organization there are leaders that greatly influence the company. They have been around a long time and people listen to them.

"Very seldom do you find that somebody just goes straight at you opposing what you want to do on issues that we have been talking about. They are far too smart for that. It is the foot dragging, the cynicism, the raised eyebrow, the everybody-knows-this-isn't-the-way-it-really-works kind of comment. . . . It is sort of the passive resistance of leaders in place, not necessarily the higher ups."

What makes this obstacle all the more frustrating is that ferreting out these people can be difficult. "One of the problems is finding out who in the middle of a company is with the program and who isn't," Werhane said. Even highly ethical companies with highly ethical top management can harbor employees who engage in unethical acts, she pointed out. Strong ethics do not always filter down to every single person in an organization.

Werhane: Even highly ethical top management can harbor employees who engage in unethical acts.

Mitchell discussed American Express's *When Values Collide* program, a series of workshops throughout the organization to systematize values orientation. Finding the right balance is paramount. For example, suppose a company stands for customer service, financial strength, and humanity. If the company just gives its product or service away, it would be very customer oriented but would lack financial strength. If the organization tolerates incompetent leaders, it would be humane but might not remain solvent. If the driving force behind the company is making money for the stockholders, customer service would suffer.

"If you always come down on the side of one value—most commonly if you always put the stockholders first—then you better stop talking about the other values because you don't act like you really mean it," Mitchell said. "I am persuaded if you work the concept well enough, you can get people at the front line using values as a guide for their decisions and figuring out what the right tradeoffs are in a given situation. It's a lot of work, but I think it's worth it."

"Is there an area in which the financial services industry should have more expertise or understanding in order to ensure ethical behavior?" Nash asked the group.

"I think we may sometimes focus too much on uniformity and consistency," Timpe replied. "We hire agents with all kinds of backgrounds, responsibilities, experiences, and current situations, and then we expect homogeneous behavior from them across the board." There is an inconsistency here and perhaps a lack of sensitivity. Furthermore, it may be that diversity rather than uniformity is more successful in attracting and retaining customers.

Handling a workforce of independent producers

Duska posed this question to the practitioners. "How do you handle a workforce in which many of the producers make a lot more money than you do? Is that an obstacle to ethical behavior?"

Sievert: If actions are monitored... to enforce rules of ethics, violators will be weeded out.

Sievert answered by emphasizing the importance of the agent. "The agency force is our key market differentiator," he said. "There is no question about it, this is our greatest asset. We view the agent as our primary client, and we do not tolerate anyone in our home office who can't deal with that." Once in a while, however, some agents try to "throw their weight around," Sievert admitted, but that type of behavior—as well as any infringements of the company's standards, procedures, and practices—is dealt with swiftly.

Statistically, as Sievert noted, there will always be some agents who will act unethically. In any group of 10,000 people, for example, there will be a certain percentage "who cheat on their tax return, cheat on their spouse, or commit misdemeanors, maybe even a felon or two," he pointed out. "We can't really expect all of them to follow our rules." But if actions are monitored and mechanisms are in place to enforce rules of ethics, violators will be weeded out.

Changing the perceptions

The question arose as to what can be done to focus on the stories of the thousands and thousands of good agents, since the practitioners usually have to attend to the bad incidents and don't hear about the day-to-day good ones, and the academicians pick the aberrant behavior to discuss.

In teaching ethics and values, Werhane recommends, educators should concentrate on real-life cases because they have the most impact. "People will remember cases long after they will remember theory," she asserted, adding that this means positive cases as well as negative ones. "You've got to talk the good news, too!"

Wright related a State Farm practice of inviting all of the division managers, the people in charge of claims people, a couple hundred underwriters, and all of their attorneys to the national agency meetings to make sure they get a different view of the company's activities, because they so often get the warped view of dealing only with problems. Meeting all the good people that are there and recognizing these people's efforts has made a decided turnaround.

Do the academics focus only on failure? It was agreed that everyone in the room teaches positive cases as well as negative cases.

Bowie underscored the importance of telling positive stories, adding that negative publicity associated with a few "rogue companies" has hurt the financial services industry. "We do benchmarking. For example, we tell stories like the Johnson and Johnson response to the Tylenol tampering." Academics do try to point out the positive correlation between ethical behavior and profits.

Bowie: Academics do try to point out the positive correlation between ethical behavior and profits.

Nash recounted an instance in which positive reinforcement of values was a powerful motivator for a company that was demoralized about its ethics and needed to change the outlook within the organization. "We took a look at some critical decisions that had shaped the company," Nash explained, "and interviewed a former manager about a real case in which the values that emerged contributed to the firm's success." The authenticity of the case, the difficulty of the decision that the case entailed, and the positiveness of the outcome were effective in boosting the organization's pride.

Duska pointed out that part of the negative viewpoint toward corporations is a cultural bias going all the way back to the days of Aristotle, when doing business was considered banal, and you defined a liberal person as one who was free from having to deal with money. Business has a bad reputation, as is evidenced by the fact that when one of the academics says he or she teaches business ethics they are met with either laughter or the comment, "Business Ethics? That's an oxymoron."

But Bowie commented that one does have to look realistically at the fact that some corporations do unethical things. Think of the book *Serpent on the Rock,* which talks about the unethical practices of Prudential Bache. Think of the misrepresentation of products by insurance companies. How does one get control of the rogue companies in one's own industry? For that matter, how does one get control of the rogue universities?

Donaldson gave an historical account of the perception problem. "I think it is true, and this has been true for 40, 50 years at least, probably even before that when they didn't do surveys, that if you surveyed people and asked them about the ethics of business people, the business people would tend to be ranked pretty low. They aren't viewed as bad as car salesmen, but they are still not viewed as high as their merit would allow.

"If you look historically, I think you see that the lure to advance yourself materially, which is discussed in all the religious traditions, and in all the political theory, got evaluated in different ways—sometimes favorably, but mostly negatively," he said. "To some extent having the theoretical founder [of capitalism] Adam Smith being a moralist himself, is a way of trying to deal with it positively. Throwing caution to the wind, I will propose my big vision—that capitalism itself is in a process of evolution and growth, and that when it first began, this amazing system that can do things that no other system could do, did not ask the permission of our traditional values to emerge.

"With early capitalism we got child labor, and we got products that were mislabeled and so on," he continued. "The first stage of reconciling capitalism with ethics was, I think, the legal department. I think we have passed that. Not that we don't need more laws. We probably do. But the system is continuing to evolve. I think what you see in this room—executives in discussion with business ethicists—is an instance of that, and the fact that we are teaching business ethics in universities and so forth are other instances. Actually, in the last 20 years the ethical reputation of business people has gotten a little better relative to the curve. It is a long-term task, but it is a task that I think can be done."

"Capitalism" itself is in a process of evolution and growth..." —Donaldson

As Duska noted, shows like *60 Minutes* are not going to carry stories about how ethical companies are, however lamentable this lack of positive coverage may be. Instead, "they are going to find the one or two stories where you went bad."

But Duska also pointed out a study by Walker Information Systems that ranked industries according to employees' perceptions of how ethical their companies were. He suggested that employees' perceptions are probably the most reliable because they see companies from the inside. According to that survey, government and transportation are the least ethical, manufacturing and health services are ranked in the middle, and financial services, technology, and the insurance industry are ranked as the most ethical companies.

Summary and Conclusions

At the end of the session, participants shared their observations about the day-long discussion.

They agreed that the session had been valuable, because it allowed the opportunity to explore tough ethical issues with peers. The discussions sharpened the participants' awareness and refined their insights into their colleagues' dilemmas.

Nash indicated she would reflect, based on the day's discussion, on how she as an educator creates course material. In her new Harvard project on ethics and CEO leadership, she also will reflect on how to capture the personal involvement of the CEOs in positive ways that don't simply become fairy tales.

Donaldson confessed that he was "pleasantly surprised" by the effectiveness of the forum. "I'll be frank," he said. "Often, the results are not good when you mix academics and business leaders. Today was a real eye-opener because, having the opportunity to have people at the very top of the leadership chain together in the same industry allowed me to see that there are some shared norms and ethical principles that are important to all the people here." He said, too, that the meeting had enabled him to fill in a lot of detail in his picture of the insurance industry, which had been "pretty much just big blotches."

Pike added that he had "been impressed with the agreement between practitioners and academics on the problems we face now and those we foresee in the future."

Timpe: The meeting was a "rich opportunity" for business executives to hear from people outside the industry.

Liddy commented on the enormous value of a free give-and-take of ideas. "There is a great deal to be gained from participating in a group where people are willing to listen as well as talk," he said.

Timpe remarked that the meeting was a "rich opportunity" for business executives to hear from people outside the industry—outside in some ways, but very connected with some of the things we are doing and struggling with. It was instructive to listen to academics' and their students' views of the financial services industry, Timpe said, adding that he was eager to apply what he learned during the session to specific situations when he returned to work.

Sievert noted that given his busy schedule he seldom takes time to sit and think about matters such as this, while he realizes how often he has to deal with these kinds of issues. Through participating in the forum, he said, he came to realize how important these issues are and how little time he and his staff have time to think about them. It would be valuable if he could have had his top management team in the room with him, he concluded, adding that having a forum that comprises more than top management would be important as well.

Bowie said he thought the importance of the day was to make him reflect on the role of the academic in teaching ethics. The question is how to put together a coherent story that accurately represents the tremendous heterogeneity of attitudes that are expressed. He loved the process because it was talk. A lot of people might criticize it because it was "just talk," he said, but he thinks we are in a situation where we need time to do just that, because with greater talk comes understanding.

"As a business ethicist, the main thing I derived from today's meeting and by talking to the practitioners here is learning how to look at the good parts of business rather than at just all the bad stories," said Solomon. Disturbed by what he calls the "culture of lying," Solomon said he would reflect on how to combat that culture in both the university and business environments. He also commented on the importance of the interchange of ideas between ethicists and practitioners. To further promote better understanding of the ethical issues the industry faces, Solomon recommended that additional constituencies—such as regulators or members of the press—be included in the next discussion.

"This dialogue... continues to exert a very powerful influence on the workings of business today." —Donaldson

Sievert said, "I gained a self-realization of how important ethical issues are." He suggested that practitioners have devoted too little time to these issues and noted that in addition to top management, a wider cross-section of financial services professionals could benefit from such a forum.

Wright said, "I don't know that I ever had an opportunity to sit in a room for an entire day where there is an equal balance between those who write about, teach about and think about an issue and those who are out there on the firing line working at it every day. That's been a unique experience." It is important that organizational leaders are prepared not only for the informational and technological changes that will transpire in the industry, he concluded, but also for the ethical challenges that will arise.

In conclusion, Donaldson commented, "It's hard for us—the academics—to appreciate how busy your lives are. But I do remember the beginning of this enterprise—the dialogue between business leaders and ethicists—in the Western world. You can read about it in the writings of Socrates and Plato. Theirs was a tough battle, fought to persuade parents of young people that you should actually take time out in the marketplace from raising horses, farming, and doing practical things to just sit and talk and have conversations. This dialogue was the bedrock that has catapulted Western society to its present position, and continues to exert a very powerful influence on the workings of business today."

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