

Executive Interview



Creating an Ethical Culture as a Strategic Advantage for Global Growth: A Conversation with Archie Dunham, former Chairman of ConocoPhillips

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Executive Summary

Archie Dunham retired last year as chairman of ConocoPhillips, the seventh largest corporation in the United States. After earning his B.S. in geological engineering and MBA from the University of Oklahoma, he began his career as an engineer with Conoco in 1966. He rose through the ranks and was elected president & CEO in 1996 and added the title of chairman of the board in 1999. In addition to his duties at Conoco, Dunham served as chairman of the National Petroleum Council, The Energy Institute of America, the U.S. Energy Association and the National Association of Manufacturers. In 1998, he was honored as Houston's Father of the Year. He is currently a member of the board of directors for Louisiana-Pacific Corporation, Phelps Dodge Corporation, Union Pacific Corporation and Pride International.

The petroleum industry faces multiple threats as demand for energy increases, traditional fuel sources deplete, and expectations for socially responsible behavior are enforced by governments and non-governmental organizations. Tracing its origins to the 1875 incorporation of the Continental Oil and Transportation Company, Conoco's history was not without challenges. During the oil shocks of the early 1980s, the company lost its independence when it was acquired by DuPont to insure adequate feed stocks for DuPont's chemical business. When Dunham became president of Conoco, he rationalized Conoco's portfolio and developed sources of supply while adding new core values honoring people and ethics to the company's culture. The company was successfully spun off from DuPont in a complex public offering and stock swap in 1998. In 1999, the Schroder survey ranked the firm number one in exploration efficiency among the major oil companies. Dunham guided Conoco through its merger with Phillips Petroleum in 2003.

With Dunham at its helm, Conoco emerged as a pioneer in corporate sustainability reporting, aimed at making transparent the company's economic, environmental, and social performance. Internally, the company emphasized a culture based on Conoco's core values of safety, environmental stewardship, valuing all people, and business ethics. Dunham initiated the President's Awards Program to reinforce the core values by rewarding exemplary performance

of these values. He believed that upholding the core values was a powerful advantage for a company intent on global growth. He promoted the core values as the key reasons Conoco was welcomed around the world by customers, joint venture partners, governments and communities.

We interviewed Archie Dunham during the last week of his tenure at ConocoPhillips in September 2004. This interview explores Dunham's approach to creating an ethical culture for his company as well as his belief that ethics leads to profits. His remarks provide insights applicable across many industries.

Authors: How did the idea that ethics really made a difference to company profits develop and what sort of processes were critical to making that happen at Conoco?

Dunham: Historically, Conoco had a legacy of two values. You could go back 75 years and find a focus on safety. Historically, the energy industry has been a hazardous place to work; not as hazardous as the chemical industry, but refining is a tough business and exploration and production are also challenging businesses. Being offshore in deep water and in the North Sea is dangerous. So our predecessors knew that we had to create a culture focused on safety. Then, as the twentieth century progressed, concerns for the environment and sustainability evolved as companies realized that their ability to operate in the future would depend upon their commitment to safety and environmental excellence. The environment was becoming increasingly an area of concern for the average citizen of the world.

When I became CEO in January 1996, I added two new core values. One was to value all people. I felt that you really had to focus on people if you were going to have a successful company. You need to recognize people and you need to reward people. You need to have a philosophy in place that as you become a much larger global company, the employees in those countries must know that you value them. You need to have a personnel development system that prepares a Norwegian to lead the Norwegian organization and a Russian to lead the Russian organization, etc.

I strongly believed that the second value added—ethics—must be the fundamental value of every company. If you don't have a culture built around integrity—personal and corporate—you fail as an individual and as a company. As I visited with heads of state around the world, I came to appreciate that heads of state want an honest system. Heads of state know if their secretary of energy is not honest in how he deals with us, then he will not be honest in his other responsibilities. Most heads of state want honest companies in their countries. They don't want corruption impacting their citizens and businesses.

Authors: Could you give us an example?

Dunham: The first time I went to Syria to meet with President Hafiz Assad, the father of the current president, I spent most of my time discussing the value system of Conoco and the culture of our company, not the project. I told him that others could do the project as well as Conoco. But it was my belief that the value system we had in Conoco...the concern we had for

people, for safety, environmental sensitivity; the fact that we were an honest, highly ethical company differentiated Conoco from the other companies desiring to invest in Syria.

I told him about Conoco's investments in Venezuela and how we had "walked the talk" around our values. I made the presentation and left. I was told later by Vice President Cheney, who at the time was the president of Halliburton, that President Assad told him that after I left, he picked up the phone and called the president of Venezuela. He said, "This guy Dunham has been in here talking about Conoco and why they are a different company. I'm just calling to see if it's true." Fortunately, the president of Venezuela confirmed my story. And so, Conoco was granted the project in Syria. The whole point of my story is that we were granted the project, not because our proposal was a little better than those of other companies; we got it because of our value system. President Assad was a tough leader. He wanted an honest company to invest in his country.

Authors: Would you tell us what you told President Assad about what you had done in Venezuela?

Dunham: I talked about the integrity and ethics of our people. I gave him examples of how we were involved in sustainable development and protecting the environment. We were drilling wells in shallow water, and we were protecting the environment in all of our activities. I told him (President Assad) how we had treated the indigenous people in Venezuela. How we were going to make sure that our drilling activities would not interrupt their fishing. It's really a philosophy of how your operations are sustainable long term.

Authors: What would you say are the critical processes to insure that the corporation operates ethically all the way down the organization and out to contractors and subcontractors?

Dunham: First we had to agree in the management committee that we were going to add "valuing all people" and "business ethics" to the core values. It was my job to persuade the management team that this was a needed addition to our historic set of values. Then we had to agree to how to integrate it into the organization? That is why we added the President's Awards. In the meeting, some managers asked, "How do you celebrate ethics? Isn't everyone supposed to be honest? How do you find examples to demonstrate that value?"

We had a lot of push back initially. It's easy to find nominations for safety; it's easy to find nominations for environmental excellence. How do you find "Valuing all People" and "Ethics" examples? But we were able to do it. We had to work hard; we had to encourage the organization to search for examples. Once it becomes a part of the fabric of the company, then it's easy for everyone to accept it as truly a value that we hold on to and celebrate.

Authors: How did you make that happen?

Dunham: I attended a reception last Thursday with two of the President's Award winners. They approached me and said, "You don't remember us probably, but we were nominated for the ethics award last year. It was a wonderful experience... a big celebration."

We'll always remember the evening event." That is how you re-enforce the values. The more you celebrate year after year, the more it becomes a part of the fabric of your company. It doesn't happen quickly. Safety, yes, because safety is stamped on our foreheads, as it should be. But the other values take time to ingrain them into the fabric of the company.

One of the unusual practices we do in Conoco when we have an ethics violation and—it's very controversial—is to inform everyone in the company. You don't identify the employee by name, but you identify the violation and the consequence. I'm trying to incorporate that philosophy on all of the boards I'm on today, but it's controversial—"Oh God, we're going to get sued!" is usually the response. But if you handle it properly, you can inform the organization of what happened and the consequence of bad conduct. It really reinforces the value.

Authors: We were told by one of your engineers that Conoco went to great lengths to identify bad behavior.

Dunham: When we discover a violation, we move quickly to resolve the issue. Not only is the employee disciplined, and in some cases terminated, but the contractor involved loses the right to work for us, certainly for a period of time and maybe forever. It's a tough standard but I believe it protects the company long term.

Authors: Conoco was one of the first oil companies to publish a sustainability report. Is it true that you hired an external auditor to go through sustainability reports to verify what was said?

Dunham: Yes, and it was not a popular decision internally. I wanted to share with the public our warts as well as our strengths. We were not required to do this, but I believe it tells the world who we are as a major corporation and that we want to get better.

Authors: I've heard ethics officers say that because internal investigations of ethics concerns are discoverable, their companies are hesitant to undertake them and would like some legal protection for internal efforts to uncover wrongdoing. Is this an issue?

Dunham: That's a legitimate concern in today's world of litigation. We have an "out of control" system today with plaintiff attorneys suing not just corporations, but suing hospital systems and other "non-profits" that are barely surviving financially. It's a serious issue that needs to be addressed by Congress and the Administration.

Authors: How do you create a culture in which employees feel safe reporting bad news?

Dunham: We had a CEO in Conoco many years ago who discouraged the sharing of bad news. Thus, no one wanted to report bad news. What happens when you have that kind of culture? Obviously, the CEO never hears the bad news and if you don't know what the problems are, you can't address them. So I tried to create a culture where our employees were encouraged to identify the problems and what should be done to correct them. I have tried to visit most of our locations around the world every two years. I believe every employee has the right to look

the CEO and chairman in the eye and ask tough questions. These interactions helped me sense the pulse of the organization. If I heard the same issues being repeated at every location around the world, I knew that it was an area that the management committee needed to address. I would think that every CEO should want that kind of a culture. If you have a culture where people won't talk or tell you bad news, you have to rely on your internal auditor to find the bad news. That's not good!

Authors: What can you do as a manager to make people feel comfortable asking the tough questions?

Dunham: I was one of the first executive vice presidents in Conoco to schedule "town hall meetings." (This was before it became a common management practice). You have to expose yourself to your employees; you have to encourage them to ask the tough questions; and you have to make yourself vulnerable. I always felt that if they knew me, they would be comfortable asking the tough questions or challenging our policies. If they don't know you, then there is a natural fear of the CEO. You break the barrier by going to their work space, to the control rooms, lunch rooms, etc. It's amazing how quickly the word travels. "Archie is not a bad guy; he's just like one of us. You can talk to him." Over time you create the kind of culture in which people are comfortable talking and sharing and admitting that we need help in certain areas or that we have a problem.

Authors: Why do you think other companies have gotten into trouble in recent years?

Dunham: There were two "shortcomings" that caused that to happen in my opinion. The first is that they did not have a value system around integrity. I use the word integrity very broadly. It's not just how you do your expense account. It's faithfulness to your wife and your family, it's being honest in everything you do and say. You can't have personal integrity in one area of your life and then decide you are not going to have it in another area of your life. Values are critically important in creating the "right" culture in a company.

Secondly, if you looked at their boards of directors, very seldom did you find a Fortune 100 chairman or CEO on their boards. Why is that important? You need "hard nosed" corporate CEOs and chairmen on your board because they will turn to the CEO and say "We're not going to do that. That's a dumb decision. We might take a hit below the water line if we approve that investment." You've got to have those kinds of people on your board. We had that kind of board at Conoco, and we have it at ConocoPhillips.

Authors: That is an interesting insight; because it runs counter to what many people would say about interlocking directorates.

Dunham: That doesn't happen very often... certainly not on the Conoco or ConocoPhillips board. It might have happened 25 or 30 years ago, but not today. It is also counterintuitive because most CEOs want to "run" their own company. They want to tell the board what they want to do and they want the board to agree. But if you're a smart CEO, you will want a hard nosed board comprised of experienced CEOs with good judgment and intellect.

Why do you have a board? The purpose of a board is to keep you from making a mistake that will sink the company. When a corporation makes a major strategic mistake, it may take 10 or 15 years to recover. If you have a good board, they'll say, "Wait, let's think about this some more and look at some alternatives," rather than allowing the CEO/chairman to ram the decision through the board. If you don't use the board, why have a board?

Authors: You said that you thought it was not a good idea for the chairman to stay on after he retired; would you elaborate on that?

Dunham: It's easy if you just place yourself in the position of the new CEO. Would I want my predecessor looking over my shoulder after he's retired? No, I wouldn't. If I were Jim Mulva, my successor at ConocoPhillips, would I want Archie Dunham coming to the board meetings, not as the chairman of the board anymore, but just as a member of the board? Would I want my predecessor passing judgment on my recommendations with some of the board members always looking to him for a nod or a wink? It's not right. It's not good governance. Once you retire, you should retire from the board as well as the company. That gives the successor the freedom to make recommendations and decisions without wondering what his predecessor would do. There needs to be a clean break. I was obligated by contract to continue on the board, and many of the board members wanted me to stay, but I didn't believe it was the right thing to do, so I retired from the board on the same day I retired from the company.

Authors: As you look at the way businesses are responding to the recent scandals, what do you see as the future for ethics?

Dunham: The board of every major company is significantly more engaged, receptive of their responsibility, and aggressively trying to carry out that responsibility today versus 3 to 5 years ago. I'm on four boards and in every case the committee meetings either last twice as long or we have twice as many meetings versus five years ago. That's good. The down side is that it's harder to recruit new board members today because they say first "I don't have time," and second, "I don't want to risk my net worth for a board seat," so the answer is usually no. You can always get board members, but getting quality CEOs to serve on your board is difficult.

Authors: Was there anything unique about taking Conoco public?

Dunham: It was what I was working toward and thinking about for fifteen years. It was my dream, my hope. You want to be a separate company, an independent company, have your own shareholders, stakeholders. We believed very strongly that it was the only way that we could grow long term. We needed to reinvest the cash we generated into our own business. That's how you grow an energy company. They (DuPont) wanted to use our cash to grow the traditional DuPont businesses. So the only way we could survive and grow long term was to be a separate company. That was one of my major objectives when I became CEO. It was clearly the best decision for our shareholders. They're a happy group of investors today.

Authors: Was it fortunate for the development of Conoco's culture that you were acquired by DuPont?

Dunham: Absolutely, I have nothing but good things to say about DuPont. DuPont reinforced our safety and environmental culture. They allowed us to be an autonomous independent company. The only thing they didn't do is that they wouldn't allow us to keep all of our cash. In the energy business you have to reinvest or you just slowly go out of business. You are depleting your reserves as you produce the oil. You have to reinvest or you get smaller by definition. If DuPont hadn't acquired us, we would have been acquired by Texaco, Mobil or Exxon, and we wouldn't be here today. In 1960, there were 53 integrated energy companies in the world. Today there are 11. The world is changing.

Authors: Was there some particular thing that made the ethics issues come to the front for you?

Dunham: No. It's who I am. To me, it's the fundamental value that every company should want to have. How do you create a great company? What does a great company look like? Wouldn't you want it to be comprised of employees that all practice personal integrity because together that becomes corporate integrity. Wouldn't you want that in your company? I say yes! I wanted to be part of a company that values its people and recognizes that you can't be a great company if you don't have every employee energized, turned on and excited. So it was just a natural evolution for me from safety and environmental excellence to have a value for people and then a focus on personal integrity.

Authors: How do you feel about the recent ethical problems in your industry?

Dunham: When the problems surfaced in California over energy trading, I never lost any sleep as the chairman, president, and CEO of Conoco. When the FTC and the SEC forwarded their subpoenas to Conoco and investigated our trading organizations and our commercial people asking, "What did you do in California?" I knew that the Conoco employees making those decisions to buy and sell gas were doing it with the utmost personal and corporate integrity. I didn't have to worry about Conoco being on the front page of the New York Times. I was glad when Steve Scheck finished his work as the chief auditor and reported to the board, "You're a clean company, you don't have to worry."

Authors: Thank you for giving us the time for this interview.

About the Authors

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The idea for this interview came from one of the author's three years as a member of Conoco's award selection team for the President's Award for Business Ethics. We appreciate the willingness of the corporation to share its information about its award process with us. For further information about Conoco's ethics culture, see Hamilton, J.B. III, M.S. Smith, & S.L. Scheck, S.L. 2002. Conoco's Decision: The First Annual President's Award for Business Ethics, *Case Research Journal*, 22(3), Summer 2002, 79-95. An interview with Steve L. Scheck, general auditor and chief ethics officer for ConocoPhillips, will appear in the next issue of the *Journal of Applied Management and Entrepreneurship*.