CONOCO'S DECISION: THE FIRST ANNUAL PRESIDENT'S AWARD FOR BUSINESS ETHICS

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INTRODUCTION

On a December Friday in 1999, Steve L. Scheck, General Auditor for Conoco Inc., directed the other members of the award selection team toward lunch in the corporate dining room. They had spent the morning reviewing all the nominees for Conoco's first annual President's Award in Business Ethics. The heavy lifting would take place that afternoon. The team was charged with deciding who should receive the award and how the process should be improved for next year.

As they walked through the corridors of the headquarters campus in Houston, Steve reflected on the events which had brought this group together. He recalled the meeting with Archie Dunham, Conoco's President, Chairman, and CEO, when the idea first surfaced. In their discussion, Dunham had indicated that he wanted to initiate a "President's Award for Business Ethics." "We have a President's award for the other core values of safety and health, environmental stewardship, and valuing all people," he stated. "Why don't we have an award for business ethics?" Steve had agreed to get started on the project right away. Now a year later and after a great deal of planning, the process was coming to fruition. The award recipient or recipients would be presented with a trophy at the company's honors banquet and featured in an awards video circulated internally and externally. All the nominees would receive a note of congratulations from the President, Chairman and CEO that certainly would provide some carryover in their annual performance evaluations. After the discussion of the candidates that morning, Steve had his own preliminary judgments on who should be selected. He was curious to see what the other members of the selection team thought.

In addition to company documents and other sources cited, the case is based on the personal experiences of two of the authors as members of the Selection Team. Dialogue is meant to represent the substance of the discussion and is not a transcription of the meeting. The authors' notes did not allow attribution of remarks to individual committee members. Some material from the nomination forms is included in the dialogue. ConocoPhillips has generously granted permission to use the company materials presented in this case.

BACKGROUND AND HISTORY OF THE COMPANY

In 1999 Conoco was a large integrated oil company. The firm traced its origins back to the Continental Oil and Transportation Company first incorporated in Utah in 1875. At the time of the case it was a global firm operating in more than forty countries in the oil exploration, transportation, refining and marketing sectors of the industry. The company had approximately 16,700 employees plus contractors and joint venture partners.

The firm's history has not been without difficulties. During the oil shocks of the early eighties, the company lost its independence. In 1981, DuPont acquired Conoco in order to insure adequate feed stocks for DuPont's chemical business. In 1992, the international oil analyst Schroder and Co. rated Conoco last in overall exploration results among the 14 firms it surveyed.

As the oil crisis abated, the need to secure feed stocks seemed less important to DuPont. Wall Street was pressuring the company to improve its performance. DuPont's response was to streamline its operations. In the early 90's, Conoco's new president, Archie Dunham, began a program of rationalizing Conoco's assets and developing new sources of supply. The company was successfully spun off from DuPont in a complex public offering and stock swap in 1999. In 1999 the Schroder survey ranked the firm number 1 in exploration efficiency among the major oil companies.

The newly independent company had the task of reintroducing itself to the stock market and establishing its own identity. While retaining its decades old retailing identity as "The Hottest Brand Going!" Conoco's new corporate identity campaign centered on Domino, the fast cat, emphasizing that in the new global energy environment speed and agility matter more than size. Internally, the company emphasized a culture based on Conoco's core values of safety, environmental stewardship, valuing all people and business ethics. The company developed compensation plans that closely align employees' interests with those of their shareholders. Under these plans, a portion of an employee's pay was tied to the total shareholder return, as well as other performance objectives, including upholding Conoco's core values. Conoco maintained that upholding these core values provided a powerful advantage for a company intent on global growth and that they were one of the reasons Conoco was welcomed around the world by customers, partners, governments and communities.

The management believed this values focus was particularly important for a global oil producer. The nature of the product, business and technology required that the company have a big footprint. The firm must go where the oil is, move it, refine it and sell it where it is needed. Conoco employees are natives of many countries and expatriates in many countries. They deal with governments, suppliers, joint venture partners, contractors, workers and civilian populations in many places in the world All of this means dealing with the environmental and moral hazards of the world community. The oil industry has a bad press, some of it, possibly, well deserved. However, the world economy depends on the flow of oil and the industry is not going away any time soon.

Conoco was proud to have avoided major disasters, such as the Exxon Valdez oil spill. In 1998, it was the first of the major oil companies to have converted completely to double hulled tankers, a full seventeen years before the U.S. government's deadline in 2015. It promoted this and other safety and environmental accomplishments prominently in its annual report. One of the ways it did this is by having awards and contests in these areas. The winners received a letter from the president, and their accomplishments and pictures were published in the annual report.

DEVELOPMENT OF THE AWARD

Conoco had formal programs throughout the company to insure that employees understand and put into practice the company's core values of safety and occupational health, care for the environment, valuing all people, and business ethics (See 1999 Annual Report, 22-24, Exhibit 1). The ethics program included a formal ethics policy, procedures for insuring integrity and compliance with laws and ethics, and a 24 hour ethics action line for employees to seek guidance and report possible violations. In developing the Business Ethics award to complement this program, Steve had decided to work with a team of managers who were interested in the ethics process and who represented areas in which ethics questions would be a part of daily business. Debbie Tellez, Assistant General Counsel, Business Development; L. Cathy Wining, General Manager, Materials and Services; and Barbara Govan, Human Resources Generalist formed the core team which was completed by several key persons around the world to insure inclusion of global perspectives. The team met over a period of several months, with a number of drafts circulated and revised, to design a process for soliciting and judging nominees for the award (see Award Guidelines, Exhibit 2).

AWARD GUIDELINES

The purpose of the award was to "support and recognize ethics as one of Conoco's four core values," to recognize "extraordinary examples" of "leadership" that demonstrate "excellence" in "conduct" and to provide "role models whose behavior embodies what Conoco stands for" (Exhibit 2). Rather than simply stating that the award was to be given for ethical conduct, the guidelines made a number of distinctions. The award was to reward individuals or groups for good conduct and to inspire it in the actions, attitudes and opinions of others. It sought to reward both individuals and groups, to recognize both significant and sustainable activities, to include both business and personal conduct, to be concerned with both ethics and law, and to represent Conoco's values both internally and externally. Conoco's business conduct guide, Doing the Right Thing, set the standards with which every employee was expected to comply. The Ethics award was to recognize individuals who had gone beyond compliance.

Instead of simply assuming that good conduct is worthwhile, the award guidelines spelled out why this and the other core values were important to Conoco:

> Living up to Conoco's core values in everything we do, individually and as a company, is fundamental to Conoco's continuing success. Conoco must conduct its business with the highest ethical standards. As our activities grow and extend into new areas of the world, we are subject to an ever-widening variety of laws, customs and regulations. We need to be flexible and innovative, and at the same time absolutely unwavering in doing what is right, ethically and legally, so that we may enhance our corporate image, and still gain competitive advantage and increase shareholder value (Exhibit 2).

According to the Guidelines, the specific criteria for judging the Award candidates were:

1. significance of the achievement
2. degree of innovation/creativity

3. degree of employee involvement
4. leadership qualities exhibited
5. impact on Conoco's image/value

The form on which all employees were invited to submit nominations asked for a description of:

1. the reason for the nomination, in terms of the results which were accomplished;
2. strategy and tactics, describing how the results were achieved, including obstacles and innovations; and
3. people involved and why they made a difference, including aspects of leadership and teamwork.

Those eligible for the award included individual employees (regular or temporary), a team, an entire work unit, or retiree of Conoco, for leadership or conduct while in Conoco service in the year of the nomination. Contractors could be included in work units. Multiple recipients were possible. The award winner(s) were to be decided by a selection team representing diverse constituencies, and confirmed by Archie Dunham, the President, CEO and Chairman. Persons outside the company (global external resources) were asked to participate in order to provide additional perspectives. For new perspective and continuity, one third of the team was expected to change each year and about one third was to be made up of former recipients of the award (Exhibit 2).

THE SELECTION PROCESS

The Selection Team met at Conoco's corporate campus in Houston in December 1999. The team had been chosen by the President, after input from a variety of sources. After introductions, the team members heard comments on the importance of the process by one of the champions of the Ethics Award and a member of the president's top management team, Bob Goldman, Sr. Vice President for Finance and CFO. The meeting facilitator then presented the ground rules for the deliberations and the discussion began. A Conoco employee selector, called a validator, had been assigned by the team chair to do a work up of each nominee before the meeting. Each validator gave a ten minute summary of this background information on his/her nominee to the group. The validator then placed that nominee into one of three categories: outstanding, good, or weak. The “outstanding” nominees were to constitute an initial short list of potential award winners, though other candidates could be added to this list by the committee . After each validator’s presentation the selectors asked questions and discussed the nominee but no comparative rankings were made by the committee at this phase of the discussion.

PRESENTATION OF THE NOMINEES BY THE VALIDATORS

Twelve nomination forms had been submitted by employees, with one nominee receiving two separate nominations. After each nominee was described to the committee by a validator, committee members were allowed to ask for clarifications regarding the facts presented or to add facts that not been mentioned. Then the validator was asked to rank the nomination as “outstanding,” “average,” or “weak,” in order to develop a short list for discussion of the relative strengths of the nominees.

(1) PATRICK R. DEFOE, ASSET MANAGER, GRAND ISLE, LOUISIANA

The first nomination presented was Patrick R. Defoe, Asset Manager, Grand Isle, Gulf Coast & Mid-Continent Business Unit, Lafayette, La. "Patrick Defoe is an example of ethical leadership in a very unexciting business unit," his validator began. "The Grand Isle asset (50+ platforms and associated pipelines situated in the Gulf of Mexico) was a mature field, destined to be sold off within several years. The reservoir was depleting, making the property no longer internally competitive for development funding. That information gets around, and the tendency is for everyone involved, from the bottom to the top, to get lax on dotting the i’s and crossing the t's. Everyone is worried about his/her own future with the company. Especially toward the end, as people begin transferring out or retiring, it's difficult to uphold the value of the asset for sale. Patrick would not let that happen. He let people know that there was work to be done and that it would be done according to Conoco standards. His persistent and sustained leadership approach over a six-year period turned around the performance of Grand Isle in every respect. He introduced new programs in vendor convergence, alliance contracting, and a proactive maintenance, and began to actively manage the unit’s relationships with regulatory bodies such as the Minerals Management Service.”

“He would not tolerate ethical or other core value lapses from employees or from contractors. When computer equipment on some of the platforms was missing, phones were stolen, and employees cars were vandalized, he followed up with a thorough investigation rather than looking the other way. These could have been considered minor incidents since the monetary value was small and the unit would soon be sold. Patrick felt business ethics involved the small things as well as the big things. When there were allegations of environmental misconduct and unethical behavior involving documents, he called in Legal/Security and gave them a free hand to investigate no matter who was involved. As it turned out, both allegations were essentially unfounded but he implemented the minor changes recommended by the investigators.”

“Pat Defoe motivated his people to deliver and they did in terms of costs per barrel, safety and environmental stewardship. As the description on the nomination form indicates, platform fires decreased from 17 in 1996 to none in 1999 and incidents of regulatory noncompliance dropped from 42 to 2 in the last year. The continuous improvement in the asset's performance was crucial to the successful sale which realized some $47M for the company's bottom line.”

"How did he keep his employees motivated when they knew the property was up for sale?" one selector asked. "Usually employees just want to retire or get transferred out and leave the problems to someone else."

“He took it upon himself to actively network for other employment opportunities throughout Conoco,” replied the validator. “While getting rid of an asset of this size inevitably results in some layoffs, he found places throughout Conoco, in Downstream, Natural Gas and Gas Pipelines, in Venezuela, Dubai, Indonesia and U.S. Upstream for high performing individuals, while at the same time maintaining the quality of work at Grand Isle. He carved out several “win-win” solutions for Conoco. I can close by saying that this is a strong nomination. Because of his good work, Pat has been put in charge of assimilating an acquisition in Canada."

"A good example of the fact that no good deed goes unpunished!" one of the outside selectors noted.

(2) GEORGIAN LPG TERMINAL PROJECT TEAM, GEORGIA AND RUSSIA

The next nomination presented was the Georgian LPG Terminal Project Team. The team members included David Huber, Lead, Conoco Energy Ventures, Istanbul & Batumi; Roy Mills, Finance, London & Batumi; Harry Crofton, Development Engineering, London; Mikhail Gordin, Supply Logistics, Moscow; Asuman Yazici, Marketing Manager, Istanbul; Fiona Braid, Legal, London; and Pat Cook, Human Resources, London. "This nomination represents ethical conduct in very difficult circumstances by employees some of whom were fairly new in their positions with Conoco," the validator began. "It is an Indiana Jones story. You arrive at the airport in an exotic regional capital with a briefcase full of $100 dollar bills and you have to open a bank account, find a hotel room and start doing business there."

"Conoco saw an opportunity to become the first western oil company to establish offices and a hydrocarbon operation in Batumi by refurbishing a liquefied petroleum gas terminal there for transshipment and sale of LPG gas in Turkey and the eastern Mediterranean. The idea was to buy the product in Russia and ship it by rail to the terminal. This was Conoco's first venture into the area so it was critical that the team set the proper ethical tone for future business and that all employees, ex-patriot and native, uphold the Conoco values. The target was to have the first train load of gas arrive at the terminal just as the repairs were completed. They were financing the remedial work on the terminal, purchasing the LPG, arranging for transportation through customs in Russia, Azerbaijan, and Georgia, making terminal arrangements in Adjaria and reselling the product in Turkey. Roy Mills was overseeing the transfer of funds that had to be coordinated with the rebuilding of the terminal by a Turkish contractor based on engineering work monitored by Harry Crofton. Mikhail Gordin, who at that time was based in Moscow, was scouring the country to secure a supply of natural gas and negotiating a transportation agreement with both a freight forwarder and the local refinery management. There were many setbacks at both ends, frequently created by pressure to sweeten deals and alter scheduled work plans. Though bribes and kickbacks are illegal in these areas, many companies who operate there accept them as distasteful necessities because the legal infrastructure is often insufficient to stop such practices. There was a lot of pressure on the team members to go along with these types of payments in order to keep the project on schedule. By their refusal to make any "extraordinary" payments and their constant reminder to local employees, suppliers and local customs and tax officials that business would have to be done according to Conoco standards or not at all, the project now operates successfully without constant harassment for such payments."

"David Huber, the team lead, used his persistence and experience of working in Russia to convince the local government of Adjaria that LPG terminalling and transportation via Batumi would be an attractive business opportunity. The nominator points out that through his vision setting and understanding of the cultural differences and language barriers, David was able to assemble a multinational, multi-lingual team capable of working across all of the countries involved: Mikhail who was responsible for finding the gas and transporting it through customs in Russia, Azerbaijan and Georgia; David and Harry who made the terminal arrangements workable in Adjaria; and resale of the product in Turkey by Asuman. It is also important to mention the financial, legal and human resources services provided by Roy, Fiona and Pat."

"There was one other positive aspect of this story. In order for governments and businesses to understand the Conoco way of doing business, it was crucial to hire local employees who would adhere to Conoco values that ran contrary to some local practices. In an area where personal references are practically worthless, Human Resources, through Pat Cook, checked all references and used a special interview process to vet all new hires. Integrity was a prime concern and a killer factor in hiring. Team members reinforced this concern through advice regarding expected behavior, auditing and recognition. In addition, in order to assure that good conduct was rewarded by salary schedules appropriate to the region, the team sought salary advice from the United Nations Development Program, a first for an energy company. The UNDP praised the company's treatment of employees in the region. Overall, I think this is a strong nomination."

"What worries me about this situation is that we would be rewarding employees for doing what was expected of them," objected a selector. "The company policy is clear about not paying bribes. These guys did what they were supposed to do."

"Were there any extra pressures from within the company," asked one of the outside selectors, "other than the usual concern to meet targets with a profitable project? That might make their behavior extraordinary. Remember, the guidelines talk about 'overcoming obstacles'." (See Exhibit 3.)

"Well, these employees were relatively new in these particular jobs and new to that area, so even a failure caused by a conflict of Conoco's ethical practices with local practices could have been perceived as more serious than for a more experienced person. In a company like ours that really stands behind its values, failure on those grounds would have been accepted as the right way to do business, but the perception of danger might still be there for newer employees. From a business standpoint, however, there were no more than the usual pressures to succeed."

"There was no pressure directing them to violate the company's ethical standards, but there was extra pressure," another selector said. "Remember that our primary project in the region had already gone under, so the LPG terminal was our only active effort. We needed the terminal to succeed in order to have a platform from which to launch other projects. The team members knew that if they failed, Conoco would likely pull out of the region entirely."

(3) ERIC JOHNSON, EXCEL PARALUBES, LAKE CHARLES, LOUISIANA

"This may not be as dramatic a story," began the validator, "But it represents behavior that deserves recognition just as well. It involves day-to-day ethical leadership that set the tone for the employees of one of our joint ventures. EXCEL Paralubes is an effort to leverage technology and personnel from Conoco and Pennzoil in the creation of a product and profits that neither organization could realize alone. Conoco is the managing partner in the venture, which is sited next to the Conoco facility in Lake Charles."

"The nomination came from a Conoco manager working as the Organizational Development Coordinator for Petrozuata Upgrader, another joint venture in Venezuela. The nominator had been part of the EXCEL startup and knew that EXCEL had developed innovative work processes that had contributed to the success of EXCEL and would be readily adaptable to help with organizational development in Petrozuata. He asked Eric to share them with Petrozuata. Eric responded that he would be happy to help but that certain of these processes represented a competitive advantage to the EXCEL joint venture. Though these processes would certainly add to the bottom line at Conoco through its Venezuela venture, they could not be given out in fairness to the joint venture partner, Pennzoil. This response from a loyal Conoco employee who was conscious of his ethical and legal obligations to his joint venture so impressed the nominator that he submitted Eric for the award. The nominator also stated that, following Eric Johnson's leadership in this area, he has conveyed this standard of conduct to his peers at Petrozuata so that they are aware of their obligation to protect not only Conoco's interests but those of their joint venture partners as well."

"As I looked into Eric's activities at EXCEL, I was more and more impressed that this was not an isolated incident and that Eric was modeling ethical conduct crucial to the success of Conoco joint ventures. If we are the managing partner in the venture, the other partner needs to be confident that the Conoco employees in charge will not show any favoritism to Conoco in cost sharing. And to hear tell from the EXCEL and Conoco people on the site, Eric is fair to a fault. The EXCEL operation is right next to the Conoco plant in Lake Charles, Louisiana and the two plants jointly use some of the facility. Eric has gotten flak from his counterparts at the Conoco plant for not cutting them any slack on sharing costs for these joint facilities. They would rather not have these costs show up in their budgets but he reminds them that he is wearing his EXCEL hat and needs to look out for the interests of EXCEL. On one occasion for example, he made Conoco pay for its share of grading the road which borders both plant sites. While that may seem unimportant, it sets a tone for all of the Conoco employees lent to the venture and has given Pennzoil such confidence in the fairness of the operation that they are planning additional ventures with Conoco. I think this nomination is another strong one."

"But again, isn't this conduct that we expect of all employees? Does it arise to an award level?" asked a selector.

"Well you need to realize that his long term career is with Conoco and that most managers after several years with the joint venture return to work with their parent company. By upholding these standards he is risking burning some bridges with managers at Conoco that he might be working for or with in the future," replied the validator.

"We also have to consider that joint ventures of this kind are important to a company the size of Conoco and we haven't been doing them for that long. We need models for how to make those ventures work and an award might help to get the message out as to our company's expectations," another selector added.

(4) TERRY BEENE, RETAIL MARKETING, HOUSTON, TEXAS

"When Conoco, for competitive reasons, elected to include convenience stores in our retail stations," the validator began, "the company found itself with a whole new kind of employee. Instead of the salaried engineers, managers and support staff who make up most of the work force, we were responsible for recruiting, training, motivating and monitoring a group of not very highly paid hourly workers who were our retail face to the public. In addition, these not very highly paid workers were surrounded by all kinds temptations in the form of merchandise and cash, in a situation where direct supervision was too costly. Looking at this problem, Terry decided that there were two main options. One was to assume that a small percentage of employees were going to steal and concentrate on catching and punishing them. The other was to assume that the great majority of employees were honest and that a program that spent time and money recognizing their honesty in the face of temptation would motivate them to continue their good conduct. Such a program could convert or drive out the bad actors as well."

"Terry decided to emphasize 'keeping honest people honest.' The program was designed to "catch people being honest and reward them for it." The first step was a strong training program for new employees that began with a unit that explained all the ways that employees can steal from a convenience store. Employees who expect to steal were thereby warned that the company knew all of their methods and most of the dropouts occurred in this early phase of the training. Honest employees understood what the temptations were and were taught how to avoid them. They understood that the company uses extensive control measures and that one of the purposes of these was to ‘catch them doing something right.’ Once on the job, the employees were continually motivated to be honest with visits by mystery shoppers who rewarded them on the spot for good behavior and reported on store procedures to management.”

“A second phase of the program involved systemized operational practices designed to decrease the opportunity for theft to occur. There are extensive control measures to manage inventory and track sales through scanning technology and regular and surprise audits. Security cameras have been installed in virtually all stores within the last two years. Honest employees were encouraged to be honest by knowing that dishonest behavior would be caught and punished. But the emphasis even in the audits was to reward people whose inventory and cash are all properly accounted for rather than focusing on the threat which controls pose to those who do wrong. The desire to accurately measure inventory and control losses was the catalyst in the decision to employ new and innovative scanning technology. The data resulting from this Loss Control Program has also proved valuable in the development of trend reports and standardized operations reports that can highlight loss control problems before they become critical."

"The results of this approach to managing retail sales have been significant. While the standard rate of losses in the industry is 2% to 4% of gross revenue per year, Conoco's loss percentage has averaged 1.13% over the past three years. This difference translates into additional revenues of $1.5MM and $2.5MM per annum over the past two years. The turnover rate for employees is also significantly lower than the industry average, which contributes to lower recruitment and training costs.”

“In his position as Director of Security in Retail Operations, Terry was the sole employee in the retail sector assigned to Loss Control. His work designing and selling this program throughout the sector resulted in a function-wide commitment to the Retail Loss Control Program at all levels. Because of his efforts, loss control focused not on fixing problems by firing dishonest employees but on training personnel to recognize the importance of honesty and on implementing sustainable processes to prevent problems from occurring. All in all I think this nomination warrants serious consideration."

(5) RAYMOND S. MARCHAND, UPSTREAM AAME, DAMASCUS, SYRIA

"Raymond Marchand is a unique individual. Born a French-Algerian, Raymond has translated his dual nationality into a unique understanding of how to preserve Conoco values in some of the most complex and challenging business cultures in the world. As a young man he fought the Algerians as a member French foreign legion’s "Blackfoot" brigade, a group that planned to parachute into Paris to assassinate French President DeGaul for granting Algerian independence. After his military service, Raymond began working for Conoco as a laborer in the 1960's and quickly advanced into management responsibility. He has been in charge of the company’s operations in Chad, Egypt, The Congo, Somalia, Angola and Nigeria, and is now heading operations in Syria. His leadership in doing business the Conoco way or not doing business at all involved relationships both outside and inside the company. By his own example he established a clear policy of integrity in all dealings with government officials and contractors, and taught both native and ex-patriot employees that requests for ‘exceptional’ payments could be refused continually without insulting the person making the request.”

“Raymond is most masterful in difficult business environments. In Somalia the U.S. government employed his experience in negotiating in a corrupt environment without compromising his standards. As the situation there deteriorated, Raymond was forced to leave the country to the sound of gunfire. In Nigeria his high ethical standards and personal negotiating style changed the paradigm of what was acceptable business conduct for Conoco's Nigerian employees, our Nigerian indigenous partners and our Nigerian government contacts. His approach took the risk of losing business opportunities. The respect he garnered for his way of operating, however, gained opportunities for Conoco, especially as a new government under President Obasanjo made the ideal of integrity fashionable in that country."

"Nigeria was a particularly challenging environment because 95% of the Conoco workforce was native born and had grown up in an atmosphere in which companies bought their way into whatever situation they wanted to be in. Marchand taught the whole organization from top to bottom that business could be conducted without such payments. His alternative to bribes was establishing relationships based on trust and dependability, an approach that requires spending the time to build personal relationships. Actions speak louder than words in establishing trust and as his nominator put it, 'You can see his heart behind everything he says and does.' With the company's indigenous partners he was successful in resolving contractual problems and educating them about Conoco's core values, especially ethical behavior. In doing so he earned not only their respect but a wider recognition within the business community and the government that Conoco's integrity is second to none in Nigeria."

"Because of his leadership, many of our operating costs have been lowered by newly empowered, bright young native Nigerian employees. Throughout Nigeria, I am told, all the Conoco employees respond to requests for 'extraordinary' payments with Marchand's characteristic smile, two raised and waving hands, and the phrase "No can do!" delivered in a loud friendly voice. This behavior has become so standard that most people do not even request payments from Conoco employees."

"Inside the company, Marchand has shown an equally high level of integrity. Whenever accusations have surfaced about irregularities in his operations, he has immediately requested a full company investigation of the matter and has insured the full cooperation of all employees in his shop. When notified that he was being posted to Syria, he requested a meeting with a management committee from Auditing and Legal Affairs to map out strategies for dealing with the business environment in that country. I think his career achievements set a standard against which future award nominations can be measured."

"That mention of career achievement raises some interesting points regarding the award criteria," observed an outside selector. "Should the President's Ethics Award recognize only heroic ethical conduct which goes beyond the standard expected of every employee or should employees be rewarded for meeting the expected standards? And if employees are recognized for meeting the expected standard, should this be only for consistent behavior over time (a life time of ethical action), or for behavior in difficult circumstances (pressures to meet other performance criteria)? Or would the company's objectives be furthered in giving awards sometimes for behavior which shows how the standards can be followed in ordinary circumstances (a good example, or "Charlie Brown" award)?"

"It seems that we have examples of all of these possibilities in this group of nominees," another selector said. "In giving this first award, the company will be setting some kind of a standard for future nominations, though an evolution of the standards is certainly possible. But I think it is important to keep in mind that our decision may encourage some and discourage other types of nominations from being submitted in the future."

"We might want to consider giving more than one award this first year, since we are reviewing conduct from several prior years rather than one prior year," one selector said.

"It is interesting," another selector noted, "that we have some real diversity among the nominees. We have overseas and domestic. We have upstream (exploration and production), midstream (transportation and refining) and downstream (retailing). We have career nominations and specific project nominations, and we have individuals and a team. The only kind of nomination missing is for a single action which was unique enough, had such important consequences, or was done under such difficult circumstances that it was significant enough for a nomination."

MAKING THE DECISION

The morning passed quickly as the nominees were presented. "These five nominees have made the short list based on the validators’ evaluations,” the facilitator said as she stood up to indicate that the descriptive phase of the work was concluded. “But any of the others can be considered as we begin to make judgments this afternoon. Archie (President Dunham) considers this award to be important for Conoco. We have a real task ahead of us. Steve has promised us an excellent lunch before we decide who to recommend for the first President’s Award for Business Ethics."

EXHIBIT 1

THINK BIG, MOVE FAST: DELIVERING ON OUR PROMISES

(Conoco 1999 Annual Report, p.22-24)

Our vision is to be recognized around the world as a truly great, integrated, international energy company that gets to the future first. Conoco operates in more than 40 countries worldwide and at year-end 1999 had approximately 16,700 employees. Conoco is active in both the upstream and downstream segments of the global petroleum industry.

Distinctive Corporate Culture Defines Conoco - Past, Present and Future

Core Values - An Unwavering Commitment

Safety and Health: Conoco is dedicated to protecting the safety and health of our employees, who maintained an outstanding safety performance in 1999. The total recordable injury rate of 0.36 per 100 full-time employees was just slightly above the previous year’s record low. During the past five years, employee safety performance has improved more than 60 percent. Conoco has achieved these outstanding results through the company’s efforts to continuously improve safety systems and processes, and because employees take personal responsibility for their safety and the safety of their co-workers. This sense of shared concern was reflected in the safety performance of the thousands of contractors who work at Conoco facilities. Contractor safety performance improved 17 percent in 1999, and 64 percent during the last five years. . . . .

Environmental Stewardship: Conoco is working to minimize the impact of the company’s activities on the environment. The number of significant environmental incidents was reduced to zero in 1998, with one occurring in 1999. “Significant” incidents are major releases or spills with the potential to affect our neighbors. Over the past five years, emissions of volatile organic compounds (which contribute to smog) have been reduced by an estimated one-third, while Conoco’s global refining operations have continued to reduce flaring and sulfur emissions. Ernst & Young, a global accounting and auditing firm, is conducting an independent evaluations of Conoco’s worldwide reporting processes for future data on safety, health and environmental performance. This audit will help us better measure the company’s progress in these areas. In the communities where Conoco operates major facilities, we maintain a flow of information to local residents through Citizens Advisory Councils, which bring together community representatives and Conoco managers. . . . .

Valuing All People: Conoco operates in more than 40 countries and has a diverse global workforce. We draw on the different perspectives and cultures of our employees, along with their combined experience, knowledge and creativity, to gain a powerful business advantage around the world. Throughout the company, we strive to create an inclusive work environment that treats all people with dignity and respect. In such an environment, employees are recognized and valued for their experience, intellect and leadership.

Business Ethics: Conducting business with the highest ethical standards is critical to Conoco's continuing success. As Conoco becomes more global, the company is subject to an ever-widening variety of laws, customs and regulations. This requires us to be flexible and innovative in our business dealings, while at the same time resolute about doing what's right, both legally and ethically. Adherence to the highest ethical standards is a condition of employment at Conoco. The company has a formal ethics policy and procedures for conducting business with integrity and in compliance with all applicable laws. Employees are required to review the policies and procedures regularly and complete an annual certificate of compliance. A 24-hour telephone hot line also provides employees a way to seek guidance or report possible conflicts.

EXHIBIT 2

GUIDELINES: PRESIDENT'S AWARD FOR BUSINESS ETHICS
(Conoco Inc., 1999)

Purpose

The **President's Award for Business Ethics** was created to support and recognize this as one of Conoco's four core values. This award recognizes individuals or groups that make significant and sustainable contributions to this core value.

The award is designed to inspire others by recognizing extraordinary examples of individual and/or group leadership that demonstrates on an ongoing basis, sustainable excellence in personal and business conduct. The people recognized are role models whose behavior embodies what Conoco stands for both internally and externally.

Definition / Judging Criteria

Living up to Conoco's core values in everything we do, individually and as a company, is fundamental to Conoco's success. Conoco must conduct its business with the highest ethical standards. As our activities grow and extend into new areas of the world, we are subject to an ever-widening variety of laws, customs and regulations. We need to be flexible and innovative, and at the same time absolutely unwavering in doing what is right, ethically and legally, so that we may enhance our corporate image, and still gain competitive advantage and increase shareholder value.

Conoco's business conduct guide, **Doing the Right Thing,** provides a summary of the company's policies and standards, and of significant laws relating to our business. Every employee is personally responsible for compliance with those laws and standards. However, this award is designed to recognize those individuals who go beyond simply complying with company policies or the applicable laws.

It is designed to recognize those individuals who seek to change the actions, attitudes or opinions of others with regard to what constitutes ethical behavior, both internally and externally. This may be done through the role modeling of a significantly higher standard of ethical conduct; through the implementation of policies and practices that drive our actions, or the actions of others externally, beyond the minimally acceptable standard or customary behavior; or through decision making that demonstrates that "doing the right thing" from an ethical perspective increases shareholder value.

Nominations should represent extraordinary behavior and will be judged according to specific criteria described below.

1. The significance of the achievement, effort or behavior. Significant improvement above the minimum required standard for ethical conduct; linkage to business objectives and implementation of policy and standards; and/or successful performance in spite of difficult and challenging circumstances such as location, language, culture and/or alignment with and cooperation between Conoco and an external party.

2. The degree of innovation/creativity displayed. Proactive assessment of and response to a need; implementation of new approaches to address ethical business conduct.

3. The degree of extent of employee involvement or support with respect to the higher standard or expectation role modeled or implemented. A work environment exists that encourages employees to conduct themselves ethically at all levels; employees recognize the value of strong ethical behavior and are accountable for their conduct; employees are actively involved in the administration of company standards and training others; and/or rewards and recognition programs reinforce the desired behavior at all levels across the company.

4. The leadership qualities exhibited in challenging norms or customary practices. Persistence in implementing improvement programs or new approaches that lead to outstanding ethical performance.

5. The impact on the company's image/value; internally (with employees) and/or externally (with stakeholders such as partners, governments, suppliers, customers, and communities) in a way that creates shareholder value over time.

<u>Eligibility</u>

Nominees for this award may be an individual employee (regular or temporary), a team, an entire work unit or retiree of Conoco, for leadership or conduct while in Conoco service in the year of nomination. Contractors may be included in team or work unit awards. There may be multiple recipients each year, dependent upon the number and quality o nominations received. An organization's size or a person's position within the company is not a deciding factor.

<u>The Award</u>

The President's Award for Business Ethics will be presented annually to award recipients or their representatives at a special recognition ceremony. This award will reflect a unique an globally symbolic representation of ethics and will be consistent in stature with that of other President's Awards. The award will remain with the group or individual. Any additional forms of recognition will be left to the discretion of the business units.

<u>Selection Team</u>

Conoco Leadership Center - Legal and Finance are jointly responsible for coordinating the selection process to determine award recipients. Input on selection team membership will be solicited from multiple sources, with final selection of the tea made by the president and CEO. The Selection Team will be vested with the power to select a winner(s) and other finalists. The team's decision will be reviewed and endorsed by the President and CEO.

The Selection Team will consist of employees who are recognized s credible role models and able to provide an objective assessment. Team makeup will reflect a broad and global cross-section of the organization. Diversity of thinking styles, beliefs, cultures and backgrounds will be represented, as well as different salary grade, gender, ethnic and business perspectives.

To insure new perspective while maintaining continuity, e expect about one-third of the team's membership to transition in any given year. About one-third of the team will be comprised of former recipients of the award.

In addition to employees, global external resources will be invited to participate on the team to provide additional perspectives.

Nomination

Each year Conoco's President and CEO will send a communication to all employees inviting nominations. The communications will be combined with nomination requests for the other three Conoco core values.

Nominations shall be submitted using **this on-line form,** or follow the format described below:

- The name, address, phone number and e-mail of the person submitting the nomination and responsible for providing any additional information if necessary.

- The name of the individual(s) being nominated. Indicate the name of the nominated team or work group if applicable.

- **REASON/RESULTS -** briefly describe **WHAT** was accomplished. Include details of nay measures or impact of the behavior or activity involved to the extent possible, the drivers and the significance of the accomplishment.

- **STRATEGY AND TACTICS -** briefly describe **HOW** the results were achieved. What obstacles had to be overcome? What new or innovative tools or processes were used?

- **PEOPLE -** describe **WHO** was involved in this achievement and why they made a difference. Describe the leadership criteria exhibited and he degree of teamwork and networking that was necessary.

Nominations should consist of no more than three pages, including a brief introductory summary. Clear and concise nominations are encouraged. The Selection Team will make judgments based upon "substance" of the achievement, not form or length of the nomination.

EXHIBIT 3

ORGANIZATIONAL STRUCTURES THAT BLOCK ETHICAL ACTION

(This exhibit is not a Conoco document but is included by the authors to facilitate case discussion.)

ARE ILLEGAL AND UNETHICAL ACTIVITIES COMMON IN THE WORKPLACE?

The 2000 National Business Ethics Survey (hereafter NBES'00) conducted by the Ethics Resource Center, showed that in comparison to their 1994 survey data, companies are doing more in terms of their ethics programs--more have written standards, ethics training programs and means for employees to get ethics advice. Many ethics indicators have improved and a majority of employees are positive about ethics in their organizations. Many employees believe that their supervisors and organizational leaders talk about and model ethical behavior at work. Interestingly, there are relatively few differences in the ethics perceptions of employees in the government, for-profit and non-profit sectors.

In a 1997 survey (hereafter "EOAS'97") conducted by the Ethics Officer Association and the American Society of Chartered Life Underwriters and Chartered Financial Consultants, **48%** of American workers admitted to illegal or unethical actions in the past year.

The NBES'00 reported that **33%** of American workers observed behaviors that violated either their organization's ethics standards or the law. [This report was based on a nationally representative telephone survey of 1,500 U.S. employees conducted between November 1999 and February 2000.]

A 1999 survey (hereafter KPMGS'99) conducted by KPMG LLP, a professional services firm, indicated that greater than **75%** of U.S. workers surveyed had observed violations of the law or company standards in the previous 12 months. Nearly **50%** said their company "would significantly lose public trust" if the observed infraction had been reported by the news media. [This report is based on questionnaires sent to the homes of 3,075 randomly selected U.S. working adults in October and November, 1999. 2,390 completed questionnaires were returned for a response rate of 78%.]

WHAT ARE THE MOST COMMON ILLEGAL AND UNETHICAL ACTIVITIES?

The top five types of unethical/illegal activities in the EOAS'97 were:

1. cutting corners on quality control,
2. covering up incidents,
3. abusing or lying about sick days,
4. deceiving or lying to customers,
5. putting inappropriate pressure on others.

Others mentioned included cheating on an expense account, discriminating against co-workers, paying or accepting kick-backs, secretly forging signatures, trading sex for sales, and ignoring violations of environmental laws.

The five types of misconduct observed most frequently according to the NBES'00 were:

1. Lying,
2. withholding needed information,
3. abusive or intimidating behavior toward employees,
4. misreporting actual time or hours worked, and
5. discrimination.

Common infractions cited in the KPMGS'99 were sexual harassment and employment discrimination while other offenses mentioned included deceptive sales practices, unsafe working conditions and environmental breaches.

WHAT ARE THE FACTORS THAT LEAD TO ILLEGAL AND UNETHICAL ACTIVITIES IN THE WORKPLACE?

The top ten factors that workers reported in EOAS'97 as triggering their unethical activities are: balancing work and family, poor internal communications, poor leadership, work hours and workload, lack of management support, need to meet sales, budget or profit goals, little or no recognition of achievements, company politics, personal financial worries, and insufficient resources.

Mid-level managers most often reported a high level of pressure to act unethically or illegally (20%). Employees of large companies cited such pressure more often than those at small businesses (21% versus. 14%). High levels of pressure were reported more often by high school graduates than by college graduates (21% versus. 13%).

The NBES’00 indicated that one in eight employees feel pressure to compromise their organizations’ ethics standards. Almost two-thirds who feel this pressure attribute it to internal sources--supervisor, top management and coworkers. Employees with longer tenure in their organizations feel more pressure to compromise their organizations’ ethics standards. Employees who feel this pressure to compromise observe more misconduct in the workplace.

The KPMGS’99 reported that nearly three-fourths of the respondents blamed cynicism and low morale as the reason for employee misconduct. 55 percent of respondents said their CEO was unapproachable if an employee needed to deliver bad news. 61 percent thought their company would not discipline individuals guilty of an ethical infraction.

AN ORGANIZATIONAL FOCUS IS AS IMPORTANT FOR UNDERSTANDING ETHICAL BEHAVIOR AS AN INDIVIDUAL FOCUS

Since many of the causes cited as triggering unethical behavior are organizational factors, an organizational focus is as important as an Individual focus for understanding the obstacles to ethical behavior. By focusing on structure, it is possible to identify certain common features of business organizations that act as organizational blocks to ethical behavior. These ways of organizing business activity can make it difficult for individuals to act in an ethical way, even if the corporation's ethics code requires ethical behavior. James A. Waters ("Catch 22; Corporate Morality as an Organizational Phenomenon," Organizational Dynamics, Spring 1978. Reprinted in Donaldson & Werhane, Ethical Issues in Business 3rd Edition, 1988) identifies seven such blocks to ethical action.

(a.) Strong role models who follow unethical practices make it difficult for new employees trained by them to imagine how the assigned tasks could be done without unethical practices. Corporations must pay careful attention to the messages which new employees get during their training about the importance of following the firm's ethics code.

(b.) The strict line of command followed in many organizations makes it difficult for individuals down the chain to resist an immediate supervisor's order to do something unethical. The employee must assume that the order has come from higher up the chain and represents company policy. If there are no channels of communication for questioning the ethics of an action without going to the higher ups who presumably originated the order, the employee is unlikely to risk retribution by going above his/her supervisor's head. Thus, compliance in unethical activities can often be enforced by lower level supervisors without the higher company officials ever knowing about it.

(c.) The separation of policy decisions from implementation can be a strong block to ethical action. In most organizations, policy is set by upper management without discussion with lower level employees. Lower level employees may then be forced to resort to unethical activities in order to carry out unreasonable policies or goals set by the top management or risk losing their jobs.

(d.) The division of work necessary to accomplish the goals of large organizations also makes reporting unethical activities difficult. Employees in one channel do not see it as their responsibility to report wrongdoing in other channels nor do they usually have enough information about what is going on throughout the organization to be certain that the activities are unethical.

(e.) Task group cohesiveness can frustrate even well structured internal reporting procedures. Members of a work group who are engaged in unethical activities will exert strong pressure on every member to be loyal to the group rather than report the activities to the company.

(f.) Loyalty to the company can lead to protection from outside intervention by the law or adverse public opinion. Employees can avoid investigating reported unethical activities for fear that word will get out that wrongdoing has occurred.

(g.) Another organizational block is constituted by ambiguity about priorities. Corporate ethics codes may not make it clear to employees how conflicts between performance criteria and ethical criteria should be resolved. Companies may reward employees only on the basis of the "hard" measurable criteria of meeting sales goals or profit projections with no consideration given to the means used to achieve these ends.

Two further blocks which Waters does not mention are time pressure which may make unethical shortcuts seem like the most expedient solution to a workload which cannot be completed in the time permitted. Inadequate resources to complete the job with ethical means may also pressure employees into unethical shortcuts. Overcoming these organizational blocks in meeting the expected standards of behavior would qualify as "extraordinary" and worthy of recognition.