

# Twenty Years of Organizational Learning and Ethics at Hanover Insurance: Interviews with Bill O'Brien

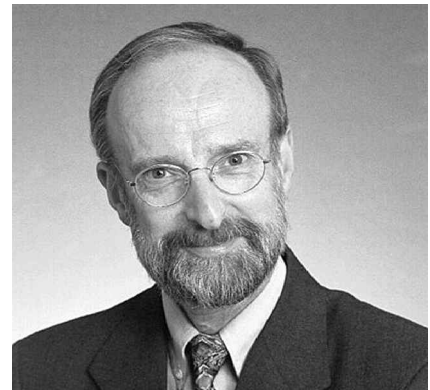
*Barry Sugarman*

This story of a business turnaround is also a story of organizational and personal transformation.<sup>1</sup> New leaders revived a moribund business, Hanover Insurance, by emphasizing ideas, purpose, and values in order to engage and energize employees. Significant improvements in business results were seen after only one year and continued to accelerate for more than 20 years. During these years, Hanover's top leaders continued to promote change processes, based on their conviction that fuller use of their employees' human potential was the key to their business success. They had an equal conviction that the typical work environment of bureaucratic mediocrity, office politics, and lack of work satisfaction was anathema and ethically unacceptable. This case is about change management, human resources as a strategic key, leadership, transformation, and ethics; each is an integral part of the Hanover story.

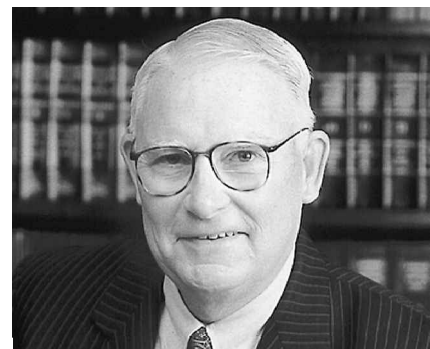
In 1969, Hanover Insurance was one of lowest performers in its field, a company resting comfortably at the bottom of the industry. But by 1984, it had climbed to the top quartile. President Jack Adam, appointed in 1969, and his new vice president of marketing, Bill O'Brien, had spent 10 years developing what they later called a "values-based culture" and reviving business performance dramatically. O'Brien says, "We redesigned the culture from one that was command and control to one that was vision-driven and values-based."

By 1979, when O'Brien took over the role of president, Hanover had been consistently outperforming the industry average during the previous decade. The bad news was that the whole industry was entering a very difficult period due to the "tort explosion," with courts making large, escalating damage awards against insurers. However, the good news was that Hanover's continued creative efforts to make still deeper changes during the next decade led to an increased lead over its competitors. Facing this additional challenge, in its second decade of change, Hanover began making serious use of systems thinking instead of just traditional problem-solving by linear cause-and-effect thinking.

In 1982, O'Brien met Peter Senge; the two learned much from each other. Senge taught Hanover to apply systems thinking to managing its tough business problems, and O'Brien and Hanover showed Senge what a real learning organization looked and felt like—and what was required to cultivate one (Senge, 1990). O'Brien commented, "The advent of Peter brought us on a journey to



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### Commentary by Carol Ann Zulauf

It is just plain exciting to read about an organization that has undergone and sustained profound transformational change.

This case study is as much about the leadership at Hanover as it is about the company's 20-year journey of change, learning, growing, working through challenges, and becoming a learning organization. The change process usually happens when people, deep within themselves, have a glimpse—perhaps a vision—of what they want to do, some picture or image of what they want to accomplish or have happen for themselves or for others. Frequently, if this image were parsed, we'd see that values, dreams of leaving a legacy, and a vision of success are part of the foundation of this driving force.

O'Brien was the prime catalyst in the transformational change at Hanover. His personal values of believing that "each human life is special and has a unique purpose, that all work has dignity, and that work and family are the principal platforms for human growth" became the platform of change at Hanover (O'Brien, 2000). Here is a leader whose congruent beliefs and actions fostered an environment based on trust, inquiry, and fruitful relationships.

What does it take to change the culture slowly at a company such as Hanover? What kind of leader is needed? Fisher et al. delineate the stages of personal growth—opportunist, diplomat, expert, achiever, individualist, strategist, magician (Fisher et al., 2000). O'Brien was at least at the strategist stage (if not the magician stage!). Fisher et al.'s research has found that "only about 10% of managers are . . . at the [strategist] stage" (p. 112).

In addition to the stunning financial growth at Hanover, as measured by the combined ratio, market capitalization, and its improved standing among other property and casualty insurance businesses, another

more learning, systems thinking, advanced work on conversation, and an introduction to scenario planning."

The story of this business turnaround is remarkable in several ways. First, as early pioneers, its leaders really did, in the old cliché, "make it up as they went along." There were no publications on organizational change management to help them. Through this pioneering work, O'Brien earned a role as a founder of "the learning organization." Second, the two principle leaders, Adam and O'Brien, maintained a sustained effort over two decades to explore and experiment with methods based on certain deeply held values and beliefs. Third, these change leaders were deeply committed to both profit *and* ethical values. They considered profit and values essential to each other.

They did not start out with any such notions, however; they were pragmatists, not ideologues with a point to prove; businessmen with a company to rescue; and decent individuals with some firm ideas about good and evil. Says O'Brien, "We didn't start out to create a culture or to be a learning organization. Our starting point was a high level of frustration at the waste of organizational talent. We thought that the politics, the bureaucracy, and all the bullshit was a bad environment for our people and that they were working at 30% of their mental and imaginative capabilities, quality of thinking, and spirit."

### Intent of the Change Initiative

According to O'Brien, the intent of their change initiative was "to improve the financial performance of the company, to move from the bottom of the industry to become recognized for excellence. We didn't set out to build a culture that helped people to grow. We started out to make the company operate better, but we always believed that it would operate better if we had a culture that helped people to grow and that also served the customer. At that time, there was little business literature on the customer, and there wasn't the deep commitment to quality for the customer that there is today."

O'Brien's thinking developed, fueled by his talks with Adam and endless conversations as he spoke to groups of employees about the importance of values and vision in the business. Later, in the interviews for this case study, O'Brien explained his thinking. While learning was important to him for building a stronger company, the quest for more "virtue" was his most important goal:

I had a deep frustration with the way large organizations hired people out of school, full of ideals and energy to make a contribution, and, because of bureaucracy and organizational politics, the vast majority of them became empty shells, counting the days and years to retirement. I didn't think it was a learning issue; it was more a virtue issue. I thought it was too much politics, too much kissing ass, too much lying, too much putting spin on everything. Really enormous doses of selfishness—and not just at the top, but my department *versus* your department. I saw the infections in the corporation as inferior virtue. So I looked for the eternal truths or values that would elevate behavior above those lower things. If we had a profile of the Fortune 500 companies, I think they would have both a virtue deficiency and a learning deficiency, but that the first would be much bigger than the second. My roots come from Christian beliefs and the street. My bias is that companies have a big need for values and virtue, because that can turn on the entire workforce.

### Goals of the Hanover Effort

At the start of the first decade, Adam and O'Brien's goal for Hanover was to be in the upper fourth of stock insurance companies, as measured by combined ratio, and to grow at 1.25 to 1.5 times the industry growth rate. At the start of the second decade, O'Brien raised the goal to the upper quarter of all insurance companies (not just stock companies, but including the mutual insurance com-

panies as well). Both Adam and O'Brien were also committed to making Hanover a profitable business by making it a better company—better in the sense of Aristotle's virtue—a company that people could feel good about working for. Success, for them, was defined as achieving both goals.

In 1985, Adam stated, "More than anything else, I wanted to lead in the creation of the kind of company I had always wanted to work for and never could find. I wanted to help build a corporate family where we *let* people use all their abilities, where we *let* people help build an outstanding organization. I felt if we could build this kind of an organization, we could attract able people who not only would grow and achieve their own abilities and desires, but would help others to grow and achieve" (Adam, 1986).

## Methods for Enabling Learning and Change

The primary change agents at the beginning of the turnaround were Adam and O'Brien. Their method at the beginning was to talk to employees about the purpose of the company, about values, and about vision—the leaders' vision and what that meant to employees. At first, it was mainly "teaching and preaching," but as they gained more experience in engaging employees in these discussions, there was more give and take. The values and the company philosophy were introduced in classes and all kinds of meetings. In monthly bulletins to employees and annual reports, Adam and O'Brien would also write frequently about values and how they applied. There was a good deal of trial and error.

O'Brien commented:

In 1970, we didn't have a philosophy. The first thing we did was lay out a purpose. We had some people on a task force to talk about what the purpose should be. We would write about the purpose. Then for a period of time, we talked about a lot of principles, most about fighting the diseases of politics and bureaucracy. We said, for example, that "*Human judgment should always transcend procedures.*" If the procedure guide says "do X," and you've thought about it and you think A is better, then do A. We had about 25 slogans like this. Another was, "*Substance will always transcend appearance.*" People were asking themselves, what's the slogan this month? These things weren't coherent or connected. So in 1978, I took a couple of days off, sat down with a big accounting pad, and put things across the top and the bottom. I reduced these things to the seven values that we stand for.

Jack liked them but was afraid we might be getting too far ahead of the troops. He said, "Why don't you take them to the next direct-report meeting and try them on the group?" I got a long, respectful silence, but not approval. I let it drop. I didn't know what to do. In subsequent meetings, whenever we'd get to knotty issues, people would say, "That comes back to what you talked about a couple of months ago, Bill. It's those values." So we scheduled another damn presentation, and they coalesced around the idea. That's how we got those values: merit, openness, localness, leanness, what we believe about people, responsibility to the [insurance] agents, and responsibility to the customers.

Later, other change agents were brought on board. Chris Argyris was the first outside consultant and the only process consultant. His work was about conducting more effective conversations. Peter Senge, the second consultant, was an expert on systems thinking. Later, Lee Bolman (an expert in organizational culture) and others conducted extensive training sessions (especially a three-day course called "Merit, Openness, Localness"). All professional and managerial employees were eventually included.

O'Brien commented, "We did a lot of education, not just on technical insurance. It included the skills of effective

key factor stands out: increased "intellectual current." Can you imagine employees talking about unintended consequences instead of just the rule books? This change in people's thinking and actions (that is, conversations) supports how systems thinking can become incorporated within organizations. Peter Stroh also illustrated how a client enthusiastically adopted the idea of unintended consequences as a way to manage his business (Stroh, 2000).

Sugarman nicely sums up the results of the transformational effort at Hanover, a period of sustained, renewed improvement achieved by unlocking the human potential of employees. How can each one of us attain our next stage of growth, both personally and professionally, as O'Brien did?

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conversation and critical thinking (along the lines taught by Argyris). I have found very few executives who can get up and talk about ideas. We developed a group of executives (particularly Jack and myself) who were constantly explaining the ideas behind the company. And we wrote a lot about our philosophy and how it applied to current issues.” Behind these methods lies O’Brien’s belief in the power of ideas and his frustration that “too many companies are governed by mediocre ideas.”

In the first decade, there was no philosophy department. But, in 1981, Hanover hired a “vice president of philosophy” (Tom Grimes). He taught systems thinking and thinking about thinking (drawing from a course on Eastern and Western thought by Professor John Becket at the University of New Hampshire’s Whittemore School of Business).

Later, the philosophy department included three people. O’Brien commented:

We were constantly running people through one-, two-, or three-day workshops in their offices all over the country. By the mid-eighties, it was right down to the toenails of the company.

We came back to the values and vision in every major meeting. And we walked the talk. For example, leanness meant that I traveled coach; openness meant that when we had bad news, we told it to the employees. There was no spin put on messages to our customers or our agents; we talked straight. The process was informal, but it came down to preaching and practicing. Whenever there was a meeting, we always came back to “What is our vision? What are our values? How does our purpose tell us what to do?” At first, people thought the philosophy was separate from the business; we had to struggle to integrate it.

One of the jobs of the CEO is to make sure the music has got all its parts and instruments, including the cultural ones, the values. Otherwise, the drumbeat of budgets and so on will dominate the music of the company. If all the meetings are about financials, all the music about culture and uplifting people will disappear. Bringing in a consultant to do an offsite won’t do it. The CEO has got to maintain the meld of the ennobling corporate principles in the corporate diet. He can believe it and want it, but if he doesn’t build in that subject, melded with the sales, finances, and engineering, it won’t happen.

What anchored these efforts for O’Brien was his strong sense of what was wrong with the situation:

Back in 1971, everyone took a warped version of Adam Smith and imagined that maximum greed would work out the best for the common good. The *only* stakeholders were the stockholders. We were one of the first companies to challenge that [Adam, 1973]. I remember that we got some negative stockholder reaction. But we thought that if we had an ennobling purpose, something of interest to the employees, it would make our company more purposeful. Our expectations were exaggerated. People initially had a favorable reaction but it didn’t really change behaviors. When I became president in 1979, I was frustrated because purpose was not tapping in as much as it should, even though the company had improved quite dramatically since 1971.

I talked to every single employee in the company in groups, and I laid out my vision for Hanover—where our roots had been, the current reality, how we stacked up against competitors. Then I talked about *my* dream. When I was done, I said, “It’s not my dream that’s important. It gets me out of bed each morning to go to work to build what I want to build, but it doesn’t do anything for *you*.” *I encouraged them to work on their vision*. It was the first time we extended our purpose to vision, as an important ingredient to get people to become purposeful.

*“One of the jobs of the CEO is to make sure the music has got all its parts and instruments, including the cultural ones, the values.”*

At the same time, we had identified the diseases and adopted the values, which in effect were antibiotics to the infections. Those two things, vision and values, gave us a culture that brought people to a point where they could implement what we already knew, better than our competitors. At that point [1982], when we were getting to be a mature, vision-driven, values-based company, I met Peter Senge. The industry was running into problems that no one had figured out, and the old, linear cause-and-effect mentality was producing painful, unintended consequences.

What O'Brien had discovered was that other learning methods would be needed to continue Hanover's growth toward fulfilling his aspirations and becoming more of a learning organization. He continued:

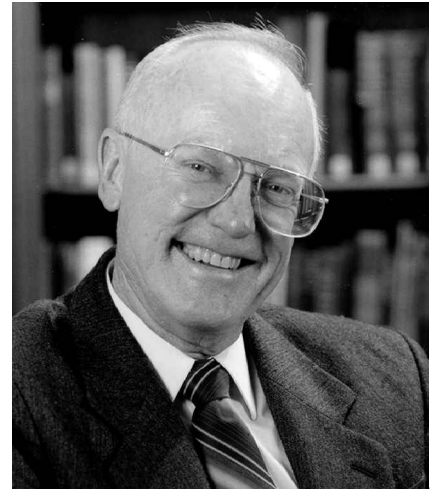
I saw the potential of systems thinking helping us to arrive at a deeper understanding of complexity and hence to making better decisions. What I remember clearly is a series of people I met, Peter Senge, Jay Forrester, and John Beckett. Peter brought in this guy from Digital, a former academic who understood systems thinking. And he took us through an issue that his division was handling up in New Hampshire using systems thinking. And I said to myself, "My god, it's so much clearer." If I took it to the second step and asked, "Now, how do I use systems thinking to make better decisions so I can make money?" I probably couldn't answer it. But I valued that more complete understanding of complexity and I had *faith* that if I understood more about the complexity that my competitors and I were facing, I would eventually have a competitive advantage. I think that was the difference between me and some other people who were exposed to systems thinking.

It's like learning to diagram a sentence in the fifth grade and mastering the English language. That's half the battle of life—learning the language. I had that faith that if I could see the problem clearer than my competitors, I would come up with better answers. *Half of what we learned [in systems thinking] wasn't how to solve a problem; it was how to avoid making it worse.*

The role that systems thinking played in the success of Hanover is deep and subtle, according to O'Brien. At one level, that role may be understood through the way it was applied in the "claims learning laboratory"—a computer-based simulator in which learners could experiment with making decisions such as how much to spend on training claims adjusters, while they watched the effect of their decisions on other measures, such as quality of work and employee turnover (Hanover, 1986). This illustrates one way in which systems thinking helped Hanover people to understand better the systematic nature of their business—through concrete causal links between one element and another. At another level, however, the influence of systems thinking at Hanover goes deeper and is harder to define. Concisely, using language that O'Brien does not care for, I think he is saying that systems thinking affected their way of being which had important consequences for the company.

When the insurance industry faced the 1980s, with tort liability explosion, escalating litigation and losses, conflict, and profound imbalance, a significant number of Hanover people were able to see it as a system in upheaval, without demonizing other players. They were also able to see fresh business opportunities in the turmoil; for example, Hanover became the administrator (contracted to the state) of the newly swollen "assigned risk" pools of high-risk (undesirable) insureds in Maine and New Jersey. The Hanover managers at the state level (not head-office hot shots) were successful in two ways: along with conceiving entirely new lines of business, they succeeded in winning the trust of top state officials and were awarded (and re-awarded) very large (and profitable) contracts.

O'Brien believes there was something special about the systems thinking mind-set the Hanover managers had cultivated. Beyond the greater clarity it gave them to see the systemic links, it seems that the big-picture, nonparochial systems view can position people differently in relation to their world. It can take a person beyond the narrow assumption that "my position is myself" and



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### Commentary by Lawrence G. Brandon

It is fairly common to find an academic article espousing the importance of values and virtue in an organization. It is far more difficult to find a CEO willing to implement these thoughts in daily operations. O'Brien was clearly one who did so. He steadfastly held to his beliefs, through the good times and the challenging times, in the face of criticism from industry peers and initial skepticism from colleagues. The results achieved by his organization serve as testimony to the wisdom of his approach.

At first, Hanover Insurance and the philosophical leanings of Adam and O'Brien were the laughing stock of the insurance industry. Other executives ridiculed them for their efforts to turn an organization around by changing its vision and values, rather than radically changing its personnel, policies, and procedures. Others believed Hanover would be better served by eliminating jobs and personnel and replacing executives with people who were more financially astute. They saw Hanover executives as "light-weights," overmatched by the task confronting them. They typically cited examples of other insurance organizations that failed under inept executive leadership.

I clearly remember a statement by Adam and O'Brien that appeared in industry publications back in the early 1970s. They said, "Any organization in business to make a profit will end in failure. Any organization in business to render service will make a profit." The CEO of the insurance organization I was with at that time said that quote was "the damndest thing I have ever read." He affirmed that our organization was "in business for two reasons, and two reasons only—to make a profit and to grow—and, gentlemen [we were all men in the executive ranks then], don't you ever forget it!" That organization was about six or seven

times larger than Hanover and much more profitable in the early 1970s. Today, that organization no longer exists and Hanover Insurance is still going strong! Who, indeed, was the damn fool?

O'Brien's deeply rooted faith allowed him to pursue the best in life by recognizing the fundamental goodness of others, whether they were fellow employees, agents, customers, or competitors. He believed in people and never underestimated the human and divine potential of all God's creation. By "walking the talk," despite hearing voices of dissention, he and his people achieved results that were unheard of and unequalled in industry circles. It is indeed unfortunate that, after 25 years of proven success for his methods, his career came to an end because he refused to return to the shortsighted, strictly quantitative approach of new executives in Hanover's parent organization. He firmly believed that their insistence on a change in direction would devalue the human potential he had unleashed in the organization and change the amount of satisfaction people would experience from their work. He wanted no part of such action and, true to his own values, walked away from the nonsense.

Years later, O'Brien's beliefs and spirit still permeate much of the Hanover organization. His ideas have not been silenced, in spite of clear efforts to do so. Hanover is producing superior results today because people still believe in themselves, as a result of O'Brien's belief in them when he was at the helm. His love for others is stronger than the current executives' greed.

out of the prejudiced view that everyone whose behavior is not favorable to my interests wishes me harm. The systems thinker understands that many consequences are not intended or even expected by those who cause them, so he or she is less inclined to blame or demonize other players. O'Brien does not care to call this a modified "way of being," but he would call it an "aura" that can make people more attractive partners in a high-risk venture where trust is essential. He is convinced that the contribution of systems thinking can go beyond improved cognitive insights. I think he is identifying a force moving in the realm of ethics (a less self-centered view of the world) and in the realm of ontology—the "being" word again.

Returning to his historical overview of the Hanover transformation, O'Brien explains how systems thinking arrived at the company.

Our vision and values approach had enabled us to execute effectively what we already knew, but it did not help us to figure out the "divergent" issues. That required the application of systems thinking. When I met Senge and learned about systems thinking from him, we each saw that the other had the missing piece ("the truth") that he had been seeking. I needed what he had, and Senge admired greatly the workplace culture at Hanover.

We got very excited about the idea of learning and the idea of augmenting linear thinking. Senge gave us scaffolding on which we could formalize systems thinking. He, in turn, became intrigued with our culture. He came into our company and found that it had a learning atmosphere. He told me that in most companies, he would spend two-thirds of the day cutting through the games and all the crap, but here we open a conversation and people are right into it. That was the beginning of the second decade. We were both ready.

## Transformation

I asked O'Brien what specific shifts in work processes and practices, such as changes in meetings, goal-setting, or performance assessment, had occurred. He replied:

When a company transforms itself, 90% of that transformation takes place inside the people and 10% is process change and reorganization (I'm pulling these numbers out of the air). In defining the inner change in people, we could use Argyris's ground rules for conversation: don't engage in a conversation to win; engage in it to genuinely learn; don't forget to inquire into what other people think; don't just advocate your views, as managers tend to do; decision making should be free of "political paint," that is, self-interest.

The natural, innate being of people is generally good, but if you take a culture that reinforces being good, it's even better. Part of that is recognition and part is social stigma. We didn't intentionally put it in there but if somebody was in a session and they are obviously negotiating for their self-interest or their turf, they worry about what their peers are thinking about them. We had established certain standards that disapproved of that kind of politics and bureaucracy.

There was an expectation of a certain level of behavior, and managers felt it.

The creation of this company culture that O'Brien describes, reinforcing social norms and expectations that support the behavior and thinking patterns of a (virtuous) learning organization, represents an enormous accomplishment. The new culture that supports learning acquires a forward momentum of its own, as he describes in the next section.

## *Changes in Processes or Practices*

O'Brien had more to say about process change:

When we started adopting Argyris's principles, emphasizing inquiry as well as advocacy, thinking in terms of learning rather than winning, the change in pro-

cess or practice happened. When we adopted localness and took out some of the management levels and reallocated authority, that was a change in process. And, in personal growth. It was all evolving. The intellectual current in the company was so much higher by 1980 than it was in 1970. The conversation in the seventies was about what the rule books said to do. The conversation in the eighties was: What are the unintended consequences? What are the implications? After being educated in conversation and critical thinking, people started thinking, “This company really cares about me. I’m having richer conversations with my wife, my kids. I read the paper and I see issues more clearly than I did before.”

But for some employees, there was an unfortunate side to this culture change. When the intellectual currents got faster, a fair number of people didn’t want to take the risk. Over time, they decided to leave, or they were asked to leave.

When you had a company in the seventies that was a political, bureaucratic environment, it was a pick-and-shovel, one-by-one job of getting people turned on. Then in the middle eighties, we were hiring people who just picked it up from the person sitting next to them. There was an osmosis effect. I couldn’t understand why it had been so hard to get people on board ten years before. They thought it was terrific; they really had the words and the music. That was the difference between the seventies and the eighties.

### *Diffusion of Culture*

O’Brien discussed the change in culture:

In the early seventies, the philosophy got kind of bottled up in the home office, and the further you were from the home office, the less people understood it. In the late seventies, the general managers, especially those in the home office, had an intellectual grasp of the subject, and they’d go out to the branches. They’d be



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### Commentary by Ellen Berezin

Most employees want meaningful work. To the extent that virtue in business provides a meaningful work environment, the connection and necessity of virtue in business seems clear where the performance and retention of the workforce is critical to the success of the enterprise.<sup>1</sup>

There may be situations in which competition is minimal or nonexistent, or where profits are so easy to achieve that, in the short term, the quality and productivity of the workforce seems relatively unimportant. However, in the long term, virtue, which I am defining as that which is perceived as admirable and worthy, makes the work worth the effort. I propose that a business entity with effective virtuous values has an excellent chance of becoming an employer of choice and surpassing its competition in attracting and retaining high-caliber people. Given the costs of turnover, the company that easily attracts and retains employees most likely increases its profit margins.

Collins and Porras chronicle the histories of successful, enduring companies. They conclude, "Our research showed that a fundamental element in the 'ticking clock' of a visionary company is a core ideology—core values and a sense of purpose beyond just making money—that guides and inspires people throughout the organization and remains relatively fixed for long periods of time" (Collins and Porras, 1994).

My profession is human resources management. I spend a good part of my work life trying to attract, retain, and motivate talented individuals. Jack Adam and Bill O'Brien intuitively understood the connection between employee retention and the importance of meaningful work (mission/vision/values). Interestingly, many of the

the only people in the branches who knew the philosophy, but not deeply enough to be good missionaries. Later, our philosophy department would send in supervisors. The name "philosophy department" began as a joke or nickname but soon it became standard usage around the company. Pretty soon we were getting a critical mass in Chicago, in Oklahoma, in Texas. If I were doing this again and had the capital, I would have done it earlier. Back then, this was all experimental. Top managers take almost a year to get comfortable with the extent of change from command and control. By 1981, we were confident that we had a mature, values-based, vision-driven organization.

### *Changes in Business Results*

While the implications of this case apply to many industries and arenas, O'Brien's success depended to a significant extent on his understanding of the fundamentals of the insurance business. He explained:

Combined ratio is the key business measure in insurance, a combination of what the company pays out in losses and overhead—in other words, profit and loss on the underwriting. The insurance company also gets a free float of a lot of money to invest. So underwriting plus investment gives net profit or loss.

During the years 1978 to 1993, McKinsey & Co. tracked the property and casualty business on combined ratio. It considered us as one of the nine great underwriting companies, in the upper quarter of the 36 companies measured. Of that nine, six had already been in that group at the start. We were one of three that entered that select group, and we did it coming from the bottom of the industry.

Hanover annual reports give additional data that documented significant improvements in performance—not merely relative to the company's own baseline, but relative the industry as a whole. Hanover consistently improved its performance ranking relative to its competitors over this 20-year period. Starting at the back of the pack, it moved up to average, then moved well ahead of average, up into the top quartile. In the five years before 1969, Hanover was, on average, 5.5 points worse than the industry average. By the early 1970s, Hanover began to outperform the industry by consistently widening margins. From 1983 to 1986, Hanover's combined ratio was 6.6 points better than the industry average. In 1970, the stock was about \$4 per share; when O'Brien became president, it was \$5.76; when he left it was \$39. By contrast, The Travelers' stock price stayed flat. The market capitalization of Hanover increased from 1969 to 1986 by 1,783%, while the average rate for all property-casualty companies during the same years was 779% (Hanover, 1986).

### *Causes of Success*

The Hanover data are convincing evidence of its success. The company had improved its business performance dramatically. From 1978, its growth rate outpaced the industry average. Not only did it make more profit and build up its capital worth year by year, but it improved its standing relative to other firms in the property and casualty insurance business (Hanover, 1986). This rules out the possibility that the improved results could be due more to the rising tide of an easier business environment than to internal improvements. Generally, performance standards in a competitive market drift upward. Just to hold a relative standing, a company must improve at least as much as its peers. Hanover clearly did better at what it did—even more so than its peers. What gets the credit for causing that improvement?

In the first year after Adam took over, Hanover's results relative to the industry average improved noticeably. What causal processes could have operated so quickly? The refreshing effect of new leadership, with many visible changes in behavior and style after many years under a tired "old regime"?

The energy, attention to employees, and optimism of new management? Or fear of “the new broom” and higher standards?

In the property and casualty insurance business, there is considerable delay between a change in the key success factors and a visible result, perhaps ten years. There is a long “pipeline” between improving the quality of underwriting and the resulting profitability of those policies; similarly, there is a long pipeline between improving the quality of customer service by loss adjusters and agents and improved customer retention and attraction of new customers—because of the long delays between when policies are written (sold), when the stream of premiums is received, and when payouts are made. So should we attribute the acceleration in Hanover’s improvement rate in the second decade to the power of improvements made during the second decade or to the delayed effect of first-decade changes? Or to some combination of these two and other factors, interacting in dynamic ways over time?

## Context

Some aspects of history and context may have helped to shape the Hanover story. Adam and O’Brien started the work of transforming Hanover. “We were kindred spirits,” says O’Brien. He had no rivals among his peers for the role of change agent-in-chief and chief designer of a new philosophy to revitalize the company. Adam and O’Brien were both “business junkies” (O’Brien’s phrase), avid students of other businesses.

Religion has had a strong role in O’Brien’s life. He considers himself “a Christian first; a capitalist second.” He has managed to integrate his religious faith with his business life—a key to his considerable success. He achieved his business success, not in spite of his religion, but because of it. His 12 years of Catholic school education were the source of his values and his passion for virtue in the workplace and a major source of his whole approach to changing fundamentally the way Hanover was run.

When I asked O’Brien what is inside a person that causes him to lead that kind of change, he explained:

There are stages of growth. There’s a stage where you want to get established—family, career. Then you get established and you’ve got to cross a line if you want to go to the highest stages, which are heavily centered around legacy, leaving a better world, becoming more other-centered and less self-centered. I had achieved a lot more than I ever expected, and I felt that my mission was to set a model for how work, life, and profitability could be married in a better setting. I never felt I was a troublemaker. I felt I was always playing within the boundaries, and I could prove that I could meet the business objectives by following values and my beliefs about the basic worth of the working person.

I was fairly articulate about explaining it. I found bosses here and there who would back me. I found others I couldn’t stand and I changed jobs. This is why I’m a little bit passionate when I talk about virtue. Our problems in business and government are not because we’re not smart enough to cope with them. It’s a virtue issue. The old, eternal capital sins—power, greed, lust—they get us in trouble over and over again. Business has an awful lot of power to make a difference.

O’Brien is not pious about expressing his religious beliefs. He is mostly plainspoken and, once in a while, profane. I questioned him about the sources of his ideas about leadership, “What kind of a fellow were you back when this was all beginning? I’m trying to understand how someone comes to take on the challenge of making change.”

He responded:

I graduated from high school in 1950, and I don’t think I ever met a person in my social life who wore a shirt and tie, except the family doctor making house

values espoused at Hanover are precisely those that studies reveal bind employees to organizations. For example, another driver of employee retention is “having a say.” Not surprisingly, at Hanover, the importance of permitting and expecting employees to contribute through honest communication was realized in the values of openness and localness that encouraged decision making throughout the organization.

I am fortunate to know both Adam and O’Brien. From 1986 until 1993, I worked at Hanover Insurance. My reason for joining the company was to experience the environment that Adam and O’Brien had been creating. I was not disappointed. Employees were proud to be associated with Hanover because its leadership trusted them and treated them as thinking beings who could make a difference, regardless of level or position. Like other value-based organizations, Hanover was almost religiously obsessive about its organizational values and initiatives, an obsession that was contagious. We all gradually came to believe that working at Hanover was a privilege.

When I meet colleagues from O’Brien’s Hanover, we invariably talk about the “good old days” when we worked for an organization that believed in us, that trusted us to take risks, and allowed us to learn and sometimes fail. And we usually bemoan the fact that so few organizations with which we’ve had contact as employees or consultants excite our spirit. Hanover was about faith in the individual and faith in the larger community called “organization.” In the end, Adam and O’Brien created an oasis where trust in oneself and in colleagues prevailed in spite of the hierarchy of the traditional manager-subordinate relationships. And trust among thousands of human beings in any context is a rare condition indeed.

## Note

1. See, for example, Fyock, C.D. “Retention Tactics That Work.” *Employment Management Today* 3 (Winter 1998): 12-16, reprinted as a SHRM White Paper.

## Reference

Collins, J.C. and J.I. Porras. *Built to Last* (New York: Harper Business, 1994): 48 and entire chapter entitled “More Than Profits.”

calls. All my friends' fathers worked for the electric company or the bus company, and they were all people I respected. They were responsible people. So I always had respect for the person on the front line. I was only one generation removed from it myself. I knew they weren't dumbos.

The other life-shaping experience I had was the army. I went in as a private and came out as a corporal specialist. In those days, the army was very hierarchical, and I got a look at leadership from the followers' side. We had military leaders who were just outstanding, and other guys who were terrible. I realized what happened to the terrible leaders; the troops screwed 'em. We had 24 hours a day to think about how to screw that guy, and he ended up with so many problems. He could only put a couple of minutes on each one. We outwitted him every time. The guys who came in and treated us with respect, who told us the truth, we put out for them. And you could see it in the army because they change around all the time. Shipped in, shipped out. A company can go from being a top performer to a disaster in 90 days. So I got a view of leadership that made a lasting impression.

O'Brien had these firm views about leadership and ethics from early on. That he ended up in the insurance industry, rather than another one, was fortuitous. "I tried to get a job at IBM, at Mobil Oil, at the telephone company, but I ended up at SafeCo, an insurance company in the financial district of New York City," he commented. "Not because I loved insurance, but because I got down to the bottom of the food chain. I started as an accounting clerk, then I got into billing systems, then underwriting, then marketing. The company did business through independent agents, and I wound up having a field of about 40 agents."

## Results and Reactions

The 20-year period of sustained, renewed improvement at Hanover was achieved by unlocking the human potential of Hanover's employees. At the beginning, it was the personal vision of just a few people, but became the shared vision of many, supported by social norms and expectations (company culture). This transformation of a business, as investors or industry analysts would view it, could not have happened without the corresponding transformation of the people involved, both the rank-and-file employees and the leaders who instigated it. Later, observers called this "culture change," and Hanover was featured in *The Fifth Discipline* as one of the pioneer "learning organizations" (Senge, 1990). But the leaders of this organizational change just wanted to make a successful business from a rundown insurance company rife with the usual pathologies of bureaucracy, company politics, bad attitudes, and despair. The leaders abhorred the waste of human talent they saw; it violated their values and ethics, and they believed they saw how to fix both problems at the same time. It was harder than they thought and they found no guides or models to light the way. But they succeeded, to a remarkable degree.

Hanover's parent company was State Mutual, a mutual insurance company; its chairmen during the 1970s and most of the 1980s had been strong, consistent supporters of O'Brien's philosophy of business. When the last one died in 1989, his replacement wanted greater control over Hanover and its assets. Hanover, a public stock company, was making 70% of the group profits. So the parent company chairman added five members to the Hanover board in order to secure his control. O'Brien opposed this and resigned. "In my heart," he says, "I could not convince myself that the new regime was committed to continuing support for the values-based culture we had built up over 20 years."

What happened to Hanover after that becomes controversial. I have not researched that part of the story, so the remarkable story of a 20-year organizational and personal transformation ends here. The story is about installing more virtue in the business world, while providing better service to more cus-

tomers, a more satisfying work experience to employees, and better returns to stockholders. The story is also about teaching the fundamentals of organizational learning by example.

## Questions for Reflection

O'Brien is a business leader who defined a major part of his role as teacher; I am a teacher and management researcher. Since we both believe that ideas become most powerful when people actively engage in them, we conclude this story by challenging readers to consider a few questions:

- Are we inclined to believe that virtue and business are incompatible in some basic way? Why do we believe that? Are they really incompatible?
- “More virtue, with more profits” could be the theme of this case. Is it hard to believe? Does this claim sound like some hokey, chamber-of-commerce-goes-to-Sunday-school fairy tale? Or is it a paradox that deserves some very serious thought?<sup>2</sup>
- When virtue and profit considerations can be brought together, do they then snap together (like a natural fit), or does it take constant work to keep them together (as if there is a tension between them)? What is this telling us?
- How can we reframe the question about virtue and business so that the paradox disappears or becomes manageable?

O'Brien responded to the question about virtue and business being incompatible:

I think part of it ties to a lack of appreciation of how important relationships are in business. Virtue builds a relationship. When people trust you and respect the way you do business, they refer customers to you—even if you are a little more expensive—in any business, not just insurance. Good relationships are formed. You can do business with them and feel comfortable about it. Your employees like to work with them. There are fewer complaints. They do things right. It's performing and it's being virtuous. It's saying “no” to the people who don't live up to their obligations, or who lie. Good relationships are formed and they are enormously important to profitability.

## Notes

1. Material for this case was gathered mainly from about a dozen interviews with Bill O'Brien that I conducted over almost a year, supplemented by other reading and research. The story of Hanover's transformation is presented primarily from O'Brien's viewpoint, colored by his quite apparent biases. My own biases enter in the way that the story is organized, analyzed, and presented. Hanover's impressive business results are hard, verifiable fact. Hanover is a publicly traded stock company, audited and regulated, so this information is in the public record. I aim to convey something of the spirit and passion that animated the transformational work done by O'Brien, and Adam in the first years, with their many partners throughout, in changing the company during two decades.
2. I define a paradox as when we see two ideas that we believe to be incompatible both appear to be true or necessary. If we can find another way to look at the situation, either the paradox disappears, or it becomes acceptable. An interesting view of some paradoxes faced by Hanover can be found in: Hampden-Turner, C. *Charting the Corporate Mind* (New York: Free Press, 1990): 59–84.

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