

## **In Whose Hands? cover story - Allstate applied Scientology methods to train its management**

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Two years ago, an Allstate agent stood up at Sears's annual meeting to ask what then seemed a bizarre question.

"To what extent," he inquired, "are the teachings of L. Ron Hubbard's Church of Scientology present today in Allstate and in Sears?"

Edward Brennan, chairman of Sears, Roebuck & Co., and Wayne Hedien, then-chairman of Sears's Allstate Insurance Co. unit, both appeared bewildered. Mr. Brennan said he had no knowledge of any relationship at all. Mr. Hedien said he didn't even know any Scientologists. "I'm a Roman Catholic myself," Mr. Brennan added. Shareholders laughed, and the board moved on to apparently more serious concerns.

But today, the influence of Scientology at Allstate is no joking matter. Between 1988 and 1992, it turns out, the Good Hands company entrusted the training of workers coast to coast to a consultant teaching Scientology management principles.

The consultant says more than 3,500 Allstate supervisors and agents participated in the nearly 200 seminars conducted by his firm, which was licensed by a Scientology institute to teach such classes. The course materials -- which preached a rigorous, even ruthless devotion to raising productivity -- were developed by Mr. Hubbard, founder of the religion that some critics claim is a cult.

One of the purposes of teaching Mr. Hubbard's management program, a Scientology pamphlet states, is to instill "the ethics, principles, codes and doctrines of the Scientology religion throughout the business world."

Though the company recently banned and repudiated the courses, their reverberations are still being felt -- and may even be growing. Some employees continue to use Mr. Hubbard's techniques, while other workers weave conspiracy theories about an alleged Scientology plot to infiltrate the highest levels of the company. Some agents believe they have been harassed and, despite repeated denials, the insurance giant has been unable to put all the speculation to rest. Recently, agents in Florida have launched a drive to unionize the work force -- and they are using the Scientology issue as a centerpiece of their attack on management.

Allstate employees who took the classes say an important, although hardly exclusive, theme of the training was an uncompromising commitment to the bottom line -- even if that meant treating poor performers harshly. The course materials warned managers never to be sympathetic to someone whose productivity numbers, or "statistics," were down.

"We reward production and up statistics and penalize nonproduction and down statistics. Always," the training booklet said. "Don't get reasonable about down statistics. They are down because they are down. If someone was on the post, they would be up." The course underscored this point by advising that "reasonableness is the great enemy in running an organization."

The program also taught psychological concepts such as the "tone scale," which catalogs emotions and, Scientologists believe, can be used to influence behavior. Illustrated with cartoon characters, the scale contains 41 levels, ranging from death, apathy and grief near the bottom to exhilaration, action and "serenity of beingness" at the top. All of the levels are numbered: Covert hostility is 1.1, boredom, 2.5.

Allstate managers learned to find a person's place on the scale by analyzing the individual's favorite style of conversation. "If you wish to lift the person's tone, you should talk at about half a point above their general tone level," the course book advised.

#### A well-financed organization

While such ideas appealed to some employees, others were amused or offended. David Richardson, who took the course in 1990, remembers exchanging startled glances with a colleague and muttering: "If they turn off all the lights and start singing John Denver music, I'm walking out."

Allstate initially responded to questions from this newspaper with a brief written statement: "There is absolutely no connection between the Allstate Insurance Company and the Church of Scientology." If any Scientology materials were included in training sessions, it was "a blip on the screen . . . a very inconsequential, one-shot situation," a spokesman said.

But later, Jeff Kaufman, a regional vice president who participated in Allstate's decision to use the Scientology consultant, acknowledged that the controversial courses were taught to agents and managers nationwide. Mr. Kaufman described the employment of the consultant as "an accident."

"I feel like our intentions were very honorable," Mr. Kaufman says. But now, he adds, the matter "is biting at me personally." He emphasizes that he didn't know at the time of the training that Scientology principles were involved.

Many Allstate employees, though, did know the connection. For one thing, the introduction to their course book declared the materials "were researched and written entirely by" Mr. Hubbard, who died in 1986. Some trainees recognized the name instantly; others learned who he was from colleagues taking the course.

Mr. Hubbard is best known not as a management guru but as the science-fiction writer who founded the Church of Scientology International in 1954. Since its earliest days, the church has been a target of anticult activists who say it exploits its members and harasses opponents. Church members counter that their organization has been systematically misrepresented, even persecuted, by the media and government. Scientology, they say, is "an applied religious philosophy" that helps people develop spiritual awareness. Members seek perfection by exorcising bad memories, or "engrams," from past lives through a counseling process called "auditing."

Over the years, Scientology has been aggressive in its efforts to attract new members -- including such celebrity adherents as Lisa Marie Presley, Tom Cruise and John Travolta -- and to build an efficient, well-financed organization. Along the way, members credit Mr. Hubbard with developing a comprehensive management system for church operations using Scientology principles.

The system came to Allstate through a circuitous route that began in 1979, when church members formed a not-for-profit religious group, the World Institute of Scientology Enterprises, to market Mr. Hubbard's techniques to business. In its book, "What Is Scientology?" the organization boasts that its courses have been taught at a number of the nation's largest companies, including General Motors Corp., Mobil Corp., Volkswagen AG -- and Allstate. Except for Allstate, all these companies say they can't find any evidence that their workers took such seminars.

Many Allstate employees would come to rue the Scientology connection and to blame it on the company's top executives. Yet, ironically, it was a group of agents, rather than anyone in top management, who sought out Scientology management training in the first place. The impetus was a companywide restructuring of agents' jobs in the mid-1980s. Under the new system, agents had more responsibility to run their own businesses, hire staff, manage expenses and attract new clients.

The Hubbard management system

The change put enormous new pressure on employees, many of whom had previously sold insurance in Sears stores and had no entrepreneurial experience. (Sears, which once owned all of Allstate, sold a 20% stake to the public in 1993 and plans to spin off the rest of the company later this month.) The pressure prompted a group of about 10 agents from the Sacramento area to band together in late 1987 to search for ways to sharpen their business skills.

One member suggested at a monthly meeting in early 1988 that the group consider hiring outside consultants to help in the effort. Karen O'Hara, a relatively new agent based in the tiny town of Galt, Calif., replied that she had a client who was a management trainer, three people at the meeting recall. But they say Ms. O'Hara didn't point out that she knew the trainer, Donald Pearson, through a Scientology communications class she had taken. Ms. O'Hara confirms she took such a class but won't comment further.

Soon Mr. Pearson, then 39 years old, was meeting with the group to present his ideas. Before long, he was lecturing on organizational development to more than 40 Allstate employees gathered at the Sheraton Hotel in Sacramento. Agents say Mr. Pearson didn't hide his religion or the origin of the training program but stressed that the sessions had nothing to do with Scientology.

"It was a management program, not a religious promotional program. . . . They didn't buy Scientology, they bought courses," Mr. Pearson says now. "What's my religion got to do with whether I'm a good consultant?" A Scientology spokeswoman adds that the same principles that are religious within the church can be viewed as secular when applied outside the church.

Mr. Pearson, though, was a top trainer for a firm called International Executive Technology Inc., which was devoted to teaching the Hubbard management system. Materials Mr. Pearson distributed in his classes included Mr. Hubbard's copyright notice at the bottom of many pages. And all of Mr. Hubbard's written words, including his management pronouncements, are considered religious scripture by the church, according to the Scientology pamphlet, "The Corporations of Scientology."

One Scientology brochure predicts that as businesspeople use the L. Ron Hubbard technology and "win with it, they will reach for and apply LRH technology in other aspects of their lives and may become Scientologists."

Mr. Pearson steered clear of these issues in his Sheraton talk, agents say, and hewed to the subject of how insurance agents and managers could do a better job of running their businesses. By all accounts, he was a huge success; agents later described the tall, sandy-haired speaker as confident, direct, down to earth and authentic. The employees who heard him were so impressed that they invited him to deliver the keynote address that fall at a meeting of Northern California managers, held at a posh Lake Tahoe resort. After that presentation, requests poured in from managers for further assistance from Mr. Pearson.

One high-ranking Northern California manager says he persuaded executives at Allstate headquarters in Northbrook, Ill., to pay for intensive seminars for his employees. For more than two months in late 1988 and 1989, about 50 managers and agents in the region spent two to three days each week in classes at Mr. Pearson's Sacramento office, which was decorated with Mr. Hubbard's vivid paintings of spaceships and moonscapes.

#### Tips on office organization

The seminars gave loads of tips on office organization and goal- setting. Filled with Mr. Hubbard's special terms, the materials discussed ways not to waste "attention units"; what "hats," or duties, workers had; and how to construct an "org board," a chart of the organization's functions. The classes also showed how employees could be divided into three categories: "the willing," "the defiant negative" and "the wholly shiftless."

To help managers understand their own personalities, consultants administered a 200-item questionnaire similar to the ones Scientologists pass out on street corners. The Allstate employees got back graphs that rated them on 10 counts, including stability, certainty and composure. They also practiced staring at colleagues and examining their facial features in an effort to like the co-workers more.

But the seminars focused mostly on management by statistics, a concept that involved charting income and production on weekly graphs. Employees who produced so-called up statistics weren't to be questioned, no matter how they behaved. "Never even discipline someone with an up statistic. Never accept an ethics report on one -- just stamp it 'Sorry, Up Statistic' and send it back," Mr. Pearson's materials advised.

Workers with declining production had to be investigated immediately, the course taught. "A person with low statistics not only has no ethics protection but tends to be hounded," the training manual said. It also quoted Mr. Hubbard's writings blaming the Depression, the failure of communism and even the decline of ancient Greece on people's willingness to reward or excuse so-called down statistics. The Allstate classes included Mr. Hubbard's statement that about 10% of the population was "nuts" and that "2 1/2% are the chief nuts."

Rather than resist the course, many who took it appeared grateful for the lessons and eager to apply them. "It was invaluable," says Edmund Kramer, who took the classes when he was a marketing sales manager in California. "I know some people are afraid of it because they think it has religious connotations. But once you touch it, you're going to carry something with you from it forever. It's very powerful in its simplicity."

The first wave of managers to try the course, all from California, appear to have focused primarily on how to chart their business fortunes -- and to react quickly to any downward trend. It is unclear whether any of the California managers followed Mr. Hubbard's harsh rhetoric on poor performers. In any event, by the end of the year, sales and profits were up significantly, managers say.

So many managers outside the region clamored for information about the training program that Mr. Pearson and Allstate manager Lindal Graf were invited to promote it in Southern California, Tennessee and Kentucky. Mr. Pearson also spoke to 130 Allstate managers from all over California who had gathered in the city of Ontario for a conference. Six weeks later, in November 1988, he had his debut at Allstate's corporate office, leading a seminar for 30 sales managers from throughout the country.

Within months, corporate executives who had heard the favorable reviews were seeking Mr. Pearson's participation in a series of three-day sessions for managers nationwide.

Before they offered him that pivotal assignment, though, they asked him to conduct a tryout session at corporate headquarters for visiting managers. That is when executives first heard complaints about Scientology, says Kenneth Rendeiro, a former sales manager who was in charge of setting up the training programs. Two California managers, scheduled to participate in the sessions, refused to take part because, they explained, Mr. Pearson was affiliated with Scientology.

## Advanced-Management seminars

Corporate executives then convened a series of meetings to discuss whether it was a mistake to hire a Scientologist, and Mr. Pearson reassured officials that his training program was separate and distinct from the religion. As a result, William Henderson, then vice president of sales, decided to give Mr. Pearson the job, Mr. Rendeiro says. However, Mr. Henderson, now retired, denies any involvement. He says the company is trying to blame it "on the old guy who retired."

There's no dispute, however, that Mr. Pearson ended up traveling around the country with two other trainers unaffiliated with Scientology, giving seminars to managers in about half the company's 28 regions. Mr. Pearson says these seminars, for which Allstate paid him \$4,500 per three-day session, were given from 1989 to 1992. The classes became so popular that many regional managers invited Mr. Pearson back, at \$5,000 a day, to do special sessions geared toward agents.

Allstate's Mr. Kaufman says he had specifically forbidden trainers from selling any books at the advanced-management seminars. But once Mr. Pearson began teaching large numbers of agents, questions arose about whether he was abiding by the rules.

"He snuck in about a half-hour on the promotional literature," says John Softye, a New York agent who took Mr. Pearson's Agent Prosperity Seminar in 1989. "He said: `You buy these books and you can see how to benefit yourself and improve your thinking.'" The seminar materials also advertised a series of books available from Mr. Pearson and his company: Mr. Hubbard's "Science of Survival" for \$50, his "How to Live Though an Executive" for \$31.25, and a three-pack of his "Money and Success" tapes for \$145.

By this time, several other consultants who worked with Mr. Pearson were also training Allstate agents in Scientology management practices. At least one of the consultants pitched another book to agents: "Dianetics," Mr. Hubbard's seminal book on Scientology. Mr. Pearson says he told the consultant to stop the practice, since Allstate had banned the sale of religious materials at the seminars. Mr. Softye claims, though, that Mr. Pearson also sold copies of "Dianetics" at his seminar, an allegation that Mr. Pearson denies.

In this phase of the training program, reports from the field began to grow less favorable. In Arizona, for example, workers say they noticed a disturbing change in a key supervisor's management style after their Hubbard training in July 1990.

After taking the classes, territorial-sales manager **Jeffrey Swanty** talked constantly about management by statistics, says David Richardson, the former Allstate manager who attended the course with him. To apply the ideas, Mr. Richardson says, **Mr. Swanty** developed a system under which the worst-performing agent and the worst-performing manager in his territory would be required to reach a series of daily, weekly and monthly goals. Frequently, Mr. Richardson says, the goals were unreachable, requiring that business be doubled or tripled within a short period.

"It allowed management by intimidation. It was vindictive -- a way to try to remove people," Mr. Richardson says. "We would harass agents" by calling them constantly and visiting them repeatedly. (Mr. Richardson had his own run-ins with **Mr. Swanty** and was reprimanded at least once.)

One incident that employees still talk about involved William Wesler, a 35-year-old Phoenix manager, who was suffering from lymphatic cancer in 1990. Everyone in the office knew about Mr. Wesler's condition and his efforts to reduce stress as part of his treatment, Mr. Richardson says. Nonetheless, a month after taking the Hubbard training course in July, **Mr. Swanty** placed Mr. Wesler on a rigorous program to improve his performance.

The Hubbard course materials

During the following 120 days, Mr. Wesler was supposed to double his district's sales, hire at least one female and one minority agent, attend public-speaking classes and enroll in a college course on interpersonal skills, his August 1990 job evaluation states. He also had to meet with **Mr. Swanty** every other week to receive an evaluation of his progress.

"It was a workload for three people," says Mr. Wesler's widow, Sherry Scott. She says her husband completed most of the work but quit in October 1990. He died in May 1992. "When I saw **Jeff Swanty** at the funeral, I turned and walked away," says Greg Peterson, who had worked for Mr. Wesler and says he watched **Mr. Swanty's** behavior change after the management classes. "I feel his actions worsened Bill Wesler's health," he adds.

**Mr. Swanty** acknowledges that he was impressed with the Hubbard course materials but says he didn't implement much of the program because he feared it would create too much paperwork. He says he didn't know at the time that Mr. Hubbard was connected to Scientology. He knew Mr. Wesler was ill, **Mr. Swanty** adds, but denies he treated him unfairly in light of his declining performance.

"We treat people with dignity," says Edward Moran, an in-house Allstate lawyer who also denies that **Mr. Swanty** was unfair. He says Mr. Wesler was having serious problems with managing and communicating with agents for some time before he received his negative evaluation in August 1990. In addition, Mr. Moran says, Mr. Swanty began drafting the evaluation in June, before he took the Hubbard lessons. However, the performance review is dated Aug. 14.

Across the country, a number of agents were making complaints similar to those voiced in Arizona. Lawsuits and Equal Employment Opportunity Commission complaints were proliferating; more than two dozen have alleged fraud, harassment or discrimination by Allstate, often in connection with wrongful-discharge cases. One manager joked about forcing so many to quit that they would have to bring in "body bags" to cart them away, while others described agents with low productivity as below the "scum line," workers said in pretrial statements related to these lawsuits.

The company says the number of suits isn't unusual for a firm its size. The allegations reflect the failure of some agents to prosper under the more entrepreneurial system Allstate set up in the mid-1980s, it adds. The agents are falsely blaming Scientology and company officials for their own shortcomings, Allstate says. "Bless their hearts, they wish it were still 1965," says Michael Simpson, Allstate's recently retired vice president of sales.

The company would never condone harassment, Mr. Simpson says, though he adds the firm couldn't be aware of the actions of every single worker. "Allstate has always been extremely ethical and right-treating of its employees," he says.

Yet given the philosophy espoused in the Hubbard training program, many agents became convinced, rightly or wrongly, that the hardball tactics they saw many managers adopting were inspired by the Scientologists' training methods. Many knew that the church has been accused repeatedly of spying on and harassing its opponents.

Under its "Fair Game Law," written by Mr. Hubbard in 1967, an enemy of Scientology is "fair game" and can "be deprived of property or injured by any means by any Scientologist, without any discipline of the Scientologist. May be tricked, sued or lied to or destroyed." The church says Mr. Hubbard rescinded this law in 1968, although critics contend that only the term, not the concept, was discontinued.

Many agents were concerned

By 1990, many agents were concerned enough to confront their supervisors about the use of the Hubbard materials. In some instances, employees protested the implementation of management-by-statistics programs in Allstate offices. In South Florida, a Catholic agent balked at participating in a program linked to another religion. His opposition caused such a furor that the Hubbard-inspired program was curtailed, agents say.

In 1992, without acknowledging any past problems, the company scaled back its reliance on Mr. Hubbard's teachings. By 1993, Mr. Pearson had stopped giving any seminars at the company. But fear of Scientology persisted at Allstate, and the brief Scientology discussion at Sears's 1993 annual meeting did little to ease agents' concerns about the Scientology link.

One reason was that agents were still finding elements of Mr. Pearson's training program in Allstate management seminars. That fall, for example, some agents participating in a new training program, the Agency Development Process, noticed two pages, titled "Statistics Graphs, How to Figure the Scale," that were identical to those found in the Scientology material. The references to L. Ron Hubbard had been deleted.

Allstate's new companywide Better Prospecting Seminar also had some similarities to Mr. Hubbard's program, focusing on statistical analyses of performance and describing employees' various tasks using the Scientology term "hats." The new program offended some agents, who say they felt they were being taught to deceive and confuse their customers.

In May 1994, New York agent Mr. Softye, who describes himself as a devout Catholic, refused to take a test that preceded participation in the Agency Development Process, which he believed was related to Scientology training. He initially received a "job- in-jeopardy" reprimand, though it was rescinded when he complained to corporate headquarters that the test conflicted with his religious values. The incident fueled agents' drive to uncover their company's apparent links to Scientology.

The National Neighborhood Office Agents Club, NNOAC, a group of Allstate agents who are critical of management, began printing special reports outlining what it knew about the Scientology connection. In addition, the group sent Hubbard training materials that had been used at Allstate to each member of the board of directors. Someone also mailed an anonymous letter to the company's investment bankers at Lehman Brothers Inc. claiming a Scientology connection. These actions finally grabbed the attention of top management.

Allstate senior vice president Robert Gary flew three NNOAC agents to Atlanta last August and met with them in a tiny Delta Air Lines conference room at the airport. Mr. Gary says he acknowledged the company's involvement with the Hubbard management training. He told the agents the seminars were "initially embarked on in innocence," but he agreed they were a mistake. The senior vice president promised the company would write to employees admitting the error and would order that all the Scientology material be deleted from Allstate's training books.

Complete review of the process

Later that month, Allstate President Jerry Choate wrote the three agents a letter disavowing the Hubbard management materials. "The inclusion of these materials was unfortunate because the ideas and views expressed in them were clearly inconsistent with Allstate's values," Mr. Choate wrote. "The people who were responsible for screening the consultant's training materials failed to recognize that they were inappropriate and remove them."

He promised a complete review of the process that led to the hiring of Mr. Pearson. He also said the Hubbard materials hadn't been distributed for several years and that, in March 1994, he had ordered instructors to stop using any of the old texts, even if they weren't objectionable.

But last October, an incident in Florida showed that speculation among Allstate agents about the influence of Scientology on the company is far from dead. On Halloween, 16 agents from Orlando were called into a brief meeting, where territorial-sales manager Daryl Starke reprimanded agents for failing to sell enough life insurance. "This is serious business, folks; wake up!" one agent quoted Mr. Starke as saying. He told workers that unless they produced six life-insurance policies within 90 days, their jobs would be in jeopardy, three employees at the meeting say.

Within a few weeks, many of these workers happened to hear about the Scientology issue for the first time. They suspected that Mr. Starke had taken the Hubbard course, as Allstate now says he had. One agent was so disturbed that he talked to his priest about the matter. In recent months, he and another

agent filed religious- discrimination claims with the EEOC. Allstate denies the charges. The cases are pending.