From The New York Times, Business section, Sunday, August 14, 1994
To Detect Bias, Do What Banks Do
By Paul C. Lubin

When it comes to rooting out discriminatory business practices, companies can learn a great deal from banks.

Unlike companies in other industries, banks must comply with a web of fair-lending rules intended to insure that customers receive equal treatment. In light of these rules – overseen by the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and many other Federal agencies – banks have developed monitoring techniques to detect if they treat customers unfairly because of race, national origin, age or sex.

Of course, other businesses are not subject to the broad regulations applied to banks. But there are plenty of reasons for them to adopt the same programs that banks have found so effective.

Ethics is one reason. Strictly regulated or not, all companies should abhor prejudicial treatment of customers and potential customers.

Sadly, such discrimination – intentional or unintentional – is as widespread in business as anywhere else. Consider two studies published this spring in the journal of the American Medical Association. In one Medicare survey, only 47 percent of very sick people who were black and poor were placed in intensive care, compared with 70 percent of other, equally ill patients. In the second study, of Veterans Administration hospitals, black patients with heart attacks were 54 percent less likely than whites to have bypass surgery.

Legal liability is another reason to adopt monitoring programs. All companies are exposed to potentially huge liability from claims of unfair treatment. In May, for example, Denny's agreed to pay $54 million to settle lawsuits filed by thousands of black customers who said they were refused service by the restaurant chain or had to wait long periods for service.

And, anyway, discrimination is just bad business no matter what a company's business may be, especially as America becomes more racially and ethnically diverse. If a banker does not inform blacks about loan-application deadlines, the bank may lose perfectly good customers. If bias leads a hospital not to gather as much information from certain patients during the interview process, then accurate diagnosis becomes more difficult. And if a store gains a reputation as a discriminator, then its business will suffer.

Fortunately, in battling bias, companies can benefit from the "self-testing" programs that banks have developed to detect disparate treatment of customers and to assess the impact of the discrimination on service and lost sales. These programs – which employ proven market research techniques – include the following:

Matched-Pair Testing. Trained testers, matched in every possible way except for the characteristic being tested, pose as company customers. To test for sex bias at a brokerage firm, for example, matched male and female testers would inquire about investments and, after talking to a broker, fill out a questionnaire about their treatment.

Customer Surveys. A company contacts actual customers by telephone about their experiences with company personnel. When the results are grouped by race, sex or another tested trait, discriminatory patterns can be uncovered.

Statistical Modeling. These models can confirm, with great accuracy, whether race or other factors have affected the decisions of a business. Banks, for example, can use the models to identify minorities' loan applications that should have been approved under all the permissible criteria.

All businesses owe it to their customers – and to themselves – to use these and other techniques to uncover prejudice. The costs are not great. The techniques are time-tested, and akin to the customer surveys many companies already perform.

The costs of not using them, however, can be prohibitive.

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