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Enron, KPMG... what can we learn about making ethical choices? (Part Two)

As we discussed in Part One of this article, Dan Ariely's work on how we all have the potential to act unethically, no matter how ethical we may think we are, presents two challenges for business owners. Firstly, how do you get individuals to shrink what Ariely refers to as their personal "fudge factor" in the workplace? And secondly, how do you create a social context at work where people see ethical behaviour as the "norm"? This article looks at how you can shrink the personal "fudge factor" at work and deals with four key steps that everyone in your business could follow.

1. Make a List

Mark Chullis in an article for Harvard Business Review suggests that we all make a list of ethical misdeeds we don't want to commit. He argues that we all suffer from "unethical amnesia" and that we don't like to remember the "bad" things we've done. By making a list of the things that you don't want to do doesn't guarantee that you won't act unethically, but it does serve as a reminder that you might be getting onto the slippery slope. For example, on your list, you may indicate that you must not hide mistakes from clients. So if and when you find yourself not disclosing a mistake to a client, you know that you may be "slipping".

2. Reduce the psychological distance

Dan Ariely's research shows the greater the physical and psychological distance from the money, the greater the likelihood of cheating. Whilst a financial planning conversation is directly with the client, the implementation of any advice happens at a distance, usually via a product, a platform and possibly a fund or other form of investment. Fees are also seldom taken directly from the client, they are most often deducted from platforms, products or funds. So it is no surprise that the financial planning industry has regular ethical hiccups, distance is the cheater's friend, and it comes easily in our industry. Imagine if clients paid their fees in cash, or via Snapscan!

One potential way to reduce distance would be to articulate fees in rands and cents. I know many financial planners don't like this idea, but it is one way to ensure that you are actually comfortable with the value you add, and the client will understand both why and how much they are paying.

Another aspect of psychological distance in financial planning is the reality that many financial planning decisions only come to fruition 10,

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20 or 30 years after they are made. This creates a significant distance between the point of advice and the consequences thereof. The risk of abuse by financial planners as a result, is significant. One way to reduce this psychological distance is to develop very deep relationships with clients, where you gain an intimate understanding of their lives. The theory, whilst not fail-safe, is that if you have a deep emotional connection with another person in a caring professional relationship you are less likely to be unethical. The deepening of a financial planning relationship can probably be achieved in two key ways, one, the frequency of review meetings; the other, by adopting a life planning/coaching approach, or aspects thereof. I have seen businesses that adopt this approach develop extraordinarily deep relationships with their clients, which doesn't guarantee against unethical behaviour, but it certainly makes it far less likely.

3. Watch how issues get framed

Ann Tenbrunsel from the University of Notre Dame identified a concept known as Ethical Fading, which is a way we "fudge" the ethical elements of a decision that we may be making. Tenbrunsel, with Max Baserman of Harvard University explain this concept in a paper entitled "Launching into Unethical Behaviour: Lessons from the Challenger Disaster". This disaster in January 1986, in which the Challenger Space Shuttle exploded shortly after take off, was due to a technical failure in which the O-rings, designed to seal the fuel tanks from the rest of the craft, malfunctioned. The engineers on the Shuttle project had warned that this could happen at the low temperature expected at time of launch. But the management of the project pushed ahead with the launch because the risks that the engineers highlighted could not be proven absolutely, and there was much pressure from NASA, the media and the public for the launch to take place. And of course there was a contract in place with incentives to deliver the project "on time". In the end, the decision to launch was a "management decision". But as Tenbrunsel and Baserman suggest, if the dilemma had been framed as an "ethical decision" the final decision may have been very different. An ethically framed decision would have focused on the risk of losing seven lives, rather than the need to appease stakeholders who were applying pressure, or trying to meet a contractual deadline.

What this concept of Ethical Fading highlights for us, is that the ethical aspect of a decision can easily fade into the background if the focus is on another aspect of the decision. This was clearly shown in study of two groups of businesses that were polluting their local environment. One group was told that if they continued to pollute they would damage the environment and were asked to stop. The other group was told the same thing but also warned that if they polluted they would be fined. The study showed that the group threatened with a fine continued to pollute while the other group stopped. The polluters were able to frame their dilemma in financial terms and essentially determined whether or not they could afford to pay the fine. They took a "financial decision". The non-polluting group took an "ethical decision" and as a result stopped polluting.

In a financial planning context, the appeal of Ethical Fading for anyone who wants to "fudge" the ethical aspects of a decision, one could just focus on the "financial" or "legal" aspects of a decision, and not worry about any "ethical" dimensions, whether explicit or implicit. An example of this could be an independent financial planning business that is considering setting up in-house "white-labelled" funds. It may be easy to justify the financial benefits of such a structure – either to the business, or to the client, or to both. But by framing the decision as an ethical one, the focus of the decision could shift from financial benefits to issues such as independence and impartiality. By framing a decision differently could lead to a materially different outcome.

In order to reduce the personal "fudge" factor, a good discipline would be to always try to bring in the ethical frame to decisions, even if it is not immediately obvious that there is an ethical aspect to consider.

4. Review the Code of Conduct

In his research, Dan Ariely found that when people are reminded of values or morals, their cheating declines. For example, when he asked participants in a research exercise to recite the Ten Commandments before taking a Maths test, although nobody could actually remember all Ten Commandments, just trying to recall them influenced them not to cheat. He had a similar result when he asked self-declared atheists to swear on the Bible, as well as MIT students who signed a Code of Honour that didn't actually exist.

An obvious way to remind financial planners and their staff of values or morals is to get them to review the FPI Code of Ethics. Or even more simply, just to review the eight principles of Financial Planner's Code of Conduct. One financial planner I know reviews the eight principles at the start of every client meeting. By highlighting for your client the principles you are ethically bound by, it not only reminds you of them, but is like putting your hand on a holy book or reminding yourself of the Ten Commandments. It is unlikely to take more than five minutes of a meeting, but will serve as a consistent reminder to you and your staff of your ethical responsibilities.

Now my guess is that most financial planners would probably argue that this is a little over the top and completely unnecessary, especially given that recent research by Fundhouse suggests that most financial planners believe themselves to be inherently ethical. This brings me to the fifth item on your "to do" list to reduce the personal "fudge" factor, namely to be consistent.

5. Be Consistent

Being consistent is at the heart of developing trust with clients. David Green et al in their book *the Trusted Adviser* highlighted that Reliability – doing what you say you will do, is one of 4 elements needed for building trust. Arguably consistency is the bedrock of reliability. In order to effectively reduce the "fudge factor" for yourself and your staff, there is no doubt that a consistent approach is needed. Atul Gawande, a surgeon and author of *The Checklist Manifesto*, advocates the use of checklists in all professions and most aspects of life.

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Whether you are a doctor, pilot, financial planner or simply running a household, checklists will enhance your effectiveness.

So to reduce the "fudge factor" I suggest that a checklist will be a key resource for you, and can be as simple as saying you will regularly (daily, weekly or monthly) remind yourself to check the following:

- Check your "not to do" list;
- Reduce the psychological distance;
- Review how you frame issues; and
- Review the FPI Code of Conduct.

Doing this definitely won't insulate you against ethical dilemmas, and it cannot guarantee against ethical hiccups by you or your staff. But it will definitely raise your consciousness of the ethical dimension to issues that may not previously have been the case. On a personal level, this is definitely a case of forewarned is forearmed. In Part Three of this series we will consider how you can achieve this at an organisational level.

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