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SPOTLIGHT ON ETHICS

Ethical Erosion

By Jeff Kluge



INVESTMENTS & WEALTH INSTITUTE®

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Editor's note: Jeff Kluge worked as a financial advisor for Merrill Lynch for 25 years. He earned the CIMA® certification in 2003 and CPWA® certification in 2008, both of which were relinquished in 2016, before he pleaded guilty in 2017 to two counts of bank fraud. In prison, he searched for answers about why he made the choices he'd made and how to rebuild his life. He studied philosophers and other authors, classical and contemporary, and noticed recurring themes about ethics and happiness. Now back at home in Minneapolis, his mission is to share what he has learned, help people avoid personal and professional mistakes, and show them how to lead happier lives. Kluge says his work is inspired by his two grown sons and their honor, integrity, and intelligence.

THE PROBLEM WITH ETHICS TRAINING

"I am ethical. Why do I need to study this?"

Have you ever found yourself thinking those words during an ethics training? After all, it's the other guy, at that other firm, who really needs an ethics review.

In the United States, billions of dollars get spent every year on corporate training, ethics training, and compliance (Chen and Soltes 2018; LexisNexis Risk Solutions 2020; Statista 2020). Yet the results are lacking. The Association of Certified Fraud Examiners writes that a typical organization's annual revenue loss to fraud is nearly \$3 million in annual revenue (ACFE 2016). It seems like ethics trainings focus mainly on the most recent ethical crisis and the

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newest symptoms of unethical behavior. It seems like a few bad apples worm their way through the loopholes to create problems.

According to Marianne Jennings, professor of legal and ethical studies in business in the W. P. Carey School of Business at Arizona State University, the problem is that ethics trainings emphasize the wrong things:

[T]he focus of the formal training is on the rules, partly because it is mandated (the money laundering stuff with financial firms and the privacy issues in health care etc.) and it is easier. It's a checklist to get a reduced fine when they get in trouble, which they most assuredly will. The other thing about the rote, rule training is that it is easier to track, manage, and test (pers. comm., August 2020).

So, why should we keep studying ethics if it doesn't seem to work and, after all,

I'm ethical and I don't need it? Or could there be a deeper problem? Are we simply blind to our actions and the way we think?

The fact is, people can find themselves in over their heads wondering, "How did I get here? How and where does unethical behavior start? How can you nip it in the bud? How do we protect our reputations and our well-being?"

Research provides some ground rules. For example, Tenbrunsel et al. (2010) explain that we think we will act ethically when we need to, but oftentimes don't. We talk about acting ethically, then don't. And we remember our actions as having been more ethical than they were.

When ethical fading occurs—a process by which a person does not realize that the decision she is making has ethical implications and thus ethical criteria do not enter into her decision—the "should" self has no reason to be activated. Consequently, the "want" self is allowed to freely dominate the decision and unethical behavior ensues.

I believe that ethics and the failure of ethical training can be best described and discussed through two lenses: (1) blindness and (2) erosion.

BLINDNESS

Many years ago, when our sons were 14 and 11, my wife and I took them on a summer vacation to the Grand Canyon, a first visit for all of us. I've often recalled that trip as a metaphor for

ethical blindness, because if you don't pay attention in the Grand Canyon, you can quickly end up in trouble.

Know your limitations. It was a very hot, overcast July day when we started down the Bright Angel Trail. I'd brought some water, a few snacks, and a lot of camera equipment. Before long, my wife said she wasn't up for this hike. She was clearly aware of her limitations. She and the younger boy headed back to the rim; the older boy and I proceeded downhill, and we agreed to meet back at the car. How many times are those we're with uncomfortable with a chosen path? We must listen to those concerns and talk about them with respect.

Take time to rest and reflect. The older boy and I bounded toward Indian Gardens, something of an oasis on the trail, where we were able to cool off a bit and take in our amazing surroundings. Sadly, we could stay only a few minutes because we needed to meet the others at the car—and we really wanted to stay longer. How many times do we make decisions under pressure, without allowing for the contemplation a situation deserves? Do we stop long enough to see where we really are? That we're on the right path, headed in the right direction? Given how quickly markets move, products change, and clients' demands come at us, how do we stick to core values and make smart decisions?

The wake-up call. We packed up and continued down, onto the Tonto Plateau, noticing that the crowds of hikers had thinned. Did they know something I didn't? Then, seemingly out of nowhere, came a blinding flash and a deafening crash of thunder. That got my attention. We were in danger, with nowhere to hide. Only then did I realize how far we'd come—the rim was more than half a mile straight up above our heads, and the climb out amid the looming electrical storm was overwhelming. This happens in other areas of life, too. How did we get this far down the trail without seeing the danger? When should we

have turned around? More importantly, how do we get up and out of this situation?

Many heedless hikers run into this kind of trouble or worse every year in the Grand Canyon, the same way that unmindful business people allow themselves to be tripped up by ethical hazards. This is often referred to as a slippery slope. But many people have never seen snow let alone driven on an icy road, and the concept of a slippery slope may be lost on them. To me, there's a better definition.

EROSION

The gradual wearing away of truths, values, and beliefs is what I call "ethical erosion." It occurs slowly, over time, much like the erosion that created the Grand Canyon. Unfortunately, we don't know how much erosion has taken place until we measure it, and these changes can go unnoticed until they aren't, like in the case of the wake-up call described above. Fogg (2020) talks about the way to change a bad habit to a good habit by breaking the bad habit into smaller parts that are easier to deal with. Similarly, ethical erosion starts with small thoughts, words, and actions that can run counter to our core values, ethics, or policies. A good person doesn't just wake up one day wanting to commit a major ethical violation. But ethical erosion often starts in response to some pressure that demands a very quick, unconsidered response; the consequences of nonresponse can seem overwhelming, and the transgression does not seem so large at first.

WHAT IS A GOOD PERSON TO DO?

The following are three things that good ethical people and organizations can do to protect themselves from ethical erosion.

CULTIVATE AWARENESS

The first step is to overcome our blindness through awareness. Mindfulness apps abound with ways to create a calming space for us to think. It is here where we can ask ourselves some good

questions about what is happening or has happened.

- Think about some recent tough decisions and ask yourself how they match to your core beliefs. Be patient; you may feel like you're jumping to defend the actions you took.
- Place yourself in someone else's shoes and look at your actions. Whose interests did you serve? Ethics often are discussed as being about right and wrong; I think ethics are better defined as "a process of avoiding harm."
- If you have trouble with these exercises, talk with a person who is not directly involved in the situation to get another perspective.

SET YOUR MORAL COMPASS

The second step is to review your values, to have them well-defined and actionable. Too many values statements read like marketing pieces. At some firms they are a running joke. If your organization values honesty, what does that look like? Set examples of what you can do to live that value. I call this setting your compass to zero degrees. Then consider the negative of that value, the unethical, undesirable behavior. I call this the 180-degree compass setting. Here, the 180-degree setting would be dishonesty; for example, misleading by omission of facts that are relevant, to make something sound much different than it is. Someone can say something that is 100-percent honest, but leaving out material facts constitutes dishonesty.

Who is covered by these compass settings? If the leaders of the organization separate themselves from having to follow the firm's values, or exemptions are given to top producers or certain other people, the ethical process for avoiding harm is doomed.

With a firm knowledge of these two compass settings, we can travel off course a bit. This is where reckoning takes place. If you're off course by just a couple degrees, you won't feel like you're

entirely out of bounds. You can easily correct and make it back to zero degrees. Big ethical failures happen because you fail to make a small course correction and continue moving further toward 180 degrees.

We cannot have constructive and respectful discord when we do not disclose all of what is happening with a situation. Ray Dalio, a philanthropist and founder of Bridgewater Associates, writes about “radical transparency” and sharing the truth about a situation with those who are impacted by it (Dalio 2017).

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Unethical behavior can start from the gradual erosion of our values and beliefs, but engaging in ongoing honest discussion can go a long way toward mitigating its negative effects. Small first transgressions can be easily justified by offenders and to those around them. But there is a steep downside to stepping over the line, and that is what it does to our own personal well-being. If we can’t discuss the situations we are encountering in an empathetic and compassionate place, then nothing changes.

ETHICS TRAINING

The third step is to change how we train and teach ethics.

As Jennings pointed out, much of mandated ethics material is based on an old model of rote memorization and punching the clock. Many people do not even read the material. They sign and drive.

That kind of ethics material is disingenuous at best because it does not address the real issues we face on a daily basis. We need ethics training that spotlights

the root causes of why people make the decisions they do. We need to look at decisions we make and the actions we take and how they are—and aren’t—consistent with the values we hold, both personally and for the organizations we are a part of. It needs to start at the top. Our leaders need to operate with behavior that aims to produce good and avoid harm.

Perhaps each year we roll out new rules, regulations, and compliance targeted to the level and credentials of the individual. We make the training more personal. Then we have real discussions about the situations we face day to day and discuss them with honesty and openness. Hiding in the shadows and saying that everything is great because we just did two hours of ethics continuing education doesn’t work, so let’s try something different.

POSTSCRIPT

Like many others, financial professionals live in high-pressure, stressful environments. Conflicts of interest and complexity abound. We have a duty to our clients. We are employees and leaders of our organizations. We are parents and partners, friends, and mentors. Various pressure points exert the potential to move us from our optimal compass heading. The desire to belong overwhelmed me when I left it unchecked.

I have searched to discover why I made the choices I did and how I got so far off the path I thought I’d be taking. If I could go back in time, I would have paid more attention to my values, why I held them, and where I was headed.

I’ve begun to understand why I did what I did, and it’s the science of behavior that has connected the dots for me. It doesn’t justify my transgression, but it does provide a powerful architecture for understanding how it occurred and, more importantly, how I can get back to my zero-degree compass heading. This is what I want to share.

I am fortunate to have kept my focus in some areas. I am very grateful for my wife, sons, family, and friends and former clients who are by my side; I have seen people who have lost all those relationships. Why are the people in your life so important to you? How do you show them they are important? (Hint: It’s not the money.)

Lastly, I also realize that most organizations approach ethics and ethics training symptomatically. We rarely take time, as organizations or individuals, to see where we are headed. By taking the time to look, we allow for vulnerability. When we collectively try to get things right and avoid harming our stakeholders, we all stand a better chance. ●

Jeffrey Kluge is happiness ethicist, founder, and chief executive officer of the Global Impact Investing Initiative. He aims to refocus ethics training and well-being initiatives from a symptomatic approach to a holistic one that addresses the root cause of desired behavior. He earned a BS in management from St. John’s University. Contact him at globalimpactinvestinitiative@gmail.com.

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