

How Good People Make Tough Decisions: Tools for Ethical Financial Decision-Making

Ken L. Bishop
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September 26, 2006

10th Annual Investing & Cash Management
Conference

Making Sense of Ethics



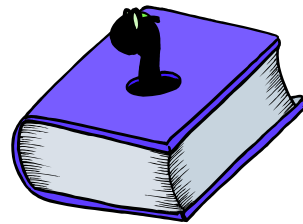
**Harry, are you walking off with my
'Ethics in the Workplace' book?**

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Ethics Defined

- The discipline dealing with what is good and bad and with moral duty and obligation
- A set of *moral* principles or *values*
- Principles of conduct governing an individual or a group (professional ethics)



Merriam-Webster Dictionary

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Ethics vs. Values

The terms ethics and values are often used interchangeably — indeed, they often can mean the same thing and in casual conversation there isn't a problem with switching between one and the other. Strictly speaking, though, "values" is more appropriately used to refer to what we would call moral standards and moral conduct while ethics is used to refer to the formal study of those standards and conduct. For this reason, the study of ethics is also often called "moral philosophy."

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Ethics vs. Values

<u>VALUES</u>	<u>ETHICS</u>
<ul style="list-style-type: none">• Define the individual• Constant• Internally derived• Virtue - oriented• General• Stated morally• Judged as good or bad• Set priorities	<ul style="list-style-type: none">• Translate values into action• Changing• Externally determined• Justice – oriented• Specific• Shared behaviorally• Judged as present or absent• Set boundaries

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Ethical Principles

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graph TD; Values[VALUES] --> Principles[PRINCIPLES]; Principles --> EthicalConduct[ETHICAL CONDUCT];
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VALUES Inner judgments about what is right and wrong

PRINCIPLES Rules of conduct that are derived from values

ETHICAL CONDUCT Actual behavior – putting principles into action

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Ethical Responsibility



“Ethical behavior...refers to the willingness to make difficult decisions concerning right and wrong in situations involving fundamental value conflicts.”

“Ethical responsibility implies reflective function...and is a function of conscious reflective behavior, not of blind conformity.”

Gregory D. Foster, Professor
Industrial College of the Armed Forces

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What are Ethics?



Responses from business managers when asked, “What does ethics mean to you?”, based on a study conducted by Raymond Baumhart, Professor and Chair of Business Ethics in the School of Business Administration at Loyola University in Chicago

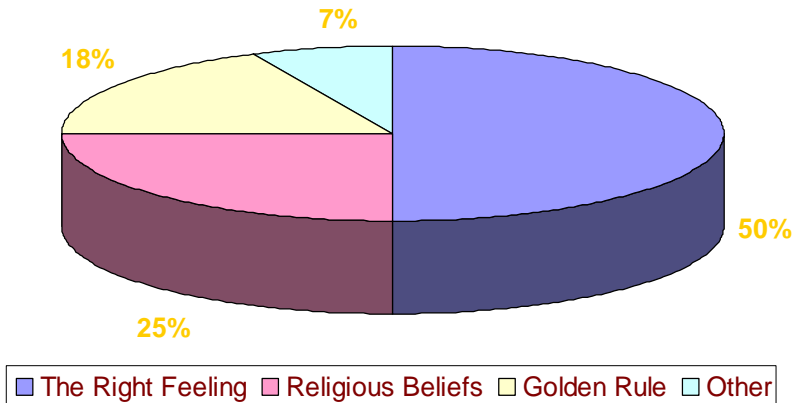
- Ethics has to do with what my feelings tell me is right and wrong.
- Ethics has to do with my religious beliefs.
- Being ethical is doing what the law requires.
- Ethics consists of the standards of behavior our society accepts.
- I don't know what the word means.

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What are Ethics?

Results from Baumhart's Study



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Ethical Guidance in Accounting

- AICPA Code of Professional Conduct
- AICPA Professional Standards
 - Accounting / Auditing
 - Tax Practice
 - Consulting
- Governmental Professional Standards
- Board of Accountancy statutes and regulations
- Circular 230

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Doing the Right Thing

Pressure

Opportunity and Temptation

Rationalization

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Rationalizations

"In an effort to look better, we just made up these figures."

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Rationalizations

- Everyone else does it
- They'll never miss it
- Nobody will care
- No one will know
- I don't have time to do it right
- That's close enough
- Some rules were meant to be broken
- It's not *my* job



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Ethics Scenarios

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Common Terms

- Conflict of Interest
- Independence
- Impropriety
- Impartial
- Materiality
- Disclosure
- Appearance
- Audit Findings and Recommendations

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Missouri Municipal League Recommended Investment Policy

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the [entity].

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City of Chicago, IL (Treasurer's office) Investment Policy

ETHICS AND CONFLICT OF INTEREST

It is the policy of the Office that no person acting on behalf of the investment function in the Office shall, in any manner, have any interest, either directly or indirectly, in any investments in which the Office is authorized to invest; or receive in any manner, compensation of any kind, from any investments from the sellers, sponsors or managers of such investments. Investment officers and other staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Any situation involving any person with investment responsibilities, or a member of his or her family that could reasonably be considered a conflict of interest must be disclosed to the Treasurer as soon as possible after the potential conflict arises or can be anticipated.

The Treasurer and all Office employees shall comply with the City's Governmental Ethics Ordinance and all other applicable laws pertaining to ethics, prohibited acts or gift bans.

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REMEMBER . . .

**THERE IS NO RIGHT
WAY TO DO A WRONG
THING!**

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**QUESTIONS?
&
THANKS!**

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