Ethical Behavioral Finance: Six Guidelines for Great Client Relationships

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Sometimes good people do bad things. What would you do to for $1,000,000? What about $10,000,000? That's a lot of money. Would you find a way to make it happen? In a business world driven by "best practices" and a desire to maintain an ethical workplace culture, why do so many of us fail to live up to our own standards? Ethics expert, Ron Duska, PhD believes the answer lies in the field of behavioral ethics: how we think—consciously, subconsciously, and often irrationally—when we make decisions involving money.

Dr. Duska has identified 6 key behavioral factors to help financial advisors make decisions that are both good and ethical. This is a review of his article, Unethical Behavioral Finance: Why Good People Do Bad Things.* Duska uses the acronym, W-I-S-A-R-D as a memory cue to help advisors avoid making decisions that appear financially sound but are morally questionable.

W-I-S-A-R-D describes 6 ways we can go wrong. Assume $10,000,000 will become yours depending on what you do. Put yourself and your advisors to the test!

W – Weak Willpower. Until it happens, most of us don't believe we can be bought. It is critical to recognize that we are all weak and subject to temptation. According to a story about the offer of a bribe, President Lincoln didn't throw the man out for offering a bribe. He threw him out because he was getting close to his price! If you know that you can be bought, perhaps you won't be bought.

I – Ignorance is bliss. Improper framing keeps us ignorant. We all have ethical blind spots. Framing the $10,000,000 question as a financial decision helps you ignore the more important ethical decision you are about to make. Start by intentionally framing every business decision as an ethical decision. Otherwise, our minds will subconsciously frame every financial decision as a business decision that ignores any ethical issues.

S – Slippery slope. We typically promise ourselves that we will only act questionably just this one time. Duska: "Having done it once, it is easier to do a second time." It becomes a slippery slope that we gradually slide further down each time we make a business decision that violates our ethical code. For example, financial pressure can lead to making a one-time exception that develops into a culture of unethical behavior.

A – Arrogance. Arrogance is misguided pride. Duska: "We all have biased perceptions of our own ethicality." We believe we are intelligent people who think objectively and know what's right. As a result, we develop an illusion of objectivity that makes us blind to our own unethical behavior. We don't see our own ethical flaws because of a false confidence that we will do the right thing.

R – Rationalization. Duska: "Rationalization is coming up with bad logic to try to justify bad behavior." If you act badly, you have to rationalize it in order to keep thinking you are a good person. If you find yourself explaining a questionable decision as "That's just business", "Everybody does it", or "It's not as bad as [some worse action or worse person]", you are probably trying to rationalize your own bad behavior.

D – Docility. Duska: "We have a natural tendency to obey authority." It's how we were taught. It's part of our culture. It allows us to go along with bad behavior

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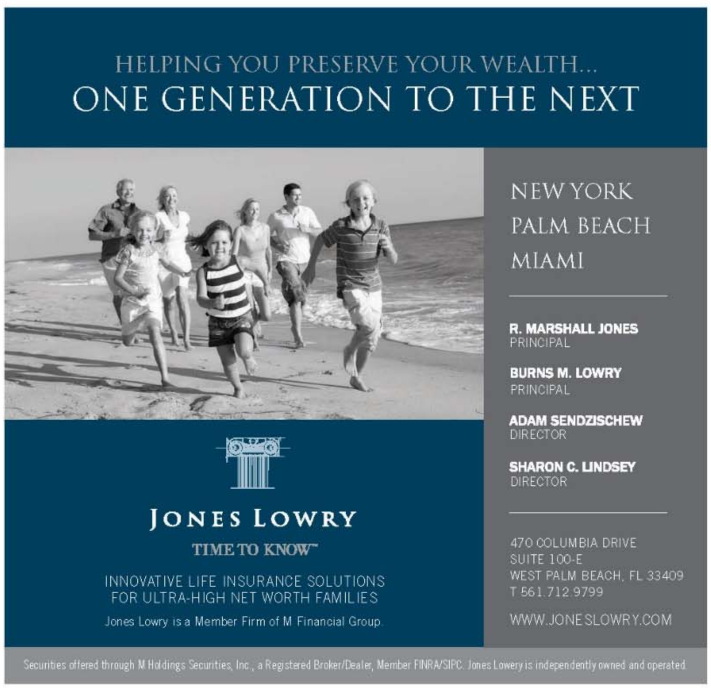

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docilely—without thinking about it. The results can be catastrophic for you, your business and our culture. The explanation, "I was just following orders" doesn't pass muster.

That's it: W-I-S-A-R-D. It can help us maintain a personal and corporate culture of ethical behavior. Each of us must choose to be responsible for our own actions and inactions. W-I-S-A-R-D is a reminder that we can trick ourselves into acting badly. It's not simply a question of avoiding blatantly greedy or selfishness behavior. It must be a conscious decision to monitor our thoughts and actions so that we pass the W-I-S-A-R-D's ethical tests.

A great financial firm will hold each team member accountable to always do the right thing. Don't ask your fellow team members to engage in unethical behavior. Pass the Test: Do the right thing even if it means walking away from $10,000,000.

* Unethical Behavioral Finance: Why Good People Do Bad Things, Ronald F. Duska, PhD; Journal of Financial Services Professionals.