



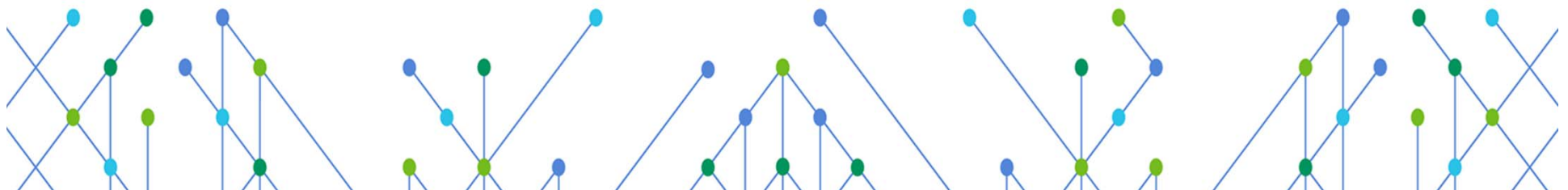
# ETHICAL DECISION MAKING

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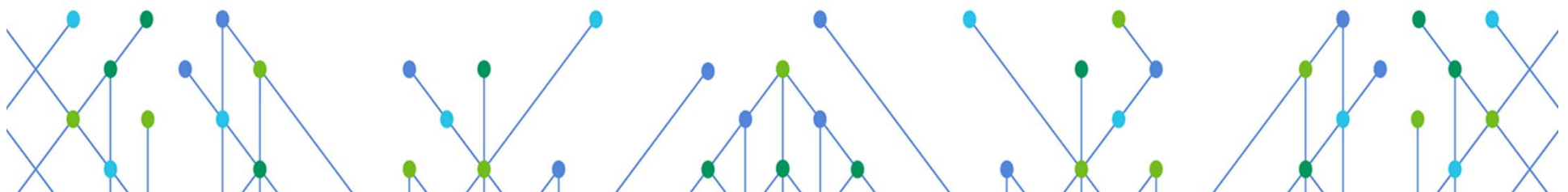
# MISSION STATEMENT:

“To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence **for the ultimate benefit of society.**”



**“Ethical behavior is doing the right thing when no one else is watching- even when doing the wrong thing is legal.”**

Aldo Leopold



# ETHICS REQUIRES:

Education

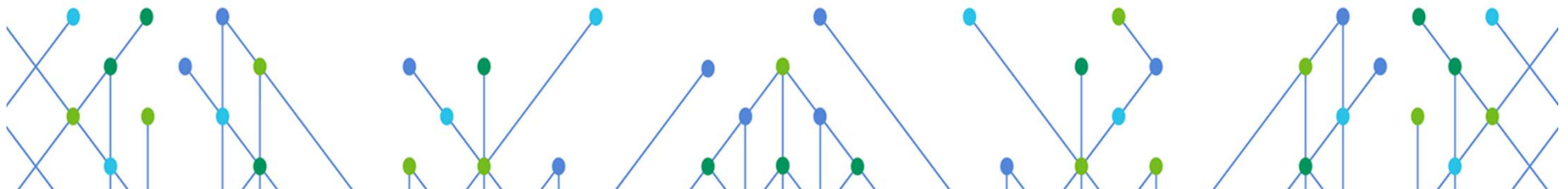
Thinking about:

Honesty

Integrity

Character

Stewardship

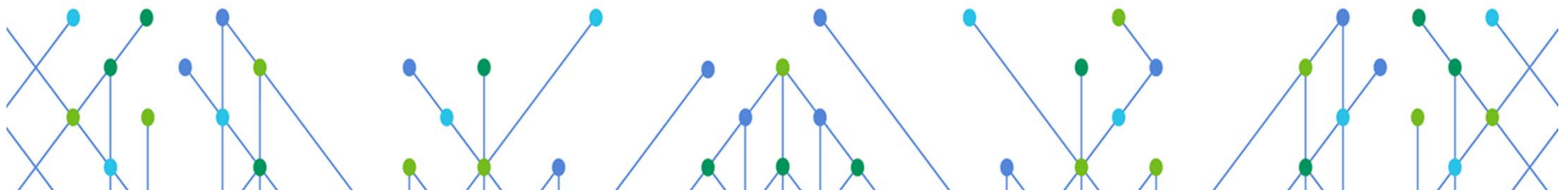


# STEWARDSHIP

***The careful and responsible management of money that is entrusted to one's care.***

“[T]he financial services industry is at its very core all about the concept of stewardship and all about stewardship values and responsibilities. After all, the foundation of financial markets is public trust and confidence.”

**John Taft, CEO of RBC Wealth Management: *Stewardship*, 2012**



# KEY POINTS

- **We make most of our decisions instantly and instinctively rather than rationally and using reason.**
- **We tend to believe that we are more ethical than we really are.**
- **We often make unethical decisions not because we are “bad people,” but because psychological biases, social and organizational factors, and situational influences affect our decision making.**

# FACTORS LEADING TO UNETHICAL BEHAVIOR

**Obedience to Authority**: the desire to please authority can cause people to suspend their own ethical judgments.

**Conformity Bias**: the tendency to “follow the crowd” and to conform their behavior to that of their peers.

**Incrementalism**: gradual shift toward unethical behavior.

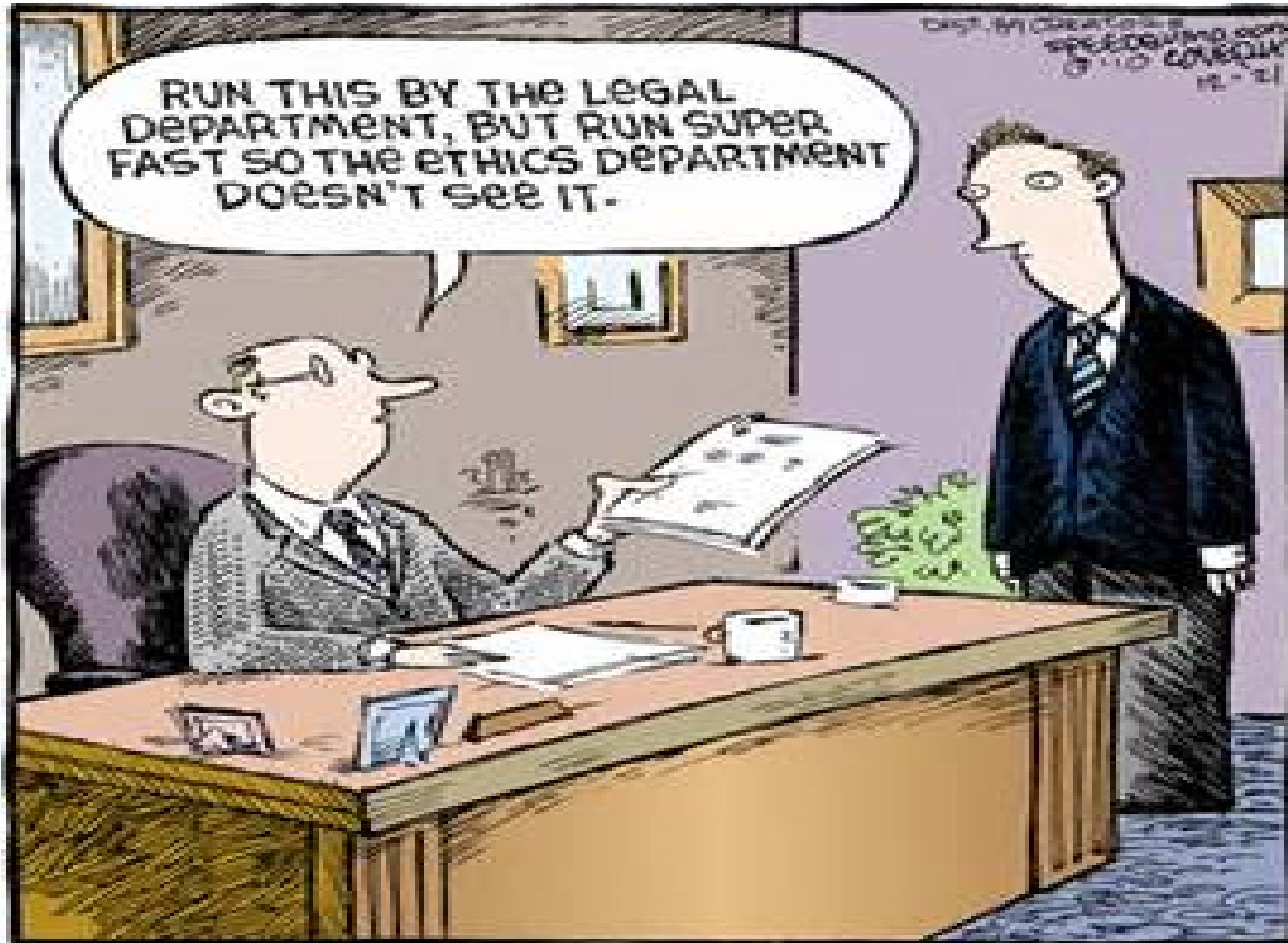
**Overconfidence**: can lead us to make decisions without proper reflection under the assumption that: “I am more ethical than they are, it won’t happen to me.”

# THE SITUATIONAL VS. DISPOSITIONAL

- “Situational influences have more to do with unethical behavior than a person’s character.”
- “Under the right conditions good people can be induced, seduced, and initiated to act unethically.”

**Philip Zimbardo, Professor Emeritus, Stanford University**





# COMPLIANCE VERSUS ETHICS

Compliance: ensures that employees conform to a set of required behaviors.



**You must**

Ethics: encourages employees to behave in way that is consistent with the organization's values and mission.



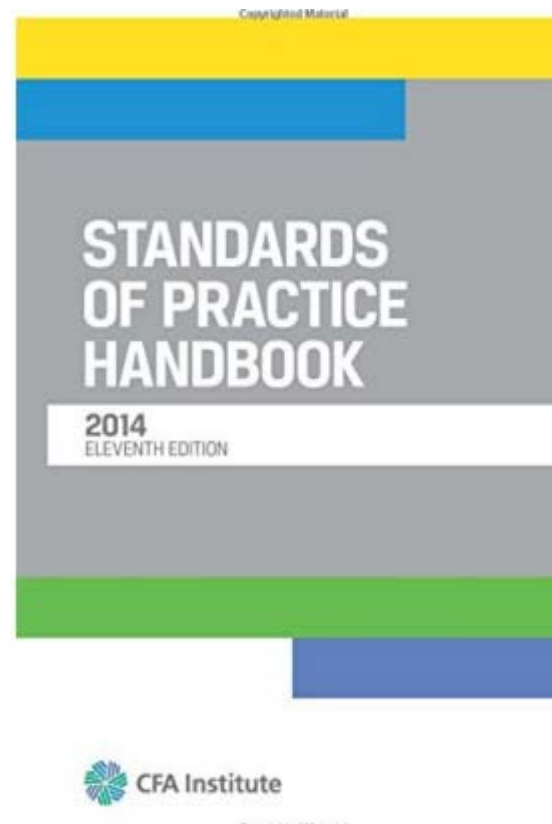
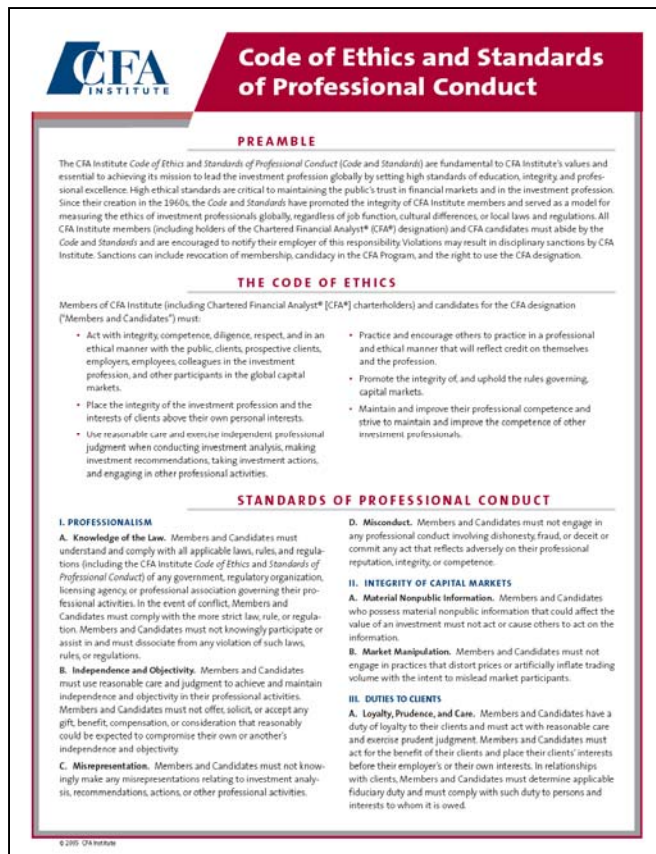
**You should**

# FUNDAMENTAL ETHICAL PRINCIPLES

- Client interests come first
- Maintain independence and objectivity
- Avoid/manage conflicts of interest
- Full and fair disclosure
- Preservation of confidentiality
- Fair dealing
- Reasonable care & prudent judgment

# SETTING PROFESSIONAL STANDARDS

## CFA Institute Code & Standards



# Rationalizations

- Provide the justifications/reasons for not taking the right course of action.
- “Neutralize” ethical intent by reducing the negative affect that accompanies performing an unethical act.
- Justify behavior that is inconsistent with our own opinions of ourselves.
- Change our perception of a situation or social environment to defend/excuse our behavior.



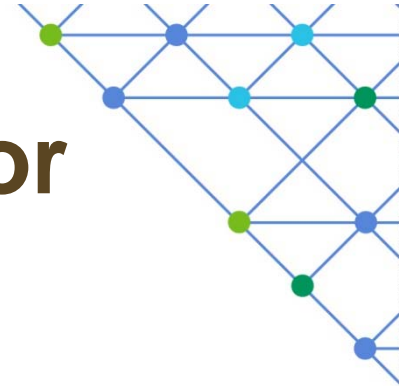
# Rationalizations

“There's never been an act done since the beginning, from a kid stealing candy to a dictator committing genocide, that the person doing it didn't think he was fully justified. That's a mental trick called rationalizing, and it's done the human race more harm than anything else you can name.”

[Leigh Brackett](#), [The Long Tomorrow](#)



# Rationalizing Unethical Behavior



- Everybody else does it, so it must be okay.
- That is the way they do it at Firm X.
- If we do not do it, someone else will.
- This is the way it has always been done.
- It doesn't really hurt anyone.
- It's not a big deal.
- He/she deserved it.
- It's not my responsibility.
- I want to be a team player; I want to be loyal.

# RESOLVING ETHICAL DILEMMAS

1. Acknowledge that there is an ethical issue.
2. Determine who is faced with and owns the problem.
3. Gather the relevant data.
4. Test the wrong vs. right parameters.
5. Test for right vs. right paradigm.
6. Apply the resolution principles.
7. Investigate 3rd way options – compromise.
8. Make a decision.
9. Reflect on what you learn from the decision.



## PARTING THOUGHT

“I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper—to be read by their spouses, children and friends—with the reporting done by an informed and critical reporter.”

Warren Buffett, Interim Chairman of the Board, Salomon Brothers



**THANK YOU!**