Building an Ethical Practice

By Rev. Steven W. Lawler

The core of any practice group’s reputation is expertise, consistency, and engagement. IMCA members have the opportunity to continuously strengthen their expertise through continuing education, additional certifications, and keeping up with research in the fields of investment consulting and wealth management. Consistency is demonstrated through clients’ investment performance as well as follow-up on e-mails and phone calls. But expertise and consistency are insufficient without engagement.

Engagement is a key characteristic of healthy and aligned organizations. Alignment extends beyond employees to all stakeholders—employees, customers, and vendors alike—and it is important to building an ethical practice group. The following four principles for engagement provide a framework for developing just such a practice:

Stakeholders understand the overall strategy and direction of the organization. Associates, employees, and clients all need to be engaged with the purposes and values of the organization. Several years ago the chief executive officer of a financial services company told me: “We don’t need an ethics program. We have all new hires sign this and if they break any rules, we fire them.” It was not surprising that the firm’s employees reported that compliance—and more often, not getting caught—were the core ethics strategies of the business. Building and continuously improving the ethical culture of the company should be the focus of the ethics strategy. For gauging ethical engagement, the question to ask is this: Does your practice have a clearly articulated strategy and direction for building and continuously improving its culture ethically? If you talk only about compliance, then you will at best get compliance. If a clear strategy is in practice and in place, your stakeholders will be much better able to align and participate in a highly ethical practice.

Stakeholders need to know how their activities fit into the strategy. An oft-cited story of rock star excesses—the demand to have no brown M&M’s in the dressing room—actually was a matter of safety and maybe even survival for the rock band Van Halen. In his autobiography, Crazy from the Heat, lead singer David Lee Roth explains that the band was traveling with the most complicated and dangerous set-up that any rock band had ever used. He was particularly vulnerable because at several points in the show he was suspended from wires and hurling through the air. Roth imposed the M&M rule because its violation indicated a lack of attention by the crew, and that very likely could result in his personal injury. “So when I came back stage and saw brown M&M’s . . . ,” he wrote, he would order a “line check [of] the whole show. Guaranteed there were going to be some technical errors.” In my own work with engagement and alignment, I find that understanding how my activities/work/actions fit in with the overall strategy scores low when communication metrics score low. Often, a communications strategy and tactics plan is in place. What is missing to ensure that all stakeholders know how their activities fit into the larger strategy is the personal contact to create true, two-way communication. Ethical engagement requires dialogue, not lecture. Taking the time to make sure that each player knows his or her part and that everyone has the opportunity to improve how the whole organization aligns ethically is key to gaining the highest level of engagement.

Stakeholders have the tools that they need to successfully fulfill their individual roles. This may be as simple as updated forms and reporting tools and as complicated as ongoing and effective ethics training. Two simple examples, one tactical and one strategic, demonstrate this principle. The tactical example is from a client whose core principles statement is posted everywhere throughout the facilities. The ethics hotline service used for questions and to report violations, however, was inaccessible from the phones that shop-floor employees had access to during the work day. A simple change in the phone system allowed calls to toll-free numbers and gave employees the tool they needed to get clarification or report violations. The strategic example comes from a client in the hospitality industry. The management group committed to spending as much on ongoing training in the application and practice of the company’s core values as on training front-line workers how to interact with the information technology system. These training sessions have turned into one of the most valuable ways the company gains insight, improvement, and continuous enhancement of ethical engagement and alignment.

Stakeholders are treated with respect. Stakeholders are valued partners in achieving the highest levels of ethical behavior; this should be the heart of any engagement strategy. We have all laughed nervously when hearing the phrase, “Beatings will continue until morale improves.” Still, the reality of organizational life is that there are many more ways to show disrespect than simply “beating” stakeholders. Withholding important information, discounting the opinions of others based on subjective criteria, using procedural techniques to deflect or deny initiative; the list could go on. The phenomena of the whistleblower and the frighteningly high number of...
instances where the attempt to address an impropriety is met with derision and threat show other forms of disrespect. In building and enhancing an ethically engaged practice, the voice of each stakeholder and stakeholder group must be rigorously sought and vigorously defended as an important part of the effort, even when this is inconvenient and uncomfortable.

Conclusion
Using these four principles will give investment consulting and wealth management practices access to the best practices for effective engagement. Striving for this higher level of ethical engagement is like the Zen wisdom of the archer: “The further the target, the higher the aim.” In a profession where long-term reputation and sustained relationships are essential, practicing the principles of engagement significantly raises the likelihood of connecting behavior and belief to hit the target of highly ethical engagement. This target is the bedrock of the highest level of professionalism for investment consulting and wealth management practice groups.

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<tr>
<th>Donor Contributes Assets</th>
<th>Donor Sells Assets and Donates the Cash to Charity</th>
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<tbody>
<tr>
<td>Value of Assets $100,000</td>
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<tr>
<td>Donor’s Capital Gains Tax @ 20%</td>
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<tr>
<td>Net Donation to Charity</td>
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<tr>
<td>Tax Deduction to Donor @ 40% Bracket</td>
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<tr>
<td>Net Tax Benefit to Donor (Tax Deduction less Taxes Paid)</td>
<td>$40,000 ($19,000)</td>
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Table 2 hypothetically illustrates the use of tax rates that may apply soon if lawmakers allow current tax rates to expire. The donor’s net tax benefit grows beyond that shown in table 1 and approximately 16 percent more money gets to the charity.

The message: Give appreciated assets to charity and stop writing checks. Remember the “devil on the shoulder”? I’m embarrassed to admit that I am not always the cheerful giver I should be. The DAF structure has helped. It has compressed our charitable table activity from a half-dozen decision points (church, alma mater, homeless shelter, missionaries, etc.) to one. I only need to wrestle that devil once. My wife and I now make a single decision at tax-planning time about which asset(s) to contribute to our DAF. Then we can take our time determining charitable recipients of those assets. This has greatly increased the cheer associated with our giving.

The benefits of a DAF are numerous. A DAF is an easy-to-establish, low-cost, and flexible charitable-giving tool. Charitable-giving strategies should be considered an element of your comprehensive personal financial plan, and the evaluation, selection, and management of a DAF should be coordinated with your financial advisory team.

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