



THE
AMERICAN
COLLEGE
OF FINANCIAL SERVICES

PERSPECTIVES ON ETHICAL LEADERSHIP 2013

Thirteenth Annual

James A. and Linda R. Mitchell
Forum on Ethical Leadership in
Financial Services





FORUM ON ETHICAL LEADERSHIP

The Thirteenth Annual James A. and Linda R. Mitchell/The American College Forum on Ethical Leadership in Financial Services took place on January 12, 2013 in Palm Beach, Florida. The event featured a discussion of several key issues confronting the financial services industry, along with an examination of practical ethical dilemmas encountered by executives during their careers and questions raised by business ethicists from major colleges and universities around the country.



ACADEMICS

Aine Donovan, Director, Ethics Institute, Dartmouth College, Hanover, New Hampshire

Jared Harris, Assistant Professor of Business Administration, Darden School of Business, University of Virginia, Charlottesville, Virginia

Beverly Kracher, Executive Director and President, Business Ethics Alliance, Professor of Business Ethics and Society, Marketing and Management, College of Business, Creighton University, Omaha, Nebraska

Jeffrey Moriarty, Associate Professor, Philosophy, Bentley University, Waltham, Massachusetts

Mollie Painter-Morland, Associate Professor, Philosophy, Associate Director of DePaul's Institute for Business and Professional Ethics, DePaul University, Chicago, Illinois

Julie Ragatz, Director, Cary M. Maguire Center for Ethics in Financial Services, The American College, Bryn Mawr, Pennsylvania (Host)

Walter Woerheide, ChFC®, CFP® Vice President of Academic Affairs and Dean, The American College, Bryn Mawr, Pennsylvania

EXECUTIVES

Laurence Barton, CAP® President and CEO, The American College, Bryn Mawr, Pennsylvania

Christopher Blunt, ChFC®, CFP®, CAP®, CLU® Executive Vice President and President, Insurance Group, New York Life Insurance Company, New York, New York

James Mitchell, CLU®, ChFC® Chairman and Chief Executive Officer (Retired), IDS Life Insurance Company, Longboat Key, Florida (Host)

Phillip Richards, CLU®, RHU® Chairman and CEO, North Star Resource Group, Minneapolis, Minnesota

Cynthia Tidwell, President and CEO, Royal Neighbors of America, Rock Island, Illinois

EXECUTIVE SUMMARY

On January 12th, 2013, a group of five executives (“practitioners”) and seven academic ethicists (“philosophers”) gathered in Palm Beach, Florida to participate in the Thirteenth Annual James A. and Linda R. Mitchell/ The American College Forum on Ethical Leadership in Financial Services.

The purpose of this annual event, established in 2001 by Jim and Linda Mitchell, is twofold:

- To provide executives with an opportunity to reflect on ethical issues that they confront on a regular basis, with questions posed to them by academics engaged in business ethics education, and
- To afford academics the opportunity to engage in discussion about these issues with top level executives, so that they can bring that experience back to their classrooms.

ETHICAL ISSUES IN A LOW INTEREST RATE ENVIRONMENT

Following introductions of the participants and discussion of their goals for the day, the participants discussed the ethical implications of a prolonged low interest rate environment. This environment puts increased earnings pressure on financial institutions, heightening the need to ensure meaningful disclosure to consumers. The participants discussed the dimensions of meaningful disclosure. One of the questions raised by the case study was whether it was ethically permissible for a company to change the terms of the product contract in a manner that may negatively impact the consumer, even if this possibility was disclosed in the prospectus.



The participants listen as Larry Barton presents his case for discussion.



The participants agreed that meaningful disclosure was qualitatively different from transparency. While being transparent about the benefits and drawbacks of a particular product or strategy may meet practitioners' legal obligations, it failed to meet their ethical obligations. They were not hopeful that increased disclosure would resolve consumer confusion and prevent advisor malfeasance. More disclosure is not necessarily better.

The participants discussed the history of regulatory initiatives regarding disclosure and pointed out that these usually had unintended pernicious consequences. An example is the mandated disclosure regarding CEO compensation, which, instead of reducing the overall levels of compensation, had the opposite effect. There is a persuasive body of research that demonstrates that the possession of full information does not necessarily lead to better decision making on the part of consumers. Participants also expressed the view that disclosure can become a form of 'moral licensing' whereby practitioners feel as though they can abdicate responsibility for actively looking out for the interests of consumers.

In response to the question as to how we can ensure that consumers of financial products get the information that they need in an accessible way, participants agreed that there must be a zero-tolerance policy for poor judgments that result in legal or ethical violations. Participants believed it was important to build incentive systems that rewarded people for acting well. Designing effective compensation systems requires careful consideration to ensure that you don't incent the wrong things and that you are actually rewarding the behavior you want to reward. Finally, it is important to maintain processes that provide a check on the sales process, for example, implementing a suitability review process that flags sales with questionable components. Participants agreed that looking out for consumer interests was the responsibility of both the advisor and the organization.

Overall, the best strategy for protecting the interests of the client is raising the level of ethical behavior in the financial services industry. At the level of the organization, participants discussed that, while it took little to damage an ethical culture, it took considerable effort and resources to maintain an ethical culture. Some participants believed that raising the level of ethical behavior in the financial services industry would require more than work at the level of the organization and that public policy needed to be part of the solution.

EXECUTIVES' ETHICAL ISSUES

In this segment of the Forum, the executives each presented an ethical situation or problem that they had encountered in their careers.

The first issue concerned the appropriate organizational response to a situation in which the poor performance of a badly designed product threatened to undermine the reputation both of the local agents who sold this product and the company itself. The organization had to decide whether to ease the burden on these policyholders even though the organization's lawyers were convinced that all of the relevant disclosures had been made by the company at time of sale. Since the burden of this financial payment would fall on other policyholders, there was a question of the ethically appropriate way to balance all of the interests concerned.

The second issue concerned how to handle a situation in which an employee raised charges of sexual harassment against a member of the senior management team. The accused manager was already 'on the bubble' on account of his generally negative attitude and unwillingness to adapt to the culture of the organization. The dilemma was whether to investigate the accusation or to simply dismiss the senior manager, who was likely to have been separated from the organization regardless of the truth of the recent allegations.

The third issue dealt with the decision to fire two top-performing producers whose behavior towards other members of the organization was inappropriate and disrespectful. While their levels of productivity had made the office highly successful, their behavior made it an uncomfortable place to work even though they had technically not violated any legal rules. Morale among some of the other producers and among members of the office staff was very low. This was an organization that prided itself on maintaining a high level of ethical standards, but a decision to terminate these two individuals would likely lead to significant financial losses and the likely attrition of other key agents.

The final issue concerned whether an academic institution should strip designees of their ability to use the marks of their designation in response to actions that violated accepted legal and ethical standards. Designees are deeply attached to their designations, which are not only a signifier of advanced training but an excellent way to distinguish themselves in a



crowded marketplace. Designations can take years to earn and many people are not successful. Thus, stripping someone of their designation is a serious sanction. The ethical dilemma is whether this is an appropriate sanction for someone who may no longer have any formal relationship with the institution. On the other hand, there is a serious concern that, as an accredited academic institution, it has a responsibility to inform the public about the possible ethics and legal violations of its designees.

ETHICISTS' QUESTIONS

In this portion of the Forum, each of the academics posed a question to the executives.

The first question concerned the appropriateness of incentive pay for part-time employees. What principles should guide the development of a sound compensation system that rewards all employees fairly for excellent work? A second question considered how academics should respond to the sense that some of their successful business students appear to embrace a set of values that do not seem poised to lead them to a well-rounded life. A third questioner asked the executives to share how they would describe their professional lives and the contributions they make to society through their work.

A fourth questioner asked advice on how to improve the integrity of the educational and testing process at his institution. A fifth question queried the possibility of well-conceived and targeted regulation to resolve the persistent problems around various conflicts of interest within the financial services industry. A final questioner wanted to know what the right mechanism was for improving values-based decision making in the financial services industry.



Walt Woerheide listens to Mollie Painter-Morland.



“I know that there are some people who say that you should act ethically because it is the right thing to do and that you shouldn’t worry about the consequences or outcomes. But I do care about outcomes and I think ethical business leadership is a win-win deal.”

Jim Mitchell

BUILDING AND MAINTAINING AN ETHICAL CULTURE

The participants then turned to a conversation about what factors were necessary to build and maintain an ethical culture. The participants agreed that it was important to be vigilant; they shared examples of organizations that once had reputations as highly principled and ethical organizations only to see these reputations undermined by poor decision making. Participants also believed that story telling was an important tool to communicate values to people in ways that they can understand. Stories provide a vehicle to translate abstract values by applying them to examples that are clear and relatable. Participants also talked about the importance of celebrating and rewarding good behavior publically. They shared examples of how behavior in accordance with the organization’s values was recognized in their respective organizations. Finally, participants agreed that recruiting and retaining employees who shared the values of the organization was crucially important.

CONCLUSION

The executives and ethicists all agreed that the candid sharing of opinions was very helpful. They were all grateful for the opportunity to spend the day reflecting on ethical issues and learning from one another.



Julie Ragatz and Beverly Kracher consider Jim Mitchell’s point of view.



INTRODUCTION AND GOALS FOR THE DAY

The Thirteenth Annual James A. and Linda R. Mitchell Forum on Ethical Leadership in Financial Services began with Jim Mitchell asking the participants two questions: What does ethics mean to you in your organization? How do you hope to benefit from today's discussion between academics and practitioners?

Jim Mitchell shared that during his time at American Express, "We really tried to do it right. We created a place where we served customers really well, and we did that by treating employees really well. And in the process we were good citizens of the community and we made a lot of money for shareholders." He continued by pointing out that he was convinced that it was possible to be successful financially and act ethically. "I know that there are some people who say that you should act ethically because it is the right thing to do and that you shouldn't worry about the consequences or outcomes. But I do care about outcomes and I think ethical business leadership is a win-win deal."

Mitchell hoped that today's discussion would provide the chance for the executives to engage in organized reflection. "Everyone is busy and we don't always take time to reflect. It's hard to do the right thing if we don't reflect from time to time on what that is." He also hoped that the academics would leave with the sense that many business people are committed to doing business in the right way and that they would be able to take these lessons back to their students.

Jared Harris noted that his faculty role as a business ethics scholar is complemented by him also teaching the mandatory strategy course. He left a career in finance and accounting to return to academia and focus on business ethics because considerations of ethics are the issues he considered most important. In terms of what he wanted to get out of a day of dialogue, Harris said that he was looking forward to learning from the executives. "High on my list of priorities is to interact with executives and explore the connection between theory and practice. How can thinking carefully about ethics improve ethical practices in the industry?"

Jeffrey Moriarty said that he thought of ethics very broadly. "Ethics is thinking about how to live, what sort of person you should be and what sorts of actions to perform. These are broad questions that inform every part of your life. Since business is a very important part of everyone's life, you can't exempt business from an ethical discussion." In terms of what he hoped to take away from the day of conversation, Moriarty wanted to gain a better understanding of how executives think about the problems they face. "I have a sense that business leaders want to

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do the right thing, however they conceive of it. I am very interested to know what sorts of factors play into their judgments about what the right thing is.”

Chris Blunt began by telling the group that he originally joined New York Life in investment management, not in the insurance side of the business. During his time with the company, “he fell in love with it and what it stands for. It’s sort of a unique corporate structure as an old-fashioned mutual company that is owned by its policyholders. One of the things our current Chairperson said is that we are a ‘not-just-for-profit.’” He added that he never really meant to end up on the insurance side of the business, but that he began to appreciate what it was all about. “It’s a solemn business.”

He hoped to learn more about how to spread the message about the importance of ethics throughout the organization. He also wanted to learn more about how to recognize the warning signs of bad behavior. “Someone once told me that it’s the first justification that leads to disaster because then you’ve crossed a threshold. We are one gigantic scandal from setting the company back 100 years. How do you avoid that?”



Jim Mitchell shares his thoughts with the group.

Cynthia Tidwell described the fraternal structure of Royal Neighbors. “We are a not-for-profit and we use the revenue we generate towards our philanthropic projects. We need to maintain a thriving business in order to be able to give back to the community.” Tidwell noted, as a leader, she was increasingly aware that, “people are watching you all of the time. Even one offhand comment can be taken in a very negative way and percolate throughout the organization. You’ve got to be very conscious about living your values and conscious about showing your employees

how you are living your values. Because if they don’t think the values are important to you, it opens the door that those values will not be important to them.” She agreed with Blunt about the importance of avoiding the ‘slippery slope’ and wondered, “How do you make sure you’ve got the right team around you and that you are always checking up on each other?”

Walt Woerheide said that ethics were an important component to each of the programs offered by The American College. “A central part of what we do is offer designations to financial services practitioners. Certainly part of



what should qualify people to receive a designation from The American College is technical expertise, but another part is always ethics." He added that asking students to take an ethics pledge was not enough. "We hope we have educated them to function in a more ethical manner." He noted that one of his responsibilities is to write The College's investments textbook. "Keeping in mind that we want our designation holders to be more ethical, I am always looking for ways to get more ethics into the book. I am all ears for anything that helps me think of some material or a vignette I can include."

Mollie Painter-Morland reflected on how a variety of her professional positions had inspired different questions about ethical practice. "I have an interest in mainstreaming ethical concerns within organizations. How do you go beyond the ethics officer or CSR officer and into other parts of the business? How do you infuse ethics into strategy conversations?" In her professional experience, she had noticed challenges around securing buy-in from all relevant stakeholders for ethical initiatives. This was a topic she wanted to explore in today's conversation. "How should we respond when we have some people who are not committed or just don't get it?"

Painter-Morland was also looking forward to the chance to share with her students what she learned in her conversations with the executives. "I have young students with very little life experience, and it's always a challenge for me to bring in convincing narratives that would fascinate them. When I told them that I was attending this event, I could see their eyes light up, and they said, 'that's interesting, I would like to hear about that.'"

Phil Richards shared a talk he heard in which the principal message was that 'honesty pays.' "This message crystallized many things in my life. If you do what you say you are going to do, honesty will pay in dollars and cents, as well as in good feelings that we get from doing the right thing when nobody is looking." Richards also shared a quote from Roy Disney he had used in building his business, 'when your values are clear, your decisions are easy.'" We tell people that when you are in a situation where there is a disconnect, write down your values and then write down the problem next to them. And in almost every case your decision will become clear and easy." He hoped that during the course of the day's discussion he would be able to 'flesh out' these propositions that had been helpful to him in the past in running an ethical practice. "You can't take quotations like these and develop an entire philosophy of life, but it has worked to help me make decisions and give direction to others. I'd like to get

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at the essence of what these quotations are trying to say and how they can be applied.”

Laurence Barton recounted that when he was being interviewed for the position of President and CEO of The American College, Jim Mitchell served on the selection committee and asked him a series of questions about ethics. “And that was very important. When you walk in as a candidate, you’re expecting all kinds of business issues and questions about curriculum and assessment. That told me a lot about The American College and its unique focus on ethics.”

Barton shared that much of his academic work and consulting work is in the field of crisis management. He has worked with both the federal government and in the private sector. “And the questions are always the same, ‘why do horrible things happen to great organizations and why do very good people end up making simply ridiculous decisions?’”

He shared The College was expanding its educational programs to include a PhD program and that this program, like all of the courses of study at The American College, will include an ethics component. “Like Walt said, ethics is essential to all of our students. It is just as true for the new financial advisor as it is for the experts that earn our advanced degrees.”

Aine Donovan said that, in addition to directing an ethics institute at Dartmouth College, she also teaches in the MBA program, and many of her

“No one goes to business school to study Kant. What they really want to know is what to do when a crisis happens. How am I going to respond when I know, in my gut, that this action is wrong?”

Aine Donovan



Chris Blunt pays attention to Cynthia Tidwell's comments.



graduates head for jobs on Wall Street or in other parts of the financial services industry. Many of her students, even though they enjoyed her class, viewed ethics as kind of an ‘add-on’ or something not really connected to the knowledge they were gaining in the MBA program. “But I keep telling them that ethics is the essence of what you’re doing... It is central to the business model.” Donovan emphasized the importance of business ethics education to prepare people for the sorts of situations they will confront in the business world. “No one goes to business school to study Kant. What they really want to know is what to do when a crisis happens? How am I going to respond when I know, in my gut, that this action is wrong? We need to take all of our philosophical knowledge and make it accessible and relevant for our students.”

Beverly Kracher recounted that when Creighton University offered her a job in the College of Business she hesitated because she had grown up as a philosopher in a college of arts and science. “The decision to teach in the business college was the best professional decision I ever made, because I have been able to bridge the gap between arts and sciences and business, which I think is important.”

Kracher also leads the Business Ethics Alliance, a not-for-profit that is a partnership between the Omaha business community, the Greater Omaha Chamber of Commerce, the Better Business Bureau and Creighton’s College of Business. “We’re succeeding in developing a city-level initiative where leaders from small, medium and large organizations come together to grapple with business ethics issues. I have found, in the work I have done with executives, that many of them feel isolated, and we are trying to break that isolation.” For Kracher, ethics means engagement, “and engagement in the most exciting, interesting and passionate way possible. I want to learn from all of you and I hope to share some of the stories that I know about business and ethics in the Omaha community as well.”

Julie Ragatz was delighted to participate in another Forum on Ethical Leadership. “You’ve already heard from all three of the people that I consider by bosses—Larry, Walt and Jim—about the importance of ethics at The American College. It is wonderful to work in an environment in which the leadership is so firmly and publically committed to raising the level of ethical behavior in the financial services industry.” She looked forward to the day’s discussion since, “I know that excitement that comes when academics and executives realize that they truly share similar goals, even though they may speak a slightly different language.”



CASE STUDY: THE IMPACT OF PROLONGED LOW INTEREST RATES

"Larry!" Scott called to the friend and financial planning client he spotted entering the coffee shop. "Over here!"

Larry walked over to where Scott stood holding two cups of coffee. "I'm sorry I missed Henry's party yesterday afternoon," he said apologetically as they sat down. "Something came up at the office. Jen mentioned that you guys had quite a crowd."

Scott smiled ruefully. "I'm not sure when graduating from middle school started warranting extravagant parties. But all of the other kids were having them and Lauren thought we couldn't leave Henry out. And the kid made quite a haul in terms of presents. He is over the moon. And all for passing the eighth grade."

Larry laughed. "You know, I think it all balances out in the end, but it seems that I am writing checks for every possible life event these days."

"You'll get a kick out of this," Scott said. "The money starting rolling in as soon as the invitations went out and so like the good father that I am, I sat down with Henry and said, 'you really should put this in a savings account or a money market fund, where it can earn interest and grow.'"

"I can't imagine that's advice you give out to many of your clients these days!" Larry joked.

"No," Scott agreed, chuckling, "it's not. But Henry, he's a pretty smart kid and he wanted to know how much interest he would earn on his hundred dollars before he would commit to doing anything."

"The country could use more people like Henry," Larry commented. "What did you tell him?"

"Well, I skirted over that part and told him I would match whatever he put in the account," Scott smiled. "That seemed to do it."

"Where can I get a deal like that?" Larry joked.

"You've got to be very conscious about living your values and conscious about showing your employees how you are living your values. Because if they don't think the values are important to you, it opens the door that those values will not be important to them."

Cynthia Tidwell



"If I can find it," Scott assured, "you'll be the first to know. Investment management companies are subsidizing their money-market funds just to keep the yields from going negative. And the banks aren't making much money on savings accounts either, even with the super low rates they credit these days."

"Seriously," Larry asked, "what do you tell people to do with their money these days? I'm not a financial guy, but with these interest rates, it doesn't seem like there are many good options."

"It's tough," Scott agreed. "Is your boss, the Congresswoman, hearing much about the low interest rates from her constituents?"

"She is," Larry confirmed. "Not that there is much a Congresswoman from New Hampshire can do about it. It's all because of the Federal Reserve pumping huge amounts of money into the system, but people don't understand that. And I don't blame them. Their elected officials are supposed to be able to provide solutions. It's the older folks, the ones who are living on fixed incomes, who are really hurting. A lot of them are worried about their pensions, too. They call, they write letters. But you're the money guy. What do you tell people?"

"People on fixed incomes?" Scott asked. "There aren't many good options. They need to cut spending or find more income. Hopefully, they can cobble together some combination of both. They can invest in riskier assets, but most of my clients that age are pretty risk adverse and concerned about losing principal. You'll get



Phil Richards and Leah Selekmán listen to Larry Barton.

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a couple who get really aggressive, but that's a dangerous path. If it all goes wrong, there isn't enough time to build it back up."

"You know," Larry mused, "I read an article in the paper that I meant to ask you about. It was about an insurance company that told people they couldn't continue to contribute money to their annuities anymore. Did you see it?"

"I did," Scott confirmed. "The product was designed such that it was guaranteed to grow at a rate of something like 7% of the highest balance. So if the balance hit \$100,000, it would grow 7% a year from there. If it hit \$110,000, it would grow from there."

"That sounds like a pretty sweet deal," Larry commented. "It's a little like your matching deal with Henry."

"In that there seem to be unlimited liabilities, you're right." Scott chuckled. "I hadn't thought about that. I should be more careful of the promises I make."

"So should that company, too, apparently." Larry noted.

"The problem was that it was too good to be true. Well, actually, it was too good to be true in a low interest rate environment," Scott corrected. "They couldn't afford it anymore. It was unsustainable. But," Scott predicted, "they



Kelly Moriarty greets Pat Woerheide and Leah Selekman at the closing reception.



are not the only company who will find themselves in a pickle. They were just the first. The life insurance industry could be hit hard by these low interest rates. I think that some of them will find that they made promises it will be hard to keep." He paused, "But they will survive, albeit with tighter margins, because the vast majority of companies are sound. The regulators demand that."

"But is that legal?" Larry asked. "Can they just change the rules like that?"

"Yep," Scott smiled. "It was on something like page 66 of the Prospectus. But that is not very satisfying to people who had planned to invest more money in those annuities."

"What you guys can get away with is pretty amazing," Larry shook his head in disbelief. "You know that no one reads those things."

"Hey," Scott protested. "A good financial advisor would have explained all of this to the client at the outset. It was a good deal while it worked. But I agree, it certainly doesn't look very good right now."

"What do you think is going to happen with the interest rates?" Larry asked curiously.

"I think that Bernanke has been pretty clear that there will not be much movement upwards until 2014. The economy seems to be dependent on this cheap money to build homes, start businesses and refinance debt. Not to mention that it helps to manage the interest on the federal debt." Scott sighed. "I think it's probably helping, but at a cost. And the cost is the people who are calling the Congresswoman's office looking for answers."

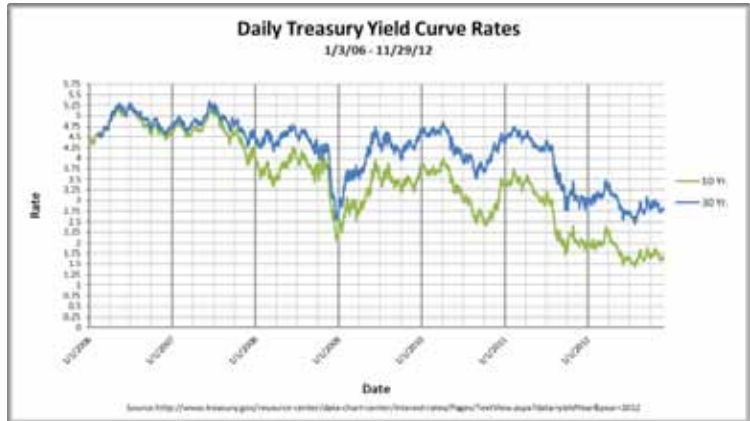
"And not finding any," Larry looked up at his friend. "We should have all started saving for retirement when we were Henry's age."



NOTES

THE LOW INTEREST RATE ENVIRONMENT

Sustained Low Interest Rates have a severe impact on a variety of Financial Services companies.



The current sustained period of historically low interest rates puts pressures on a variety of Financial Services firms. These include money-market mutual funds, bond funds, life insurance companies, pension funds and banks. We will examine each of these in turn.

MONEY-MARKET MUTUAL FUNDS

Money-market funds hold \$2.6 trillion, but investors have steadily pulled money out of them because of the tiny yields they offer in the current low interest rate environment.¹ Since 2009, returns on money-market funds have averaged less than 0.10% a year. Several large banks have closed their European funds to new investors. Several mutual fund firms have been waiving fees on money-market funds so that client yields do not turn negative.² Since 2007, the amount of fees waived at money-market funds has increased 272% to \$5.2 billion in 2011. At the same time, fees collected have sunk about 65%.³ Firms are forced to take this step since, in many cases, money-market funds invest in assets whose returns are less than the stated fees.⁴

¹ Popper, Nathaniel, "Mutual Fund Lenders Aim to End Jam Over Rules" *The New York Times*. October 26, 2012.

² Philbin, Brett, "Charles Schwab Profit Rises 12%" *The Wall Street Journal*. October 15, 2012.

³ Grind, Kirsten, "Why Are Fund Companies Waiving Fees?" *The Wall Street Journal*. March 20, 2012.

⁴ Seymour, Dan, "Low Yields Prompt Money Market Funds to Keep Waiving" *The Bond Buyer*. November 1, 2010.



Most investors view money-market funds as essentially risk-free investments, but this is not the case. During the 2008 financial crisis the shares of one prominent fund fell below \$1 and 'broke the buck'. This led to a dramatic increase in redemptions, which was only mitigated when the federal government intervened and guaranteed the funds.

BOND MUTUAL FUNDS

Bond funds are the most popular category of mutual funds and have attracted net inflows of \$204 billion in 2012 as of August 31.

Research indicates that bond funds have been taking more risk in the current low interest rate environment. The 'tracking error' (the term that Morningstar uses to describe a fund's divergence from its benchmark) has increased to 2.196% as of August 31 compared with 1.951% at the same time last year (2011).⁵

Deviating from the benchmark indices is a way of trying to improve fund performance by investing in riskier assets (high-yield corporate bonds, mortgage-backed securities and emerging market debt), while measuring fund performance against benchmarks composed of safer assets.⁶

The risk, of course, is that these funds could be at risk of steep losses if the market turns. And investors in bond funds, usually seeking safety, may not be aware of these increased risks. "Fund prospectuses typically warn investors that managers reserve the right to invest outside of their benchmarks as conditions warrant. At the same time, in marketing materials, funds often compare themselves against their benchmarks as evidence of strong performance."⁷


LIFE INSURANCE AND ANNUITIES

Life insurance companies are subject to inherent interest rate risk. Life insurance companies usually derive the bulk of their profits from the difference between the earnings generated by their investment portfolios and what they credit as interest on their policies. In a sustained low interest rate environment, they need to decrease the interest rates they credit to annuity and life insurance policyholders, and their profits are squeezed.

⁵ Grind, Kirsten, "Bond Funds Get Aggressive; More Funds Stray From Their 'Benchmarks'" *The Wall Street Journal*. September 28, 2012.

⁶ Grind, Kirsten, "Funds Leap Beyond Their 'Benchmarks'" *The Wall Street Journal*. September 20, 2012.

⁷ Grind, "Funds Leap Beyond Their 'Benchmarks'".



The Wall Street Journal of November 1, 2012, reported, as an example, that MetLife “swung to a third-quarter loss as the life insurer recorded a hefty impairment charge to reflect the damage being done to insurers’ annuity business by ultralow interest rates.”⁸

Life insurance policies, too, are affected. *The Wall Street Journal* of November 17, 2012, states, “In the next few years, millions of savers are in for a surprise. . . . Universal-life insurance policies bought years ago when interest rates were high will face cancellation if policyholders don’t pay more. If interest rates stay low, many policyholders will face the unhappy choice of kicking in more money, accepting a lower death benefit or walking away, possibly sacrificing years of premiums they already paid.”⁹

Life insurance and annuity products typically come with minimum interest rate guarantees that continue for the life of the policy, which could be over 30 years. “Considering that a number of these products were written at a time when the economic outlook appeared dramatically different, life insurers are facing a potential mismatch between their assets and liabilities.”¹⁰

A report by Ernst and Young in 2011 predicts that, if the current low interest rates continue, over the next three years, book yields in the industry could decline by approximately 50 basis points for life insurers and 30 basis points for property/casualty companies.¹¹

⁸ Scism, Leslie, “MetLife’s Big Annuity Charge Linked to Regulatory Concern.” *The Wall Street Journal*. November 1, 2012.

⁹ Scism, Leslie and Light, Joe, “Draining Away!” *The Wall Street Journal*. November 17, 2012.

¹⁰ Bruning, Larry, Hall, Shanique and Karapiperis, Dimitris, “Low Interest Rates and the Implications on Life Insurers” NAIC Center & The Center for Insurance Policy and Research (April 2012) p. 3. (hereafter NAIC Report)

¹¹ French, Doug, de Hann, Richard, Luck, Robb and Mosbo, Justin, “The Impact of Prolonged Low Interest Rates on the Insurance Industry” Ernst & Young Financial Services (October 2011) p. 3. (hereafter E&Y Report)



How Insurers Can Mitigate Low Interest Rate Risk:¹²

In-Force Management	Reduce interest-crediting rates and policyholder dividends, limit premium dump-ins and adjust premiums, change the product structure or alter commission structure
Re-Price Products	Change price structure to reflect current investment environment
Change Product Mix	Focus sales efforts on products that are not heavily dependent on investment income
Cash Flow Management	Use cash inflows to pay cash outflows
Increase Asset Duration	Invest in longer-term assets
Increase Allocation to Risky Assets	Increasing investments in lower-credit quality assets or in alternative asset classes*

Many insurance companies have taken one or a combination of these steps, including limiting the amount of new annuity business they will write or exiting the market altogether. Prolonged low interest rates, though, will put additional pressure on reserves and capital. Fortunately, the credit quality of most insurers' investment portfolios remains high.

*The NAIC Capital Markets Bureau warns that this strategy can lead to material losses. According to its analysis of the changes in asset mix from year-end 2010 to year-end 2011, it found significant dollar increases in structured securities and investments in commercial real estate, either through mortgage loans or equity. "In the case of structured securities, the increase is largely attributable to additional investments in agency-backed Residential Mortgage Backed Securities (RMBS), which are effectively supported by the Federal government. In the case of commercial real estate investments, growth was higher than overall growth in invested assets. However, the increase as a percent of invested assets

¹² E&Y Report, p. 6.

was modest and the current percentage remains below the recent high in this category in 2008.¹³

PENSION FUNDS

Low interest rates hurt pension funds in two ways:

[1] Low interest rates limit investment returns.

[2] Since companies calculate the present value of their future pension liabilities using a so-called discount rate based on corporate-bond rates, a lower rate means higher liabilities.¹⁴

Corporate Pension Funds

A 2012 report by the research division of Credit Suisse estimated that the median plan of S&P 500 companies was only 72% funded at the end of 2011. Moreover, they estimate that 97% of the S&P 500 companies' pension plans are underfunded.¹⁵ Most experts attribute the shortfall to persistently low interest rates. Michael Moran, Goldman Sachs Asset Management pension strategist, argues that the problem is not the result of poor market performance. "Asset returns have actually been quite good: 2012 is on track to be the third year out of the last four when corporate [pension] plans in aggregate will have higher actual returns than their expected returns."¹⁶

Underfunded corporate pension plans can cause a variety of problems such as (1) lower earnings from higher pension costs, (2) hits to the balance sheet on account of larger pension liabilities, (3) a drain on cash due to increased pension contributions, and (4) in theory a drop in share price, since the pension plan has a larger claim on the company which leaves less for shareholders.¹⁷

¹³ NAIC Report, p. 6.

¹⁴ Monda, Vival, "Dealing with the Pension Deficit" *The Wall Street Journal*. November 12, 2012.

¹⁵ Zion, David, Varshney, Amit and Burnap, Nichole, "Pensions Punished" *Credit Suisse Equity Research Report*. January 10, 2012. (hereafter *Credit Suisse Report*)

¹⁶ Monda, "Dealing with the Pension Deficit". The quotation refers to the 2012 Pension Funding Study by Milliman that presents expected versus actual investment return for 2009 (8.1% v. 13.9%), 2010 (8.0% v. 12.8%) and 2011 (7.8% v. 5.9%).

Please see Ehrhardt, John, Perry, Alan and Wadia, Zorast, "Decline in Discount Rates Drives Pension Plans to Record Deficits in 2011" *Milliman 2012 Pension Funding Study*. March 2012.

¹⁷ *Credit Suisse Report*, p. 2.



Federal Pension Funds

Federal Government Employees are covered by the Federal Employees Retirement System (FERS) annuity, which ‘tops up’ their Social Security. FERS is also suffering from rising costs, although there is little danger that the federal government would be unable to meet its obligations. Interestingly, FERS was a reform to control the deficits being accrued by the old civil service retirement system. According to Michael Sivy, “although hefty government contributions have kept FERS in balance for current employees, the unfunded liability for employees still covered by the old system totals more than \$630 billion.”¹⁸

State and Local Pension Funds

In fiscal year 2010, the gap between states’ assets and their obligations for public sector retirement benefits was \$1.38 trillion. Of that figure, \$757 billion was for pension promises, and \$627 billion was for retiree health care.¹⁹

It is clear that many states are trying to respond to the impending crisis: 31 states have reduced benefits for new hires, 26 have required higher contributions from workers and nine have reduced cost of living adjustments for retirees. “Nonetheless, a huge unfunded liability remains. Boston College calculates that such cuts have reduced a \$900 billion shortfall by only \$100 billion.”²⁰

Local pension funds are seriously underfunded, a fact which is starting to attract more national attention.²¹ An analysis by researchers at the University of Rochester and Northwestern’s Kellogg School of Management finds that public pension plans for the 50 largest cities are underfunded by \$382 billion, which factors out to about \$14,000 for every household in those cities.²²

BANKS

Initially, low interest rates provided a boost for the banking industry because they could borrow money cheaply and reduce the rates paid to depositors while

¹⁸ Sivy, Michael, “How Bad is America’s Pension Funding Problem?” *Time Magazine*. September 26, 2012.

¹⁹ The Pew Center on States. Issue Report, “The Widening Gap” (June 2012).

²⁰ Sivy, “How Bad is America’s Pension Funding Problem?” For more information, please see Munnell, Alicia H. et al. “The Funding of State and Local Pensions: 2011-2015” Center for Retirement Research at Boston College (24). May 2012.

²¹ For an in-depth look at the current crisis in state and local pension funds, please see Dye, Richard F. and Gordon, Tracy H., “Pension Legacy Costs and Local Government Finances” *Land Lines*. Lincoln Institute of Land Policy (October 2012).

²² Farnham, Alan, “Public Pensions Face Underfunding Crisis” *ABC News (Online)* December 4, 2012.

still collecting interest on existing loans made at higher rates. However, as the older loans matured, banks were forced to make new loans at the lower rates.²³

According to research by Philips and Campbell, net interest margin fell during the third quarter of 2012 at 79% of all of banks tracked by investment bank Keefe, Bruyette & Woods. The average margin for the industry's largest banks, at 3.12%, is the lowest since the second quarter of 2009 and has been dropping since the third quarter of 2011.²⁴

A bright spot is that low rates are encouraging a surge in mortgage refinancing. This trend is particularly benefiting J.P Morgan Chase & Co. and Wells Fargo & Co., which together control roughly 44% of the mortgage market.²⁵

Banks have responded to increased pressure on their profit margins in several ways, including: (1) laying off employees and reducing the compensation for others, (2) increasing consumer fees, especially those on deposit accounts, and (3) cutting back their debit-card reward programs.²⁶

But these strategies come with drawbacks. In particular, increasing income from fees risks drawing the attention and ire of the Consumer Protection Agency, which has prioritized the reduction and transparency of fees. A broader societal concern is that the higher costs for banking services may limit the access of more Americans to the financial system, driving them to high-cost 'payday' lenders.

²³ Philips, Matthew and Dakin Campbell, "The Hidden Burden of Ultra-Low Interest Rates" *Business Week*. February 2, 2012.

²⁴ Philips and Campbell, "The Hidden Burden of Ultra-Low Interest Rates".

²⁵ Fitzpatrick, Dan, "Low Rates Pummel Banks; Borrowers Benefit, but Industry Lending Profits Hit Lowest Level in Three Years." *The Wall Street Journal*. Oct. 23 2012.

²⁶ Philips and Campbell, "The Hidden Burden of Ultra-Low Interest Rates".



QUESTIONS

- (1) This case raises the issue of “meaningful disclosure” to clients at point-of-sale. The trend in financial services for several decades seems to be that more disclosure is better. For example, one popular money-market mutual fund—a relatively simple product—is sold with an 80-page prospectus. (There is also a summary prospectus that is six pages long.) What has brought us to this point?
- (2) If we started from scratch, what would “meaningful disclosure” actually look like for a money-market mutual fund? How might we achieve that goal?
- (3) What disclosure would be “meaningful” for a considerably more complex product like a variable annuity? (A typical variable annuity prospectus is 140 pages. The so-called summary prospectus is 95 pages.)
- (4) What are the responsibilities of the sales representative and the financial services company, if any, to ensure that the client understands the terms of the product? For example, how can investment management companies be sure that bond mutual fund investors understand the risks they are assuming?
- (5) What are the ethical considerations involved in the decision of a money management firm about whether to subsidize the yield on a money-market fund? What are the marketing considerations?
- (6) In the case, Larry indicates that there is something disingenuous about the insurance company’s exercising its legal option to prevent clients from depositing additional money into their existing annuity contracts. In your view, what conditions need to be met for a company to be ethically justified in exercising this option?
- (7) Critics have argued that certain products (like the one described in the case) were sold to clients by representatives who did not explain the risks that the product might, under certain circumstances, not perform as expected. What is the responsibility of the financial services company, if any, in these cases?

Perspectives on Ethical Leadership

- (8) Pension funds have suffered in the climate of low interest rates. Several states and communities are dealing with the difficult choice of determining how to fulfill the pension promises that were made with rosier projections in flusher times. What stakeholders should communities take into account when making these decisions? How should these interests be weighed?
- (9) The “Notes” section of this case describes the impact of low interest rates on several sectors of the financial services industry. What are the ramifications for the long-term health of the economy? What could the industry, legislators and regulators, and/or the public be doing differently to achieve a better outcome?



Larry Barton talks with Gretchen Nickel and Chris Blunt at the closing reception.



CASE DISCUSSION

WHAT IS MEANINGFUL DISCLOSURE?

Julie Ragatz began by asking the participants to define meaningful disclosure. “What does meaningful disclosure look like in practice? How do we know when the standard set by meaningful disclosure has been met?”

Jared Harris thought that the important question is what we’re trying to accomplish with disclosure. “In the 1990s there was a hue and cry over executive compensation. The assumption was that if the public knew what these executives were being paid, it would shame compensation committees into offering and leaders into accepting smaller pay packages. The SEC waded in and passed regulations that required just that sort of transparency. It didn’t work.”

Chris Blunt pointed out that the regulation had precisely the opposite effect. “Now every company goes to their board and says ‘well, we’re top quartile performers, so let’s use benchmarks against the 75th percentile compensation’. All you’ve done is you’ve moved the median. No one is going to say, ‘We should benchmark against average because we’re average’.”

Aine Donovan thought the inclusion of the term ‘meaningful’ pointed to the difference between law and ethics. “The disclosure covers your legal obligations, but meaningful is fraught with complexity. What does that mean? Does it mean that the client actually was aware of what that prospectus states and could use that information to make an informed decision?”

Harris thought that the emphasis on disclosure was not motivated solely by the desire to inform the client. “Maybe what we hope to accomplish with disclosure is to absolve ourselves of something. It provides a sort of escape valve for moral culpability. Instead of taking responsibility we can say, ‘hey, we disclosed that.’”

Beverly Kracher wondered if part of the problem was the fact that products have become so complicated that they require such lengthy prospectuses. “And what does that say about our culture that we have created products that are so difficult for people to understand?”

IS DISCLOSURE ENOUGH?

Mollie Painter-Morland did not think disclosure was enough if practitioners in the financial services industry identified themselves as professionals. “If you really look at the assumption behind meaningful disclosure it is that transparency fixes everything. I don’t think that that is true.” Painter-Morland believed that the value that should drive client interactions is not disclosure but care. “That’s different from saying, ‘Well, I told you, so you’re own your own now.’”



“We’ve been assuming that people can rationally make decisions and they simply need all of the right information and the ability to understand that information, but it turns out it is more complicated than that.”

Jared Harris

Phil Richards pointed out a question on the list that accompanied the case. ‘How can investment management companies be sure that bond mutual fund investors understand the risks that they are assuming?’ “Here’s the elephant in the room. I have a degree in economics and I can’t answer that question. There are so many myriad risks associated with a bond mutual fund.”

Jared Harris agreed with Painter-Morland that transparency is not necessarily sufficient for people to make good decisions. “We’ve been assuming that people can rationally make decisions and they simply need all the right information and the ability to understand that information, but it turns out that it is more complicated than that.” He mentioned an interesting experiment about popcorn consumption that was done at Cornell. “They wanted to test what factors drove people to eat more popcorn; did it matter if the popcorn tasted better or worse? Did it matter if people were hungry or full when they began eating? They tested all of the factors that you would think might make a difference when determining how much popcorn people would eat and they came up with this totally counterintuitive result that it was the size of the container. And there’s no rational explanation for it. It’s a behavioral thing.”

Aine Donovan believed that it was important for the consumer to take responsibility. “During the mortgage crisis you had people who made \$40,000 a year buying half million dollar homes. They probably were sold a bill of goods about how much the market was going to appreciate, but we need to be very careful about letting the consumer completely off the hook.” She believed that part of the problem came down to a lack of financial literacy. “Kids don’t even understand basic things like compound interest. They don’t understand that this pair of boots that I am buying today on a credit card may cost multiples of what the price was when I get through paying interest.”

Painter-Morland suggested that the role of authority plays a part in consumers abdicating responsibility. “I think that sometimes people think that the more complex that something is, the better it must be and the smarter the expert is who is advising me about this complicated product. The flawed assumption is: ‘It must be good if I can’t understand it.’”



Larry Barton agreed with Donovan that financial literacy is a huge part of the equation. “The literacy rate for a client in the financial industry right now is at the 7th grade level. When you look at the census from two years ago, for 1 in 5 Americans, English is their second language. So an 80-page disclosure is already daunting but imagine trying to read that if you read at the 7th grade level. We’re just not talking enough about that.”

SERVING THE CLIENT

Jim Mitchell asked the executives, “How do you help your clients get the understanding that you want them to have of a particular product?”

Chris Blunt responded that it was all about training. “We say to our agents, ‘what would you want your mom to know over and above what’s in the brochure?’ And the agents will say, ‘Oh, well, if it’s my mom . . .’ It is your mom. Pretend every client is your mom. But you also have to be diligent about rooting out bad behavior. There needs to be a zero tolerance policy. As an industry we are continuing to work on this.”

Phil Richards agreed that there had to be zero tolerance. “There was a woman that I hired off a college campus 25 years ago. She had a wonderful career and was very successful. She was also a woman of excellent character. One day her client asked her to sign his name on a disability form rather than having her drive 40 miles to get the signature herself. She did it and got caught. One mistake in a career of 25 years and our broker dealer said, ‘She’s got to go. We could forgive her this one mistake, but if we do, we’re on the hook for anything else she ever does wrong.’ That’s zero tolerance. Compliance in the insurance industry isn’t a voluntary thing. It’s a survival thing.”

Blunt agreed that one of the most difficult parts of the job was firing someone for an infraction when you believed in your heart that they were a good person. “But the problem is that if you don’t do anything the first time, what happens the next time? If something else happens, it will come out that you knew about the first infraction and had evidence that this person will willing to bend the rules.”

Cynthia Tidwell noted that the nature of Royal Neighbors is different from that of other companies because they solely rely on independent agents and also because they have a relatively simple product portfolio. But Royal Neighbors takes seriously its obligations to make sure that the independent agents are

Perspectives on Ethical Leadership



‘The people in this room understand that the value of care should guide your decisions, but the industry is not only composed of people in this room. There are too many abuses. How do we change that?’

Mollie Painter-Morland

doing the right thing. “We do a lot of suitability reviews in our underwriting area, both for annuities and also for life insurance. For example, if a client makes \$50,000 a year, and yet has applied for a million dollar policy, we go back to the agent and ask about that.”

Tidwell also noted that the design of the compensation system was important. “You really have to know what you’re dealing with in terms of the intended and unintended consequences you can get from your incentive system. We’ve tried to set up some internal policies to prevent people from exploiting the incentives at the expense of the client. If you can remove the improper incentive, that can go a long way.”

THE FIDUCIARY STANDARD

Jeff Moriarty wondered how far the obligation to meaningfully disclose should go. “One of the things your mother might like to know is whether or not some other companies offer a better product than your company offers. If I am buying a product, one of the things that I might like to know is whether your competitor sells the very same thing at a cheaper price. How far do you need to go to meet your obligations to your client? What about your obligations to the company or to yourself?”

Chris Blunt thought that this question gets at the heart of the issue over the fiduciary standard. “If the fiduciary standard is interpreted as always recommending the cheapest product, there will be some good companies



Jeffrey Moriarty listens to Jared Harris.



Mike Norton talks with Jerry Stegeman and Linda Mitchell.

that will simply go out of business. Companies that invest more conservatively, who provide higher levels of service, and support their sales force with more training will produce products that may be more expensive in some cases. It depends on how you define value.”

Larry Barton offered that there are aspects of the fiduciary standard that do not seem to be noticed but have the potential to cause tremendous problems. While everyone recognizes that financial advisors are offering advice, “do human resources advisors have a fiduciary obligation? Even if they offer some sort of advice, like ‘this fund may be better for you based on your age bracket’, that person is engaging in a fiduciary conversation.”

RAISING THE LEVEL OF ETHICAL BEHAVIOR IN THE INDUSTRY

Mollie Painter-Morland wondered how to spread the message to people who were not in the room. “The people in this room understand that the value of care should guide your decisions, but the industry is not only composed of people in this room. There are too many abuses. How do we change that?”

Larry Barton did not think we would make any headway in raising the level of ethical behavior in the financial services industry as a whole without a change in public policy. “There are companies, and I know because I’m in the room during some of these conversations, who lead with the incentives, with the cruise trips

and bonuses, rather than leading from the proposition that we can create value for the customer. It doesn't make sense to pretend that it is otherwise."

Aine Donovan agreed that it was a difficult proposition to build an ethical culture. "It's much easier to have a negative culture that is driven solely by profit. Social psychological research establishes that a good person infecting an organization is a very slow bake. The bad person is a really quick cancer that spreads through an organization."

Chris Blunt offered that a question he was constantly thinking about was, "Who do you serve and can you articulate that?" The trick is that the answer to that question is never that clear. There are always multiple constituencies when you're running a large organization. But if you don't have an answer, it is impossible to make decisions that reflect your values."

Jeff Moriarty pointed out that the problem Blunt was referring to was a general problem. "Everyone has got various obligations in their lives, whether to their family, religious organizations or some other group to which they belong. They're always trying to balance different obligations and objectives. The problem is a real problem, but it's also totally general."

"Who do you serve and can you articulate that? The trick is that the answer to that question is never that clear. But if you don't have an answer, it is impossible to make decisions that reflect your values."

Chris Blunt



Beverly Kracher considers Aine Donovan's remarks.



EXECUTIVE CASES

CASE #1

At the heart of this case was a life insurance contract that had been designed more than 20 years ago. One of the interesting things about the life insurance business is that you get something wrong; the results hang around for a long time. The product was marketed during a time of very high interest rates. It was designed in such a way that the client would pay lower premiums for 15 years, the time when you assume that they are building up their income and assets. The premiums would jump after year 15 with the assumption that clients have grown their wealth and are now in a better position to pay more towards the policy. Also, people assumed that since the interest rates were high, the cash value build up would help to offset the higher premiums.

Of course, interest rates did not continue to stay up over that 15-year period; instead, they plummeted. People's incomes did not always increase in line with the assumptions and many clients were going to face a gigantic increase in their premiums. Some of our largest agents had sold a lot of these contracts to influential people in their communities and these clients were angry. The clients were saying, 'Well, you disclosed everything, but you're smarter about this than I am and you should have known that this wasn't going to play out that way.' But when we have our attorneys look over the original contract, they say that the disclosures were perfectly clear and they cannot see a legitimate legal exposure, which is notable since attorneys as a rule are a pretty conservative bunch.

The dilemma was whether the company should make an adjustment to their dividend scale that would significantly ease the pain of the premium jump. This would cost somewhere around \$35 million, which means that the Company's profits after dividends would be reduced by that amount. To put this in perspective, that year we made dividend payments of \$1.3 billion. \$35 million is certainly not an irrelevant sum, but it would have only a slight impact on our contribution to surplus that year.

There were multiple constituencies involved in this case. The agents were feeling like their reputations could be seriously undermined in their community if the company didn't make this right. We always say that our agents are our brand ambassadors. Most people never interact with me or with any member of senior management. Their view of the organization is the local agent. If they think of him or her as a good person, then they think highly of us.



“In finance, we focus on the ratios, the profitability, the things that you can measure and we don’t always pick up on everything else.”

Walt Woerheide

But at the same time, as a mutual, we are owned by our policyholders and a lot of people were taking losses as a result of the low interest rates. If you write a check and make this subgroup happy, then you’re not taking the money from shareholders or from the managerial bonus pool, you’re taking that money from the surplus that supports our long-term obligations to all of your policyholders. In terms of the employees, there is a feeling around the home office, including the actuaries, that the top agents seem to be able to get whatever they want from senior management. Some of the actuaries were adamant that all of this was disclosed; this was an interest rate problem and did not deserve special treatment. I was a newer leader and you’re always concerned about the appearance of bending to the demands of the larger producers. You want people to believe that you’re going to do the right thing for the organization, regardless of the pressure any group is placing on you.

And you’ve got the media. It is certainly possible that one of these disgruntled policyholders could go to the media and talk about what a terrible organization this is to sell him a product that from his or her point of view went so wrong. Finally, the regulators are involved since they need to sign off on any sort of remuneration. The laws are such that there needs to be a distinct class and a rationale for why you’re treating one class differently than another class. You can’t just, for example, make whole the people who are complaining the loudest.

There were three things that helped me make the decision, although I should be clear that this was not entirely my decision to make. I would make a



Beverly Kracher, Aine Donovan, Leah Selekman, and Phil Richards listen to Larry Barton's comments.



recommendation, but then it would have to be supported by top management. The first thing was this guy who we called, "Mr. Mutuality". He was the one you could talk to about what it meant to be a mutual and how that should impact your decisions. The second was "The Wall Street Journal test"; how would you feel if the public knew about this situation and your response to it. The last one is what I call the "portraits test". In our conference room, we have the portraits of the past presidents of the organization. You can feel them looking at you, skeptically, like they are thinking, "Don't mess this up, Skippy."

We decided to write the check. Part of the reasoning was that the product design was one we would not promote today, because we understand more about the impact of the assumptions that were built in. If we were issuing that product now, with the more sophisticated statistical tools we use, we would have understood the issues better and addressed them. In terms of the \$35 million we were drawing from surplus, it is impossible to put a value on your brand doing the right thing, but I am confident it is worth more than \$35 million for our company and our top agents to be viewed as doing the right thing.

Jim Mitchell noted that there was a reasonable explanation to offer to the disgruntled actuaries. "This was a bad product design and, by the way, please don't ever bring me another one of these."

Walt Woerheide shared that he had done some research on the difference between mutuals and stock companies. "And all the research was very consistent. Mutuals engage in expense preference behavior; that is, they are inclined to spend more on offices and employee benefits than stock companies. And yet as I listen to the story about this organization, it strikes me that this is the sort of decision I would expect from mutuals rather than stock companies. In finance, we focus on the ratios, the profitability, the things that you can measure and we don't always pick up on everything else."

Jeff Moriarty wondered whether this was a decision that every company should have made. "In other words, did the decision seem universally right, which implies that any company in this situation should have made the same decision or was it specific to the values of this particular organization?"

Chris Blunt did not think that most stockholder-owned companies would have had the same opportunities. "I doubt that many public companies would have come to the same conclusion, not because they're morally inferior, but it is a

very difficult decision, as a company accountable to shareholders, to go to the Board and say that you need to write a \$35 million check because it is the right thing to do, even when your own lawyers are saying that it is unnecessary.”

CASE #2

My story begins with a CEO, Senior Executive, the Chair of the Board and a human resources executive. The Senior Executive was hired by the CEO and he was a real hard charger with an impressive corporate background. He was always the smartest guy in the room and he wanted you to know that. He was very bright, but very difficult to work with and not a very good team player. The CEO tried to coach him as to how to better adapt to the culture and about the effect of his attitude and approach on other employees.

When this coaching was not effective, the CEO turned to the human resources executive to determine the possible paths to exit the Senior Executive from the organization. It was during the course of this conversation that this human resources executive informed the CEO that the Senior Executive had sexually harassed her about a year ago.

As soon as the words came out of human resources executive’s mouth, the CEO could tell she wanted to take them back. She did not want an investigation and believed that she had ‘shut down’ the situation on her own, which is why she did not bring it up in the first place. But, of course, if someone makes a claim of sexual harassment to a senior officer of the organization, it is impossible to pretend that it did not happen. While the CEO didn’t think that the human resources representative had any reason to lie, her credibility was certainly damaged by not disclosing until this point. If anyone should know better the importance of immediate disclosure, it would be the human resources executive.

Another issue in the background is that the organization was recovering from the negative publicity of some lawsuits unrelated to anything like this, but clearly there was additional reputational risk to the organization if all of this became public. Given the importance of getting this right and the sensitivity of the issue, the CEO immediately went to the Chair of the Board. Working with the attorneys, the decision was made to terminate the Senior Executive, but without any investigation into the sexual harassment claim. This was the CEO’s recommendation even prior to the disclosure.

“Most of the time, however, we do not have moral dilemmas, what we have are moral execution problems. A moral execution problem occurs when you know the right thing to do, but are unsure how to implement your decision. How do you get the application right in all of its messy details?”

Beverly Kracher



Chris Blunt wanted to know whether anyone had discussed the moral obligation of not turning a bad actor over to another company. "We all run into this sort of thing where the expedient thing and the right thing for the company is to move the person out, but do we have an obligation to warn the industry about someone like this?"

Aine Donovan answered in the affirmative. "I do think we have a moral obligation to prevent those bad actors from harming other organizations, whatever the industry. I have only had to fire one person, but I was adamant that I did not want to pass this bad apple onto someone else. But I think that there are legal issues involved that limit what you can say about a former employee."

Jim Mitchell confirmed that this was the case. "It's a dilemma for everybody who has to fire people these days. Your general counsel will always tell you that you can only confirm the dates of employment."

Beverly Kracher made the distinction between moral dilemmas and moral executions. "In a moral dilemma, you don't know the right thing to do and



Jared Harris listens to Jim Mitchell.

so you use a decision model in order to figure out the right action. Most of the time, however, we do not have moral dilemmas, what we have are moral execution problems. A moral execution problem occurs when you know the right thing to do, but are unsure how to implement your decision. How do you get the application right in all of its messy details? It seems like this was a pretty thorny moral execution problem."



One of the things your mother might like to know is whether or not some other companies offer a better product than your company offers...How far do you need to go to meet your obligations to the company or to yourself?"

Jeffrey Moriarty



Phil Richards shares a point with the group.

Chris Blunt wondered whether there was a dilemma in how the Senior Executive was treated. "We all started out not liking this person, but what if the human resources representative threw out this zinger, purely out of spite and it's not accurate? Is it fair that this person was terminated without an investigation, even if this was just the last in a series of good reasons for letting him go?"

Jared Harris believed that there was value in looking at the parallel case. "When I teach, I am fond of getting students to focus on the hypothetical variations on the case they are actually dealing with. So, in this case, we could ask, 'what if I really liked this guy?' or 'what if I thought that the human resources representative made it all up?' If those things change your decision, then that tells you that those tidbits are actually highly relevant and salient to this case."

CASE #3

The organization asked me to take over a failing business in Portland. One of the first things that I did was to hire two young graduates right from the Oregon State campus. They were blockbusters. They were both about 23 years old and they were really knocking the cover off of the ball. All of the sudden, the Portland office was the fastest growing office and it was largely because of the tremendous abilities of these young people.

But then I get a call from the office manager of that office who tells me that the office, 'is not a fun place to work' and that they were having some issues. I gather together our President and a senior executive VP and we all fly out



there. We spent a day interviewing everyone in the office. Before we left, I laid out the ground rules; we weren't going to discuss anything among ourselves until we met that night. In order to prevent any one person from influencing the others, I ask each of them to write down their recommendations on a piece of paper that they would bring to that meeting.

There were four women in the office who, while not claiming sexual harassment, were saying that the environment was 'bordering on hostile'. And the cause was the behavior of these top-flight sales producers. They didn't limit their bad behavior to women; they treated everyone equally bad. They were acting like thugs. They were very successful and productive thugs, but nevertheless, they were thugs.

At dinner that night, all three of us shared what we had written. All three of our written recommendations called for an immediate firing. When we told them,



Aine Donovan listens to Beverly Kracher.

they cried and begged to be allowed to work from home, but that would not have been the right thing to do. But we knew that there would be a cost. We figured we would lose most of our people and we did; we lost 22 reps. We had just signed a 10 year lease for a million dollars. We had a payroll of \$60,000 a month that we had to eat because we didn't want to layoff all of the employees. The total loss was about \$2 million, so it was a big hit.

You might have expected that there was a happy ending. There is no happy ending. It is what it is. But as Shakespeare said, 'Things without redress should be without worry'. The corollary benefit is that throughout the agency people knew that we were willing to walk the walk and talk the talk.

Perspectives on Ethical Leadership

Aine Donovan remarked that the decision to fire the producers might be surprising to some people. "There are so many in business who are forgiven many transgressions because they are rainmakers and they get the job done."

Jared Harris noted that this case was a good example of the fact that the proposition that 'honesty pays' does not always hold true. "In business ethics, academics are on what I think of as a 'fool's errand' to try and find empirical evidence that honesty, or business ethics, always pays under all conditions. But it seems patently obvious to me that sometimes it does not. It can cost you to do the right thing. In this case it cost you \$2 million."

Julie Ragatz was interested in whether or not this story had trickled through the entire organization. "This is a powerful story about doing the right thing even when you will suffer a material loss. It's important that the people who are directly involved know what happened and why, but it is also important to get the word out to the other offices. This will send a message that, as Aine pointed out, in this organization being a rainmaker does not give you immunity from the consequences of bad behavior."



Julie Ragatz talks with Jared and Jodi Harris at the closing reception.



Phil Richards talks with Mollie Painter-Morland.

CASE #4

At The American College we offer two master's degrees and, as we have mentioned, we are launching a PhD program this summer. But we also offer 11 designations, including the CLU and ChFC, which are the most prominent. This case takes place in the context of the debate about the fiduciary standard going on in Washington D.C. and the microscope that is on practitioners right now. When a broker commits an infraction, their name is in The Wall Street Journal usually with a notice that there has been some sort of disciplinary action taken by the Securities and Exchange Commission. When the CFP Board makes the decision to suspend or permanently revoke the use of the CFP marks, it publishes that information on its website.

Unlike the CFP organization, which only grants designations, we are a regionally accredited university, and the challenge is how we, as an institution, should respond when someone makes the charge that one of our designees is acting illegally or unethically. Traditionally, when this happens, the complaints are investigated by the Dean's office at The American College. Historically, we have been very compassionate to these people. In many cases, it was a one-time infraction. The incident could have happened as many as 20 years or more after their time at our institution. So what benefit does it offer society for us to further out them with additional public disclosure?

On the other hand, there is a strong feeling that as an institution of higher learning, we have an obligation to inform the public if our designees have violated the public trust. Even if they've paid other prices, they should pay this price as well. And they should be outed in front of their peers because when one practitioner

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acts badly, it potentially brands all financial advisors. Recently we changed our policy, so now if you have a complaint about any financial advisor, you can share it with The College and we will inform the appropriate state regulators.

But this leaves the question of whether or not we should pull someone's designation. And there have been differences of opinion, including at the Board level, on whether we should do that and when that action would be appropriate. There is certainly a concern that our willingness to revoke could provoke some people to use this as a retaliatory tool or as a way to besmirch the reputation of another advisor. Also, it can be hard to ferret out all of the facts of every case. In some cases, the breach of ethics and integrity is obvious and in other cases, it is not. Our designees have a great deal of pride in our designations, and they are not easy to achieve. For example, three out of every four students fail to earn the CLU. So it's a big deal if we revoke their designation and insist that they can no longer identify themselves as a CLU.

Jim Mitchell noted that this was an especially difficult issue for an institution like The American College, "whose mission is to raise the level of professionalism of its students and, by extension, the financial services industry as a whole."

Beverly Kracher agreed and suggested that the ultimate question concerns the essential nature of the organization. "What are we about as an organiza-



Julie Ragatz listens to Jim Mitchell.



Larry and Eliza Barton

tion? Once you answer that question, you will know whether you should change your policy to revoke designations or not. But both the question and the answer need to be clear to everyone involved."

Walt Woerheide noted that the situation was different than at a traditional university. "When I was teaching at a traditional university, if a student was caught cheating, then you failed him for the exam or for the class. It was a deterrent and a punishment, but it didn't end his career. In this case, you have entire livelihoods at stake for an infraction. It changes the stakes."

Jared Harris noted that at the University of Virginia, students are summarily dismissed for cheating. "At Mr. Jefferson's University, if you get caught cheating on anything you're immediately dismissed. There is no second chance. The honor code is a really big deal there, but that's the decision that the organization has made. Now that might not be the right one for The American College; you get to choose these things. But it's important to understand the implications of the policy for the organization."



THE PHILOSOPHERS' QUESTIONS

KRACHER'S CASE

The Business Ethics Alliance has a small staff, only four people, including me. One of the staff members is part time, while the others are all full time. We have just started offering benefits and I am working closely with my executive committee on how that will work. Right now, the committee is debating whether part-time employees should be eligible for performance incentives. My concern is that since we are such a small staff, and everyone knows everything that goes on within the organization, what does it do to the morale of the part-time person if she is left out? I am wondering if any of the executives can share their thinking on what is fair with regard to eligibility for performance incentives.

Phil Richards said that the traditional reason for excluding part-time employees from eligibility for performance incentives is that full-time employees were completely committed to the company, but part-time employees were not. Richards didn't agree with that reasoning and offers performance incentives to all of his employees. "We consider it an asset from a governance point of view. Those people are probably more productive for me, because I'm not providing benefits, I am getting cheaper labor and I'm probably getting 20 really good hours out of them."

Aine Donovan believed that the workplace was changing and that successful companies need to respond to those changes. "It is a moral choice not to offer benefits to part-time employees. I think these are really complicated



Walt and Pat Woerheide with Richard Donovan at the closing reception.



Cynthia Tidwell listens to Chris Blunt.

issues, and it's more than just who gets a bonus. It's really how we are going to value the people who work for us."

Cynthia Tidwell argued that even if everyone was eligible for some form of performance incentives, they don't need to be eligible for the same kind. "I think that you need to establish your compensation philosophy. I don't think that everyone is created equal in the workplace; there are some people who bring a lot more value than others, even in the same job."

DONOVAN'S CASE

At Dartmouth, many of the students who complete the MBA program end up going to work in investment banking. When I ask my students why they are going into investment banking, I have never had a student say, "Because I love it." They all say the same thing, that they are "doing it for the money". I had a delightful student; she was very talented and had a terrific sense of humor. When I asked her, "Are you sure that this is really the path you want to pursue?" She said, "Absolutely. I've already made the decision. I'm not sure that I'll ever get married and I am fine with that. I know I'll never have children. That's just off the table."

If she is going to be as successful as she hopes to be in that environment, she is probably right. I am not sure that there is a solution to this problem, but I feel like we are helping students to move along in a system and we have not really thought through the consequences for their long-term happiness. I always go back to the Aristotelian question, "What is the good life?" I know that money is a component of the good life, but it certainly isn't enough. Are we encouraging our students to think about that?



“If we fail in our mission to educate financial services professionals, the entire industry would be at a loss. By providing a rigorous curriculum, we are trying to ensure that the people who work with the American public to protect their financial security are as highly trained as possible.”

Larry Barton

Mollie Painter-Morland tried to get students thinking about happiness and the good life on the first day of class. “Aristotle talks about how your emotions can clue you in to your own values. So I ask them to share what has made them both happy and angry in the last two or three weeks. While it was always an exercise in improvisation to distill the values that underpin their emotions, three values usually come up with American students: property, freedom and community. When we rank them, community or family always takes first place. Once we establish this, we can have a discussion of how these values guide our choices.”

Jared Harris worried whether this wasn’t more of the ‘business is bad’ mentality. “If students want to get into investment banking and then they figure that it’s too many hours or they want other things, then they’ll make a change – they’ll vote with their feet.” Rather than pondering the ethics of a student pursuing a particular professional path, he was more interested in educating students in a way that would help them become leaders willing to think about ethics in a serious way. “I want them to have the same kind of reflective willingness that encouraged all of you to spend the day with academics like us, talking about ethics and values. That’s all I hope to do.”

Beverly Kracher believed that part of the problem was in the relationship between business school professors and people teaching business ethics. “One of the great professional benefits of teaching in the business school was that I have been able to develop a better appreciation for business. That doesn’t always go both ways. It’s hard to fight the perception that ethics is somehow separate and unimportant when that view is being reinforced by the faculty.”

PAINTER-MORLAND’S CASE

I have a friend who is a very successful hedge fund manager at a large bank in New York. She was asked to go to her daughter’s school and explain what she does in her professional role. In preparing for this talk, she had an incredibly hard time trying to figure out how to explain what she did and why it was important to a group of school age kids. It led to a kind of existential crisis for her and forced her to consider, “what role do I play in society and how can I explain that?” I think that this is a good thing for us to think about, so I thought that I would pose the same question to you, “What do you do? And what is the benefit to society of what you do?”



Cynthia Tidwell said that she saw that her organization provided many benefits to society. "In our organization, money funds the mission. We can't do our outreach without a thriving business, but the money that comes into our organization goes out to the communities we serve." But Tidwell noted that stock-owned life insurance companies contributed to the betterment of society in important ways as well. "Insurance products are necessary and all insurance companies serve society by helping people who are in crisis. Without life insurance, many families would be devastated."

Chris Blunt thought that a great answer to this question was provided by one of his boss's kids, probably around four years old at the time. "She asked her dad what he did every day and he explained the nature of the insurance business,



The Breakers Hotel in Palm Beach, Florida.

but then she just perfectly summed it up, 'If for some reason the daddy doesn't come home, then the kids don't need to move away!'"

Larry Barton shared that, as the President and CEO of The American College, he believed that, "If we fail in our mission to educate financial professionals, the entire industry would be at a loss. By providing a rigorous curriculum, we are trying to ensure that the people who work with the American people to protect their financial security are as highly trained as possible. We are the only accredited university with that mission and we take it very seriously."



"If you go into any of our offices and ask the receptionists what we do here, they will respond that 'we change lives forever'. Each year, for over 15 years, our organization has paid out over 20 billion dollars to families of people who lost someone they loved and depended upon."

Phil Richards



The participants listen to Walt Woerheide.

Phil Richards shared that the mission of his company is that, "we change lives forever". "If you go into any of our offices and ask the receptionist what we do here, they will respond that 'we change lives forever'. Each year, for over 15 years, our organization has paid out over 20 billion dollars to families of people who lost someone they loved and depended upon. This meant that kids are allowed to stay in the same homes and neighborhoods and that the surviving parents are not forced to try and increase their income at the time when their children need them the most. We have 5 billion dollars of money under management. Every one of those dollars represents a vote of trust in our advisors. That's what we do."

WOERHEIDE'S CASE

Many companies are interested in their agents and home office staff receiving designations from The American College. At some companies, the pay and promotion structure is designed to reward people for earning our designations. We offer something called Intensive Review Programs (or IRPs). These are review sessions typically taught by The American College faculty to help students prepare for the exam. Companies often sponsor IRPs for their agents and employees as a way to encourage them to finish their course work. Each of our courses is supposed to be comparable to a three credit hour college course, so IRPs are not designed to replace the self-study component of the course. The way it works is that we review the material for two days and on the third day, review again for another couple of hours and then we offer the exam. The exam is in a paper and pencil format. This saves the students from having to schedule time at a local exam center to take the test. Our marketing department is convinced that the ability to take the exam immediately fol-



lowing the review session is a tremendous value-add for the companies and that companies would be unwilling to pay for so many IRPs without that component.

Faculty members are offered a contract above and beyond their normal compensation to teach these IRPs. They have become so popular with companies we have started to hire adjuncts to teach the classes that our faculty cannot. Obviously, both the companies and the students have an interest in passing the exam. If students fail the exam during the IRP, they can certainly retake it, but it is an inconvenience and there is a fee. Companies often request faculty who have had a high pass rate in previous courses. This leads to the first conflict of interest, which is that there is a financial incentive to 'teach to the test' in an attempt to get a higher pass rate. The second conflict revolves around the distribution of exams. Clearly, the security of the exam is compromised, the more people have access to it. We worry about the possibility of a rogue adjunct copying the exam and then 'teaching to it' or distributing it to future students. As all of the academics know, it is difficult to generate good multiple choice test questions and you are limited in how many questions you develop by the content of the class. The College takes the challenges really seriously and we have been actively working on solutions.

Aine Donovan thought that this raised an important issue that many universities were facing. "In academia, courses are increasingly taught by adjunct faculty with no real relationship to the institution. I think that if we can do more to professionalize these people and make them feel that they are a part of a community, it will give them a certain sense of responsibility."

Phil Richards suggested that The College ask the adjuncts to sign a confidentiality agreement. "That's a pretty ominous move when you've got to sign a statement swearing that you will not reveal any of this information to another person. When I sign something like that, I take it very seriously."

Julie Ragatz shared that the faculty at The American College had been very involved in discussion of these issues. "One of the things we have debated is what it means to 'teach to the test'. There are certain tactics that are obvious violations of academic integrity, but other tactics though are not so clear. We have been asking what tactics give some students an unfair advantage."

MORIARTY'S CASE

One of the issues that we have talked about today has been conflicts of interest that apply to the financial services industry. On the one hand, financial services professionals are caring for other people's money and trying to figure out what is best for that client. On the other hand, that person is also looking to make a living and maybe to benefit the organization.

One of the solutions we have discussed is that, in the long run, ethics pays. So these disparate goals come together, even though in the very short term, it may appear that your interests and the client's interests diverge.

But I don't want to put all of my eggs in that basket. I am wondering whether targeted regulation could help close the regulatory gaps that less scrupulous firms are exploiting. I have some worries about greater regulation and powerful companies calling for greater regulation because the possibility of rent-seeking exists as well. But it does seem to me that regulation could play an important role in mitigating the conflicts of interest.

Jim Mitchell agreed with Moriarty regarding the diagnosis of the problem. "One of the ways that companies deal with this is to try and design a compensation problem that incentivizes people for doing the right thing by their clients." He added that most organizations had processes that reviewed the sales records of their agents. "That process can identify whether the product a client was sold was an appropriate solution for the client's needs. Sometimes that process enables us to detect patterns where people are trying to take advantage of the system and we can intervene to prevent that."

Cynthia Tidwell shared how she had worked with other fraternal organizations to persuade some of the state regulators to impose a risk-based capital requirement on fraternal, which were traditionally exempt from it. "This holds fraternal to the same standards as commercial companies and encourages the Boards of fraternal to act as true fiduciaries. It empowers the Board to have difficult conversations with people in the organization when things need to change. We felt strongly that this sort of regulation was necessary to protect the consumer and the organization and we acted on that."

Chris Blunt wasn't convinced that the conflict could be resolved with additional regulation. "You can't come up with a regulation to control what

"There are certain tactics that are obvious violations of academic integrity, but other tactics though are not so clear. We have been asking what tactics give some students an unfair advantage."

Julie Ragatz



the agent says to his client in a room when no one is looking. That is sort of the definition of ethics: what do you do when no one is looking.” Blunt added that the problem usually revolved around what was said in those rooms, since the written materials are all vetted and approved by the company. He assured the group that the industry was committed to ferreting out bad actors whose actions undermined public trust and confidence. “Trust me, we are much more horrified than you are when we read those articles about the little old lady buying the 12 percent commission annuity with a 20-year surrender charge.”

HARRIS' CASE

My question is what's the right mechanism for improving values-based decision-making in your industry. We seem to have established that we can't count on regulation or more disclosure to improve decision-making. What's your feeling about where we go from here?

Jim Mitchell believed that it started with hiring good people. “It's very important for a company to be clear about its values during the hiring process. We tried to be clear about our value of putting clients first, and it was amazing the number of people who self-selected out. They didn't want to work that hard at putting clients first, and we were better off without them.”

Cynthia Tidwell agreed that selecting the right people was important, but there would always be some bad actors that would slip through the cracks. “You can have a great selection process, but you will still never bat a thousand. You always need to be diligent and watchful.” She noted that it was important to create opportunities for people to learn. “You also need to let people get into some messy situations and then give them guidance on how to get out. Most of the young people who come into the business have never really had to deal with that sort of complexity; their curriculum has always been black and white.”

Chris Blunt thought that transparency was important, and transparency is different from disclosure. “Social media has the potential to really compel companies to be more transparent. It is a huge compliance burden to allow agents to be active on Facebook and other social media sites. But the positive is that we've opened up another avenue to find out what the client experience is really like.”

CREATING AND MAINTAINING AN ETHICAL CULTURE

The conversation turned to the factors necessary to create and maintain an ethical business culture.

Phil Richards pointed to the corporate culture of Merck, the large pharmaceutical company. “Historically Merck was driven by its mission that medicine was for the people and people are more important than profits. They had a long history of corporate social responsibility, giving away streptomycin in Japan after the Second World War and then the medicine that cured river blindness in Africa.” He noted that Merck’s public reputation for integrity had recently been diminished by the problems with Vioxx. “Here is this company, which is known as a bastion of integrity and ethics, and then it goes all wrong. It is just a great example of how companies and leaders need to remain diligent and vigilant about the culture of the company and incorporating values into all of your decisions.”

Chris Blunt believed in the importance of storytelling to transmit values. “When the company makes a decision that reflects our values, like going the extra mile to figure out if a claim is payable, we don’t go to the media, but we do tell the story throughout the organization.” He noted how the stories take on a life of their own. “I tell stories about the organization that happened before I was even at the company. They could have happened 30 years ago, but they are baked into the culture now.”

Blunt also shared that he started writing notes to employees to recognize good behavior in accordance with company values. “We put the notes up on the Internet. Again, it is another way to recognize people who do a great job of living our values. People love to get pats on the back, but they will respond to what the pat is for. Do you get rewarded for making that sales plan no matter what you have to do or are you rewarded for providing a great client experience?”

Aine Donovan thought that Blunt’s behavior was the heart of ethics. “When you’re taking the time in a leadership position to interact with people in a meaningful sort of way you are creating a climate where people feel valued. You need to address the emotional needs of your employees. If you do not,



then people start to think that 'no one is watching, no one is paying attention and so I am not invested in this!'"

Cynthia Tidwell agreed with Blunt about the importance of sharing good news. "If we have an exceptional story that is an example of us living our values, I can send it out to everyone at the same time through our voice mail system." It is also important for a leader to ensure that they were getting accurate and complete information. "You can only lead as well as the information you're given. You have to create an environment within your organization that people believe that they can deliver bad news without repercussions."

Jim Mitchell emphasized the importance of being clear about the organization's values. "If we can hire people who share our values, then coming to work won't be a job for them, it will be a calling. It will be a way for them to express their values. I think that we can become the employer of choice for lots of highly able, highly motivated people if we create that sort of environment."

CONCLUSION

The executives and ethicists all agreed that the candid sharing of opinions was very helpful. They were all grateful for the opportunity to spend the day reflecting on ethical issues and learning from each other.





The James A. and Linda R. Mitchell/
The American College Forum on
Ethical Leadership in
Financial Services

The American College Cary M. Maguire Center for Ethics in Financial Services is the only ethics center focused on the financial services industry. The Center bridges the gap between sound theory and effective practice in a way that most ethics centers do not. Under the leadership of Director Julie Ragatz, the Center's mission is to raise the level of ethical behavior in the financial resources industry. We promote ethical behavior by offering educational programs that go beyond the "rules" of market conduct, help executives and producers be more sensitive to ethical issues, and influence decision making.

The Mitchell Forum is a groundbreaking, one-of-a-kind event that underscores the Center's emphasis on collaboration and conversation among academics and practitioners. Jim Mitchell was recognized in 2008 for his dedication to business ethics and was included in the "100 Most Influential People in Business Ethics" by *Ethisphere*, a global publication dedicated to examining the important correlation between ethics and profit. The list recognizes individuals for their inspiring contributions to business ethics during the past year.

The Forum is the cornerstone of the Center's activities highlighting how to bring industry leaders, accomplished producers, and prominent business ethicists together to reinforce the need to connect values and good business practices.



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