Ethics: Nothing has changed

BY PAUL P. JESEP

On May 15, the Society of Corporate Compliance and Ethics (SCCE) sponsored a one-day workshop in New York City. One prominent speaker, Michael Bromwich, spoke about “Addressing your highest risk: the C-suite” and talked briefly about why generally good people, or at least those perceived as such, are capable of doing very bad things. He touched on the too often overlooked area of Behavioral Ethics, which is the focus of this regular column.

Mr. Bromwich inferred (I’m interpreting a bit), competitiveness or the obsession to win at any cost can cause otherwise rational individuals to engage in misconduct. Competitiveness becomes a mind altering intoxicant that gives the ultimate high.

During a follow-up question, I added to Mr. Bromwich’s insightful observation by calling it a “lost sense of self” when a person’s identity is defined by winning, degrees, bonuses, and other societal measurements of success suffocating inner well-being.

Fear, greed, insecurity and the inability to strip away all the outward signs of success to better understand ourselves contribute to the crisis in ethics today.

In May, Labaton Sucharow LLP, in collaboration with Mendoza College of Business at the University of Notre Dame, released a report documenting the widespread disregard for ethics among financial service professionals.
Key findings from the report, “The Street, The Bull and The Crisis: A Survey of the US & UK Financial Services Industry”, include:

- “47% of respondents find it likely that their competitors have engaged in unethical or illegal activity in order to gain an edge in the market … This figure jumps to 51% for individuals earning $500,000 or more per year.”

- “More than one-third (34%) of those earning $500,000 or more annually have witnessed or have firsthand knowledge of wrongdoing in the workplace.”

- “23% of respondents believe it is likely that fellow employees have engaged in illegal or unethical activity in order to gain an edge.”

- “25% would likely use non-public information to make a guaranteed $10 million if there was no change of getting arrested for insider trading.”

- “Nearly one in five respondents feel financial services professionals must at least sometimes engage in illegal or unethical activity to be successful.”
“27% of those surveyed disagree that the financial services industry puts the best interests of clients first. This figure rises to 38% for those earning $500,000 or more per year.”

“33% of financial services professionals feel the industry hasn’t changed for the better since the financial crisis.

Perhaps one of the most disturbing findings is that one in ten respondents “signed or been asked to sign a confidentiality agreement that would prohibit reporting illegal or unethical activities to the authorities.”

In a speech in late winter, Federal Reserve Chair Janet Yellen spoke of “pervasive shortcomings” in corporate values. Stress tests for banks, a mechanism to assess the financial health and prudence of senior executives, do not address the systematic disregard for ethical values.

Despite the fines, penalties, and an endless bad press for the financial services sector nothing has changed. Those making decisions impacting their entity’s balance sheet with the potential to negatively impact consumers and overall economy are still not being personally held accountable.

How many unscrupulous bankers making decisions that hurt the economy have been named in the newspapers? Very few. In part, this reflects the ineffectiveness of today’s media, but also a conditioning and acceptance by the greater public to allow ethics to become faceless and generalized by blaming legal entities created on paper rather than holding individuals publically and criminally accountable.

The Dutch Banking Association is now requiring bankers to take an oath. The oath is an attempt to awaken conscience, consciousness, genuine civic and social responsibility, and to give life to an institution’s values statement which often includes integrity. Personal oaths is one tool to complement individual accountability in a public manner.

No organization’s culture can be changed, regardless of its size, without including behavioral ethics. Ethics has a human face. Understand human nature to nurture an individual’s better angels and collectively each person’s perspective within the organization contributes to shifting the cultural paradigm.

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