
ETHICAL PRACTICES

FOR ORGANIZATIONS & PRACTITIONERS

Atin Kumar Saba, CFP^{CM}
Director - Private Wealth Management, Deutsche Bank AG

There was a time, not long ago, when there was no need to reiterate the need for professional conduct and ethical practices in our businesses. It was only a matter of defining the grey areas, which constituted perhaps, just 5% of all our actions. Today, it is a different story. With the degeneration of value systems in the larger society (a nationwide poll conducted by BombayTimes-TNS amongst 18-25 age group revealed that 26% are ready to take unethical shortcuts to achieve their dreams), it is but natural that the slide has permeated in the work place too. Therefore, the leaders of the industry have an added responsibility to reiterate each time the need for all partners (including employees, who have a share in the spoils) to practice ethical behavior in our work place. This becomes even more imperative for the practitioners of the Financial Planning services because of the trust that the beneficiaries place in these practitioners and

because 'financial well being' forms such a crucial source of one's general well being. When we subscribe to terminologies like "financial health check-up" or a Financial Planning conference titled 'Financial Planning Clinic', there is an implicit acknowledgement that the FPP (Financial Planning Practitioners) are in the same league as the MP (Medical Practitioners). They have a lot in common. The beneficiaries come to FPPs or MPs at various stages- some at the initial stages of detection/planning and some at critical phases when either they have misread their critical symptoms or they have visited quacks/dubious FPPs with disastrous results. Some may have risked their good health by changing the MPs/FPPs too often for short term pecuniary/elusive gains and others may have been shortchanged by the MPs/FPPs themselves. At all stages, however, the beneficiary was scouting for an unadulterated solution for his physical or financial health. The

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need is felt more when the illness or setbacks in FP have gone beyond his control; jeopardized long-term wellbeing or gravely compromised his long-term financial objective. And now, he would like to trust some one more qualified – he needs a Trustworthy Professional, and/or a Trustworthy organization.

A Trustworthy Organization

While individuals make an organization, the organization clearly has a greater responsibility to establish highest standards of professionalism and ethical practice; owing to the impact it can have on a larger scale i.e. through the employee selection process, training modules, recognition awards system, HR policies, appraisal system, compliance monitoring processes, establishing a code of ethics and professional conduct for employees to follow, supervisory culture, etc. All these measures can be geared to attract, train, and retain the most professional and ethical.

The single most influencing factor is however, the manner in which the entire core business is run. Some businesses run on the old adage “The end justifies the means” argument. The results can be devastating. The likes of Enron and Barings will only become a recurring phenomenon. Means are just as important as Ends for a sustainable business. A sterling example of what ethical practices and professionalism can do to an organization is Mr. Narayan Murthy’s “Infosys”. Its management practices covering all areas of recruitment, training, mentoring, budgeting/ planning, client acquisition strategies, client retention strategies, client engagements, customer redressal system, research, CSR, etcis dyed in efficiency, openness and fair-play.

The organizations will have to invest in PEOPLE. People are the most significant resource in this business. Recruitment, training w.r.t knowledge and values, upgradation of skill sets, enhancing team performance, has to be the main areas of attention i.e. the institution should transform itself into a self driven, highly motivated, knowledge and delivery powerhouse. Every individual has to be tested for his/her ‘ability and willingness’ before being baptized into the school of client’s portfolio management.

Specifically, closer home, organizations need to resist temptations which are detrimental to clients and ultimately to their own employees and shareholders in the long run. Some practices truly detrimental to all can be summed up as such

- a) Over ambitious business plan and budgets; not in sync

with reality. This puts unreasonable pressure on employees, forcing them to take to unscrupulous practices

- b) Super aggressive business leaders throw caution to the winds and push numbers through suspect schemes; which are not qualitatively sound at times.

- c) These business leaders also tend to violate code of ethics. We are already witnessing unequal/unjust competition from certain business houses/individuals that do not follow the rules of the game in the distribution of Mutual Funds and Insurance schemes by promising clients freebies/rebates.

- d) Thrust in distribution of products/schemes which provide maximum revenues to the business; unmindful of the clients portfolio or asset allocation needs

- e) Manipulating in-house views and research to push high revenue schemes at inappropriate times

- f) Launching of new products with cosmetic changes and hoodwinking clients, just to appear innovative and improve bottom-line

- g) Incentivising employees with direct benefits accruing from sales of a particular scheme. This tempts employees to shift investments into these schemes

These business leaders do not realize that in a permissive unethical environment, the employees can tend to behave unethically in other areas of business too; destroying the moral fabric of the organization, which will sooner or later affect business numbers and soon, the foundation of the business itself.

The business leaders of today also replicate life & living trends like “moving in the fast lane” & “live life king size” in their working environment. They believe that working life is short; and there is no time for building the foundation of an organization. So they need ready businesses, ready relationship managers, ready teams and ready books. They spend no time in building the organization and its employees and then lament on employee loyalty. When they move, they leave no trace of client’s goodwill behind for the organization. Organizations need to be wary of these myopic managers, who can only grow at the cost of their organizations. In this scenario, attrition rates are higher, aspirations of majority remain unfulfilled and the need for cutting corners becomes more acute.

Today, corporates talk about Corporate Social Responsibility in a self congratulatory tone with little or no real contribution to the society in a sustained manner. In my humble view, the first social responsibility for any institution is to set its own house in order and run its core business with

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complete devotion to the code of ethics and rules of professional conduct. This will release a chain of socially appropriate behavior from all its individual employees, suppliers, partners in business, shareholders, etc. Needless to add, this will strengthen the moral fabric of the organization and leave a lasting positive impression in the eyes of the ultimate consumer.

A Trustworthy Professional

A rare breed. Amidst the poverty of intellectual honesty in the 'world of Money', however, there thrives a minority who have continued to attract suitors for their excellence and who have not only survived, they have managed to stay tall. How was this possible? They had faith in their competence and they knew to translate them into client's successes. When you marry *your skill sets, knowledge, dexterity, proactive indulgence and carry the weight of your institution (strong research, synergies from cross divisional network and seamless operations) TO the clients Life Goals*; and do this year on year, you cannot but guide the client unwittingly into the temple of long term meditation. Now the goals and the approach are in sync and they manifest in a peaceful journey amidst the cauldron of market volatility. The client then starts seeing merit in planning and makes the maximum from products and services which are apt for the time horizon chosen. Thereafter, shifts are only on account of changing expectations of risk/reward ratios from broad asset classes, advent of an altogether new asset class, superior products/schemes which enhance returns while maintaining risk at same levels or if the Client's life situation changes.

Certain Prerequisites for a Professional:

- a) His/Her knowledge of broad markets (equity, debt, bullion, commodities, FX), products (his organization's and his competitors'), asset allocation strategies, and financial planning tools, should be comprehensive and contemporary.
- b) His/Her Knowledge and respect for laws pertaining to professional work should be of the highest order.
- c) His/Her understanding of clients, their life goals and consequent financial objectives, their risk profiles, their past and present behavioral patterns, cash flows, liquidity needs, etc. should be as fine as possible
- d) He/She should possess the skill set and maturity to map client needs with appropriate financial solutions with the aid of his knowledge and understanding of client
- e) He/She should be proactive to move swiftly with changing investment environment, redundancy of products, changing client needs/objectives, launch of new products to alter the mix of products in the portfolio to give the best returns with least risk i.e. optimum returns.
- f) He/She should have the wisdom, maturity, and willingness to draw resources of his organization, product suppliers, and independent research organizations to enhance results for his/her clients i.e. leverage on team strengths.
- g) His/Her communication to client should be precise, clear, logical, honest, and convey the return risk expectations as lucidly as possible
- h) He/She and his/her team members should ensure timely execution of all strategies decided by the FP or investment counselor. Seamless execution will ensure high productivity of all staff and endear to the beneficiary a lot. The best of strategies fall flat owing to messy execution.
- i) Follow the values of client confidentiality. This is dear to the client. You cannot share any information pertaining to the client with others unless expressly authorized by clients.
- j) Essential component of Trust: Honesty. He/She will not make deliberately false or deceptive claims about an investment, but will instead provide full disclosure of all pertinent limitations and concern areas.
- k) He/She should aim to be a long term advisor. Clients' financial goals can stretch from very short (3 months) to very long (until demise, or even for successive generations). Most of the times there will be a combination of goals ranging from very short to very long. The test of a good advisor would always be the final achievement of these financial goals. Therefore, you need to dig your heels and take care of the client's and his family's financial advisory needs for a longer term. Clients develop trust over time. Maturity of returns is realized in the longer term. Therefore, major disservice is done to the entire Financial Planning process if the FFP is changing every now and then. If financial institutions cannot retain their FFPs, the clients will drift toward individual FFPs sooner or later; a trend visible in developed markets.
- l) Last but not the least, peer temptations, organizational pressure, aspiration challenges, will all get aligned to seduce you to cut corners. The choice is yours. It is easy to take the short cuts and harder to be upright and succeed. When your long term well being, clients well being, and the demonstration impact it has on the society at large, is really understood in all its manifestations, you will find peace in a job ethically

completed. It is myopic to blame the surroundings when we do not lift a finger to address the ills of the surroundings.

Being ethical – at work as well as away from the job – should not mean acting differently. Attention to ethics is not something you turn on and off. For it to be meaningful, practicing ethics must be part of your everyday life.

Role of FPSB India

The Board has the onerous responsibility of steering this profession clear of all unethical practices and establishing benchmarks for highest professional standards. The FPSB India's code of ethics and rules of professional conduct should be made sacrosanct (in practice) for all its members. Following the principles of integrity, objectivity, competence, fairness, confidentiality, professionalism, diligence, and compliance, in all our works is non negotiable. Therefore, as Mr. Shailash Haribhakti, Chairman of FPSB India suggested, FPSB India should appoint an ombudsman, which oversees the omissions and commissions of members. Members should be made accountable and an active, responsive redressal system should be established without any delay. The updating of code should cover our responsibilities towards public at large, for our clients and our employers, and for our profession and colleagues.

Issues of Ethics in Business

I would like to share some excerpts from an essay delivered by Abraham M. George, 1997 in Bangalore.....it brings out a refreshing perspective to the sordid drama being enacted on the issues of ethics in business

Matter of opinion: "Today, many are not able to define ethics in clear terms. Calling right and wrong a "matter of opinion" discourages many from giving serious consideration to issues of major importance. There is a growing degree of cynicism and moral sophistication in our society — a sense that all things are relative and that nothing is absolutely right or wrong. This sense of artificial relativism suggests that absolute notions of good and bad, right or wrong no longer apply. Contributing to this sense of relativism is what many see as a breakdown of moral and ethical teachings in the family and religious institutions

Too much of business ethics today is focused on questions of law and policy. While they are important, are considered as either legal or social requirements for businesses. But what gets left out in this thinking is an adequate sense of or an emphasis on personal values and integrity. Business does not operate in a vacuum. It is a subsystem of our social order.

Business ethics is a more personally oriented ethics rather than a public policy or a legal contract. Ethics is what is legal, and more. Much more... It encompasses honesty, forthrightness, reciprocity, fair play, keeping commitments, and kindness.

Competition is not gaining advantage over some one else through illegal or unethical means, either in reducing costs or in making sales. In a free enterprise system, competition is the backbone of business; the engine that makes companies strives for excellence. Excellence cannot be achieved through improper means, and competition will ensure that the winners in the long run are those who earn it through constant innovation, hard work, perseverance, productivity, cost control, and, don't forget, fair play.

The real problem facing corporations today with respect to ethical behavior is a management problem. The corporate culture, its planning process, and the way it implements and controls its actions are all critical factors that will have a significant impact on whether it is deemed to conduct its business ethically. Companies need to formulate core values that dictate their conduct internally as well as with customers, suppliers, and the society in general. Employees may need to be "indoctrinated" on codes of conduct and acceptable standards and practices.....

All said and done, some institutions die a natural death, some unnatural and some are destined to leave their footprints for civilizations to evolve over centuries. And invariably these are the ones which have steadfastly striven for excellence, constant evolution, and were passionately driven by values. May it be towards employees, customers, shareholders, or society at large.

F.P.J.