FOCUS CONSULTING GROUP

ETHICAL LEADERSHIP
in the Investment Firm

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Introduction

Ethical leadership in the investment world is challenging. Every week, the financial press reports on the latest lapses in ethical behavior. When you consider the competitive nature of the business, the pressures to succeed, and the accompanying rewards, these results shouldn't surprise us. Consider the number of penalties that occur on Sundays in NFL football games. Even with 80,000 fans and six referees looking on, pro football players routinely break the rules—say, by furtively holding the opponent—in an effort to gain an advantage. Similar competitive pressures drive investment people to churn accounts or fudge pitch books to win a new client. For example, a client that we've worked with admitted that the firm's investment process was broken (an assessment with which we would agree). And yet this firm's marketing department aggressively continued to win over consultants and new clients. Behind the scenes, we worked with the investment team to fix the process while the marketing team presented a dishonest front: "Everything is fine, our investment process has never been stronger." Would you have done anything differently? How would you handle the situation in an ethical manner? How do you preserve your integrity—or can you?

Investment professionals routinely face the following nine ethical challenges:

1. Presentation of Performance in Finals and Client Meetings
Often the worst-performing time period of a fund is omitted in presentations in favor of the time period over which its performance looks the strongest (usually 3 years, 5 years, or the last quarter). The manager does this to prevent the client from seeing all the facts. This is why every manager has a graph or table in which their fund's performance looks muscular and robust.

2. Putting the Best Spin on Personnel Changes
Employees "no longer with the company" are often portrayed as "non-team players" instead of the key contributors they actually were. This is also true when a manager describes personnel changes that have occurred over time, especially when competitors acquire his top performers.

3. Hiding the Salient Features of a Product
Actively-managed, high-turnover strategies have no place in taxable accounts because the gains are short-term. This is true of mutual funds and wrap accounts. Regardless, these accounts are often sold to those who have taxable funds (as opposed to retirement accounts). This feature is often not discussed. Even when asked, the salesperson will often say something like, "These strategies may work best in tax-exempt accounts, but I'm certain this work well for you."

4. Portraying Someone as the "Portfolio Manager"
This misrepresentation often occurs when an employee is merely working in a client-service role.

5. Selling load funds
This happens with the load exceeds the long-run alpha of the strategy. Managers justify this strategy by rationalizing that the client needs to be "educated."

6. Pitch books
Pitch books often create a tension between how a particular analysis is conducted, and the need to make the analysis seem unique and different. When this happens, the investment team will often wince when they hear the marketer interpret the a product or process.

7. Sponsored Conferences
IMI and II run conferences where plan sponsors attend for "free." However, conferences are sponsored by investment managers. In exchange, managers get access to the plan sponsors. All this does is give plan sponsors a nice mini-vacation, not that much different from a timeshare!

8. Capacity v. Fees
More assets equal higher fees, but higher assets often translate into poor performance. Few managers are willing to set hard targets on their capacity.

9. Performance Reviews in Times of Poor Performance
A manager may not know what is causing the poor performance of a fund, or when things may turn around. Admitting this might get him fired, so the manager focuses on convincing the client that things will soon return to normal, even though he does not have the data to back up his assertions.

Given the pressures and track record of the industry, perhaps you can appreciate why investment ethics is a tricky challenge. Perhaps a bigger problem is the unwillingness of many investment leaders to take the challenge seriously. Every investment firm we've ever worked with has agreed that integrity is one of their core values.[1] However, when we asked them to define *integrity*, we get a standard answer: "doing the right thing." Deeper thought than this is required to create and maintain ethical business practices.

The present paper examines the issues that confront the leader who wants to establish an ethical culture in his or her firm. First we'll define the terms and then address three levels of integrity:

[1] Some firms might use different language—accountability or ethics or morality—but each agrees that the firm must operate by some set of guiding principles that represent a moral compass.

1. Legal (obeying the relevant laws and professional codes)
2. Ethical (identifying and resolving legitimate ethical dilemmas)
3. Energetic (establishing and practicing a set of personal behaviors that strengthen and maintain moral intelligence)

Context and Definitions

Ethics can be defined as the study of what is morally right or wrong. By definition, it is a study of "shoulds." In other words, people *should* do certain things and they *should not* do others. There are usually no final, definitive answers to most ethical questions. There are, however, certain moral principles which are commonly accepted. Generally speaking, these rules shape most ethical decisions.

In their book, *Moral Intelligence* (2005), authors Lennick and Kiel conclude that most cultures and religions around the world recognize four principles which are vital to personal and organizational success:

1. Integrity
2. Responsibility
3. Compassion
4. Forgiveness

Here is how they define these terms:

Integrity is the hallmark of the morally-intelligent person. When we act with integrity, we harmonize our behavior to conform to universal human principles. We do what we know is right; we act in line with our principles and beliefs. Generally speaking, our behavior matches our beliefs. If we lack integrity, by definition, we lack a sense of moral intelligence.

Responsibility is another characteristic of moral intelligence. Only a person willing to take responsibility for his or her actions—and the consequences of those actions—will guarantee that those actions conform to universal human principles.

Compassion not only communicates care and respect for others, but increase the odds the that others will be compassionate toward us when we need it most.

Forgiveness completes the set of moral principles. When we refuse to let go of mistakes and slights, we are likely to become rigid, inflexible, and unable to engage with others in ways that promote our mutual good.

In "*How Good People Make Tough Choices: Resolving the Dilemmas of Ethical Living"* (2003), author Rushworth Kidder summarizes 24 interviews with experts in 16 countries in which he asked each person, "If you could formulate a global code of ethics for the twenty-first century, what would you include?"

They said:

- Love
- Truth
- Fairness
- Freedom
- Unity
- Tolerance
- Responsibility
- Respect for life

Kidder goes on to say that in his ethics seminar work with business professionals, “I have yet to find a group that did not include on its list some word for love, truth, tolerance, responsibility, or fairness.”

Ken Wilber argues that ethics have a hierarchy to them, much like Maslow’s hierarchy of needs. The stages or levels are as follows:

1. *Ego-centric*: morality centered on “me”
2. *Ethno-centric*: moral development centered on “us” (the family, clan, or nation)
3. *World-centric*: a moral consideration for all of humanity which applies to men and women everywhere, regardless of ethnicity or beliefs.

Wilber calls these states hierarchical because “each stage has a higher capacity for care and compassion.” He argues that men and women progress through these stages, but with different “yin and yang” emphases. Males tend to focus on autonomy, justice, and human rights, whereas women focus on relationships, care, and responsibility. Men follow rules; women follow connections. Men tend toward individualism, women toward relationships. Wilber uses a story to illustrate his point: A little boy and a little girl are playing.

The boy says: “Let’s play pirates!”

The girl says: “Let’s play like we live next door to each other.”

Boy: “No, I want to play pirates!”

Girl: “Okay, you play the pirate who lives next door.”

In all of the above, there is a strong emphasis against moral relativism, or the notion that “anything goes” Each of Wilbur’s experts would argue that there are common areas of agreement which shape the ethical code.

Ethics and Integrity in the Investment World

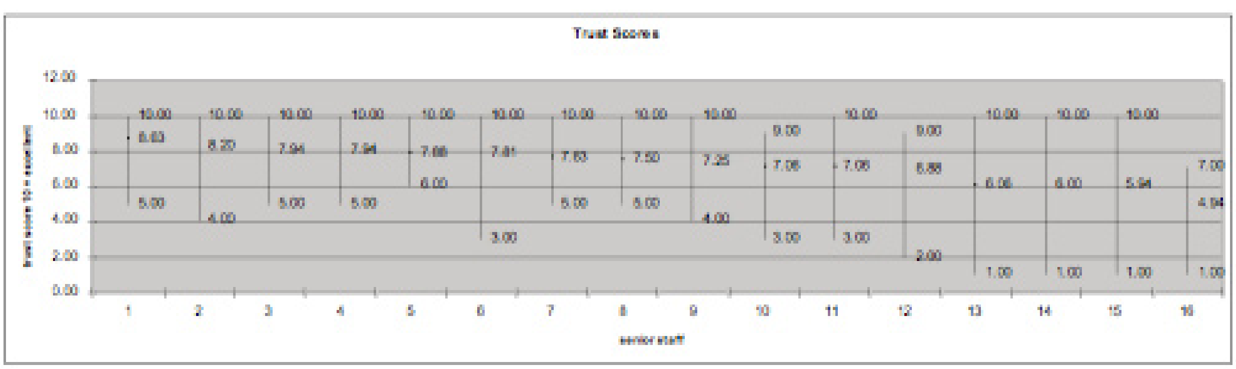
In our surveys of investment firms, they rank “Ethics/Integrity” and “Accountability/ Responsibility” in their top five moral values. You can see the cumulative results for the firms we’ve worked with below. The employees of these firms were shown a list of 67 common values and behaviors for investment agencies and asked to pick their top seven. The list on the top is the “Actual Values” (meaning, what is currently true) and the list on the bottom is the “Aspirational Values” (what needs to be true if the firm is to become a top-performer).

Actual:
1. Client Satisfaction
2. Ethics/Integrity
3. Collaboration/Teamwork
4. Accountability/Responsibility
5. Balance (home/work)

Aspirational:
1. Collaboration/Teamwork
2. Accountability/Responsibility
3. Ethics/Integrity
4. Client Satisfaction
5. Balance (home/work)

As you can see, “Ethics/Integrity” is a “top five” choice for all firms. So, why do firms that clearly esteem ethics and integrity have so much trouble implementing these values? You might ask, “Well, why do you think it is a problem? Just because a few infamous people make the headlines doesn’t mean the profession is riddled with unethical people.”

True enough. To their credit, many investment firms have maintained highly ethical cultures. Nevertheless, many more have created cultures in which trust (among co-workers and clients) is very low. Consider the trust scores from a team of investors who manages more than $6 billion. Each member of this team rated their co-workers (anonymously) on a scale from 1 (poor) to 10 (excellent) on this question: “Based on this person’s behavior over the last 6 months, how much do you trust him or her?” The graph below shows the results (Each team member has high, mean, and low ratings).



Note that eight of the co-workers received ratings of 4 or less from their teammates! This was one of the agencies who agreed, “We value ethics and integrity as a core value for our firm,” and yet they are not able to operationalize it, at least based on these trust scores. To use an Efficient Market analogy, a purely rational thinker might look at these results and say, “Impossible!

Intelligent people who are committed to living ethically would not generate these scores!" But they do—in firms all over the world. (As a point of interest, high trust scores generally correlate with superior fund performance.) How is it, then, that intelligent and well-intentioned people make such poor ethical choices—and apparently do so consistently?

Behavioral Finance and Ethical Decision Making

In our opinion, it's useful to view ethical behavior through the same lens which behavioral finance views the markets: Markets should be efficient. Rational decision-makers make rational choices that accurately price securities. This way, no one can earn excess returns. However, behavioral finance—and the performance records of people like Warren Buffett and Bill Miller—tell us that there are gaps between theory and practice. People do earn excess returns. Markets are not perfectly efficient.

Likewise, leaders of investment firms tell us that they value and practice ethics and integrity in their firms. They reason that since the CFA Institute and others have laid out guidelines for ethical behavior, that rational and well-intentioned professionals will follow those rules, and thus be free of ethical violations. Further, they believe that intelligent agents will realize that good ethics and good business go hand-in-hand. Look what happened to the fortunes of Janus or Putnam after their illegal actions were discovered; compare these to fortunes of a firm like Vanguard, which has a squeaky-clean reputation. Given that investment professionals generally know "the right thing to do" (the standard definition of integrity put forth by most investment firm CEOs), and see the benefit of doing it, there should be no violations. Right?

Unfortunately, no. As with behavioral finance, the gap between theory and practice is wide in the investment world of ethics. The problem, as we see it, is that professionals in the investment world have ignored the behavioral (or psychological) aspects of the problem. Most professional investors are strong at abstract thinking (such as efficient market hypothesizing), but weaker in the messier world of practical thinking. Robert Prentice, professor of business law, writes:

> *The unethical actions of the infamous wrongdoers who have recently populated the crime sections of the financial papers do not prove that they are evil people. Rather, they simply illustrate one of the most fundamental lessons of psychology research in the past century: The circumstances in which we find ourselves often (not always) have more to do with the decisions we make and actions we take than do our basic character traits.*

Ethics as a Leadership and Cultural Issue

For this reason, we view the creation of an ethical firm as a leadership and cultural issue. Leaders must articulate, embrace, and practice strong ethics if they are to maintain an ethical culture. Herein lies the gap between theory and practice. We have yet to meet an investment leader who says, "I've tried to be ethical and maintain my integrity, but I can't seem to do it. My nature is to be sleazy and dishonest. So, our firm is going to reject 'ethics and integrity' as core values. We are going to be authentic and just practice sleazy and dishonest behavior." That's never going happen, or at least articulated. Every investment leader we have worked with (and we've worked with dozens of them, from at least ten different countries) has stated that integrity is a core value. Professionals within these firms have reinforced this notion in our surveys (as shown earlier).

What advice, then, would we offer to investment leaders who want to narrow the gap between ethical theory and practice? First, the terms must be defined. It is not enough to say, "Ethics and integrity simply means to do the right thing." This definition is insufficient for two reasons:

1. People don't often know what the "right thing" is. (Imagine saying, "Do the right thing" to a pro-choice person and then to a pro-life person. You would get widely-different and passionately-expressed views of what the "right thing" is. How would a gay couple and a fundamentalist differ in their opinions about doing the "right thing" in regard to homosexual marriage? This list of possible examples is endless. People need clear guidance as to what "right thing" means in the context of their business transactions. The CFA Code of Conduct is an excellent example of a document that provides just such guidance. Furthermore, the CFA test presents situations in which candidates are asked to evaluate and apply the Code in practice.
2. Even when people think they know the right thing to do, they often don't do it. In the Prentice article mentioned earlier, the author states that the same biases affecting an investment decision will also affect our ethical decisions. For example, a merely self-serving bias will cause people to "gather information, process information, and even remember information in such a manner as to advance their perceived self-interest and to support their preexisting views." The ability of human beings to minimize the impact of their unethical behavior cannot be underestimated. Rationalization covers a multitude of sins.

Defining the terms means that investment leaders must shake off denial, jettison the bias of overconfidence, and realize that creating an ethical firm requires careful thought and vigilance. Good intentions won't get it done. Defining the terms means that leaders must allocate the time to discuss and agree upon what is meant by "ethics and integrity" and—more importantly—how these principles and guiding actions will be operationalized.

An analogy may be useful here. When playing touch football, people often just use rocks to mark the four corners of the playing field. This process is inexact, but works well enough for a pick-up game on Sunday afternoon.

Imagine what would happen if the NFL marked the boundaries of their game fields with small rocks! No paint, just pebbles. Given the stakes, chaos would ensue. In our view, a leader saying, "Do the right thing" is similar to the rock-approach to defining boundaries. The stakes are way too high in professional money management to have blurry lines on the field. Leaders must take the time to carefully and thoughtfully mark the boundaries of the playing field.

Guiding Principles for Right versus Wrong Ethical Decisions

One of the most practical guidelines for ethical behavior comes from none other than superstar investor Warren Buffett. After the Salomon scandal, when Buffett was asked to take over the helm, he gave these instructions to the staff: "I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper—to be read by their spouses, children and friends—with the reporting done by an informed and critical reporter." [2]

This guideline does a good job of bringing any double standards to the surface. It is a strong practical test for individuals who are faced with any ethical dilemma. However, one could imagine issues for which Buffett's test would not provide an answer. I might be fine with the newspaper covering any aspect of my decisions and behavior and still not know if it was the right thing to do.

For ethical dilemmas which present more than one "right path," Kidder's book summarizes the three of the most common ethical tests developed over the centuries:

1. Do what's best for the greatest number of people. (This is called ends-based thinking, or pragmatism).
2. Follow your highest sense of principle. (This is called rule-based thinking, or Kant's categorical imperative)
3. Do what you want others to do to you. (This is care-based thinking, or the Golden Rule)

These three methods of resolving ethical dilemmas are hard-wired into our brains. Based on personality type, one can reliably predict which method a particular person will favor. Rationalists ("head types") tend to choose number 2, the rule-based approach. Feelers ("heart types") tend to rely on the Golden Rule, often asking themselves, "How would I feel in that person's shoes?" Pragmatists ("gut types") tend to follow a very practical approach, namely the greatest good for the greatest number of people.

Ethical Choices: Four Paradigms for Right versus Right

Kidder goes on to say that the truly difficult ethical questions are often between positive values. For example, if you are a tax accountant and you prepare tax returns for a friend who employs an "illegal" nanny (and does not report her), do you let the matter slide or do you confront it?. The value of "truth" would argue that you say what is true; that is, report it. In contrast, the value of "loyalty" would argue that you side with your friend; in other words, let it slide. Kidder argues that there are four paradigms that capture most ethical dilemmas:

1. Truth v. loyalty. *Example: illustrated in the story above.*

[2] From an interview with an ex-Salomon employee.

2. Self v. community. *Example: a newspaper reporter is about to release a story that will cause widespread panic and chaos in a major city. Do the authorities detain him and prevent him from publishing his story, or do they allow him to publish and create chaos?*
3. Short term v. long term. *Example: Do I manage for quarterly results and satisfy Wall Street analysts, or do I take short-term hits to satisfy long-term goals?*
4. Justice v. mercy. *Example: You're grading a set of final exams, and one ordinarily good student gets a 59 and fails the course. He pleads extenuating circumstances, and you are sure he's telling the truth. Do you round him up to a passing grade of 60, or do you stick by your system?*

These four paradigms provide a useful way to think through ethical issues. Consider the dilemma at hand and then see which of the paradigms of "right vs. right" values it fits into. The act of carefully defining the problem is essential to prudent ethical thinking.

Too often we frame ethics as a simple decision between right and wrong. Marianne Jennings, a law professor at Arizona State University and expert on professional ethics, writes, "I am convinced that everyone knows the difference between right and wrong. Everyone knows when they have crossed the line with a client, not disclosed enough information, or not allocated fees properly. Everyone knows the answers." Jennings goes on to write about rationalizations and how people often act unethically because they are unwilling to face the reality. Here are some examples:

- Everybody else does it, so it must be okay.
- That is the way they do it at such-and-such firm, so it must be okay.
- If we do not do it, someone else will.
- This is the way it has always been done.
- It does not really hurt anyone.
- It's just a tiny breach of integrity.

Challenging ethical dilemmas truly exist. They are not easily rationalized away with pat answers behind a smokescreen. For example, a firm that we worked with was faced with the decision of whether to fire the COO. The person in question was a female in her mid-50s, a long-time employee, and—most importantly—had always received high marks for job performance. However, the firm had grown rapidly and needed a "more sophisticated, global person" to run the business side of the firm. The CEO and the president of this firm had long discussions and often used the language: "What is the right thing to do?" If there was an easy answer to this situation, they didn't see it. In the end, they fired the COO, who to this day would say, "All their talk about valuing employees is just talk; in the end they chose money over the employee." Would it have been fairer to keep her on? Fairer to the other employees and shareholders?

We could identify a legitimate ethical dilemma for every firm with whom we've worked closely. A common challenge for investment professionals is the tension between work and family. Most investment professionals state that their number-one priority in life is family—and yet

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most of them work long hours and spend more time with their colleagues than with their family members. Many of them openly express guilt about it, too. Are they being honest when they state their priorities? Would it be more honest (and therefore ethical) to state that their top priority is professional success? What's true at your firm?

Process for Resolving Ethical Dilemmas

Here is a nine-step process that will help you resolve difficult ethical dilemmas:

1. Acknowledge that there is an ethical issue. This is where self-awareness plays an important role. As mentioned earlier, humans have a tremendous ability to rationalize. Self-awareness and reliable feedback from colleagues allow us to see past our own blind spots and recognize legitimate issues.
2. Determine who is faced with—and owns—the problem. There is a difference between being involved and being the one responsible. The question is not whether I am involved but whether I am responsible—whether I am morally obligated and empowered to do anything in the face of the moral issue raised.
3. Gather the relevant data. Carefully separate the facts from the stories (opinions, judgments, beliefs, etc.). Ethical decision making does not take place in a theoretical void, but in the messy world of real experience. Getting all the relevant facts on the table helps you to fully understand the dilemma, and may suggest a possible "third" way that could resolve the issue.
4. Test the "right-versus-wrong" parameters. Does the issue involve wrongdoing? The first test here is legal. Was the law broken? If so, then the issue is a legal one, not a moral one. If the answer to the legal test is not clear, then Buffett's headline test is useful: Would I feel comfortable reading about this in the newspaper? If the issue fails the newspaper test—then you have resolved the moral dilemma: Don't do it.
5. Test for "right-versus-right" paradigms. If the action passes the newspaper test, but you still feel conflicted about what to do, then you are faced with a right-versus-right question. Two positive values are clashing. Figure out which paradigm you are dealing with:
    a. Truth vs. loyalty
    b. Self vs. community
    c. Short term vs. long term
    d. Justice vs. mercy

    Identifying the paradigm will bring clarity to a dilemma that pits two deeply held core values against each other.
6. Apply the resolution principles. Once you have determined that the issue is a genuine dilemma and have identified the two opposing values, bring to bear the resolution principles mentioned earlier:

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a. Do what's best for the greatest number of people.
b. Follow your highest sense of principle.
c. Do what you want others to do to you.

The goal is not to arrive at a 3-0 or 2-1 victory using these principles, but rather to locate the line of reasoning that seems most relevant and persuasive regarding the issue at hand.

7. Investigate the "third way" options. At any point during this process, you may see that there is a creative "third option" to solving the dilemma. Sometimes this way will be a compromise, requiring each side to loosen up its position a bit. Sometimes the third way will be a genuinely creative choice that requires no compromise.
8. Make a decision. After appropriate reflection, a choice is required. Sometimes this requires a good deal of courage. We will cover this topic later: How can people increase their moral courage?
9. Reflect on what you can learn from the decision. Go back over the issue and the resolution you chose, soliciting feedback and clarifying what you learned. Record the insights so that they can be used to teach future team members about the process.

In our view, a rigorous process like the one outlined in these nine steps will develop your ethics and integrity muscles. Like physical fitness, moral health requires exercise and practice. Good intentions are not enough. People need to continually practice reasoning and feeling their way through a variety of ethical dilemmas in order to develop this skill set.

The Final Piece: Energetic Integrity

So far, we've talked about legal and ethical integrity, but there is also a third, all-important piece to developing ethical leadership and culture. We call this final piece energetic integrity. This level of integrity goes beyond the common definition of integrity (consistently acting in line with our principles and beliefs) to includes a secondary definition: "the quality or state of being complete; unbroken; whole; integrated."

The importance of this secondary definition is that it demands a way of life that strengthens moral character. Living in a state of wholeness and completion will prevent legal or ethical breaches. We are convinced that if a person practices energetic integrity, he or she will safely stay miles from the edge of the slippery slope of unethical behavior, and even further from illegal behavior. Practicing energetic integrity is the best way we know to safeguard against the ethical breaches that Prentice wrote about in his behavioral finance piece on ethical decision making.

Here are the key elements of energetic integrity:

1. Emotional intelligence (à la Dan Goleman). EI is characterized by these four skills:
   a. Identifying my own thoughts and emotions (emotional "literacy").
   b. Managing my own thoughts and emotions, so that I am in charge of how I feel. I have many feelings over the course of a day, they don't have me.

c. Anticipating the thoughts and emotions of others (the capacity for empathy, putting myself in someone else's shoes).

d. Managing my relationships (building trust and respect with colleagues, addressing and resolving conflict with others).

2. Taking 100-percent responsibility for what occurs in my life (not blaming others, not becoming a victim).
3. Making and keeping clear agreements (this includes knowing how to clean up broken agreements and make amends).
4. Skillful communication (practicing candor—honest and open discussion that does not create defensiveness—along with active listening that demonstrates respect and genuine curiosity).

Individuals who commit to living these behaviors will experience high levels of energy and clarity of thought. Most importantly, they will be developing three important defenses again legal or ethical breaches:

1. Heightened self-awareness, and increased openness to examining their own behavior; greater access to the "still, small voice" of conscience.
2. More feedback from colleagues to help discover possible blind spots and creative rationalizations.
3. Greater moral courage; a willingness to do the right thing even when it is the cost is significant.

The first factor—self-awareness and openness—allows individuals to recognize, in a non-defensive way, that they are facing an ethical dilemma. For many people, they simply don't know how to flag an ethical issue, so it never makes it onto their radar screens. Often this results from operating on "automatic pilot," and not reflecting on decisions and actions that you have taken. Energetic integrity encourages people to become more conscious about their thoughts and behavior, so that there is a greater likelihood of noticing and acting on ethical issues before they become destructive. Thomas Aquinas once said, "If faced with a choice between ethical doctrine and my conscience, I would choose my conscience." This is the notion of trusting the "still, small voice" inside.

There is a second factor which is essential to high-performing, high-integrity organizations. Feedback is necessary for all of us because we simply don't see what's in our blind spots. That's how they got their name. Because of the human tendency to be overconfident, we tend to believe that there isn't much outside of our peripheral vision. A powerful defense against any ethical or legal breaches is to create and maintain a feedback-rich environment in which all employees are encouraged to state their opinions and call attention to issues which concern them — without any fear of the consequences.

Which leads us to the third factor gets at the heart of what causes so much illegal and unethical behavior: primal fear. Why aren't there more whistleblowers in corporate America? The answer is simple: fear of retribution. Energetic integrity addresses this issue head-on by providing reliable tools for reducing trepidation. When people learn to manage their emotions, they can honestly say, "I am in charge of how I feel and not the other way around." When they have this skill, people can learn to release their fears by fully acknowledging them and then identifying which one of three "hot spots" has been threatened:

1. Fear of losing control
2. Fear of losing approval
3. Fear of losing security/safety

Hale Dwoskin, author of *The Sedona Method* (2003), has been researching and teaching these release methods for more than 30 years. We have tested them at Focus Consulting and found them to be very effective in managing emotions. As people reduce their fear levels, they become increasingly skilled in addressing ethical and legal issues.

Another tool we use to reduce fear and manage emotions is meditation. We have written on this topic for investors and recommend the tools provided by Centerpointe Research. Lennick and Kiel, the authors of *Moral Intelligence* (2005), also recommend meditation to manage emotions: "Many people find deep breathing and meditation to be effective in calming their minds and bodies." They go on to recommend Dr. Herbert Benson's best-selling book, *The Relaxation Response* (2000), which "provides an easy and efficient method for achieving a relaxed state."

Tools and techniques for achieving a peaceful state of mind abound. Regardless of the tools we use, energetic integrity demands that we find an effective method of managing our emotions so that we can do the right thing, even when it is difficult. This is the path to moral courage.

Summary

Investment leaders around the world agree that establishing an ethical culture is crucial to long-term success of their organizations. Given the numerous lapses in ethics, we believe this goal is much harder than most leaders appreciate. Many of the ethical slips can be explained by concepts from behavioral finance, such as the bias of overconfidence . More than 99 percent of people surveyed believed that their ethical standards were higher than those of the people with whom they worked.

Most of us tend to think it's always the other guy who is unethical. Therein lies the danger.

The solution involves time and effort on the part of leaders to define the terms ethics and integrity. It requires a deep commitment to creating an ethical culture. It also involves a personal commitment to practicing what we call energetic integrity. This term, and the life that energetic integrity engenders, involves personal skills such as emotional intelligence, communication, and moral courage.

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