



Building Ethical Culture: *Making Ethics a Competitive Advantage*

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Learning Objectives

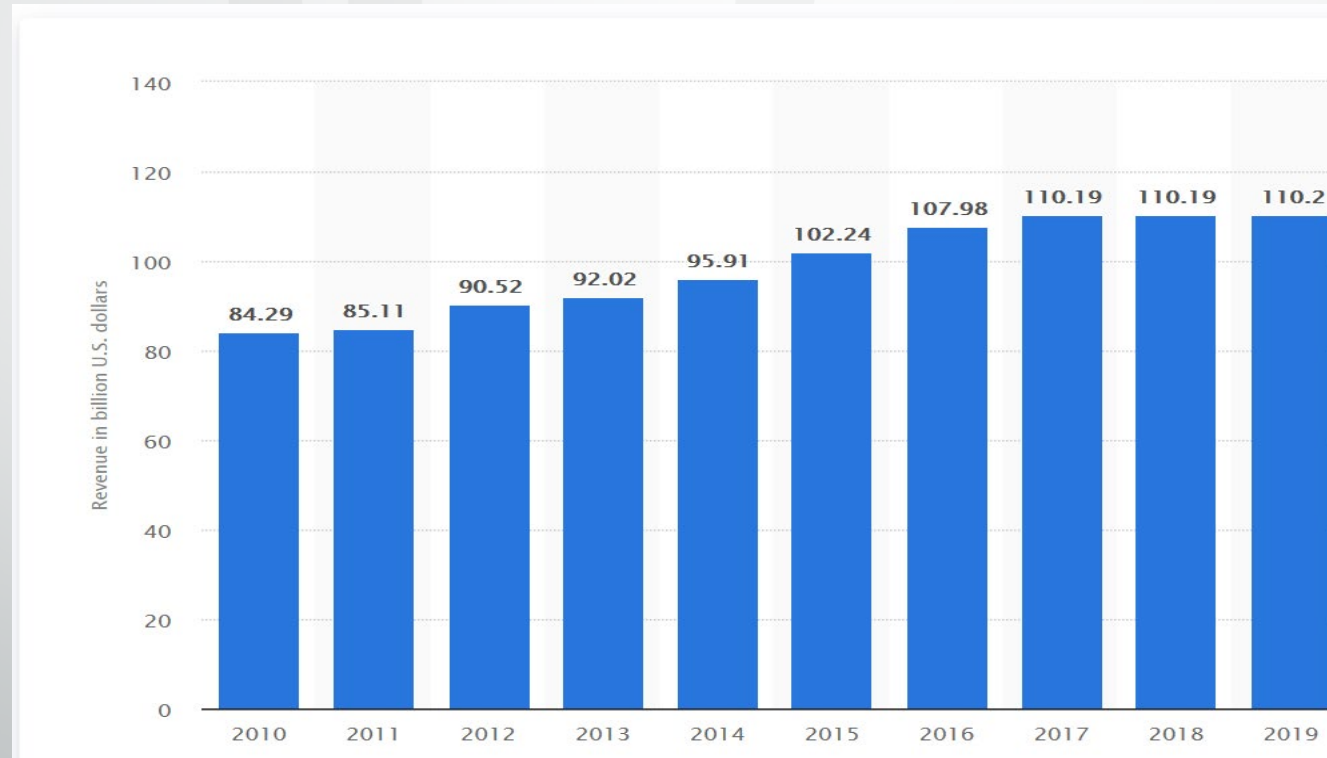
- Identify the characteristics that make the CPA credential unique compared to other financial designations
- Compare and contrast the AICPA Code of Professional Conduct to the ethics codes of other financial professionals
- State the key factors that influence employee behavior according to research
- Identify the key factors of ethical communication that increase trust

A few observations....

- **It is difficult to measure a company's level of ethics. You can do it through surveys, but this really comes down to perceived ethics – not actual ethics.**
 - It is probably the best you can do in research, but still....
- **The studies in this area mostly use stock price as the gauge to financial success (because it is widely available and measurable). Other variables may not be as readily apparent.**
 - For example, lost contracts, lost customers, and lost key employees are difficult to measure for research purposes – yet these could be relevant dependent variables, if the company has poor ethical practices.

Let's take this question from a different angle....

- Since the financial crisis, there has been increasingly more focus on CPA ethics. In that time, industry revenue has grown.



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(Statista.com, 2020)

Let's take this question from a different angle....

- The CPA Profession has continued to be a trusted profession as well....

	Very high	High	Average	Low	Very low	No opinion	Very high/High
	%	%	%	%	%	%	%
2018 Dec 3-12	5	37	48	6	1	3	42
2015 Dec 2-6	6	33	51	7	*	3	39
2011 Nov 28-Dec 1	7	36	49	6	1	2	43
2008 Nov 7-9	5	33	51	7	1	2	38
2005 Nov 17-20	5	34	51	6	1	3	39
2002 Nov 22-24	4	31	52	8	2	3	35
2002 Feb 8-10	5	27	54	8	3	3	32
2001 Nov 26-27	5	36	53	3	*	3	41
2000 Nov 13-15	5	33	51	5	1	5	38

GALLUP

Does this mean that the focus on ethics in the CPA profession actually has resulted in financial success?

- Hard to be absolutely certain...
- But industry revenue has grown and public confidence has remained high (and maybe even had some growth).
- A logical hypothesis might be that with the increased media and industry attention on CPA ethics since the financial crisis, higher ethical standards may have been a strong contributing factor to this result....

Can ethics really be used as a competitive advantage?

- Let's assume it can.... Ethics would have to be different. It would have to be something that puts an industry or company in a unique position to succeed.
- Competitive advantage is usually discussed in terms of:
 - Superior cost structure
 - Branding
 - Quality of Products
 - Efficient distribution
 - Intellectual property
 - Customer service

So what if we use the AICPA Code of Conduct as a test case....

- What is unique about the CPA profession? What is unique about how CPA ethics is practiced?
- *If we can answer these questions, then maybe we can figure out how we can make our firm's code of ethics a source of competitive advantage!*

So how is the CPA designation different?

- **Having letters behind your last name is not unique in financial services**
 - FINRA lists 214 recognized professional designations on its website – and this may not be all of them! (*FINRA.org, 2020*)
- **A Continuing Education component is not unique**
 - CFP Professionals are required to have 30 hours of CE every two years
 - Insurance agents, attorneys who work in financial matters, and those holding securities licenses also having CE requirements.
- **An Ethics requirement to get licensed and stay licensed is not unique**
 - CFP Professionals, Insurance Agents, Attorneys, and many others have this!

So what makes the CPA designation unique?

- **CPA is one of the only designations that is protected by state law**
 - It is often illegal under state law to call yourself a CPA, when you are not.
 - CFP designation is a national designation and is not protected under law
 - As a point of comparison, nearly anyone can call themselves a “financial advisor”
- **CPA continuing education requirements are higher than almost any other**
 - CPA: 40 hours per year in many states
 - CFP: 30 hours every two years
 - Attorneys: In many states, 12 to 15 hours per year.

So what makes the CPA designation unique?

- **CPA's independence and objective opinion is often the "product" being sold**
 - Insurance agents are selling a policy
 - Attorneys give advice, but it is often advocating for their client
 - The unbiased nature of the CPA's opinion is often highly valued by society and clients
- **The CPA designation implies a versatile breadth of knowledge**
 - Think about all the things that CPA's are involved in: auditing, tax accounting, business operations, business valuation, data analytics, internal controls.....

So what makes the CPA designation unique?

- **The CPA designation and the accounting profession have been around for a LONG time.....**
 - First CPA examination was given in New York in 1896 (NASBA.org, 2020)
 - Luca Pacioli wrote the first book on double entry accounting in 1494 (NASBA.org, 2020)
- **Very few (if any) designations are more recognizable than the CPA designation to the average person**
 - Industries may recognize their own designations
 - Many people have heard the term CPA (*even if many of them think they all do taxes!* 😊)

Why is our profession so unique?

- **Our history & recognition**
- **We are known for being impartial** (and therefore we are generally viewed by the public as trustworthy)
- **So how do these unique aspects of our profession show up in our ethical code and practices?**



AICPA Code of Conduct

- 0.300.010 Preamble
- .01 Membership in the American Institute of Certified Public Accountants is voluntary. By accepting membership, a member assumes an obligation of self-discipline above and beyond the requirements of laws and regulations.

(AICPA.org, 2020)

Observations

- **CFP Board, CFA Institutes, and the AICPA Code of Professional Conduct generally say that ethics creates duties above the law**
- **All generally talk about public trust, but it is done in different ways:**
 - CPA: the CPA is an integral part of society, obligation to the public interest
 - CFA: Promoting the integrity of the capital markets
 - CFP: Fiduciary duty – best interest of the client

AICPA Code of Conduct

- 0.300.020.02 - As professionals, *members* perform an **essential role in society**. Consistent with that role, *members* of the American Institute of Certified Public Accountants have responsibilities to all those who use their *professional services*. *Members* also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance. The collective efforts of all *members* are required to maintain and enhance the **traditions of the profession**. [Prior reference: ET section 52]

AICPA Code of Conduct

- 0.300.030.01 - The public interest principle. Members should accept **the obligation** to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism



CFA Institute Code of Ethics & Standards of Professional Conduct

THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

CFP Board Code of Ethics & Standards of Conduct

A CFP® professional must:

- 1. Act with honesty, integrity, competence, and diligence.**
- 2. Act in the client's best interests.**
- 3. Exercise due care.**
- 4. Avoid or disclose and manage conflicts of interest.**
- 5. Maintain the confidentiality and protect the privacy of client information.**
- 6. Act in a manner that reflects positively on the financial planning profession and CFP® certification.**

Observations

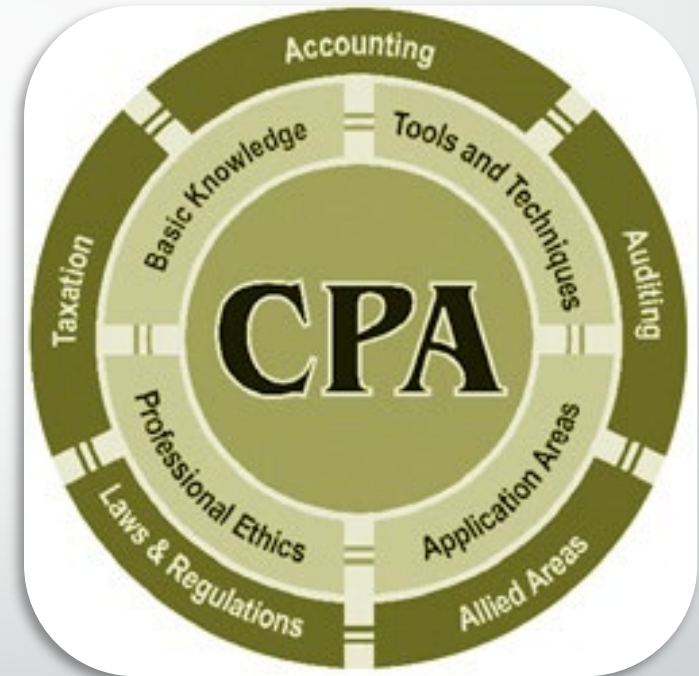
- **CPA's directly state their "obligation" to the public interest.**
 - *This is not to say that the other do not have a sense of responsibility to the public. They do have a responsibility to the public – but the AICPA Code specifically states that this responsibility is an "obligation."*
- **CPA's have a deep sense of history of the profession and the importance of maintaining it.**
- **Objectivity is a cornerstone to our position in the eyes of the public.**

Observations

- CPA's take the idea of public perception to the extreme – It is not just about what we do, it is about what it looks like to everyone else.
- For CPA's, the idea of the Code being adaptable to a changing profession is important.
- Enter the Conceptual Framework approach.....

AICPA Code of Professional Conduct

- Conceptual Framework:
 - Identify Threats
 - Evaluate Threats
 - Identify Safeguards
 - Apply Safeguards



Case Study #1

You are the Controller of a small company in your hometown. Your company is undergoing its first financial statement audit. You find out from the CFO that a family friend is the audit partner in charge of the engagement.

Is this situation addressed by the AICPA Code of Professional Conduct?

Are there any ethical problems with this arrangement? If so, what?

Case Study #2

You are the controller for a small privately-held company. Your company is looking for an operations manager. You recommend your neighbor for the role, since you know he has been out of work for six months. Your company decides to hire him based on his stellar resume and the good word you put in for him.

A few weeks later, you find out that your neighbor misrepresented his past experience. He said that he had several years of industry experience when you know he has only just started in the industry a few years ago.

Is this situation addressed by the AICPA Code of Professional Conduct?

Are there any ethical problems with this? If so, what?

So let's circle back to where we started...

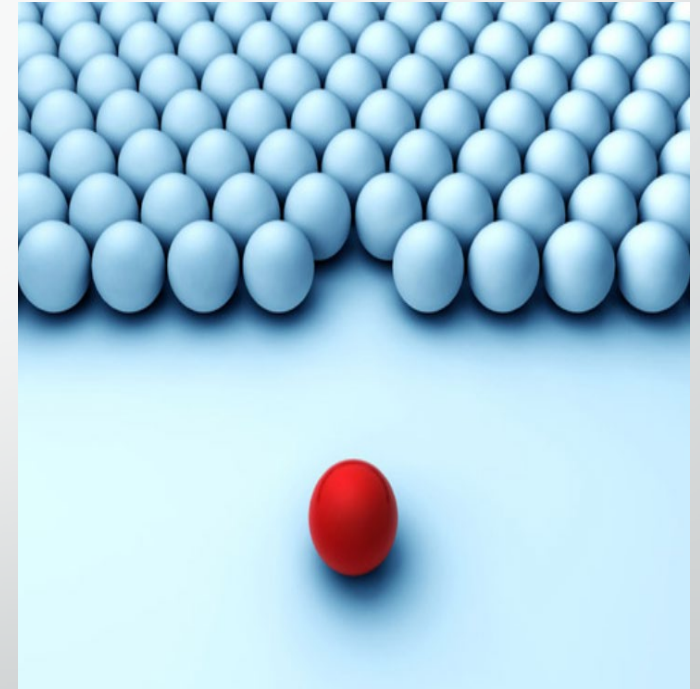
- **What makes CPA ethics unique?**
 - Respects the long-tradition, but looks ahead
 - Constantly applying basic principles in new ways
 - Constantly reinforces the obligation to the public
- **CPA ethics is constantly evolving and looking for new ways to solve problems. It is dynamic, adaptive, and something that looks ahead.**
- **For a CPA, following the rules is not enough – you must follow the spirit of the Code of Professional Conduct (that's why we have a conceptual framework approach)**

Let's Be Honest....

- **Most people think of ethics and ethics conversations as nothing more than learning the rules & checking the box**
- **We tend to come out of ethics trainings feeling:**
 - Bored
 - Uninspired
 - Struggling to put anything we talked about to any practical use
- **Using the AICPA Code of Professional Conduct as a test case, we realize that an effective code of ethics needs to go beyond that....**

It Doesn't Have to Be That Way...

- But you need to tell people about why your ethics are important, why it is different, and how it helps you become better...
- A Marketing Tool
- Something that is a Vital Part of Your Company's Culture



We need to go beyond the rules!

Ethics as a Marketing Tool

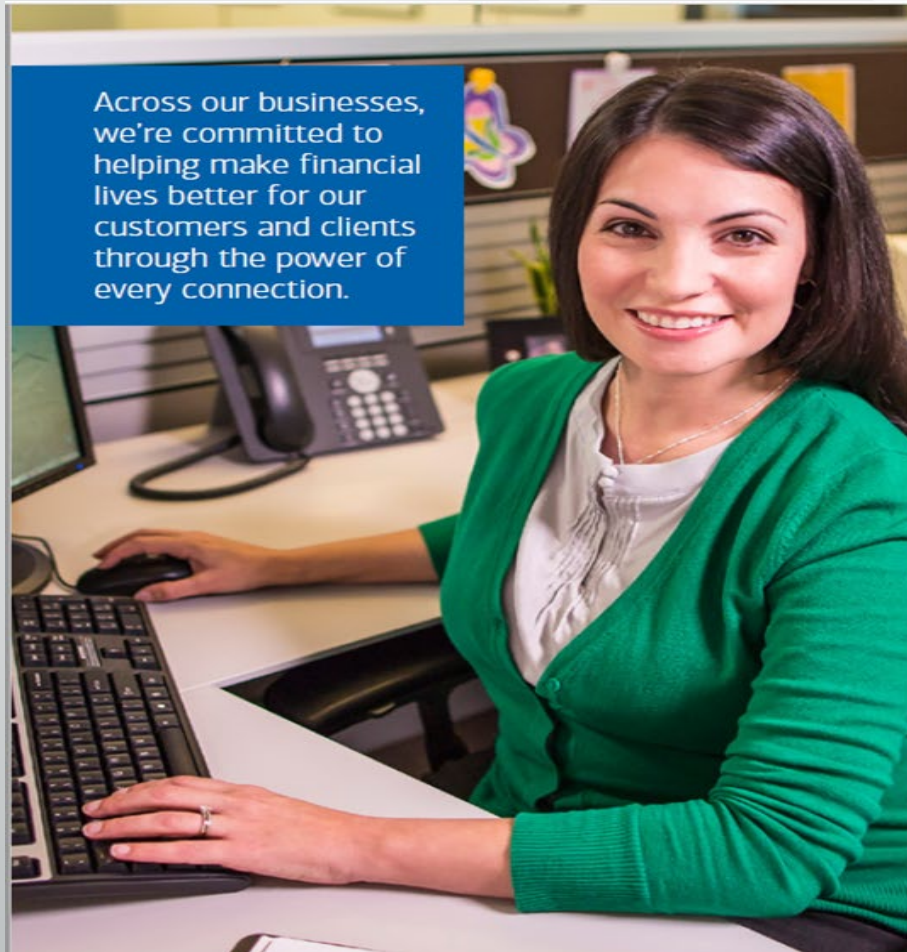
- **If we want our Code of Ethics to be more valuable to clients, colleagues, and everyone around us, we need to:**
 - Continuously reflect our basic values and show how we are unique
 - Show how it affects us in very real, easy to understand ways – both now and in the future.
 - Be constantly re-evaluated – it is a living document that guides us!

Discussion

So the place to begin your ethics code is by figuring out your core values and how those are unique. How can you reinforce your core values? How do they show up in everyday situations? Is there a way to celebrate them?



Ethics as a Marketing Tool Example – Bank of America Values Statement



Across our businesses, we're committed to helping make financial lives better for our customers and clients through the power of every connection.

Bank of America values

Our values

Across our businesses, we're committed to helping make financial lives better for our customers and clients through the power of every connection.

Our values guide and inspire how we work together to serve our customers and clients, our shareholders and each other, helping us realize our purpose. To do this, we must:

Deliver together

We believe in the importance of treating each customer, client and teammate as an individual and treating every moment as one that matters. We strive to go the distance to deliver with discipline and passion. We believe in connecting with people person-to-person, with empathy and understanding. We believe everything we do for customers, clients, teammates and the communities we serve is built on a solid business foundation that delivers for shareholders.

Act responsibly

We believe that integrity and the disciplined management of risk form the foundation of our business. We are aware that our decisions and actions affect people's lives every day. We believe in making decisions that are clear, fair and grounded in the principles of shared success, responsible citizenship and community building.

Realize the power of our people

We strive to help our employees reach their full potential. We believe that diverse backgrounds and experiences make us stronger. We respect every individual and value our differences—in thought, style, culture, ethnicity and experience.

Trust the team

We believe that the best outcomes are achieved when people work together across the entire company. We believe great teams are built on mutual trust, shared ownership and accountability. We act as one company and believe when we work together, we best meet the full needs of our customers and clients.

So if I just regurgitate the AICPA Code of Professional Conduct onto a pamphlet, I have a competitive advantage?

- Of course not.... You have to make it personal.
- **Think for a minute....** How does your code of ethics affect how you conduct business? Could you tell your customers about this somehow? How about your vendors? How about your investors?

Making Your Code of Ethics Personal

- One way to make your ethics into a marketing tool is to make it so your employees want to tell others about it as well.
- Employees will talk about your Code of Ethics if you create an ethical culture.
- How do you do that?



What Influences Employee Behavior?

ORGANIZATIONAL
BEHAVIOR



- Just having a Code of Ethics really doesn't do much.... It needs to be a living document.
- Tone at the top matters
- Day to day interactions matter
- Building trust among employees matter

Highlights of Ethical Research – Journal of Accountancy Article (June 1, 2014)

- 1980s and 1990s companies were primarily motivated to have an ethics and compliance program to show that they were socially responsible and to guide employees' behavior
- Today's companies are more motivated by “doing the right thing” and by legal compliance

Highlights of Ethical Research – Journal of Accountancy Article (June 1, 2014)

- Having Codes of Ethics is not enough to reduce opportunistic behavior by a manager or to increase investor confidence
- What is needed to accomplish both goals is to have managers publicly sign a statement that they will personally adhere to the code of ethics

Key Takeaways about Employee Behavior

- If managers personally adhere to the code of ethics, employees likely will as well.
- The Code of Ethics needs to be a living document
 - Ethics committees
 - Ethics Hotlines
- A constant emphasis on doing the right thing can be powerful

Building Trust in Organizations

- 1) Trust with generosity
- 2) Be patient & flexible
- 3) Be dependable
- 4) Be consistent
- 5) Be open



(Psychology Today, 2014)

Building Trust in Relationships

- 1) Say what you mean, and mean what you say
- 2) Be vulnerable — gradually
- 3) Remember the role of respect
- 4) Give the benefit of the doubt
- 5) Express your feelings functionally, especially when it's tough
- 6) Take a risk together
- 7) Be willing to give as well as receive

(Psychology Today, 2018)

Ethical Communication Builds Trust

- **Ethical Communication involves:**
 - Transparency
 - Congruence between words and actions
- **Ethical communication may be difficult to practice in high-stress situations, such as when employees are at odds with each other**

Summing It All Up

- The AICPA Code of Professional Conduct offers some great insight into how a Code of Ethics can be made more valuable – it is a living document that continually allows the fundamental ideas to be reapplied to new situations.
- If we want our Code of Ethics to be a source of competitive advantage, it needs to highlight how we are different and how are ethics manifests itself in very personal, specific ways.

Summing It All Up

- You also need to tell stakeholders about your code of ethics – celebrate it! Make it into a marketing tool and make it part of the culture!
- A solid ethical culture makes it so employees will want to market your Code of Ethics for you!
- Building an Ethical Culture involves building trust through ethical communication that is transparent and matches action.

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Appendix

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Does it pay for a company to have ethics?

- Gunthorpe (1998) “found that upon the announcement that a firm is under investigation or has in some way engaged in unethical behavior, a statistically significant negative abnormal (excess) return is found. This suggests that firms are indeed penalized for their unethical actions.”
- Renneboog (2019) says found that “consistent with investors paying a price for ethics, SRI funds in many European and Asia-Pacific countries strongly underperform domestic benchmark portfolios by about 5% per annum, although UK and US SRI funds do not significantly underperform their benchmarks.”

Does it pay for a company to have ethics?

- Margolis (2011) found that “except for the effect of revealed misdeeds on financial performance, none of the many contingencies examined in the literature markedly affects the results.”
- So research results are mixed as to whether better ethics really leads to a higher level of financial success for companies in terms of stock price.....

Types of Threats

- Adverse Interest
- Advocacy
- Familiarity
- Self-Interest
- Self-Review
- Undue Influence
- Management Participation



Safeguards

Public Practice

- Laws & Industry Regulation
- Firm Safeguards
- Client Safeguards

Business & Industry

- Laws & Industry Regulation
- Firm Safeguards

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