Keynote Address: Creating a Culture of Integrity
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Good Morning!

Thank you for that kind introduction. I am very happy to be with you today. As a Chief Risk Officer, I rely on our Compliance team – to help ensure our internal controls are most effective. And I trust that this conference will add to your skills, so you remain most effective.

This morning, we are going to step back from your day-to-day routine. We are going to focus on Creating a Culture of Integrity.

It may seem ironic that I guy who lives in Illinois is speaking about Integrity. You know, Illinois, where our last two governors have been convicted for crimes committed during their years of public service. Actually, 10% (4 of 40) of the state’s governors, historically, have been convicted for a variety of crime, while they served the public.

We all know that a tarnished reputation is difficult to clean.

So, what does this mean for you, knowing that you have so much to do? You already must protect your reputation and your firm’s reputation. Be concerned about your behavior, your employer’s behavior, and, now, perhaps - - our politicians’ behavior?

How do you cope with all of this? Well there’s really only one way - - Stay true to your Values and act with integrity. We know it sounds easy, but it isn’t. So, let’s break the concepts apart and explore them a bit more. This morning, I will cover three areas:

1. First, as a volunteer and Vice-Chair of CFA Institute, I will share some values that they have in mind for the investment industry.
2. Second, I’ll Share some thoughts on Ethical Teachings that display the Benefits of Integrity.
3. Third, I’ll challenge you to get moving toward a Culture of Integrity - - and suggest a few ways to realize the Benefits of Integrity.

Section One – Protecting our Reputation – Values for the Capital Markets

CFA Institute is a global non-profit association of investment professionals. It has over 100,000 members and those members represent more than 50 countries throughout the world.

The organization is probably best known for its Chartered Financial Analyst Curriculum and designation. The organization also offers the CIPM designation - Certificate in Investment Performance Measurement. CFA Institute assists with Global Investment Performance
Standards, or GIPs. We collectively seek the fair presentation of investment performance information.

Now 2 key points about the strategic path of CFA Institute:

1. The mission of the organization is to promote ethics, education, and professional excellence of its members.
2. The scope of our work extends beyond our members:
   1. We work to be an ethical voice on behalf of investor protection, market efficiency, and fairness.

Why do financial analysts want to be the Voice for Ethics in the investment industry? You see, charterholders have a lot to lose if they or their peers are reckless. In a micro sense, members don’t want to lose their charters due to the difficulty of the CFA Program — only 1 in 5 pass all three levels of the exam. In a macro sense we all must know that the financial service industry requires trust — when that trust is broken, we all suffer.

Well, to be the Ethical Voice, you better have some solid values. A couple years ago, on the 200th anniversary of Abraham Lincoln’s birth I reminded CFA Institute members, in the midst of the breakdown of trust in our financial system, to reach back to the values the organization, put in place long ago.

I used as my inspiration, Lincoln’s Gettysburg Address. Lincoln looked past the tragedy of civil war and found strength by reaching back to the core principles that gave rise to the Union. I, likewise, wanted to get back to core values and reach higher ground when so much seemed so wrong.

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Three score and two years ago, the analytical forefathers of CFA Institute brought forth upon this nation, a new idea, conceived in liberty, and dedicated to the proposition that all markets should offer equal opportunity.

That an analytical approach toward the capital markets could lead to more consistent returns from invested capital. And that ethics, education and excellence would lead investors down a rational path; toward the wise use of limited resources.

Our financial patriarchs channeled their principles into the CFA Program and its ethical precepts allowed its values to spread globally.

However, there are those that do not share our ethical standards. And the darker angels of our nature, such as greed and financial gluttony, came to overshadow sound business practice and rational asset valuations.

Now we are engaged in a great balance sheet contraction and recession, testing whether the nation’s economy – or any economy so conceived – can long endure.
As we look back at the past year, we come to dedicate 2008 as a final resting place for those companies that gave their lives.

May we learn from their error and reinforce our commitment to risk management, diversification, fiduciary care, and sound due diligence. The world will little note, nor long remember what we say here, but it should never forget what has happened here.

As we look hopefully to the future, it is for us the living, to be dedicated here to the unfinished work that our analytical forebears have thus far so nobly advanced.

It is rather for us to be here dedicated to the great task remaining before us: to learn – to educate ourselves; prevent the mistakes that squandered investor’s capital, and take increased devotion to that cause; that we here highly resolve that these companies shall not have died in vain.

That these markets shall have a new birth of freedom through transparency, and that free enterprise of the people, innovation by the people, and productivity enhancements for the people - - the true building blocks of prosperity - - shall not perish from the earth.

There is an aspirational nature in Lincoln’s address and implicit in these words is the shared goal of strengthening the Public Trust - - Putting people first; Putting the needs of others ahead of your own. For those of us in the Financial Service industry, this implies a Fiduciary standard of care.

As we discuss service to others; meeting the needs of the people; this is a perfect segue to what integrity means.

**Section Two – Protecting our Reputation - The Concept of Integrity**

So, what is Integrity? How do we know if we have it? How can it help others?

Look it up in a dictionary and you see that Integrity is defined as Honesty; the state of being Whole, Soundness of moral character. The word Integrity is derived from the Latin word for Undivided; Untouched.

In fact, the concept of integrity has been linked to an assortment of associated words, such as: Moral; Upright; Ethical; Virtue; Values; Justice; and again, Honesty - - which is a critical component of Integrity that we will set aside and come back to later. But, let’s move beyond the words and explore several Western views of the effect of integrity on human interaction and relationships.

In this regard, philosophical thought can assist. Philosophers have described the benefits brought to society by integrity for thousands of years. So, let’s get comfortable with our feelings and the teachings of three philosophers: Socrates, Plato, and Aristotle.
These 3 men of ancient Greece, some 2,300-2,400 years ago, were noble men and they did much to shape our Western concept of integrity:

- They taught - - the most privileged;
- They debated - - some of the most powerful;
- They addressed sensitive subjects - - Athenian values, laws, customs, and religion;
- And along the way - - they made some enemies.

It was Socrates who was tried for treason and sentenced to death for the positions he took. An important take-away from that outcome - - it takes courage to take ethical positions; to be true to your beliefs.

Plato, contrasted justice and injustice. He argued that those who are just have a virtuous soul and can build relationships over time. They are able to rule others in a fair manner. People trust them. Looking at the other side of the argument, those who are not just - - do not have virtue, which creates conflict - - where people cannot live and work together. So, Virtue breeds Trust - - Trust builds relationships. The lack of Virtue does the opposite.

What I take away here is that Integrity does not align well with a selfish view: What’s in it for me - - today? Rather, Integrity is aligned with a very important word, that being: WE. Namely, what can WE do together to make tomorrow better?

Aristotle considered the ethics in human interactions. Virtue was all about choices and their impact on feelings, including our happiness.

My take-away from Aristotle: Integrity can be examined, even measured: You have actions and intended outcomes. Said another way: Making decisions that Seek good outcomes for others is a characteristic of those with Integrity.

These philosophical teachings have shaped our nation. Aristotle’s link of Virtue and Happiness is reflected in our own Declaration of Independence. Thomas Jefferson wrote of unalienable Rights that included, ‘the pursuit of Happiness.’

The Declaration also gave us an example of something bad for society. It states: ‘... a Tyrant, is unfit to be the ruler of a free people.’

There are people, who simply are not good to other people. Tyrants take advantage of others and are dishonest.

So, we see that integrity supports a well-functioning society. Let’s move to more current times.

When we hear of an ethical lapse or scheme, we tend to create groups of, ‘good guys or bad guys.’ But, those descriptions really lie to the extremes of a continuum. I usually can identify very few perfect saints or devils. Human actions are not universal.
This is precisely why we need a Culture of Integrity: A focus on: the integrity of individuals within a setting; that can allow us to see situations or people that can do the greatest harm to our profession.

Author Philip Lawton wrote a piece in 2006 for CFA Magazine. It was titled *A Perfect Villain*, and stated, “If perfectly unethical people were readily identifiable, we could simply take action to separate them from the firm and, in the best case, from the profession. They do not, however, publicly declare that industry standards of professional conduct apply only to others. On the contrary, they appear to be irreproachable. . . Appearances deceive.”

What are we to do? Let’s move to:

**Section Three – Creating a Culture of Integrity**

I am going to summarize a four-step process that I use to keep the concept of integrity in front of me - - in business settings and in personal settings.

The first two steps set a foundation in place. It’s part of the Tone-at-the-top. The third and fourth steps require us to LOOK for integrity and then ACT.

1. The first element of a culture of integrity sets high standards, in writing. This sets a bar that can be used to judge the tone-at-the-top and guide staff - - all the way down to the newest employee. The Framework clarifies expectations and promotes an environment of honesty and fairness.

Today, for all industries that require the Public Trust, there are demands for Codes of Ethics; Standards of Practice and other similar documents. The best ones exceed the letter of the law - - they seek a higher threshold that addresses values. The best ethical policies also promote accountability where compliance with the standards is verified.

If you go back to the writings of the leading investment analysts that were practicing during the Great Depression of the 1930s, they worried about ethics. They felt the low esteem that the public had for those in the finance profession. Let’s avoid this!
To assist the Finance industry, CFA Institute provides a variety of tools to solidify an array of Moral Principles for the Finance Industry. In terms of Conduct, there are codes for:

Asset Manager Code of Professional Conduct  
Pension Trustee Code of Conduct  
Endowments Code of Conduct

To guide the industry, there are standards for:

Research Objectivity Standards  
Soft Dollar Standards

And guidelines:

Analyst/Issuer Guidelines  
Trade Management Guidelines

My employer, with approval of our Chief Compliance Officer, has adopted the Asset Manager Code of Professional Conduct. I believe that process was painless. We are a Registered Investment Adviser and were already complying with the aspects of the Code.

2. Now moving to a second requirement of a culture of integrity: Education.

Beyond Honesty, to have complete faith in an individual, we require them to be competent. You wouldn’t want a doctor to operate on you if you didn’t Trust them or if you believed they were not well educated.

Education involves all forms of training.

- Technical training that keeps you at the top of your professional game;
- But, also: ongoing training on ethical principles is quite important.

In this regard, you all are more proactive than most - - you’re at a conference sharing ideas, tools, and tactics.

And speaking of ethics training, you can work to increase the level of integrity in yourself and others. Author Stephen M. R. Covey, in his text The Speed of Trust, offers suggestions to increase integrity:

- Make and keep commitments with others / with yourself
- Stand for the right things that matter most to others
- Be open - - listen to others; consider their ideas / opinions

CFA Institute offers educational materials on the subject of Ethics and our capital markets:  
Position and research papers focused on putting investors first  
Comment Letters to Regulators, Legislators, and Accounting Standard Setters
CFA and CIPM Program Materials
And in the next year, we will initiate an Investment Fundamentals certification program

3. Now the third step of a culture of integrity: Openly and actively assess integrity in the individuals and group situations you encounter.

Remember to look for Honesty and Courage. With practice, you can measure integrity in individual situations. Be wary of negative ethical traits such as selfishness.

In group settings, look for a focus on WE // “beyond today” as a sign of integrity.

If integrity appears weak, mitigate the situation:
- Perhaps you can replace a suspected weak service provider; or
- Apply extra scrutiny.

On the positive side, we can also encourage people that display virtue.

Now, on to my final recommendation toward a Culture of Integrity:
Michael Lewis, author of Liar’s Poker / MoneyBall, and other bestselling books, is a keen observer of human interaction. He has stated, “There is no such thing as clean without dirt. There is no such thing as purity without impurity.”

This implies that we are all susceptible to the seven deadly sins. Remember that people can always bend the rules and move toward inappropriate behavior.

4. So, the fourth step I suggest for a culture of integrity: When you see areas where Integrity is not held in accord with your Values, Take action, with a measure of internal courage and in a manner appropriate for a leader that speaks up; a leader that stays true to their Values; a Leader that you admire.

As a Risk Manager, I instruct staff to be alert for those individuals that are constantly on the edge of the line of what is and is-not appropriate. The non-virtuous may be very smart, they might be excellent communicators, and they might also be influential. They may be respected in their community or church; they may even be the keynote speaker at an industry conference.

Individuals are tempted into the shadows of grey. And great philosophers have observed that, “The height of injustice is to seem just without being so.”

So let’s put this all together:
A Culture of Integrity needs leaders with courage:
That urges us to be committed and confident in applying our Ethical Codes.
We- Together must take action: When people overlook their values.
We must be ready to assess our own and others’ ethical decisions.
Leaders are ready to point out conflicts and selfish acts.
We need knowledgeable leaders:
That enables an education process and encourages ongoing education.
We- Together must take action: To maintain our professional competence.
Leaders Do Something: read a journal article, attend a conference, and be academically inquisitive.

We need leaders with commitment:
That requires us to observe ethical reasoning, decisions, and intended outcomes.
We- Together must take action: To assess in accord with our ethical values;
Leaders volunteer to be the one that others come to for advice on ethical issues.
Leaders object to actions that conflict with our standards.

I believe that if you follow these steps, you will be creating a culture of integrity that can embellish a solid ‘tone-at-the-top’ - - by providing a solid ethical-plan-of-action. You will also be nurturing an environment in accord with Fiduciary duty - - using: Care, Prudence, and Honesty.

And as I prepare to address your questions:
Let us remember to scrutinize actions that conflict with spoken word.
You should remember, the greater your integrity – the more honest, courageous, and caring you are - - you are more credible and will inspire more trust.

We should remember that clients, coworkers, and the Public expect Integrity – always, not sometimes - - that the investment profession is built on trust, as much as it relies on expertise. And, finally, stay ever vigilant. Ethical crises resurface and find a way to haunt each generation - - like a virus that continually mutates and comes back to inflict society.