GFOA's New Approach to Ethics

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Time for a new code of ethics
Code of Ethics has not been revisited in decades

New Code development
- Values based
- Addresses current realities
- Uses latest research
- Member vetted
- Supported with research & training
## Trust in Government has Declined

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Federal Executive Branch</td>
<td>63%</td>
<td>42%</td>
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<tr>
<td>Federal Legislative Branch</td>
<td>61%</td>
<td>40%</td>
</tr>
<tr>
<td>State government</td>
<td>80%</td>
<td>63%</td>
</tr>
<tr>
<td>Local Government</td>
<td>77%</td>
<td>71%</td>
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Source: Gallup Survey
Advances in our understanding of human behavior present an opportunity to develop a more powerful approach to ethics

Example: Cognitive Biases

Example: Social Pressures
Our mission is to make the world's best research available and accessible, for free, to anyone interested in improving the ethical culture and behavior of an organization.
Ethical Systems Design: 3 levels of analysis

1: Individuals

--Nudges to increase honesty
Ethical Systems Design: 3 levels of analysis

2: Groups
--Organizational culture of ethics
1: Individuals
--Nudges to increase honesty
Ethical Systems Design: 3 levels of analysis

3: National & International Ecosystem
   --Laws, national cultures, associations

2: Groups
   --Corporate culture of ethics

1: Individuals
   --Nudges to increase honesty
Giving Voice to Values

Self defense class for the soul
Code based on these key values

- Integrity and Honesty
- Producing Results for My Community
- Treating People Fairly
- Diversity and Inclusion
- Reliability and Consistency
Local governments depend on trusting relationships. If people feel unfairly treated, relationships break down, and they may withhold their support from my local government. This puts the financial health of my local government at risk. Therefore, I will treat people fairly and develop processes and procedures that are fair.
How We Treat People Fairly

- **Respect the rights of others**
  - Use the power of finance wisely
  - Oppose unethical discrimination and harassment

- **Develop processes and procedures that are fair**
  - Perceived fairness is essential for getting people’s support
  - Concept of procedural justice
  - Example: Budget process perceived as fair
Starting a Conversation about Ethics in Your Organization

Stacey L. Russell, Fiscal Officer
Muskingum County Library System, Ohio
When is the right time?

No better time than the present
Let’s Talk About It

• Show that ethics is human
• Ethics is a positive thing
• Ethics is multidimensional
• Ethics is a system
• Ethics is a learning journey
How to Make the Discussion Meaningful

• Know your audience
  • Line Staff, Middle Manager, Executives
• Ask your group to brainstorm ethical challenges that concern them
• If your Organization already has a code or values statement – use it
• Ask your staff for ways your organization could tangibly live by the values
• Discuss whether or not ethics is constraint
Ways to Weave the Conversation into Daily Work Life

• Know the code, display the code
• Lead by example
  – Model the right behaviors
  – Look to the code for direction
• Use timing to your advantage
Ways to Weave the Conversation into Daily Work Life

• Create a positive atmosphere
  – Be accessible & open
  – Active listening
  – Take Concerns seriously
  – Clear, multiple channels of communication

• Incorporate ethical implications into traditional analyses
  – Budgetary
  – Personnel
  – Legal
Accountability

• Encourage ethical behavior
  – Positive Reinforcement
  – Create social norms
• Build a culture of integrity – from the top down
• Stress the importance of “means” – not just outcome
• Education
Keeping the Conversation Going

• Model Behavior
  – Authenticity
  – Vulnerability
  – Active Listening

• Engage with employees regularly

• Make discussions about trust and ethics part of your regular staff meetings
Keeping the Conversation Going

• Address concerns brought forward
  – Follow-up & Show Results
  – Maintain confidentiality
  – No Retaliation
• Clear support for Ethical Behavior at the Organizational Level
• Use all communication vehicles to promote ethics
Implementation Plan at MCLS

- Adopted by our Board of Trustees (governing body)
- Introduced to Director Level Staff of all Departments
  - Each department will identify how sections of the code apply to their department
    - Integrity & Honesty
    - Producing Results for my community
    - Treating People Fairly
    - Diversity & Inclusion
    - Reliability & Consistency
Starting a Conversation Take-Aways

• The time is now to start a conversation
• Make the discussion meaningful
• Talk about ethics in everyday conversation
• Encourage accountability
• Keep the conversation going
• Develop an Implementation Plan
The ROI of Ethics in the Finance Office

James M. Nicholson, Finance Director
City of Pataskala, Ohio

Government Finance Officers Association

May 21, 2019
Los Angeles, California
ROI – How to Define and Measure

• Nature of the Return
  – Qualitative versus Quantitative
  – Issue of Trust

• Measurement Issues
  – Lack of empirical data
  – Difficult to quantify a negative

• Items to Consider
  – Cost avoidance
  – Value/cost of employee morale
  – Improved productivity/efficiency
ROI – Qualitative/Non-Financial Impacts

WHEN THERE IS LESS TRUST IN THE FINANCE OFFICE

- Increased ‘end runs’ around the Finance office
- Focus on transaction processing
- Reduced responsiveness and customer service levels
- Negatively impacts employee morale
- Timeliness of work suffers
ROI – Qualitative/Non-Financial Impacts

OTHER QUALITATIVE FACTORS

• Improved transparency
• Improved responsiveness to stakeholders
• Improved ability to attract/retain talent
• Potential for reduced level of general oversight
ROI – Quantitative/Financial Impacts

BENEFITS & DIRECT COSTS

• Cost Reduction/Avoidance
  – Improved operating efficiencies
  – Employee turnover costs
  – Oversight/discipline

• Increased Costs
  – Employee development
  – Ongoing support & compliance monitoring
COSTS OF NON-COMPLIANCE

• Financial Losses
  – Fraud and theft
  – Loss of assets
  – Less than full revenue collected

Example: Dixon, Illinois - “All The Queen’s Horses”
COSTS OF NON-COMPLIANCE (Continued)

• Reputational Risk
  – Loss of professional respect and trust
  – Organizational impacts/structural changes
  – Impact to organizational rating

• Legal Fees & Fines
  – Legal counsel fees
  – Settlement costs
  – Agency fines (EPA, IRS, SEC, etc.)
ROI – Conclusions & Takeaways

• Embracing a culture of trust and ethics can lead to both financial and non-financial benefits.

• Implementing a culture of ethics cannot be a ‘one and done’, it requires ongoing effort and upper management and governing body support (not just lip service).

• If the Finance department is trusted and respected, the department will more likely be invited to be a part of the decision-making process.

• Improved free flow of information is a benefit.
Thank You!
Giving Voice to Values – Case Studies

GFOA has decided to use a framework known as Giving Voice to Value to frame common ethical dilemmas around the new code.
What is Giving Voice to Values?

- Instead of focusing on the “ethical analysis” that is typical of ethical discussions, GVV focuses on how to help people implement and take action on their values.
- Developed by Mary Gentile and practiced out of the University of Virginia, Darden School of Business
- Helps people answer the questions:
  - What if I were to act on my values?
  - What would I do or say?
  - How would I be the most effective?
Case Study - Gift Policy Guideline

- The Ethical Issue: Following your organization’s gift policy while still maintaining a good working relationship with your boss.

- The Scenario:

  - Susan McMasters is the Treasurer for a City in New York. She has decided to attend GFOA’s 113<sup>th</sup> annual conference in Los Angeles, CA.
  - Also attending the conference will be the City’s Finance Director, John Steward. John is Susan’s boss.
Their City has a very clear gift’s policy in that employees are not allowed to accept anything valued at more than $25 from any vendor or contractor for the City.

About six weeks prior to the conference Susan receives an invitation from the City’s Financial Advisor to attend a very nice steak dinner and the Los Angeles Angels of Anaheim baseball game during the conference. Due to the policy, Susan politely declines the event.

On the flight to Los Angeles, John asks Susan whether she will be attending the dinner and ballgame. Susan informs John that, under their policy, she couldn’t accept the invitation.
John then informs Susan that at conferences like this, everyone accepts those invitations and she shouldn’t worry about those types of situations.

The City’s policy, he informs her, is aimed at stopping corruption and awarding contracts based upon nepotism or personal relationships.
Susan now faces a dilemma of how to comply with the City’s clear ethics guidelines and still remain on a good working relationship with her boss.

- What is the position Susan is expected to take?
- What is at stake or risk to all involved?
- What is the reason and rationalization Susan is likely to go through?
- How should Susan act on her values?
Case Study – City Council Conundrum

- The Ethical Issue: providing accurate information to your council or board without upsetting your boss.

The Scenario:

- Mike Parrot is the City Finance Director who is appointed by and reports to the Mayor Dawkins, and it is an election year.
- The Mayor Dawkins has asked Mike to research a new tax proposal that would be levied for the purpose of providing mental health services in your City.
Mike and his Finance Department team diligently analyze the proposal and provide a forecast of potential revenues and costs associated with the proposal.

Because the program is new and the proposed tax is not something the City has used before, both the expenditures and the revenues provided to the Mayor have caveats, assumptions and various hedges built in.

The analysis Mike provides to the Mayor provides ranges for both expenditures and revenues due to the uncertainty.
However, when Mayor Dawkins chooses to announce the new proposal, only one set of numbers is presented to the public and to the City Council. The high estimate and the low cost numbers were chosen with, in Mike’s opinion, an unrealistic expectation for service levels.

When Mike expressed concerns to the Mayor, he was told that it was Mike’s responsibility to back the Mayor’s proposal. Finance had completed its work and the Mayor had made the decisions.

When the City Council begins to deliberate on the proposal, the Mayor decides to send Mike to testify on behalf of the proposal due to his good working relationship with the City Council and long history of being forthright in his answers.
City Council Conundrum (continued 4)

- Mike is certain going in that there will be significant questions about the lack of nuance to the finances of the proposal as the Council has been used to seeing work from his team in the past.
- What is the action Mike is expected to take?
- What is at stake for all involved?
- What is the likely reason and rationalization Mike is expected to go through?
- How should Mike act on his values?
Questions and Resources:

- Mary Gentile, Darden School of Business, Creator and Director of Giving Voice to Values:
  https://www.darden.virginia.edu/faculty-research/directory/mary-gentile/

- Giving Voice to Values Program:
  https://www.darden.virginia.edu/ibis/initiatives/giving-voice-to-values/


- GFOA Ethics Code: gfoa.org/ethics
Join us to Continue the Discussion at
Financial Foundations for Thriving Communities

South Lobby