Teaching Ethics In The Financial Planning Curriculum: A Case Study

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ABSTRACT

A financial planning program should inform about ethical regulations and inspire students to internalize ethical standards so they become trustworthy. This case study discusses one teaching method for engaging student interest.

In the wake of the scandals in corporations and the accounting profession, it is perhaps not surprising that the personal characteristic that the public considers to be most important for a financial planner is to be trustworthy. (43% of those responding to a poll in 2000.) Competence, surprisingly, was only the number one characteristic in importance for 21% of the respondents. (MSN Money 2000) It is therefore appropriate that a person desiring to become a CERTIFIED FINANCIAL PLANNER™ professional is required to agree to adhere to the CFP Board of Standards, Inc. *Code of Ethics and Professional Responsibility* and *Financial Planning Practice Standards*, and acknowledge the CFP Board's right to enforce them through its *Disciplinary Rules and Procedures* (CFP Board of Standards 2004) as one of four major requirements for certification.

Therefore, to properly educate students in a financial planning program, the program should not only inform students of the ethical regulations of the profession but furthermore inspire them to internalize ethical standards that make them persons worthy of trust. Although of the three educational models of business education suggested by Grey et al (Grey 1996), critical teaching of this sort is the least implemented in traditional business programs, this is an obligation of the educational institution equally important as the obligation to teach such disciplinary expected content and concepts as asset allocation and risk management from the discipline's body of knowledge. Unfortunately, since the content of the discipline is rich and technical, all too often the ethics component of any business curriculum is afforded little attention. For example, at Harvard, a school long thought to have an exemplary ethics program in that an ethics course is required of every MBA graduate, the ethics course represents only nine sessions out of an 800-900 session program. (Crane 2004) It is therefore all the more challenging to teach ethics and have the principles stay with the student in a typical financial planning program, in which the financial planning courses may only be a six course sequence toward a certificate rather than a full-fledged degree program.

Since most financial planning students are non-traditional students -- working adults whose ideas of ethics are less malleable than those of younger students -- the challenge to the educator is to devise methods to encourage reflection and commitment to the ideals underlying the Code of Ethics, so that the principles are internalized and will form the basis of professional behavior throughout their financial planning careers. Mere exposure to the rules and regulations will not do. Recognition of the special educational needs of adult learners and respect for their fully developed ethical sensibilities is imperative for success in achieving the desired educational outcome. At the beginning of the course, discussion of several ethical issues had revealed great differences in the students' outlooks on what was and was not ethical. In this article, the author describes a method that was used to instill the desired ethics in financial planning students, and concludes that this method is successful based on student evaluation and examination results.

It was decided to concentrate on the seven basic principles embodied in the Certified Financial Planner Board of Standards, Inc. Code of Ethics: Integrity, Objectivity, Competence, Fairness, Confidentiality, Professionalism and Diligence. (CFP Board of Standards 2004) Each basic principle is followed by a short explanation in the Code, but the definitions and examples are far from complete, leaving the interpretation somewhat hazy for a person who has not

had experience in the field. Since the time for teaching ethics per se is short, and these are the principles identified as being most important by the certifying body of the profession, this decision defined parameters for focus in the course.

The section of the Code that outlines the principles states:

PRINCIPLE 1 – INTEGRITY

A CFP Board designee shall offer and provide professional services with integrity. As discussed in “Composition and Scope,” CFP Board designees may be placed by clients in positions of trust and confidence. The ultimate source of such public trust is the CFP Board designee’s personal integrity. In deciding what is right and just, a CFP Board designee should rely on his or her integrity as the appropriate touchstone. Integrity demands honesty and candor which must not be subordinated to personal gain and advantage. Within the characteristic of integrity, allowance can be made for innocent error and legitimate difference of opinion; but integrity cannot co-exist with deceit or subordination of one’s principles. Integrity requires a CFP Board designee to observe not only the letter but also the spirit of this *Code Of Ethics*.

PRINCIPLE 2 – OBJECTIVITY

A CFP Board designee shall be objective in providing professional services to clients. Objectivity requires intellectual honesty and impartiality. It is an essential quality for any professional. Regardless of the particular service rendered or the capacity in which a CFP Board designee functions, a CFP Board designee should protect the integrity of his or her work, maintain objectivity, and avoid subordination of his or her judgment that would be in violation of this *Code Of Ethics*.

PRINCIPLE 3 – COMPETENCE

A CFP Board designee shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the CFP Board designee is engaged. One is competent only when he or she has attained and maintained an adequate level of knowledge and skill, and applies that knowledge effectively in providing services to clients. Competence also includes the wisdom to recognize the limitations of that knowledge and when consultation or client referral is appropriate. A CFP Board designee, by virtue of having earned the CFP® certification, is deemed to be qualified to practice financial planning. However, in addition to assimilating the common body of knowledge required and acquiring the necessary experience for certification, a CFP Board designee shall make a continuing commitment to learning and professional improvement.

PRINCIPLE 4 – FAIRNESS

A CFP Board designee shall perform professional services in a manner that is fair and reasonable to clients, principals, partners and employers, and shall disclose conflict(s) of interest in providing such services. Fairness requires impartiality, intellectual honesty and disclosure of conflict(s) of interest. It involves a subordination of one’s own feelings, prejudices and desires so as to achieve a proper balance of conflicting interests. Fairness is treating others in the same fashion that you would want to be treated and is an essential trait of any professional.

PRINCIPLE 5 – CONFIDENTIALITY

A CFP Board designee shall not disclose any confidential client information without the specific consent of the client unless in response to proper legal process, to defend against charges of wrongdoing by the CFP Board designee or in connection with a civil dispute between the CFP Board designee and client. A client, by seeking the services of a CFP Board designee, may be interested in creating a relationship of personal trust and confidence with the CFP Board designee. This type of relationship can only be built upon the understanding that information supplied to the CFP Board designee will be confidential. In order to provide the contemplated services effectively and to protect the client’s privacy, the CFP Board designee shall safeguard the confidentiality of such information.

PRINCIPLE 6 – PROFESSIONALISM

A CFP Board designee's conduct in all matters shall reflect credit upon the profession. Because of the importance of the professional services rendered by CFP Board designees, there are attendant responsibilities to behave with dignity and courtesy to all those who use those services, fellow professionals, and those in related professions. A CFP Board designee also has an obligation to cooperate with fellow CFP Board designees to enhance and maintain the profession's public image and to work jointly with other CFP Board designees to improve the quality of services. It is only through the combined efforts of all CFP Board designees, in cooperation with other professionals, that this vision can be realized.

PRINCIPLE 7 – DILIGENCE

A CFP Board designee shall act diligently in providing professional services. Diligence is the provision of services in a reasonably prompt and thorough manner. Diligence also includes proper planning for, and supervision of, the rendering of professional services. (CFP Board of Standards 2004)

In a recent class in Foundations of Financial Planning in a Master of Science in Finance program at an Northeastern urban university, letting each student distill the concepts of these seven categories in terms of his or her own background afforded an opportunity to experiment with a critical method of teaching business ethics that was specifically designed for adults of diverse ethnic and cultural experience. While there is some question as to whether ethics can truly be taught (Rothenburg and Morris 2003), it has been suggested that the most likely way that students truly learn to apply abstract ethical concepts is by case studies.

When teaching adults, it is all too easy to lapse into an inappropriate relationship wherein the student is dependent upon the instructor, such as one would see in teaching children, even though that is rarely the optimum learning environment. (Bedi 2004) Classical principles of andragogy (Knowles, III et al. 1998) suggest that with adult learners, a participative approach in which the students add input from their experience is more effective and better appreciated. In addition, particularly for career-oriented adult learners, the study of ethics, while vital and important, can become tedious if too much emphasis is put upon ethical theories such as utilitarianism or Kant's categorical imperative rather than on practical application. To ensure engagement with a topic, adult learners want to see how it applies to their lives and ambitions.

In the author's experience, using a traditional disciplinary methodology of assigning reading, lecturing on the reading, classroom discussion and then testing has failed to generate a sense of immediacy and purpose to the study of ethics. Most of the classroom discussion of the ethics unit centered on the egregious misconduct of the actors in the latest scandal in publicly held companies, not on the individual choices that financial professionals have to make each day. When this traditional method was used in the classroom, retention of concepts and rules from the Code of Ethics and Standards of Conduct was barely acceptable, and seemed to be more a tribute to the diligence of the students than to any teaching expertise on the part of the professor. In addition, student comments in evaluation documents on the ethics study emphasized how boring this method was.

For example, "The Ethics unit was the worse! Everyone knows that you should do what is best for the client, but everyone also knows that not everyone does it. What was the point?" What was the point indeed, if this student did not see the Code of Ethics as something that should be considered and applied to his own practice and had not internalized a commitment to the ethical standards of the profession for which he was studying? This result bears out prior observations in the teaching literature concerning MBA students (Currie and Knights 2003) in which critical thinking exercises were more effective than other methods of instruction in teaching business, but also the least utilized.

The problem, therefore, was to devise a method or methods that would generate student interest and participation in a reflective discussion of professional ethics. As they participated and thought critically about their arguments, it would be expected that the students would start to internalize the principles. In devising a new methodology, consideration was given to social cognitive theories (Bandura, 1986) and the roles played by cognitive,

vicarious, self-regulatory, and self-reflective processes in psychosocial functioning. Bandura applied the principles of his theory to personal and social change, emphasizing reciprocal causation through the interplay of cognitive, behavioral, and environmental factors. In devising this method of teaching ethics, the author aimed to set up an environment in which examination of a situation for ethical considerations would become the norm, where behavior that exemplified ethical orientation would be rewarded and in which the student's own thinking and cognition would be aimed at developing an ethical sense. In addition, since the most effective teaching methods are often burdensome for the instructor, it was important that the method not require so much investment of time by the instructor that it would fall into disuse after the trial period.

Particularly with adult learners, cognition is most effective when devised by the student himself. This group of learners had previously been introduced to the idea of generating a portfolio of work that they would be proud to show to a prospective employer or client, and to that end, they write several case studies in each term for each course. (Brown 2002) (Kunselman and Johnson 2004) While there is a list of questions that must be answered for each case study, they also prepare a presentation as if they were presenting their recommendations in the case to the client, and often do the presentation to the entire class. In addition, there is an opportunity for an open-ended comment on the case in a final question that asks them to evaluate what they learned on this case and what factors were not addressed by the question set that they think are important. This open-ended question is examined closely by the author for purposes of critically reflective teaching practice. (Brookfield 1995) Prior to study using this new method, rarely were ethical considerations for the planner in the case mentioned in this open ended section, although it would have been expected that an ethics discussion in a contribution to their portfolio would be particularly persuasive to a prospective employer or client. They simply did not think of considering that aspect.

We wanted to create a situation in which the students were highly motivated to think about ethics and include ethics in each of their case studies while in school and in each engagement when they start to practice as financial planners. Another learning theory that we considered suggests that immediate and continuous feedback is particularly efficacious in helping students internalize learning. (Vella, Berardinelli et al. 1997)

After consideration of these theories of androgogy, social cognitive theory, and modern educational and assessment theory, it was decided to focus on one of the seven principles per week of class, as one portion of that week's learning agenda (which included content on the financial planning process, regulation, and various technical and client issues), and to have the students write a short essay – 250-750 words – on that week's principle as a class exercise. This would weave the study of ethics throughout the class, rather than making it just one unit out of 12 to 14 units, and thereby enhance its importance. This intertwining of the study of the Code of Ethics into disciplinary content over a longer period of time would itself aid in retention and internalization.

The discussion each week was started by the instructor e-mailing a two-to three page essay on the week's principle to each student, giving her interpretation of the meaning of that principle. These essays followed a classical essay format, and incorporated traditional ethical theory in the form of different perspectives (utilitarianism, greater good, Kant, etc.) on the principle. They did not specifically mention the concept in terms of financial planning practice. The essays were in full APA 5th edition style, with references, thereby giving the students the bonus benefit of examples of scholarly writing by someone they knew. This portion of the method also exposed them to ethical theory as well as the specific principle from the Code of Ethics. E-mailing the essays rather than just posting them on the professor's web site or giving them as printed handouts gave them an urgency that they otherwise would not have had.

Although writing these original essays was time consuming for the instructor, they will be used in future classes with only minor revisions, making the overall time commitment feasible. Prior teaching experience, rather than any educational theory, had suggested that the opportunity to critique the instructor's work is irresistible for most adult students. Minor imperfections and omissions are seized upon with passion, and students will spend an inordinate amount of time on these critiques. Due to student suggestions, the essays are already much improved, and it is expected that their evolution will continue.

At the beginning of the three-hour weekly class, students were given 15-20 minutes to write about the principle of the week. Students were encouraged to discuss what in the instructor's essay they found persuasive and to state the parts with which they disagreed, along with a rationale for disagreement. Furthermore, examples of application of that principle to financial planning practice were encouraged. Since the students therefore knew several days ahead of time what the principle of the week was, and consequently had time to think about what they would write in class, the essays were of high quality in terms of reflection, content and logic flow, if not handwriting. (MacLellan 2004) During a classroom break given halfway through the three-hour class period, the instructor read quickly through the various essays, picking out particularly well-reasoned points. This was done to provide the timely feedback that current assessment theory suggests aids learning.

After the break, there was a discussion of how that principle would apply in financial planning practice, and the instructor read aloud some of the points that were particularly appropriate in the student essays. By the third or fourth week, rather than simply a free-form discussion, the instructor started presenting mini-case studies wherein the financial planner faced an ethical dilemma for the discussion period. Some of these were based on the instructor's experience in practice and others on issues brought up in articles in financial planning magazines and journals. The students were asked to discuss what action the planner should take, and to state why, based on the seven principles and any other material from the Code of Ethics or Standards of Practice. Since these were adult graduate students, there were usually strong opinions and past experiences that were relevant and thus the discussion was lively. This method, it was hoped, would spark interest in the ethics required of the financial planner, and generate spontaneous contributions on the part of the students.

Much of the best teaching practice also generates learning by the instructor, and use of this method was no exception. Although the shortened break time for the instructor was a bit of a strain since the class period is long, the results were so dramatic that it was deemed worthwhile. In addition, the instructor ended up with a better understanding of each student's development, due to the immediate opportunity for drawing out students whose arguments were either outstanding or muddled. The ideas and the faces were inextricably linked. The individual personality of each student was soon clear, not only to the instructor but to their peers as well.

As the weeks went by, the students started bringing in clippings from newspapers and citations from articles from the databases in the library about ethics to discuss with the class. Furthermore, physically located between the professor's office and the seminar room is a small graduate lounge office that includes several computers connected to the Internet for library research. This is a popular spot for graduate students to do a bit of last-minute research before class or to print out an assignment. As an anecdotal note, it was gratifying to hear arguments emanating from that room about ethical issues. While the real proof of whether or not the goal of having the students internalize good ethical practice will be how they behave in their practices for years to come, the final examination in this class, a multiple-choice exam on both technical financial planning content and ethical standards, revealed much better scores on the ethics questions than in prior classes, using the same dataset of examination questions about ethics. In addition, case study write-ups, which are used extensively in the program, started to routinely discuss the ethics of the case in a reflective manner in the open-ended section, coming to conclusions consistent with the CFP Board of Standards, Inc. Code of Ethics. From these phenomena, the author concluded that implementing this method appeared to be a successful strategy for this class, and will continue to use it as an instructional tool.

In conclusion, the most important components of this method were to (1) solicit student opinion by having them write essays after having seen and analyzed an essay on each principle written by the instructor. The opportunity to critique the professor's work was appealing to the students. (2) Class discussion on each principle encouraged students to incorporate examples from their own lives. (3) The addition of specific ethics questions to some of the case studies. (4) Heavy praise when a student mentioned an ethics consideration in his or her open-ended commentary on a case study. (5) Virtually instantaneous feedback on ethical commentary by the student. This method is not yet ingrained in our curriculum, and the results are only from one class, but it appears so far to have been a successful implementation of several well-proven theories of education, assessment and cognition. The implications for other business and social science courses is that a consideration of the social cognition theories, combined with educational theory of adult learning and methods of assessment when applied in the form of critical teaching practice and small modifications in classroom methods can result in gratifying increases in learning and internalization of ethical

concepts. More research and trials with other classes are needed to see if the results in this case will carry over into similar classes, but the indications are promising.

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