GFOA Reinvents Our Profession's Approach to Ethics

"Trust is the glue of life. It's the most essential ingredient in effective communication. It's the foundational principle that holds all relationships."

– *Stephen R. Covey*

By Shayne Kavanagh and Steven Gibson

In the summer of 2018, GFOA set out to reinvent its approach to ethics. Recent advances in psychological research have revealed compelling insights into how organizations can encourage ethical behavior, giving GFOA an opportunity to develop a new approach to ethics that is far more powerful and useful to members than before.

The starting point for this reinvention was GFOA's code of ethics. The traditional code of ethics focuses on do's and don'ts, and while there is some value to specifying the boundaries of acceptable behavior, the limitation of this approach is that most people already have a good sense of what is right and what is wrong. Research shows that the real impediment to ethical behavior is not a lack of knowledge about right and wrong — it is pressure from the environment to do the wrong thing, or at least ignore other people doing it.

Therefore, GFOA seeks to develop a different kind of code, one that is based on the underlying values that help government finance professionals do the right thing, even when doing the right thing is hard. A code that speaks to underlying values and beliefs is a starting point for developing an organizational culture that encourages ethical behavior. When the organization's culture supports ethical behavior, we become less reliant on heroic individual efforts to maintain ethics in the face of pressure to do the wrong thing. In this article, we will preview the main ideas that are influencing the development of the new GFOA code of ethics. We anticipate adopting the new code at the May 2019 GFOA annual conference.

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TRUST: THE FOUNDATION OF A FINANCE OFFICE'S ETHICS

GFOA convened a task force headed by GFOA President Steven Gibson and consisting of volunteer GFOA members from different sizes and types of governments. We also formed a partnership with EthicalSystems.org, a collaboration of leading ethics researchers. This group was charged with developing the new code. The fundamental decision was: What values should the code be based on?

After deliberation and interviews with GFOA members, we settled on "trustworthiness" as the underlying value for the new code. This value resonated because it captures many of the personal values that are important to GFOA members, such as being seen as honest and reliable, producing good work, and providing fair treatment to everyone.

Trustworthiness is not just a popular personal value for finance officers — it is tightly tied to ethical behavior. For example, people build trust through integrity and honesty, consistency between words and deeds, and a genuine interest in the welfare of others. These actions also are consistent with ethical behavior. Conversely, dishonesty, unreliability, and taking advantage of others for personal gain are closely associated with unethical behavior. Furthermore, because we can't constantly monitor the actions of others, we rely on trust to give us confidence that others will act ethically. This is especially germane to a finance office because its work is often technical and difficult for non-experts to validate. Hence, people must trust the finance office to be ethical.

GFOA has identified five characteristics of trustworthy behavior as the basis for a new ethical code. Research suggests that these five characteristics are essential to building trust:

- Integrity and honesty
- Producing results for the community
- Treating people fairly
- Diversity and inclusion
- Reliability and consistency

The rest of this article will examine these five characteristics and their implications for ethical behavior in the finance office.

INTEGRITY AND HONESTY

Integrity and honesty are the bedrock of ethical behavior and trustworthiness. Because finance offices have great influence over the allocation of the community's scarce resources, fundamental commitments for an ethical finance officer include exercising prudence in the management of public funds, upholding the letter and the spirit of the law, avoiding conflicts of interest, and rigorously avoiding personal gain in the conduct of the public's business.

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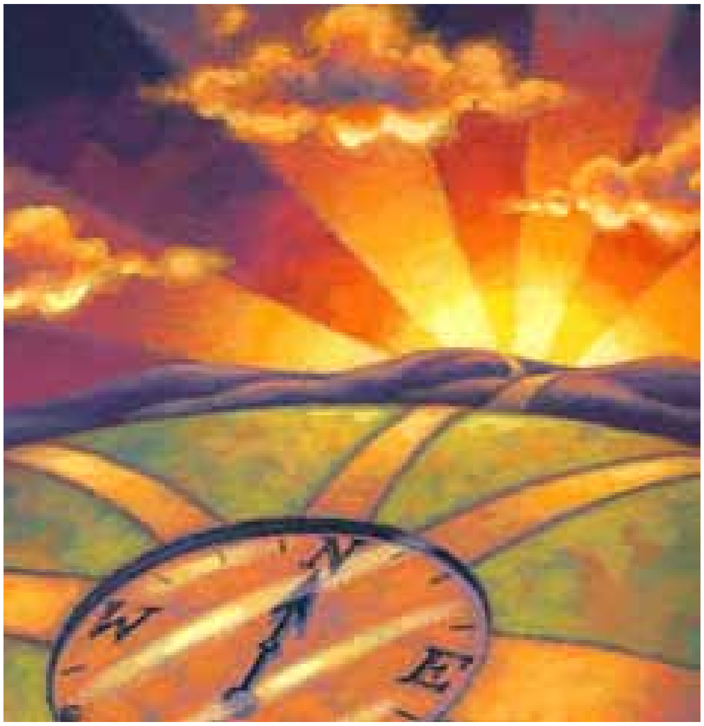
These commitments are probably fairly obvious to most finance officers. The hard part can be doing the right thing despite conflicting incentives and messages, and pressures from multiple stakeholders to do otherwise. Therefore, being honest with yourself about your own personal values is critical to "honesty and integrity" — and then being prepared to give voice to those values when the situation demands it. Ethical tragedies often happen when people fail to act against a transgression because they are afraid or uncertain of what to do. Mary Gentile, the author of the acclaimed book on ethical decision-making, *Giving Voice to Values*, posits that values are a superior basis for helping us do the right thing because values come from within, while "ethics" are defined by someone else. We find it easier to act in accordance with our highest aspirations and sense of self (i.e., values) than to comply with an outside set of rules (ethics).[1]



A final and, perhaps, unexpected component to integrity is being open to new ideas. Noted author and management scholar Stephen Covey points out that openness is essential to integrity because we need to be honest with ourselves and admit that we may not always be right.[2] People or organizations that believe they do no wrong are at increased risk of unethical behavior because they can justify any behavior: If I can do no wrong, then anything I do is right.

PRODUCE RESULTS FOR THE COMMUNITY

Public finance offices have an important job. Not only are they stewards of the community's shared resources, but other departments need the services of the finance office to achieve their own missions. When finance officers do their job well, they honor the trust that the public has placed in them.

This starts with doing high-quality work. High-quality work that produces positive results and meets the government's needs is likely to gain the confidence of the public, elected officials, and other government staff. One example of quality work with obvious ethical implications is prudent investment strategies. In fact, GFOA advocates for the "prudent expert" rule, which states that the finance officer is expected to make investment decisions consistent with other experts facing similar conditions. Under this rule, selecting an investment strategy that exposes the community's funds to excessive risk could be considered unethical.

A less obvious example of the connection between quality work and ethics is developing financial reports. Creating transparency in financial information allows elected officials and the public to better understand the condition of their local government. Reports that obfuscate financial condition call the finance office's ethics into question. For instance, it is not uncommon to hear stories of finance officers who have been accused of "playing games" with the budget when they produce information that is perceived as less than forthright by elected officials or the public. Hence, finance offices need to set high standards for the work they will perform and then seek to continuously improve the work they do, compared to the standard.

Ethics Violations May Start Small…

In 2018, a former Texas juvenile center employee who confessed to stealing $1.2 million in fajitas over the course of nine years received a 50-year prison sentence. (Yes, fajitas. He ordered them using county money and sold them for his own profit.) In his testimony, the former employee said: "It started small and got bigger and out of control. It got to the point where I couldn't control it anymore."*

* Josh Hafner, "Man who stole $1.2 million in fajitas sentenced to 50 years in prison," USA Today, April 23, 2018.

Producing high quality work is not always straightforward. Finance offices are often confronted with gray areas and conflicting demands that require good judgment — but we all have blind spots that obscure important parts of ethical decisions. A good example is "overconfidence bias," a natural tendency to overestimate our own capabilities. To illustrate, one study found that 70 percent of participants rated themselves as better than average in leadership ability, while only 2 percent rated themselves less than average.[3] Another study found that 60 percent of people thought they were in the top 10 percent in their ability to get along well with others, and 25 percent said they were in the top 1 percent.[4] It is not hard to believe, then, that we might overestimate how trustworthy others judge us to be or how readily they might agree that our actions are ethical. Exercising good judgment requires being aware of these blind spots and taking steps to guard against them. For example, if we are open to hearing different perspectives and new ideas, we are more likely to hear and consider information that counteracts our own overconfident view. If we root our work in objective data and standards for performance, then our own subjective views of the quality of our work will hold less sway.

TREAT PEOPLE FAIRLY

As democratic organizations, local governments depend on good working relationships. Relationships can break down if people feel unfairly treated; for example, they may withhold their cooperation on and support for a project critical to the community. This puts the financial health of the local government at risk.

To illustrate the importance of fair treatment and ethics, let's consider how perceived fairness affects employees. Employees are more motivated when they feel that organizational resources are allocated fairly, that organizational decisions are made in fair ways, and that their organization treats them fairly.[5] Conversely, it is not difficult to imagine that employees may feel justified in stealing from the organization, sabotaging it, or engaging in other unethical behavior as a way of "evening the score" if they feel they've been unfairly treated by their employer. Of course, once an employee starts down the road of unethical behavior, it becomes easier to keep going.

Fortunately, there is a rich body of research on how to create a sense of fairness. It starts with making sure people feel respected. At a minimum, this requires opposing unethical discrimination, harassment, or other blatantly unfair practices — but optimizing your trustworthiness requires going much further. For example, in the workplace, finance offices should develop an environment where people feel that their views and contributions are respected. A GFOA report, "Realizing the Best of Both Worlds: An Engaged Workforce and More Satisfied Citizens," explains that when employees are fully engaged in their work, finance offices can realize significant improvements in productivity, quality, and customer satis-

faction.6 An engaged workforce not only gives taxpayers the best return on their money, but an engaged worker is less likely to be tempted by unethical behavior and more likely to support ethical behavior.

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DIVERSITY AND INCLUSION

Communities across the country are constantly changing. Embracing diversity and fostering inclusiveness helps finance officers cultivate organizations and develop financial policies that reflect the communities they serve.

Put in practical terms, finance officers should provide people with opportunities to be part of decisions that affect them. Public finance decisions often have big implications for people outside of the finance office. If the people who are affected are part of the decision-making process, they are more likely to feel that they have been fairly treated and regard the public finance officer as trustworthy. An example is the budget process. A budget process that engages the public in the prioritization of service and revenue options will be regarded as more inclusive and equitable than a process were elected official and staff make all the important decisions and simply present a largely finished product to the public.

In addition to developing inclusive decision-making processes, finance officers should be mindful of the outcomes of those decisions. Local government services, from public safety to education, are critical to the lives of their citizens. Finance officers, because of their resource allocation role, can affect the quality of these services, as well as and how and where they are provided. Finance officers should recognize systematic, unfair biases that result in certain groups of citizens being denied equitable services, and then work to counteract those biases.

RELIABILITY AND CONSISTENCY

When people can count on you, you prove your trustworthiness. This is “walking your talk.” When you consistently apply your standards — especially to yourself — you make it easier to continue to do the right thing even when faced with challenging circumstances.

A great starting point is developing strong policies. Policies provide the “rules of the road” and a standard of performance against which a community can judge its finances. Pressure to act unethically creates an emotionally charged situation. It is difficult to think clearly or act logically when our minds are clouded by emotions. Developing policies ahead of such a situation provides a “north star” to follow. For example, a policy that prohibits using reserves for ongoing expenditures helps when facing pressure to use reserves to balance today’s budget at the expense of future generations. When policies are consistently referenced in decision making, they create a baseline standard for how decisions will be made.

Another fundamental component of reliability and consistency is to produce reliable and timely information. Other people rely on information produced by public finance officers to make important decisions for the community. If that information is reliably accurate and is provided far enough in advance to influence decisions, these decisions will be better. A good example is a revenue forecast. Forecasts that have transparent assumptions, a history of reasonable accuracy, and are provided in advance of creating expenditure budgets reflect well on the reliability of the finance office.

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HOW GFOA WILL HELP YOU LIVE THE CODE

It is easy to say the right things about ethics, but it is much harder to actually do them. GFOA will build a comprehensive ethics support system to help you live the new code. Some of these supporting elements include:

- **Training Programs.** GFOA is developing its own version of the acclaimed Giving Voice to Values program, based on the book of the same name (which is reviewed on page XX in this issue of *Government Finance Review*). We are working with the founder of Giving Voice to Values to develop this training. The first iteration will take place at the 2019 GFOA annual conference, and we will then develop more options for GFOA members to take this training. GFOA also has other types of training programs under development to support the new code of ethics.
- **Implementation Guide.** The implementation guide will suggest practical steps GFOA members can take to create an ethical culture in their organization. For example, it will provide access to policy templates for common areas of ethical concern.
- **Member Advisory Body.** To make sure ethics stays top-of-mind for GFOA as an organization, GFOA will maintain an advisory board comprised of volunteers from the GFOA membership.

CONCLUSIONS

Public service is a sacred trust. The finance office plays an important role in the public service. The finance officer has stewardship over citizens' shared financial resources. These resources enable the services that are essential to the safety, livability, and vitality of our communities. Government finance officers have a deep and abiding desire to prove ourselves worthy of the trust that has been bestowed upon us. We want to prove it to the citizens of the communities we serve and to their elected representatives. We want to prove it to ourselves and remain true to the values that animate our work as public servants.

> When you consistently apply your standards — especially to yourself — you make it easier to continue to do the right thing even when faced with challenging circumstances.

Trust is an asset as important as any other that can be found on our balance sheets. But how can we maintain and grow this asset? GFOA's reinvented code of ethics and supporting program will show us how. GFOA plans to formally adopt a new code centered on the value of trustworthiness at the 2019 annual conference in May and develop resources to support GFOA members to live the code continually afterward.

Notes

1. Mary C. Gentile, *Giving Voice to Values: How to Speak Your Mind When You Know What's Right* (2010: Yale University Press).
2. Stephen M.R. Covey, *The SPEED of Trust: The One Thing that Changes Everything* (2006: Free Press).
3. Study described by Richard E. Nisbett in *Mindware: Tools for Smart Thinking* (2015: Farrar, Straus, and Giroux).
4. Ibid.
5. ethicalsystems.org/content/fairness.
6. Shayne Kavanagh and Elizabeth Fu, "Realizing the Best of Both Worlds: An Engaged Workforce and More Satisfied Citizens," GFOA, December 2018.

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