DANIELS FUND ETHICS INITIATIVE Case Bank

HELIOS DIGITAL LEARNING

BLIND SPOTS LEARNING MODULE TRANSCRIPT

As a successful trader, Jay Nolan was used to winning. Even when the chips were down, it was his experience that he would always come roaring back. This kind of track record of success can lead to a sense of invulnerability — a sense that no matter the circumstances, the individual will inevitably win. This belief can make an otherwise ethical individual susceptible to crossing ethical lines. And, as we saw with Jay, it can also lead them down a road that ultimately ends in prison.

LEARNING OBJECTIVES

In this module, we will use Jay's story to explore two of the cognitive biases illustrated by his experience. Specifically, we will touch on the overconfidence bias and loss aversion. We will discuss what each of these concepts means and offer tips for avoiding them. We will also discuss the Daniels Fund Ethics Initiative Principles and explore how they can be used to help frame our ethical decision making.

COGNITIVE BIASES

A cognitive bias is an inherent propensity to interpret information in a way that causes the individual to reach conclusions that are not supported by the facts of the situation. They are mental filters that each of us uses every day, in one form or another. They are mental shortcuts that evolved over time and serve us in ways that can sometimes be helpful. At other times, they can be harmful, or even detrimental.

Cognitive biases can have a profound impact on our ethical decision making and, it is for this reason, that we should be keenly aware of when they might be working against us as we strive to manifest our best, most ethical, selves.

THE OVERCONFIDENCE BIAS

Put simply, the overconfidence bias is at work when an individual steadfastly believes that his skills or judgments are unquestionably better than the norm and certainly better than objective proof would otherwise attest to. This bias can lead an individual to ignore important, and often glaring, information to the contrary.

We can see this bias at work in Jay's story.

Video Clip — Jay Nolan
At the time, the fellow would just ask me, once in a while, how the fund was doing. And my thought when it first started taking losses was, "Well, been here before; had some gut-wrenching losses on the trading floor; always made it back." So, when the fellow said, "How's my account doing?" I said, "It's doing okay," and I justified it by knowing — by *knowing* — that I would make the money back. I had never failed to in the past.

Because Jay believed that he would make back the money he lost, he felt justified in misleading his investors about the status of their trading account. Jay didn't recognize that he had crossed the ethical line by giving an untruthful answer because he believed that everything was ok since he expected to make back the money he'd lost.

LOSS AVERSION

Most of us hate losing. In fact, for most people, the fear of loss has a stronger emotional impact than the expectation or possibility of gain. This means that an individual is more likely to make an unethical decision to avoid losing something than he is to make an unethical decision to gain the very same thing. This is known as Loss Aversion. According to Robert Prentice, Department Chair Business, Government & Society at UT Austin, loss aversion can lead people who have made mistakes or violated the law through carelessness or inattention to, upon realizing this fact, take their first consciously wrongful step in order to attempt to ensure that the mistake is not discovered.

We can also see this bias at work in Jay's story.

Video Clip — Jay Nolan
It started to weigh on me quite a bit and the fear…plus it dawned on me that I'm not in that same situation where the losses are mine and I had to justify it to the clearing member, or the losses occur to Salomon Brothers, which is a ginormous company and they don't care about this week so much. This was a different format. This was an individual person, so as it started to creep into my consciousness that I was in a mess already. Then it was like, well, the only way to get out of this mess is to trade successfully. The minute I'm back to where I'm supposed to be, I'm closing it down; returning the money. And this has been a harrowing experience and I never thought in a million years that it would be like this. I realized that I was in over my head.

Not wanting to admit that he had failed, Jay continued to keep up the lie. Rather than come clean about the situation to his investors, he falsified account statements. At this point, Jay knew that what he was doing was wrong, but admitting that he had failed seemed to him to be a far worse option than doing something that he knew was against the law.

As you watch Jay's story or engage with this learning module, it can be quite easy to think that Jay's situation is unique or that you would never find yourself in such a situation. While you may not now or ever work with investors, you will, in all likelihood, find yourself in a situation in which you've overestimated your own capabilities, and owning up to that fact may result in negative consequences that, at that time, you would rather avoid. In fact, you've probably had a scenario like that occur in your life at some point already. It's only a matter of scale. Until now, the stakes haven't involved potential jail time. But, as you get into your career, the stakes could not only involve jail time for you, they could also involve the risk of harm to others. Preparing yourself now for how you will handle the inevitable ethical dilemmas you will face in the future is your best defense against going down the path that Jay, and many other good people, have traversed.

DECISION MAKING FRAMEWORKS

Aristotle famously said: "We are what we repeatedly do. Excellence, then, is not an act, but a habit." We can paraphrase this and apply it to ethical decision making. Ethical decision making is not an act. It's a habit. We must build our ethical decision-making muscle by paying attention to how we behave in situations that seem inconsequential as well as in situations that are clearly of consequence.

We can increase the likelihood that we will make consistently ethical decisions by pre-planning our responses to potential ethical challenges and by developing frameworks that we can use to remind ourselves of our commitment to ethical behavior. Ethical frameworks can also help us evaluate our decisions before we act on them to ensure that they are aligned with our commitment. One example of an ethical framework we can use is the Daniels Fund Ethics Initiative Principles.

DANIELS FUND ETHICS INITIATIVE PRINCIPLES

The Daniels Fund Ethics Initiative has outlined eight principles for ethical decision making. These principles are based upon the tenets by which Bill Daniels, a successful businessman and pioneer of the cable television industry, lived his life. The principles are:

- **Integrity** – Act with honesty in all situations
- **Trust** – Build trust in all stakeholder relationships
- **Accountability** – Accept responsibility for all decisions
- **Transparency** – Maintain open and truthful communications
- **Fairness** – Engage in fair competition and create equitable and just relationships
- **Respect** – Honor the rights, freedoms, views, and property of others
- **Rule of Law** – Comply with the spirit and intent of laws and regulations
- **Viability** – Create long-term value for all relevant stakeholders

Perhaps if Jay had been prepared to act on the basis of an ethical framework he believed in, he might have avoided the humiliation and hardship he ultimately experienced as a result of his actions.

REFLECTION

Identify instances in which Jay's actions violated each of the Daniels Fund Ethics Initiative Principles.