Assessing Ethics in the Recruitment Process: The Need and Feasibility of an Ethics Assessment in the Financial Industry

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While sound ethical decision making is important for any job, some industries are experiencing a more pressing need to assess the ethical development of potential practitioners. One such industry is the financial industry. Roles in this industry entail various duties but have one thing in common: the people in these roles are exposed to highly confidential material, large sums of money and pressure to fulfill certain quotas (i.e. returns and profits). Recruitment teams need to recognize ethical decision making as one of the necessary skills to be successful in a role within this industry. Those who enter the financial industry will face various internal and external pressures; new hires need to understand the existence of these pressures and the hiring teams need to understand that not all individuals will respond to these pressures equally. Beginning with the recognition that ethical decision making can be taught, but that ethical behavior is also influenced by personality traits and environmental conditions, this project explores the need and viability of including an ethics assessment during recruitment processes within the financial industry. The value of such an assessment includes mitigation of risks associated with unethical decisions and long-term viability of the financial industry.

Understanding ethics in business is essential to developing a sustainable culture and positive work environment. The well-known theory of putting people first in order to build profits, popularized by Jeffrey Pfeffer, fits with this view (Lawrence, 1998, p. 956). Acting ethically can lead to greater productivity, innovation, and happiness. There is a general acknowledgement that ethics should be understood and addressed within organizations, though it is difficult to incorporate and influence ethical behaviors of employees due in part to current recruitment practices and external pressures facing the industry.

This paper focuses on these issues and is organized in three sections: the recruitment processes from a general standpoint, with a review of the effectiveness of current assessment measures; the recruitment needs for the financial industry; and what an ethics assessment for the financial industry might look like, as well as what is needed to sustain an ethical culture. Ultimately, in order to instill ethical behaviors in organizations, assessing ethics during recruitment is important, and it is being argued here that ethics assessment should become a standard tool for recruiting teams. Further, this research suggests that hiring candidates who demonstrate the capacity to make ethical decisions could positively impact the financial industry.

RECRUITMENT PROCESS

Recruiters evaluate technical and soft skills in candidates during recruitment by using qualitative and quantitative measures. Qualitative measures typically allow for more subjective interpretation by the person collecting data, while quantitative measures are designed to more objectively uncover statistically established patterns and trends. Measures used to assess technical and soft skills include interviews and conversations with candidates, which are more qualitative in nature, as well as reviews of resumes and applications, which are more quantitative in nature. These measures add value in many ways, but they also contain some weaknesses. Interviewers form subjective impressions in conversation with interviewees. It has been found that similarities between two conversation partners in leisure, extracurricular, and work experiences result in better impressions, which can carry more weight than a candidate's qualifications (Rivera, 2012, p. 1004). Rivera stated that those who conduct interviews are likely not trained in interviewing and are usually the people the potential hires would be working alongside (p. 1004). This further illustrates the reliance on subjective impressions during the interview process. According to Rivera, it is important to employers that the people they are bringing into their organization are culturally similar to themselves, as well as prepared to adequately perform in their role (p. 999). Because of the importance placed on of cultural fit, employers may not weigh technical skills as heavily in evaluating candidates. In fact, it was found that interviewers who felt an emotional spark of commonality with their candidate advocated strongly for them (Rivera, 2012, p. 1017). Considering the subjective nature of the interview, it is important that these measures be coupled with more quantitative data.

Another common measure used is a personality assessment. Personality is recognized as an indicator of employee-company fit and is helpful in evaluating the suitability of job applicants across many levels in an organization (Bowen, Ledford, & Nathan, 1991, p. 37). Personality assessments are used in many industries. It is

noted that 40% of Fortune 100 companies use a personality assessment of some sort (Rothstein & Goffin, 2006, p. 155). On a broad scale, value is created by using personality assessments during the recruitment process because recruiting teams need to understand the types of personalities that work best in certain fields or work environments as to maximize efficiency and productivity. Unfortunately, there are some weaknesses associated with these assessments. A pervasive concern that has been brought to the attention of recruiting and HR teams is that candidates are beginning to strategically fake personality assessments (Rothstein & Goffin, 2006, p. 166). Candidates have strategized how questions should be answered for the company to perceive their answers positively. The implications of such behavior can hinder the success of using these assessments in the future. Even if only a small percentage of candidates "fake" their personality assessments, the usefulness of this measure gradually begins to decline (Rothstein & Goffin, 2006, p. 166). Another issue complicating the usefulness of personality assessments is that not all industries and organizations attract the same personality types. For example, Holland's personality-job fit theory recognizes that certain personalities are more successful in certain industries (Robbins & Judge, 2008, p. 48). Still, personality assessments are quite vague in their results, with common results concluding that candidates are "introverted" or "extroverted." While it might be helpful to know such characteristics of a person, it has been recognized that personality tests may be more effective and accurate when the measures are tailored to the work setting (Bowen, Ledford, & Nathan, 1991, p. 40). It is important that recruiters are aware of these problems when using personality assessments.

Another skill set that is difficult to identify, but certainly important to any organization, pertains to ethical reasoning and ethical behavior. Developing a culture includes developing a set of organizational values that includes an understanding of ethics. Because of this, it is assumed that recruiters are seeking an understanding of candidates' ethical development. There are two ethics assessments that are addressed in this paper: Rest's Defining Issues Test (DIT, DIT-2) (Rest, 1999) and Reidenbach and Robin's Multidimensional Ethics Scale (MES) (Reidenbach & Robin, 1988). Both of these assessments are considered to be reliable (Shawver & Sennetti, 2009, p. 665). The DIT-2 provides insights into candidates by posing questions with ethical components designed to measure moral reasoning and cognitive development (Shawver & Sennetti, 2009, p. 663). The MES allows respondents to not only respond to the ethical dilemmas posed, but to provide justification and explanations for their moral judgments (Shawver & Sennetti, 2009, p. 663). However, the DIT-2 may not be a true sign of ethical decision making and behavior because cognitive development increases with age. Additionally, it the DIT-2 does not explain the moral reasoning of students who are unaware of the types of pressures and challenges with which they will be faced in their professional roles (Shawver & Sennetti, 2009, p. 663). Classroom work may not address all of the specific pressures students may face in their industry or role upon graduation. This review of existing measures suggests that they may not accurately reflect the ethical decision-making characteristics of a candidate.

Because recruitment teams are seeking candidates with strong ethical decision-making abilities, ethics assessments are needed, but current ethics assessments may be too generalized. We can learn from personality assessments that tailoring an assessment to a specific industry may be a more effective way to measure the decision-making abilities of an individual. Additionally, the risk of subjective hiring could be minimized by relying more on quantitative measures of a candidate's abilities.

RECRUITMENT IN THE FINANCIAL INDUSTRY

Current recruitment practices are effective in that they identify candidates who demonstrate potential to succeed in a role, but they need to be less subjective and more tailored to industry specific pressures and situations. On top of the general recruiting guidelines and assessments, recruitment teams in the financial industry need to have a clear way of assessing the ethics of potential practitioners.

A literature review has revealed that ethics and ethical decision making play a key role in finance-related roles and organizations. Concern is growing regarding moral failure and malpractice in the financial industry (Oates & Dias, 2014, p. 94). A recent banking scandal, in which Wells Fargo & Company was found to have opened fraudulent bank accounts on behalf of their clients (Cohan, 2016), is representative of scandals that have damaged the reputation of the industry. When Senator Elizabeth Warren addressed this issue, it was clear that the government was concerned with the unethical behaviors of industry professionals (Cohan, 2016). Wells Fargo & Company professes three core values: 1) ethics, 2) what's right for customers, and 3) leadership (Wells Fargo & Company, 2016). Judging by the recent scandal, it is clear that they are not as true to their values as their stakeholders had been led to believe. Scandals like these demonstrate the need to begin hiring ethical individuals that can rebuild the reputations of organizations that have been damaged or tarnished due to inappropriate behaviors.

In the financial industry practitioners must overcome various pressures. Regulations like the Sarbanes-Oxley Act (SOX) of 2002 have been enacted in response to many scandals in the industry (Martin & Combs, 2010, p. 103). This type of regulation is complex, resulting in higher costs for firms, with the average-size firm sustaining costs of close to $4.4 million and upwards of $8.5 million (Martin & Combs, 2010, p. 104).

Furthermore, the advancement of technology is allowing interaction between managers and clients to advance.

Technological advancements are allowing clients to have greater accessibility to their accounts and fund managers, as well as allowing immediate transactions to take place. The advancements also allow for penetration of new markets which could not be reached before. Information is available to consumers and fund managers about small and emerging markets in underdeveloped areas. These pressures could bring about positive developments, including better access to clientele, but could also pose risks, including increased cyber and data security risks. Tracking market performance and returns is another pressure in this industry. Market values cannot be pinpointed and the focus on tracking market performance, estimating future values of stocks, and managing returns puts pressure on investment managers.

Specific pressures within a company can be attributed to business operating models, salary models, and leadership/management teams. Investment managers are often compensated for sales to clients, regardless of the returns that those sales create for the clients. Here, we often see people acting in their own self-interest, rather than the best interest of the client. Financial and investment management organizations are facing pressure to become more transparent about fees, and more competition for consumers increases the potential for profit loss. When practitioners fear that their salaries will suffer, there may be an additional pressure to engage in unethical behavior. Management also exerts pressure on teams within their organizations. Top competitors in the financial industry have to generate many sales, returns and profits to maintain their competitive stance among other organizations. To ensure that employees produce sales or other quotas, leadership teams evaluate and incentivize the practitioners in their organizations in often unreasonable ways. Wells Fargo & Company, for example, incentivized their employees by rewarding "cross-selling", a sales technique that allowed multiple sales to the same customer to be made (Cohan, 2016). These internal pressures demonstrate why it is important to address those pressures appropriately during the hiring process.

Current ethics measures are incomplete because they do not address specific situations. Questions on the DIT-2 and MES assessments are not specifically applicable to the financial industry, and while the results from these assessments can provide meaningful data, not all people who are being assessed are from the same industry and do not face the same pressures and situations. It is suggested that an ethics assessment be tailored to finance-related pressures in order to properly assess ethics as a skill during recruitment. It has been discovered through the use of the DIT-2 that accounting and business majors tended to exhibit the lowest scores relative to those being assessed from different disciplines (Shawver & Sennetti, 2009, p. 665). This may be because the ethical sensitivities and judgments that business students are reasonably expecting to face when they begin their professional roles are different from those faced in other disciplines (Shawver & Sennetti, 2009, p. 665). This shows that the assessment cannot accurately determine if one is "ethical" or prepared to handle the pressures endemic to the industry. Industry-specific questions for assessing ethics in the financial industry can help to combat these issues.

ASSESSING ETHICS IN FINANCE

The first step in identifying what is needed for an ethics assessment that would provide maximum value for the finance industry is to take a broad look at the categories of questions that such an assessment would target. Questions that capture the most general sense of ethics may not be useful during recruitment practices because, as stated before, they are not specific to pressures someone would face in their role. Questions that are more specific to situations someone working in the financial industry would face will be useful. Using the existing DIT-2 questionnaire (Rest, 1999), questions can be evaluated for their ability to address pressures common in finance. A question from the DIT-2 assessment is provided below. The ways the question could be modified to fall into a more finance-specific category are identified. The "current question" is the question directly from the DIT-2 and the "modified question" shows how the question could be more tailored to the financial industry (changes are underlined).

Current question #1 (Rest, 1999)
Mrs. Bennett is 62 years old, and in the last phases of colon cancer. She is in terrible pain and asks the doctor to give her more pain-killer medicine. The doctor has given her the maximum safe dose already and is reluctant to increase the dosage because it would probably hasten her death. In a clear and rational mental state, Mrs. Bennett says that she realizes this; but she wants to end her suffering even if it means ending her life. Should the doctor give her an increased dosage?

Rank the 12 issues for this story in terms of how important each issue seems to you. Rankings are as follows: 1 = great, 2 = much. 3 = some. 4 = little, and 5 = no.

1. Isn't the doctor obligated by the same laws as everybody else if giving an overdose would be the same as killing her?
2. Wouldn't society be better off without so many laws about what doctors can and cannot do?
3. If Mrs. Bennett dies, would the doctor be legally responsible for malpractice?
4. Does the family of Mrs. Bennett agree that she should get more painkiller medicine?
5. Is the painkiller medicine an active heliotropic drug?
6. Does the state have the right to force continued existence on those who don't want to live?
7. Is helping to end another's life ever a responsible act of cooperation?

8. Would the doctor show more sympathy for Mrs. Bennett by giving the medicine or not?
9. Wouldn't the doctor feel guilty from giving Mrs. Bennett so much drug that she died?
10. Should only God decide when a person's life should end?
11. Shouldn't society protect everyone against being killed?
12. Where should society draw the line between protecting life and allowing someone to die if the person wants to?

Modified question #1

Mrs. Bennett is 62 years old, and just entered retirement. She suffers from dementia and has over $2,000,000 in investable assets. The financial advisor has provided her with his recommendations and is reluctant to increase the amount of money she has invested in risky assets because it could result in a large loss if the market were to underperform. In a clear and rational mental state, Mrs. Bennett says that she realizes this, but she wants to maximize the returns in her portfolio while she can. Should the advisor give her a new recommendation for her portfolio?

Rank the 12 issues for this story in terms of how important each issue seems to you. Rankings are as follows: 1 = great, 2 = much. 3 = some. 4 = little, and 5 = no.

1. Isn't the advisor obligated by the client's best interest if investing in riskier securities would result in a huge potential loss?
2. Wouldn't society be better off without so many regulations about what advisors can and cannot do?
3. If Mrs. Bennett loses all of her money, would the advisor be legally responsible for the loss?
4. Does the family of Mrs. Bennett agree that she should invest in additional risky assets?
5. Is the risky investment opportunity in the client's best interest?
6. Does the Securities and Exchange Commission have the right to force clients, like Mrs. Bennett, into select investment options?
7. Is helping to invest money for another person ever a responsible act of cooperation?
8. Would the advisor show more sympathy for Mrs. Bennett by investing in the riskier securities or not?
9. Wouldn't the advisor feel guilty from investing so much of Mrs. Bennett's money if she lost it all when the market crashed?
10. Should only the client have a say in how their money is invested?
11. Shouldn't society protect everyone against risking loss of all of their money?
12. Where should society draw the line between assisting with investments and allowing someone to risk their entire life savings if the person wants to?

It is suggested that modifying the DIT-2 assessment, in the manner suggested above, can positively impact the financial industry. Because questions are structured similarly, it is hypothesized that the modified questions would produce the same reliable results as the original questions regarding the ethical decision-making habits of the person being assessed. The next step in this line of research would be to fully develop and test the new survey to determine if it produces results that are reliable and if the assessment is worth implementing during the recruitment process.

CREATING AN ETHICAL CULTURE

Sustaining an ethical culture that is recognized by employees and consumers as a positive development is invaluable to a company's success within the financial industry. A valuable component of company culture involves performing ethically and in accordance with the company's vision and values. Many companies draft an ethics code by which employees are to abide. However, if there is a lack of understanding or of implementation by the leadership of the company, results are minimal. If, during recruitment processes, teams searched for evidence of ethical behavior, and when hired, employees engaged in trainings or seminars to encourage ethical decision making, sustaining an ethical culture would be more likely and could ultimately lead to greater and more long-term success. In addition to assessing ethics during the recruitment process, it is important to set the culture of the company when new hires are going through training processes. While this culture of ethical behavior will not happen overnight, it is important to recognize these crucial first steps.

Having strong, ethical leadership is important when it comes to the success of sustaining this culture. The financial industry fosters many talented and driven practitioners who are faced with industry pressures. Leadership teams and executives are no exception. In fact, we often see scandals and poor decisions stem from the leadership or executives of that company. Wells Fargo & Company demonstrates this idea well: with incentives coming from leadership teams, employees felt a pressure to make fraudulent sales to avoid any losses (Cohan, 2016). In order to start progressing towards the goal of creating an ethical culture, management techniques need to be fine-tuned. According to the exploration of the "7 criteria of ethics assessments" by Baggett, management plays a huge role in the behaviors of employees and their likelihood of performing ethically (Baggett, 2007). Management should not only create expectations but should enhance the ability to cope with ethics in their organization by encouraging employees to speak up about issues they are facing, and providing timely guidance when situations arise. Having management's

support and encouragement is a mitigating factor when it comes to unethical behavior arising in the workplace (Baggett, 2007, p. 67). Management also needs to consider and recognize the changing environment of their organization. Techniques for handling ethical dilemmas may have to be modified and reassessed periodically (Baggett, 2007, p. 68). A consistent effort should be made by all employees in an organization to create or rebuild an ethical culture.

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