THEME: FINANCIAL INTEGRITY PART 2

By John W. Day, MBA

Editor's Note: This is the second of a three-part series dealing with money matters. The first article, Financial Integrity Part 1, addressed the nature of one of the most insidious financial traps that exists in today's society, i.e., "easy money". This article, Financial Integrity Part 2, explores how individuals can avoid being seduced by the "easy money" lure. The third article, Financial Integrity Part 3, discusses some methods that help strengthen a non-destructive financial code-of-ethics.

ACCOUNTING TERMS: Corporation & Audit.

Corporation: A body of persons granted a charter legally recognizing it as a separate entity having its own rights, privileges, and liabilities distinct from its individual owners.

Audit: The process of examining a company's financial records by either external or internal auditors for the purpose of rendering an opinion as to the quality of the financial records.

FEATURE ARTICLE: Who's Driving The Bus?

Socrates' two simple axioms for life were, "Know Thyself" and "Take Nothing in Excess". He knew that without some understanding of who we are, we are left to the influences and forces of others who may not have our best interest at heart. He also knew that without some measure of self-control, we are left to the influences and forces within our own selves that may not be working toward our best interest. In either case, we can find ourselves swinging far out to one side of the pendulum or the other.

Beside "life" in general, these axioms are also applicable in context with developing and maintaining "financial integrity". The first article in this series, Financial Integrity Part 1, discussed what a "financial code-of-ethics" is, i.e., the do's and don'ts pertaining to financial matters. Everyone has a financial code-of-ethics. However, a person can have a weak, ill-defined financial code-of-ethics, or a strong, clearly defined one.

How do we know whether our financial code-of-ethics is weak or strong? All we have to do is to look at the results of our lives. Are we driving ourselves crazy trying to make ends meet? Are past due bills showing up in the mail? Are we unable to do things we would like to do because most of our money is going to pay debt? Are arguments with our spouses or partners mainly over money? Like Enron, are we going bankrupt with people suing us left and right? There are myriad examples, but we are the ones who know whether our financial life is working or not.

The big question is, “Who’s driving the bus?” Surely, we have all noticed that there are a number of voices that argue inside our heads. One voice says, “I just have to have this new dress, or new tool box, today.” Another voice says, “This is not a good idea, you really can’t afford this right now.” Which one is right? Advertisers tell us that people buy first on the basis of emotion. Reasoning comes second. Often, reasoning becomes rationalizing or simply finding an acceptable justification for the purchase. The voice of reason doesn’t stand a chance, unless, there is an established “financial code-of-ethics” in place, guarding against impulse/emotional buying.

All of us seem to have a “Wise Mind” or a “Self” who knows best and watches out for us. When we are calm and have time to think, we can usually come up with a plan that makes sense and keeps us out of trouble. A financial plan is called a “budget”. Laying out a budget seems like a lot of work, so many people don’t take the time to bother with it. This can be a big mistake! Identifying our expenses and matching them to our income is essential if we want to stay on financial track. It is the fabric that makes up our financial code-of-ethics. The budget process is where we make all our financial decisions beforehand in an objective way.

These are “wise mind” decisions. These are the decisions that determine whether a purchase is really necessary or would just be nice to have.
Those of us who have children are familiar with how they try to break us down in a store to buy them something they don’t really need. They beg, cajole, throw fits, and do anything they can think of to see if we will cave in. If we show any sign of weakness, their persistence becomes stronger and stronger. Once that voice comes in that says, “Well, maybe it would be okay”, we are dead meat. Knowing in advance what we are willing to do and not willing to do, and sticking with it through the onslaught is our only salvation. Our kids can tell in a nano-second when we are starting to cave in.

It seems apparent that these voices we hear in our minds lobbying for this or that are simply parts of our own Self. Psychologists tell us that these parts can represent varying aspects of ourselves that still have unmet needs. The conflict we feel inside when trying to make a financial decision may be the result of certain competing factions within that are trying to get these needs met.

So what does this mean? How do we know which one to listen to? Do we all have to go into therapy in order to develop financial integrity? For some people, this may be necessary. Yet, for many of us, formulating a clear understanding of who we are, what our financial goals are, and a plan as to how we are going to arrive at those goals may be enough.

<u>TIP: Collaboration is the Key</u>

One of the best ways to find out about your internal processes in relation to financial matters is to set up a controlled experiment using the scientific method. You remember how that goes. First, you state your hypothesis. Second, you conduct the research and observe the results. Third, you analyze the results. Fourth, you draw your conclusions. In this case, you are, in essence, studying yourself.

In other words, you are going to formally state that you intend to do something such as not using your credit card for thirty days in a row. For each day that goes by, you will observe (and record) any thoughts, feelings, or actions that are related to your intention. At the end of the thirty day period, you will gather your notes, study them, look for trends, patterns, and any other interesting ideas that come to mind. When done analyzing, you can draw conclusions such as, recognizing a strong tendency to use the credit card when at a gas station, or when you forgot to bring your checkbook along, or when you see an item you've thought about buying for awhile, etc.

You may have observed different parts of your mind that stepped up and made a case for making the purchase. You may have heard that part of your mind trying to talk you out of completing the experiment. Or, perhaps you heard another voice beating you up for being weak, and so on.

The beauty of this practice is that it affords you the opportunity to witness your mind in action in a way not possible before. You are the one who set up the experiment and stated your intent. By doing this you've created a way to monitor and measure any mental or emotional activity that occurs in relationship to your intent. It's like the scientist who is aware that microorganisms exist but can't see them until he looks through a microscope. It gets interesting believe me. Nothing is more fascinating than learning the inner workings of your own mind.

A good way to begin is to state your intent in specific terms by writing them on paper then dating and signing it. Read it each day. You can use ordinary exercises that are related to financial endeavors for your experiments. Here are some examples of experiments you could conduct:

- It is my intent to buy **only** items on my written list at the grocery store during the next thirty days.

  Signed – *John Day*
  Date XX/XX/XXXX

- It is my intent to spend ***only*** the amount I budget for groceries during the next thirty days.

- It is my intent to ***not*** use any credit cards for the next thirty days.

- It is my intent to prepare and follow a complete written budget for thirty days.

- It is my intent to keep a running balance in my checkbook for the next thirty days.

- It is my intent to keep a written list of any expenditures other than groceries, or regular monthly bills for the next thirty days.

- It is my intent to carry $50 in cash in my wallet and not spend it for the next thirty days.

- It is my intent to not buy any non-essential items for the children for the next thirty days.

These, of course, are only suggestions and you can set up any experiment you like. If thirty days is too long, try seven days, or even one day if you must. Be sure to keep a daily journal or log and try to describe as accurately as you can the thoughts, feelings, or circumstances that arise. It is best to carry your journal with you and write immediately when you observe something. Otherwise, it is easy to forget or distort what really happened.

Here's a suggestion: Let's say you find this one part of yourself wanting to buy a cordless power drill you've been looking at for the last three months. You're getting tired of having to drag the extension cord all around. You've got a project coming up this weekend and a cordless drill would be very handy. Your old drill still works fine so you don't have to buy a new drill. Money is a little tight but there's room on the credit card. When you hear the argument about how much easier it would make the job if you had the new drill, begin a dialogue with that part, as you would a good friend who was just trying to help you out. Listen to the argument and agree that it could make the job easier. Then explain that you know that another charge on the credit card will make it that much harder to pay off. Instead of rejecting that part outright, offer a plan. You will buy the drill when the credit card is paid down to X amount.

The idea is to get all these parts to work with you instead of against you. Include them in the overall financial integrity plan. Listen to their needs and work out a solution so they don't think their needs are being ignored. Remember how it is with your children if they think they are being ignored. They act out in other ways to get your attention.

This process is called "inner collaboration". Instead of strong-arming all the parts and bending them to your will, use compassion and understanding as you would with your own children to get them to cooperate with your plan. This way, you are acting out of confidence and wisdom rather than fear and desperation.

Since you have devised the master plan and you do not forget the plan, you then become the natural leader of all the parts. This is because they don't have a plan. They only have needs. Eventually, your financial house will be in order. Things calm down and you can breathe easier. You are a team all pulling in the same direction. In short, you are finally driving the bus!

QUESTION: Can Corporations Navigate Without A Moral Compass?

Can corporations navigate through financial waters without a moral compass to guide them? They do so at their own peril. A moral compass can keep the corporate ship in deep waters and away from the shallow, rocky banks. Socrates warned against excess or extremes. His axiom applies to corporations as well as individuals.

And what are corporations? Corporations are merely pieces of paper without people. The people who run corporations are the board of directors and management. Large corporations have financial policies and procedures to guide them and they normally obey tax law and the penal code. However, their ethical standards are arbitrary. Unfortunately, some large corporations have adopted ethical standards that translate into "profit at all costs". This is where capitalism gets its bad name.

The attitude of profits at all costs is not good for the long run. It really is short-term thinking driven by immediate gratification. For instance, can my company exploit the third-world labor force and not expect any long-term consequences? Can my company pollute rivers, air, and other limited resources continually and not expect any long-term effects? Can my company sell products to consumers that have not yet been properly tested and not expect to be sued when they cause harm? Can my company artificially inflate its net worth in order to sell stock to the unwary in the hope that they will never find out? When does gray become black? Sometimes it's hard to tell, especially if a career is riding on it.

The most glaring example of corporate greed run amok is the whole Enron debacle. Enron executives had their financial policies and procedures in place. However, when the test came, some key people chose to ignore the code. More astounding is that the supposed watchdogs' (auditors) judgment was also influenced by the "easy money" lure. Now, they are experiencing the "pain" that comes from shortsighted thinking.

Businesses have to make a profit to stay in business. But, when is enough, enough? Is the desire for wealth insatiable? Do businesses like Enron have to ride the wave of wealth and power to the point of their own destruction? How is "excess" known? Perhaps it is when others have to suffer and the environment is fouled. The Navaho culture knew when someone had more than was needed. Excess was an embarrassment and brought shame to those who did not share their good fortune. Somehow, our culture in the West has gotten it turned around to where shame is felt for not having enough.

The answer is not to refer to corporations as “evil” and dismantle them. That is nonsense because the majority of individuals who are leaders of large businesses are responsible and caring people. In fact, there is a new component of corporate thinking that is emerging called, “Social Risk Management.” CEO’s are waking up to the fact that social accountability must be factored into their financial planning.

There are now organizations that rate corporations on their ethical standards and responsibilities to the communities in which they are located. This is definitely helpful and a step in the right direction. However, a more immediate and effective solution would be to create a law that held the board of directors financially responsible for any social and environmental harm done to a community within or outside this nation. Were this to happen, there’s a good chance that corporate irresponsibility would end overnight.

John W. Day, MBA is the author of two courses in accounting basics: Real Life Accounting for Non-Accountants (20-hr online) and The HEART of Accounting (4-hr PDF). Visit his website at http://www.reallifeaccounting.com to download his FREE e-book pertaining to small business accounting and his monthly newsletter on accounting issues. Ask John questions directly on his Accounting for Non-Accountants blog.