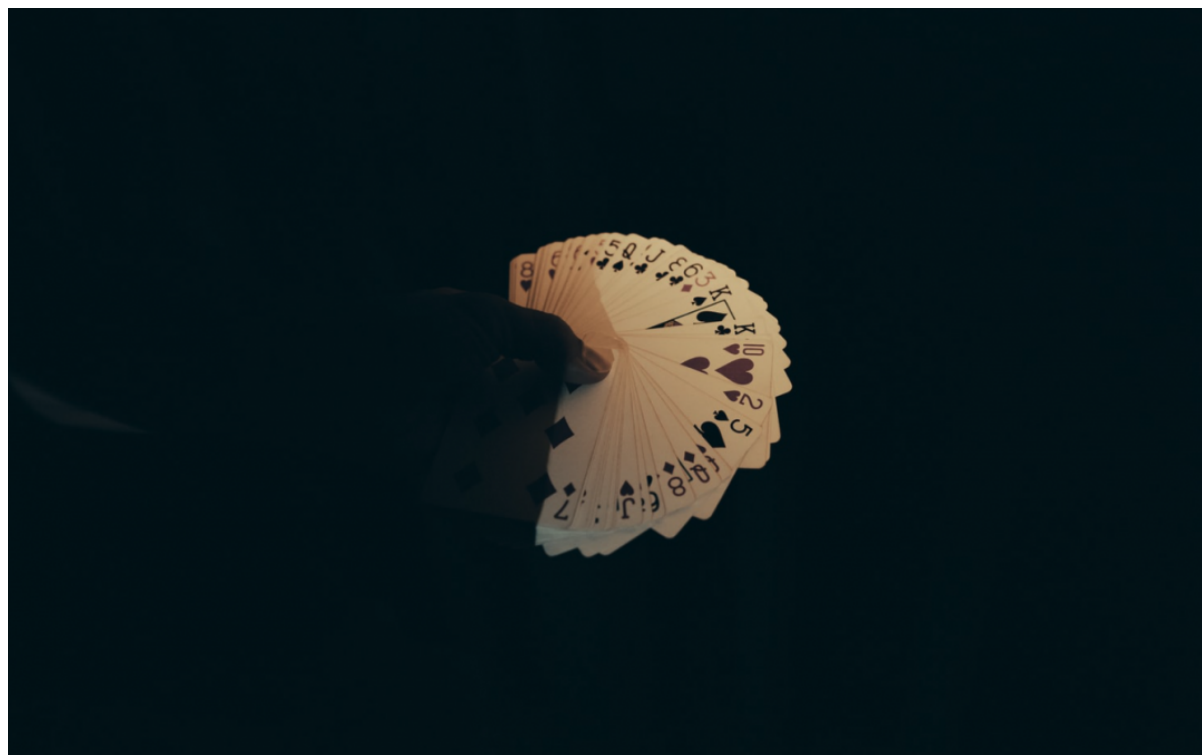


Good ethics is good business

By Dr Quintin Rayer | July 11, 2019



Financial professionals are familiar with regulatory compliance requirements, including policies on treating customers fairly, anti-money laundering, data protection and anti-bribery. Professional bodies also have codes of conduct. However, following past financial scandals, trust in the financial profession remains low. At P1 Investment Management staff receive business ethics training, strengthening our ethical culture and moving beyond just compliance. It provides an opportunity for discussion around moral issues. This is important since a robust ethical culture is an inherent part of our identity [1].

This article explores some topics from P1's business ethics seminar and their relevance to financial professionals.

What is Ethics?

Ethical behaviour is deeply ingrained. In the "ultimatum bargaining game", two people are offered a sum of money (say £100). One proposes how it will be divided (e.g. £50 each) and the second accepts or rejects the proposition. Only one proposal can be made, and if it is rejected, both receive nothing. Economists suggest that the second person should accept any sum, no matter how small, but many people will reject a proposal they consider unfair [1]. So innate is this behaviour, it appears that an aversion to unfairness is even shared by dogs and wolves [2].

People (and businesses) wish to do business with those they can trust. Trust creates opportunities, and considerations of fairness can force firms to limit profit-seeking – customers may remember price gouging and take business elsewhere [1].

The Golden Rule, “do as you would be done by” is a central tenet of much religious teaching. Financial professionals might encapsulate this as “is this the advice you would like given to your dear old granny?”. The temptation to be unethical may be greater when dealing with people in situations of relative vulnerability.

Ethics and the Law

Businesses operate within a legal framework, and some may feel that the law should be the only set of rules relevant [1]. This approach can result in needing to read contract small-print carefully, seeking to negotiate ‘WIN-LOSE’ deals and ‘let the buyer beware’. Proponents might argue that ethics applies to private life and the law to public life, or that the law is a minimum standard of conduct, while ethics is ‘nice to have’ but not essential. However, business practices can be identified as ethical or unethical. Discrimination and consumer fraud are wrong, but may be unenforceable – does inability to force compliance make them acceptable?

If the law embodies business ethics, then “if it’s legal, it’s morally OK”. In countries with undeveloped legal systems, the gap between ethical behaviour and legal requirements may be wide. Gaps in international law leave ethics as a guide for global businesses. No legal system can embrace the whole of morality.

The idea that professionals need only consider the law when making decisions is both false and dangerous [1]. Approval from a company’s legal department does not necessarily mean success in court, and regardless of the legal outcome, the company can suffer in the marketplace. Not everything immoral is illegal, and the law can be slow to develop in new areas of concern. Courts can be guided by moral considerations, perhaps refusing to interpret law literally if it sanctions blatant immorality. In cases of legal doubt, morality is a good predictor of what courts will decide [1].

Ethical Principles

Ethical principles can be helpful in difficult situations and act as a dilemma detector [3]. Sound principles tend to be compatible with intuition, conscience and the Golden Rule; but may not be absolute.

Personal ethics encompass a general moral expectation of any person in society. Additional principles apply when individuals act professionally. These include

impartiality, transparency, confidentiality, a duty of care, avoiding any conflict of interest and other professional responsibilities.

However, principles only provide guidance, and many situations will be challenging. Charitable contributions may lose significance if a corporation has not minimised harm done elsewhere. Principles can collide: a scientist coerced into creating biological weapons has a duty of confidentiality to weigh against the good of humanity [3]. Principles should not be applied selectively, only to family, countrymen, by race, or gender. This is cronyism, the Mafia have a strict code of honour amongst themselves. Ethical principles must be applied to everyone. However, society accepts selective violations: killing in a 'just' war (although murder is illegal); telling a child about Santa Claus is lying, but socially acceptable. Some people reach the dangerous conclusion that ethics are relative to cultural practices, which is an excuse to evade responsibility [3].

What's in it for me?

Professionals may want to know what's in it for them: should virtue be its own reward? But this has nothing to do with whether one should be good [4]. One can do well by being good or can also fail. In the long run, bad guys can often get into trouble while a good reputation is likely to bring rewards. Success can be seen as a means of making the world a little better [4]. Milton Friedman suggested that businesses' social responsibility is to increase profits since otherwise, they spend their owners' money on non-business activities. But, do company officers usurp authority when they act ethically at the owners' expense or do they carry out duties that owners ought to anyway? [4]

Perhaps businesses' responsibility is to obey the law and the "rules of the game", so a degree of bluffing and exaggeration is acceptable. Like a poker game, a certain level of deception is acceptable. However, deception is not really deception if expected in a poker game – although cheating is still unacceptable. In poker, everyone knows the rules, while financial decisions can be ambiguous. Not all participants may "know the rules", particularly retail customers, and professionals can exploit their knowledge advantage. This may tempt some to push the boundaries.

How this helps Advisers

Ethics can make financial professionals aware of the potential consequences of behaviour and provide a framework to discuss issues. Dilemmas can be explored under "safe" conditions, strengthening the quality of advice when helping clients make decisions.

Apart from meeting necessary compliance requirements, clients will be reassured to see their advisors adopting high ethical standards in their dealings. Such standards will help advisors build the trust to retain clients during challenging circumstances and build a reputation to attract new business.

References

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