

## **Business ethics: moving beyond just compliance**

**Financial professionals have become used to compliance requirements placed upon them by regulators including aspects such as treating customers fairly, anti-money laundering, data protection and anti-bribery policies, to name a few. Professional bodies also have member codes of conduct. However, following historical financial scandals, trust in the financial profession remains low**

### **WHAT IS ETHICS?**

Ethical behaviour is deeply ingrained. In the 'ultimatum bargaining game', two people are given a sum of money (say £100) on condition that 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 no money. Economists suggest that the second person should accept any sum, no matter how small, but many people will reject a proposal they consider unfair. Broadly, 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.

The Golden Rule is key: 'do as you would be done by', a central tenet of much religious teaching. Financial professionals might reinterpret this along the lines of 'is this the advice you would like given to your dear old granny?'. This also emphasises that temptation to be unethical may be greater when dealing with people in situations of relative vulnerability.

### **ETHICS AND THE LAW**

Business activity takes place within a legal framework and some may feel that the law should be the only set of rules relevant. Outcomes of this approach might include needing to read the small print on all contracts 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 one believes the law embodies business ethics, then 'if it's legal, then 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 to consider the law when making decisions is both false and highly dangerous. 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 that is 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.

## **ETHICAL PRINCIPLES**

Ethical principles can be helpful in difficult situations, and act as an ethical dilemma detector. Good 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. Global ethics can be controversial, least understood and open to interpretation. For international organisations responsibility comes with power whether desired or not. However, principles provide only guidance and many situations will be challenging. Charitable contributions may lose significance if a corporation has not minimised damage done by core operations. Principles can collide: a scientist coerced into creating biological weapons has a duty of confidentiality to weigh against the good of humanity.

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. There are, however, selective violations that society accepts: killing in a 'just' war (although murder is illegal); telling a child about Santa Clause 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.

## **WHAT'S IN IT FOR ME?**

Apart from 'being good' professionals may want to know what's in it for them: should virtue be its own reward? There is nothing wrong with asking whether being good brings reward, but this has nothing to do with whether one should be good. It is possible to do well by being good, although one can also fail. In the long run, bad guys can often get into trouble whilst a good reputation is likely to bring rewards. It is better to treat profits and success as a means towards making the world a little better. 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 are obliged to observe through their agents?

Some may argue that businesses' duty 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 everyone expects it in a poker game - although cheating is still unacceptable. In poker everyone knows the rules, while business situations can be ambiguous. Not all participants may 'know the rules', particularly retail customers, and professionals can exploit their knowledge advantage. This may tempt companies or individuals to push the boundaries.

Ethics can make financial professionals aware of potential consequences of behaviour, while providing a framework to discuss ethical issues. It gives practice at exploring dilemmas under 'safe' conditions. After all, if business management is about making decisions, and financial professionals advise clients to help them make decisions; then ethics is also about decisions, about how decisions affect everything.

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