

MAA250 – Ethics and Financial Services EXAM Notes

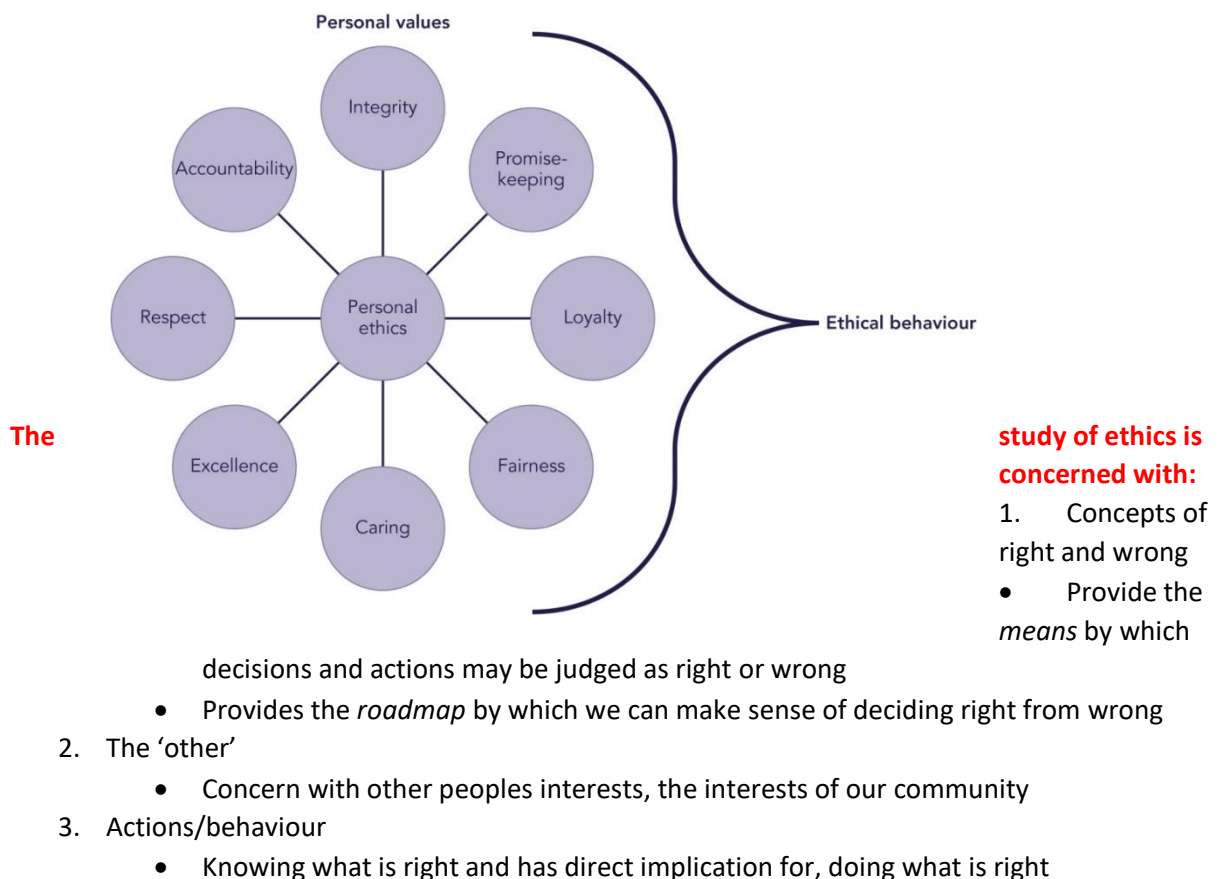
Topic 1 – Introduction to Ethics and Ethics Framework

What is Ethics?

- Ethics is about choices: assessing alternatives, making the 'right' decision and acting on it in accordance with the decision with courage
- Ethics encompasses individuals, groups, organisation and society
- Ethics is concerned with the study of human character (values and behaviour)
- Overall, ethics prescribe what people ought to do and behave with an emphasis on doing good and avoiding harm

Ethics and Values

- Values provide a framework that supports sound choices, ethics is concerned with doing what is right. In turn, doing what is right is founded on good values
- A persons values is also referred to as their personal ethics



The Ethics framework

- The market (the environment), the business entity and the regulatory regime
 - **The market:** competition, resources, opportunities and threats, social and environment (TOPIC 9)

- **The entity:** an ongoing concern in the interest of owners & stakeholders (TOPICS 2, 3, 4, 5, 6, 7, 8)
- **Regulatory regimes:** compliance, support and oversight functions (TOPIC 2)

3 Levels of ethics framework

1. Governing body (Corporate Governance) (Topics 2, 7)

- Governance conveys authority and control
- Corporate Governance relates to strategies, directions, methods and manners adopted by a group of people such as the CEO, the board etc
- **Traditional focus:** the ability to maximise shareholders' value
- **More recent focus:** board composition; independence of directors/auditors; accountability to *stakeholders*; financial reporting disclosure etc.
- Ethics of governing body:
 - Provide and facilitate good corporate governance practices
 - Management of stakeholders' interests
 - Meeting conformance and performance drivers

2. Workplace (Topics 5, 6, 8)

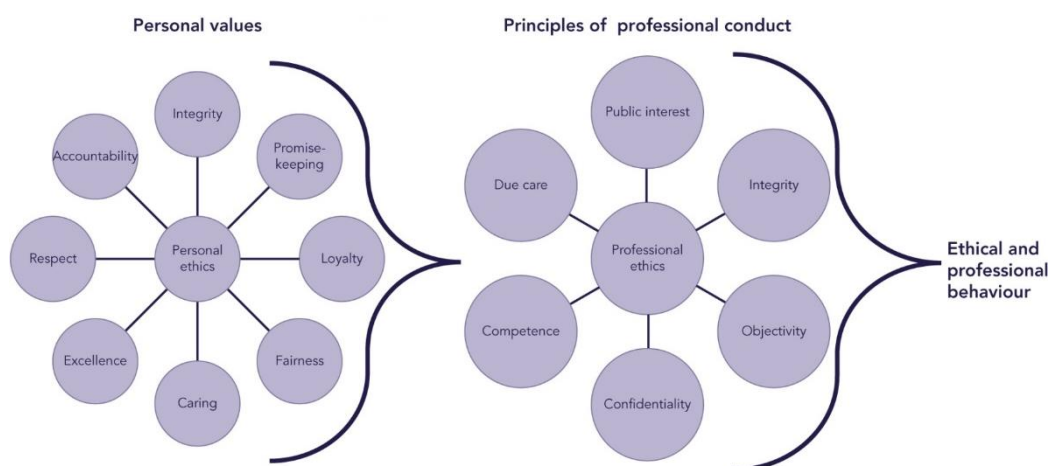
- Influenced by the governing body
- Implementation of governance policies and procedures
- Monitoring of "soft issues" – workplace practices, norms and cultures

3. Individual employees (Topics 3, 4)

- Influenced by cultures & values established by the governing body and the workplace
- An individual's ethical behaviour is made up of four interrelated components (Ethical sensitivity, Ethical priorities, Ethical judgement and Ethical courage)

Professional Ethics

- Someone who is an authority on the subject in which they are practised and who is in a position to remedy the problems presented to them by their clients or employers
- Takes on an additional burden of ethical responsibility by adhering to the public interest



Approaches to Ethical Decision – Making in practice

- *[The] process of identifying a problem, generating alternatives, and choosing among them so that alternatives selected maximise the most important ethical values while achieving the intended goal (Guy 1990, p. 39)*

1. A common sense approach

- personal insight, intuition, judgment and experience
- probably the most widely employed approach to decision making

2. 'Satisficing'

- making 'adequate' or 'satisfactory' decisions (decisions are characterised as less than optimal but satisfactory)
- easy-to-understand decision rules or rules of thumb
- E.g. 'never accept the first offer'; 'a business is worth two-times its gross revenue'; and 'only frauds in excess of \$100 000 should be reported to the police'.

Limitations

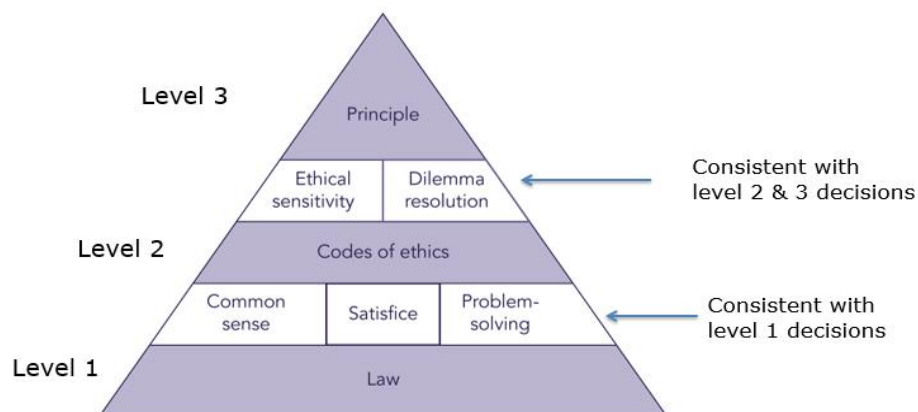
1. Treating an ethical dilemma as a problem

- A problem has a *single right response*, whereas ethical dilemmas are irresolvable due to equally compelling arguments for each alternative

2. Ethical sensitivity

- A person's ability to recognise the moral dimension of a problem (stakeholders and values affected)
- Research findings among business professionals and student counterparts finds that they do not perform well in moral sensitivity tests

Hierarchy of ethical decision-making



Level 1: Ethics and the Law

- Decisions governed by legally binding rules
- Provides three advantages:
 1. law provides an ethical minimum
 2. law embodies many of society's common beliefs and values
 3. the law consists of enforceable rules
- However, lawful decisions are not always ethical

Level 2: Ethics and Codes

- Professional duties are based on a professional and ethically binding commitment to the principles of professional conduct at the expense of self-interest.
- Should be the first checkpoint in any situation involving professional conflict.
- Code represent an attempt to deter unethical behaviour
- Extent of compliance is dependent upon the effectiveness of the code in achieving its objectives, which in turn is dependent on effective enforcement

Level 3: Ethical Principles

- A principled-based decision is not about compliance with law, policy or codes of conduct; it is about actions, values and consequences based on principles of ethics

- decisions are made within a defined sense of right and wrong based on moral values and philosophical reasoning (such as the normative theories of ethics - see Topic 4).
- likely to produce a more systematic analysis enabling comprehensive judgment, clearer reasons and a justifiable and more defensible decision than would have otherwise been the case

Corporations and Ethical Failures

- The prevalence of materialism and self-interest behind scandals and collapses such as Enron, Arthur Andersen, HIH, Lehman Brothers, Worldcom etc.
- Most visible area of concern for business ethics because of its impact on the community
- Management greed, failure to exercise good corporate governance practices, excessive remuneration to CEOs, record fees paid to analysts and accountants etc.

Who's to blame?

- Criticisms over corporate collapses have been directed at three groups of personnel with some justification:
 - (1) Chief Executive Officers and other senior executives (for having benefited personally, bonuses and other forms of compensation)
 - (2) Chief Financial Officers and accounting personnel (for their failure to apply accounting standards and for contributing to the overstatement of earnings)
 - (3) External auditors (for not having discovered and reported these failures and schemes)

Duska (2004) – 6 simple rules to avoid unwitting self-reward

1. Constrain self-interest—to pursue self-interest at the expense of others is selfish
2. Don't be greedy—greed corrupts the pursuit of desirable ends
3. Keep worthwhile goals in mind— without them life is shallow
4. Avoid hubris—hubris is excessive pride
5. Don't misplace loyalty—should not do what is unethical for the sake of helping the company
6. Be professional—always work to the best of one's ability