

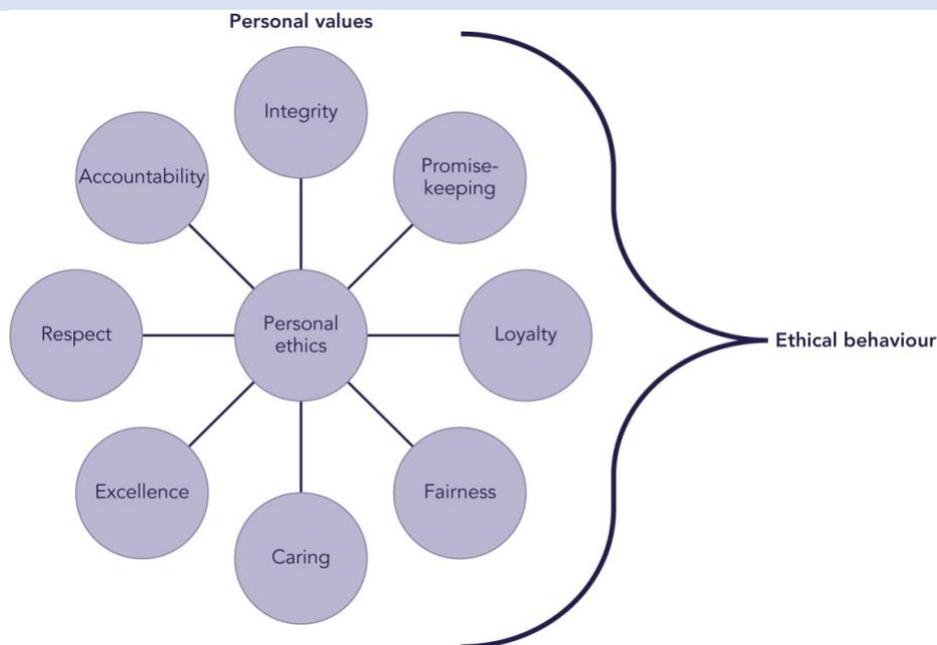
# Ethics and Financial Services Revision

## TOPIC 1 – INTRODUCTION TO ETHICS AND ETHICS FRAMEWORK

### 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, organisations and society
- Ethics prescribe what people ought to do and behave with an emphasis on doing good and avoiding harm
- 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 valued.

### ETHICS, VALUES AND BEHAVIOUR



### STUDY OF ETHICS IS CONCERNED WITH:

1. Concept of right and wrong
  - a. Provide the means by which decisions and actions may be judged as right or wrong
  - b. Provides the roadmap by which we can make sense of deciding right from wrong
2. The other
  - a. Concern with other people's interests, the interests of our community
3. Actions/behaviour
  - a. Knowing what is right has direct implication for, doing what is right

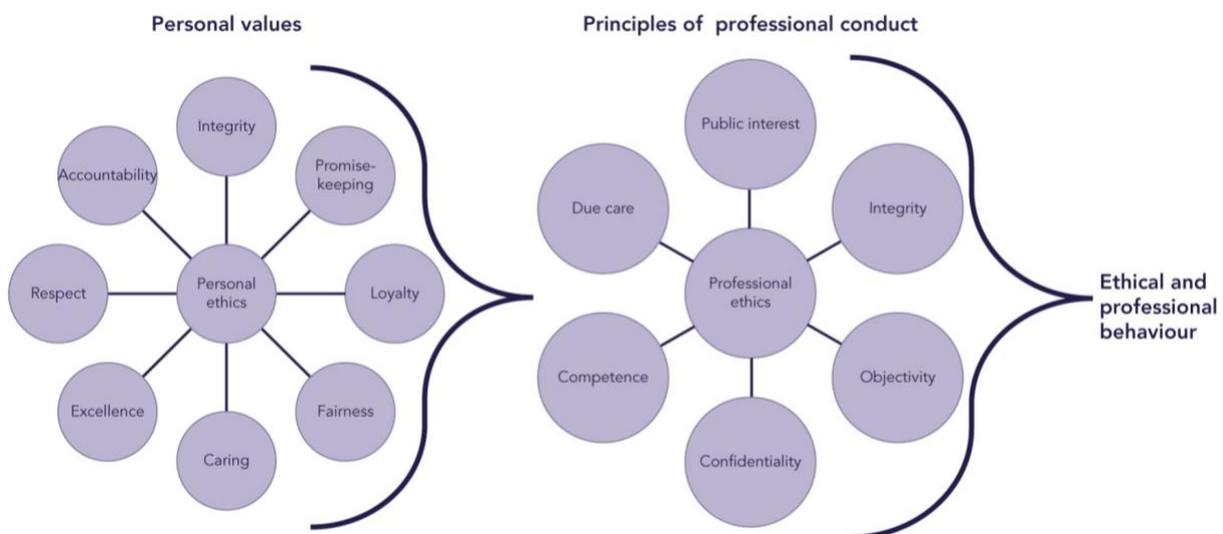
### THE ETHICS FRAMEWORK

- *Governing body*

- Conveys authority and control → relates to strategies, directions, methods and manners adopted of people such as the CEO.
- Traditional focus: ability to maximise shareholders' value
- More recent focus: board composition, independents of directors/auditors, accountability to stakeholders etc.
- Ethics of governing body:
  - Provide and facilitate good corporate governance practices
  - Management of stakeholders' interests
  - Meeting conformance and performance drivers
- *Workplace*
  - Influenced by governing body
  - Implementation of governance policies and procedures
  - Monitoring of "soft issues" workplace practices norms, and cultures
- *Individual employees*
  - Influenced by cultures & values established by the governing body and the workplace
  - An individual's ethical behaviour is made up of four components: ethical sensitivity, priorities, judgment and courage.

## PROFESSIONAL ETHICS

- Someone who is an authority on the subject in which they are practiced 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.



## ETHICS EXPECTATION

- Professional accountant may assume responsibilities in any part of the ethics framework
- Must maintain objectivity, integrity, independence, ethics and competency of a professional person

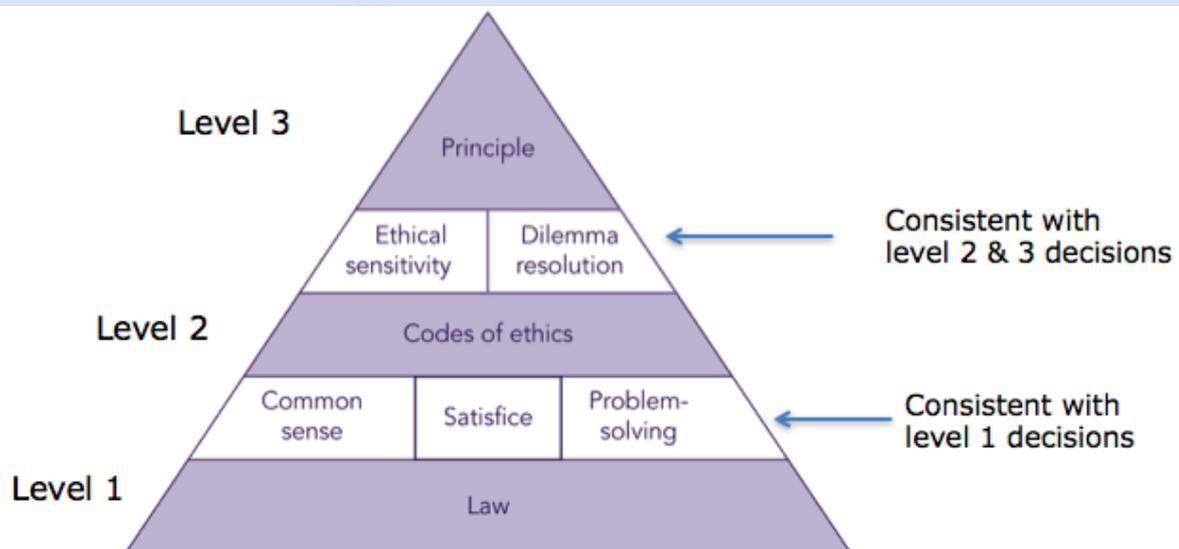
## APPROACHES TO ETHICAL DECISION MAKING

1. *A Common-sense Approach*
  - a. A personal insight, intuition, judgement and experience
  - b. Probably the most widely known approach
2. *Satisficing*
  - a. Making adequate or satisfactory decisions
  - b. Easy-to-understand decision rules or rules of thumb

#### LIMITATIONS:

1. Treating an ethical dilemma as a problem
  - a. A problem has a single right response, whereas ethical dilemmas are irresolvable due to equally compelling arguments for each alternative
2. Ethical sensitivity
  - a. A person's ability to recognise the moral dimension of a problem (stakeholders and values affected)
  - b. 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:
  - Ethical minimum
  - Embodies many of society's common beliefs and values
  - Consists of enforceable rules

#### *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 depends upon the effectiveness of the code in achieving its objectives which in turn is depending 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
  - 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

- Enron, Arthur Andersen, HIH, Lehman Brothers
- Management greed, failure to exercise good corporate governance practices, excessive remuneration to CEOs.

## WHO'S TO BLAME?

- CEO: for having benefited personally
- CFO: for their failure to apply accounting standards and for contributing to the overstatement of earnings
- External auditors: not having discovered and reported these failures and schemes

## GREED

- Self-interest and egotistic attitudes are arguably at the heart of unethical behaviour
- The problem starts when money becomes a priority in life and people do anything to have it in their possession
- Pressure on executives to meet the performance expectations of investors and analysts, combined with executive remuneration tied to operating performance, means an ever-increasing focus on short-term results
- Simple rules to avoid unwitting self-reward (Duska)
  - Constrain self-interest
  - Don't be greedy
  - Keep worthwhile goals in mind
  - Avoid hubris
  - Don't misplace loyalty

- Be professional

## CORPORATE ETHICS PROGRAM

- Good corporate culture and corporate governance to guide its members in achieving the core organisational objectives
- Corporate ethics program: is a form of control over the behaviour of individual employees to ensure that employees refrain from misconduct