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BUSINESS ETHICS IN FINANCIAL SECTOR

ABSTRACT

Proponents of the financial theory of the firm generally argue that other constituencies should either protect themselves (workers can bargain for safer working conditions, for example) or seek regulatory protection by means of occupational safety and health laws. On the financial theory of the firm, the responsibility for upholding ethical standards, forcing the internalization of costs, and so on, belong ultimately to government, not to corporate managers. The main argument for this position is that corporate managers have neither the right nor the ability to pursue multiple, nonfinancial goals.By contrast, stakeholder theory contends that the list of corporate constituencies includes all those who have a legitimate interest in the activities of a firm, regardless of any interest that the firm takes in them. Furthermore, the interests of these stakeholder groups merit consideration for their own sake, not because of their usefulness to the firm. Stakeholder theory has not been developed as a full-fledged alternative to the financial theory, and it is questionable whether it is necessarily incompatible with it. SWM is justified on the financial theory for its benefits to the whole of society, which includes all stakeholder groups. Corporate managers need not consider the interests of all stakeholders as long as these interests are adequately protected by some means, such as government regulation. In addition, managing a corporation with attention to stakeholder interests may be an effective means for maximizing shareholder value. Some very successful companies are driven by philosophies that put employees or customers first.

Key words*: ethics, business, financial theory, manager, market. Ethical code, dignity of person,*

Although many business ethics problems are common to every functional area, finance involves some distinctive ethical issues that require separate treatment. Because financial activity is closely regulated, these issues are often addressed as matters of law rather than ethics, but the basis of regulation in finance includes some fundamental ethical precepts, such as fairness in financial markets and the duties of fiduciaries. The law is an uncertain regulator, though, and much financial activity presupposes unwritten rules of ethical behavior. People trained in finance enter many different lines of work, and so finance ethics is necessarily diverse; ethical conduct is not the same for bond traders, mutual fund managers, and corporate financial officers, for example. Moreover, finance ethics is concerned not only with individual conduct but also with the operation of financial markets and financial institutions. Finally, the financial management of corporations, with its objective of maximizing shareholder wealth, raises yet different ethical issues. Despite this complexity, the field of financial ethics can be organized under the three major headings of financial markets, financial services, and financial management.

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• *Financial markets* are vulnerable to unfair trading practices (fraud and manipulation), unfair conditions (an unlevel playing field), and contractual difficulties (forming, interpreting, and enforcing contracts). The main aim of federal securities laws and the self-regulation of exchanges is expressed in the phrase "fair and orderly" markets, which reflects the need in financial markets to balance the twin goals of fairness and efficiency.

• Many individuals and institutions serve as financial intermediaries, providing *financial services* on behalf of others. Financial intermediaries commonly make decisions as agents for principals in an agency relation, and they often become fiduciaries with fiduciary duties. Agents and fiduciaries have an obligation to act solely in the interests of other parties and, especially, to avoid conflicts of interest. Although financial services providers are often merely sellers in a buyer-seller relation, they still have the obligations of any seller to avoid deceptive and abusive sales practices.

• *Financial Management:* Business firms are legally structured as the financial instruments of shareholders, and officers and directors are agents of firms, and have a fiduciary duty to manage the firms with the objective of maximizing shareholder wealth. Ethical issues in financial management concern the actions that violate the duties of financial managers and the discretion of financial managers to serve the interests of nonshareholder groups, commonly called "stakeholders."

All financial activity takes place in a larger economic, political, and social setting, and so ethical issues arise about the overall impact of financial activity. Although financial decision making is generally limited to the financial factors of risk and return over time, ethics includes a consideration of the ethical treatment of everyone affected by a decision, and the consequences for the whole of society.

1. FINANCIAL MARKETS

The fundamental ethical requirement of financial markets is that they be *fair*. Fairness may be defined either *substantively* (when the price of a security reflects the actual value) or *procedurally* (when buyers are enabled to determine the actual value of a security). In the USA, some state securities laws aim at substantive fairness by requiring expert evaluation of new securities (so-called "blue-sky" laws), but the federal Securities Act of 1933 and the Securities Exchange Act of 1934 attempt to secure fairness procedurally by requiring adequate disclosure. The rationale for mandatory disclosure is that securities transactions are more likely to be fair when material information must be disclosed, and investors have easy access to information.

1.1. UNFAIR TRADING PRACTICES

Fraud, manipulation, and other unfair trading practices lead not only to unfair treatment in securities transactions but to a loss of investor confidence in the integrity of financial markets. Speculative activity also produces excess volatility, which was blamed for the stock market crashes of 1929 and October 1987.

Both fraud and manipulation are defined broadly. Section 17(a) of the 1933 Securities Act and Section 10(b) of the 1934 Securities Exchange Act prohibit anyone involved in the issue or exchange of securities to make a false statement of a material fact, to omit a fact that makes a statement of material facts misleading, or to engage in any practice or scheme that would serve to defraud. Whereas fraud generally involves the disclosure or concealment of information that bears on the value of a security, manipulation consists of trading for the purpose of creating a misleading impression about a security's value.

Fraud is obviously committed by an initial stock offering that inflates the assets of a firm or fails to disclose some of its liabilities. Insider trading has been prosecuted as a fraud on the grounds that nonpublic material information ought to be disclosed before trading. In the 1920s, the stock market was manipulated by traders who bid up the price of stock in order to sell at the peak to unwary investors. In recent years, concern has been expressed about a form of program trading known as index arbitrage, in which traders are able to create volatility in different markets, solely for the purpose of trading on the resulting price differences.

1.2. FAIR CONDITIONS

Fairness in financial markets is often expressed by the concept of a level playing field. A playing field may be unlevel because of inequalities in information, bargaining power, resources, processing ability, and special vulnerabilities.

Unequal information, or *information asymmetry*, may refer either to the fact that the parties to a transaction do not possess the same information or that they do not have the same *access* to information. The possession of different information is a pervasive feature of markets that is not always ethically objectionable. Indeed, investors who invest resources in acquiring superior information are entitled to exploit this advantage, and they perform a service by making markets more efficient. The unequal possession of information is unfair only when the information has not been legitimately acquired or when its use violates some right or obligation. Other arguments against insider trading, for example, are that the information has not been acquired legitimately but has been misappropriated from the rightful owner (the "misappropriation theory") and that an insider who trades on information that has been acquired in a fiduciary relation violates a fiduciary duty. Equal access to information is problematical because accessibility is not a feature of information itself but a function of the investment that is required to obtain information. To the objection that an inside trader is using information that is inherently inaccessible, some reply that anyone can become an insider by devoting enough resources.

Similarly, inequalities in bargaining power, resources, and processing ability - which are pervasive in financial markets - are ethically objectionable only when they are used in violation of some right or obligation and especially when they are used coer-cively. The main ethical requirement is that people not use any advantage unfairly. For example, American stock markets permit relatively unsophisticated investors with modest resources and processing ability to buy stocks on fair terms, and some changes, such as increased use of program trading or private placements, are criticized for increasing the advantages of institutional investors. (The growth of mutual funds has served to reduce the adverse consequences of inequalities among investors.) Vulnerabilities, such as impulsiveness or overconfidence, create opportunities for exploitation that can be countered by such measures as a "cooling off" period on purchases and loans, and the warning to request and read a prospectus before investing.

1.3. FINANCIAL CONTRACTING

Some financial instruments, such as home mortgages and futures options, are contracts which commit the parties to a certain course of action, and many financial relations, such as being a trustee or corporate officer, are contractual in nature. Contracts are often vague, ambiguous, or incomplete, with the result that disagreements arise about what is ethically and legally required.

First, beyond the written words of *express contracts* lie innumerable tacit understandings that constitute *implied contracts.* Financial affairs would be impossible if every detail had to be made explicit. However, whatever is left implicit is subject to differing interpretations, and insofar as implied contracts are not legally enforceable, they may be breached with impunity. Not only financial instruments but the relations of corporations with employees, customers, suppliers, and other stakeholders consist of implied contracts, from which each party receives some value. One objection to hostile takeovers is that raiders are able to finance such deals by capturing the value of the implied contracts that the target firm has made with its stakeholders.

Second, contracts are sometimes imperfect because of limitations in our cognitive ability, especially incomplete knowledge, bounded rationality, and future contingencies.

In addition, some situations may be too complex and uncertain to permit careful planning. As a result, the parties may fail to negotiate contracts that produce the maximum benefit for themselves. Disputes in contractual relations also arise over what constitutes a breach of contract and what is an appropriate remedy.

Agency and fiduciary relations are one solution for the problems of imperfect contracting because they replace specific obligations with a general duty to act in another's interests. In particular, the fiduciary relations of managers to shareholders has arisen because of the difficulties of writing contracts for this particular relation. Similarly, supplier relations are not easily reduced to contractual terms. The term *relational contracting* has been coined to describe the building of working relations as an alternative to rigid contracts.

2. FINANCIAL SERVICES

The financial services industry - which includes commercial banks, securities and investment firms, mutual and pension funds, insurance companies, and financial planners - provides a vast array of financial services to individuals, businesses, and governments. Financial services firms act primarily as financial *intermediaries,* which is to say that they use their capital to provide services rather than to trade on their own behalf. In providing financial services, these firms sometimes act as agents or fiduciaries with respect to clients; at other times, they act as sellers in a typical buyer-seller relation. Thus, a broker who is authorized to trade for a client's account is an agent, but a broker who makes a cold call to a prospect is merely a salesperson. Many ethical disputes result from misunderstandings about the nature of a financial service provider's role.

2.1.FIDUCIARIES AND AGENTS

A fiduciary is a person who is entrusted to act in the interests of another. Fiduciary duties are the duties of a fiduciary to act in that other person's interest without gaining any material benefit except with the knowledge and consent of that person. Similar to the fiduciary relation is the relation *of agent* and *principal,* in which one person (the agent) is engaged to act on behalf of another (the principal). Whereas fiduciary relations arise when something of value is entrusted to another person, agency relations are due to the need to rely on others for their specialized knowledge and skill. In both relations, the specific acts to be performed are not fully specified in advance and fiduciaries and agents have wide latitude.

A major source of unethical conduct by fiduciaries and agents is conflict of interest, in which a personal interest of the fiduciary or agent interferes with the ability of the person to act in the interest of the other person. Fiduciaries and agents are called upon to exercise judgment on behalf of others, and their judgment can be compromised if they stand to gain personally by a decision. For example, a conflict of interest is created when a brokerage firm offers a higher commission for selling in-house mutual funds. The conflict arises because the broker has an incentive to sell funds that may not be in a client's best interests. Whether mutual fund managers should be permitted to trade for their own account is a controversial question because of the perceived conflict of interest. Fiduciaries and agents also have duties to preserve the confidentiality of information and not to use the information for their own benefit. Thus, "piggyback" trading, in which a broker copies the trades of a savvy client, is a breach of confidentiality.

Agency relations are subject to some well-known difficulties that arise from the inability of principals to monitor agents closely. These difficulties are opportunism, moral hazard, and adverse selection. Opportunism, or shirking, occurs because of the tendency of agents to advance their own interests despite the commitment to act on behalf of another. In agency theory, which is the study of agency relations, whatever a principal loses from opportunism is known as agency loss. The total of the agency loss and expenditures to reduce it are called agency costs. Moral hazard arises when the cost (or risk) of an activity is borne by others, as when a person seeks more medical care because of insurance. Moral hazard can be reduced in insurance by requiring deductibles and copayments, which provide an insured person with an incentive to lower costs. Insurance companies can also seek out better insurance prospects, but this leads to the problem of adverse selection. Adverse selection is the tendency, in insurance, of less suitable prospects to seek more insurance, which increases the risk for insurers who cannot easily identify good and bad insurance prospects. More generally, principals are not always able to judge the suitability of agents, and agents have an incentive to misrepresent themselves.

Many ethical problems, ranging from churning of client accounts by stockbrokers to the empire-building tendencies of CEOs, result from the difficulties inherent in agency relations. These problems can be addressed by closer monitoring and by changes in the structure of the relation. For example, the incentive for brokers to churn could be reduced by basing compensation more on the performance of clients' portfolios and less on the volume of trades. In addition, compensating executives with stock options aligns their interests more closely with those of the shareholders and thus prevents empire building. The most effective solutions for ethical problems in agency relations are twofold: first, there must be a strong sense of professionalism accompanied by professional organizations with codes of ethics; second, a high degree of trust must be present. Trust is essential in the financial services industry, and companies generally pay a heavy price for violating the public's confidence.

2.2. SALES PRACTICES

In the selling of financial products, such as mutual funds, insurance policies, and loans, the ordinary standards for ethical sales practices apply. Thus, the financial services industry, like any business, has an obligation to refrain from deception and to make adequate disclosure of material information. A mutual fund prospectus, for example, is screened by regulatory authorities, but personal sales pitches and mass-media advertising sometimes contain false and misleading claims. For example, figures in an advertisement may exaggerate the fund's past performance or omit sales charges. Whether an advertisement is deceptive is often a matter of dispute. The generally accepted standard for disclosure is materiality, which refers to information about which an average prudent investor ought to be informed or to which a reasonable person would attach importance in making a decision.

For many financial products, the degree of risk is material information that ought to be disclosed. Thus, some clients of investment firms have attributed large losses in derivatives to inadequate disclosure of the risks involved. Brokers and insurance agents have an obligation to recommend only products that are *suitable.* Risk and suitability are closely related because whether an investment is suitable generally depends on the level of risk that is appropriate for an investor. Suitability is often difficult to determine, and investments may be unsuitable for many different reasons. Thus, a security might be unsuitable because it does not offer sufficient diversification or it is not sufficiently liquid, or because it involves inappropriate trading techniques, such as the use of margin.

Financial products are susceptible to abusive sales practices, such as "twisting," in which an insurance agent persuades a client to replace an existing policy merely for the commission, and "flipping," which is the practice of replacing one loan with another in order to generate additional fees. The poor are frequent targets of abuses by loan providers who offer high-interest loans and add on various "options" of little value. Finally, financial products should meet certain standards of integrity, just as automobiles and houses can be shoddily made, so too are there shoddy financial products. The sale of limited partnerships, for example, has been criticized in recent years for dubious valuation of assets and questionable practices by developers.

Victims of fraud or abuse by financial services firms generally have recourse to the courts, but the securities industry in the USA requires most customers (and employees) to sign a predispute arbitration agreement (PDAA) that commits them to binding arbitration of disputes. Mandatory arbitration is spreading to the holders of credit cards, insurance policies, and other financial products. Although arbitration has many advantages over litigation, critics charge that the process is often unfair and denies investors adequate protection. The controversy over compulsory arbitration in the securities industry focuses on three issues: the requirement that investors sign a PDAA as a condition of opening an account, the alleged industry bias of arbitration panels, and the permissibility of punitive damages. In addition, the requirement that employees submit complaints about such matters as discrimination and harassment to arbitration denies them of the right to sue in court, a right that employees outside the securities industry take for granted.

2.3. FINANCIAL SERVICES FIRMS

Financial services firms are themselves businesses, and the management of such a business raises some ethical issues, especially in the treatment of institutional clients. For example, underwriters of municipal bonds have been criticized for making political contributions in city elections in order to gain access. Firms as well as individuals encounter conflicts of interest, such as the reluctance of brokerage firms to issue a negative analysis of a client company's stock. In recent years, rogue traders have caused great losses at some firms, including the collapse of a major bank.

The managers of large investment portfolios for mutual funds, insurance companies, pension funds, and private endowments face two important ethical questions.

1 Should they consider social factors in making decisions, such as how a corporation treats its employees or its record on the environment?

2 Should they vote the stock that they hold, and if so, what criteria should they use to evaluate the issues that are submitted to a vote?

Some large institutional investors take a hands-off approach, while others are becoming actively involved as shareholders in a movement known as relationship investing.

3. FINANCIAL MANAGEMENT

Financial managers have the task of actively deploying assets rather than investing them. Unlike a portfolio manager who merely buys stocks of corporations for a client, a corporate financial manager is involved in the running of a corporation. Investment decisions in a corporation are concerned not with which securities to hold but with what business opportunities to pursue. These decisions are still made using standard financial criteria, however. Finance theory can be applied to the operation of a corporation by viewing the various components of a business as a portfolio with assets that can be bought and sold. Option pricing theory, in particular, suggests that all of the possibilities for a firm can be regarded options to buy and sell assets. Bankruptcy, for example, is exercising an option to "sell" the corporation to the debtholders. (However, one critic has called this a "thoroughly immoral view of finance.") The ethical issues in financial management are twofold.

- Financial managers, as agents and fiduciaries, have an obligation to manage assets prudently and especially to avoid the use of assets for personal benefit. Thus, managers, who have preferential access to information, should not engage in insider trading or self-dealing. For example, management buyouts, in which a group of managers take a public corporation private, raise the question whether people who are paid to mind the store should seek to buy it.
- Financial managers are called upon to make decisions that impact many different groups, and they have an obligation in their decision making to balance some competing interests. For example, should the decision to close a plant be made solely with the shareholders' interests in mind or should the interests of the employees and the local community be taken into account?

3.1.BALANCING COMPETING INTERESTS

In finance theory, the objective of the firm is shareholder wealth maximization (SWM). This objective is reflected in corporate law, according to which officers and directors of corporations are agents of the corporation and have a fiduciary duty to operate the corporation in the interests of the shareholders. Despite the seemingly unequivocal guide of SWM, financial managers still face the need, in some situations, to balance competing interests. In particular, decisions about levels of risk and hostile takeovers reveal some difficulties in the pursuit of SWM.

The level of risk Maximizing shareholder wealth cannot be done without assuming some risk. A critical, often overlooked, task of financial management is determining the appropriate level of risk. Leveraging, for example, increases the riskiness of a firm. The capital asset pricing model suggests that, for properly diversified shareholders, the level of risk for any given firm, called *unique* risk, is irrelevant and that only market or *systemic* risk is important. Finance theory treats bankruptcy as merely an event risk that is worth courting if the returns are high enough. If a firm is in distress, then a high risk, "bet-the-farm" strategy is especially beneficial to shareholders, because they will reap all the gains of success, while everyone will share the losses of failure (the moral hazard problem). Consequently, a financial manager should seek the highest return adjusted for risk, no matter the actual consequences.

However, a high-risk strategy poses dangers for bondholders, employees, suppliers, and managers themselves, all of whom place a high value on the continued operation of the firm. Employees, in particular, are more vulnerable than shareholders to unique, as opposed to systemic, risk because of their inability to diversify. Is it ethical for financial managers to increase risk in a firm so as to benefit shareholders, at the expense of other corporate constituencies? Does the firm, as an ongoing entity, have value that should be considered in financial decision making? Some have argued that managing purely by financial criteria, without regard for the level of risk, is immoral.

Hostile takeovers Hostile takeovers are often epic battles with winners and losers. For this reason, the rules for acquiring controlling interest should be fair to all parties involved. Managers of target companies feel entitled to a fair chance to defend their jobs; shareholders who sell their shares, and those who do not, have a right to make a decision in a fair and orderly manner; bondholders often lose in takeovers because of the increased debt; and employees and residents of local communities, who usually have no say in the decision, are generally the groups most harmed.

Insofar as a takeover is conducted in a market through the buying and selling of shares, there exists a "market for corporate control." Critics of hostile takeovers question whether such an important decision should be made in the marketplace. Does a market for corporate control provide adequate protection for all of the parties whose interests are affected? Incumbent managers have many defenses. Collectively called "shark repellents," these include poison pills, white knights, lockups, crown jewel options, the Pac-Man defense, golden parachutes, and greenmail. These are frequently criticized for being self-serving and for giving management an undue advantage in thwarting shareholder desires for change.

The directors of a target company, whose approval is often necessary for a successful takeover, have a fiduciary duty to act in the best interests of the firm itself, which may not be identical with the interests of either the preexisting shareholders or those who seek control. A majority of states have adopted so-called "other constituency statutes" that permit boards of directors to consider other constituencies, such as employees, suppliers, customers, and local communities, in evaluating a takeover bid. Many other laws govern the conduct of raiders and defenders alike, so that the market for corporate control is scarcely a pure market. In general, courts and legislatures have created rules for takeovers that seek both fairness and efficiency.

3.2. THE FINANCIAL THEORY OF THE FIRM

The financial argument for SWM, and the legal argument for the fiduciary duties of corporate officers and directors, are each built upon a conception of the business firm as a nexus of contracts between a firm and its constituencies, including shareholders, debtholders, employees, suppliers, and customers. This nexus-of-contracts view of the firm is employed in law and finance as a descriptive model for explaining the legal and financial structure of firms as well as a normative model for justifying fiduciary duties and SWM. The normative adequacy of the nexus-of-contracts view has been challenged, especially by those who contend that corporations have ethical obligations to various nonshareholder constituencies which are not accounted for in the model. Stakeholder theory is offered by some as a more adequate descriptive and normative model of the modern corporation.

Fiduciary duties in corporate law were originally founded on the role of shareholders as the owners of the corporation who had entrusted their assets to management. With the separation of ownership and control in the modern corporation, shareholders ceased to be owners in any meaningful sense, and the fiduciary duties of corporate managers to shareholders are now based on the premise that serving the shareholders' interests maximizes total wealth creation. The aim of corporate governance structures is to restrain managers, who have *de facto* control, from using corporate assets for their own benefit and to give them incentives to apply these assets to their most productive uses. In terms of agency theory, this end can be achieved at the lowest agency cost by imposing a fiduciary duty on managers to maximize shareholder wealth.

In finance theory, shareholders are residual risk bearers, which is to say that they are entitled only to the earnings that remain (the residue) after all other obligations (such as wages to employees and payments to suppliers) are met. The argument, then, is that people with capital would agree to become residual risk bearers only if a firm is operated in their interests. Without this protection, investors would seek other contractual arrangements, such as the guaranteed returns of a bondholder. In the nexus-of-contracts firm, bondholders' returns, employees' wages, and suppliers' payments are assured by fixed-term contracts, but the interests of shareholders can be protected only if management agrees to serve their interests. Furthermore, residual risk bearers have the greatest incentives to ensure that the firm is operated so as to create the maximum amount of wealth. The primacy of shareholder interests thus benefits society as a whole.

3.3.STOCKHOLDERS VS STAKEHOLDERS

The shareholder-centered financial theory of the firm is criticized for giving inadequate recognition to the rights and interests of nonshareholder constituencies. Critics make four related points concerning ethical standards, externalities, abuses in contracting, and distribution.

Ethical standards Corporations ought to treat all corporate constituencies or stakeholder groups according to certain minimal ethical standards. Agents and fiduciaries do not have a right to advance the interests that they are pledged to serve in ways that violate fundamental rights or inflict wrongful harm. Thus, to expose workers and consumers to hazardous substances, or to exploit labor in lesser-developed countries, is unjustified.

Externalities Business activity imposes great social costs in the form of externalities or spillover effects. When pollution or urban blight, for example, is a direct result of corporate investment decisions, then critics contend that they have an obligation to address these problems.

Abuses in contracting Contracting provides an opportunity for one party to take unfair advantage of the other party. Such advantage-taking occurs in many forms. For example, downsizing may involve breaking an implicit understanding of job security for loyal employees. Some solvent corporations have sought bankruptcy protection so as to avoid paying product liability claims to injured consumers or to renege on collective bargaining agreements. In agency theory, principals are assumed to be vulnerable to shirking by agents, but agents can abuse principals by predatory behavior that has been called "sharking."

Distribution The financial theory of the firm takes no account of the inequalities that result from contracting in the nexus-of-contracts firm. In the USA, the widening gulf between low- and high-wage employees, and the high levels of executive compensation are causes for concern. In general, markets achieve efficiency, not equity; hence the need to attend to the equity/efficiency trade-off.

3.4. STAKEHOLDER THEORY

These four sources of ethical problems are acknowledged in the finance literature, and disagreements occur primarily over their solution. Proponents of the financial theory of the firm generally argue that other constituencies should either protect themselves (workers can bargain for safer working conditions, for example) or seek regulatory protection by means of occupational safety and health laws. On the financial theory of the firm, the responsibility for upholding ethical standards, forcing the internalization of costs, and so on, belong ultimately to government, not to corporate managers. The main argument for this position is that corporate managers have neither the right nor the ability to pursue multiple, nonfinancial goals.

By contrast, stakeholder theory contends that the list of corporate constituencies includes all those who have a legitimate interest in the activities of a firm, regardless of any interest that the firm takes in them. Furthermore, the interests of these stakeholder groups merit consideration for their own sake, not because of their usefulness to the firm. Stakeholder theory has not been developed as a full-fledged alternative to the financial theory, and it is questionable whether it is necessarily incompatible with it. SWM is justified on the financial theory for its benefits to the whole of society, which includes all stakeholder groups. Corporate managers need not consider the interests of all stakeholders as long as these interests are adequately protected by some means, such as government regulation. In addition, managing a corporation with attention to stakeholder interests may be an effective means for maximizing shareholder value. Some very successful companies are driven by philosophies that put employees or customers first.

Finally, the concept of shareholder wealth is problematical. The existence of different kinds of securities blurs the distinction between equity and debt, and creates multiple classes of shareholders with divergent interests. Even holders of ordinary common stock may differ in their risk preferences or time horizons. Some finance research indicates that managing to maximize short-term stock price may not result in maximum shareholder value in the long run. Thus, SWM is not a wholly objective guide for financial managers, and the decisions about the shareholders' interest may themselves involve some value judgments.

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POSLOVNA ETIKA U FINANCIJSKOM SEKTORU

Sažetak

Predlagatelji financijske teorije poduzeća uglavnom su stava da se drugi sudionici trebaju sami zaštititi (na primjer, radnici se mogu izboriti za sigurnije uvjete rada) ili zatražiti regulatornu zaštitu putem zakona o radu, sigurnosti i zaštiti zdravlja. Po financijskoj teoriji poduzeća, odgovornost za održavanje etičkih standarda, provođenje internalizacije troškova i slično, u konačnici snosi vlada, a ne korporativni menadžeri. Glavni argument za takav stav je da korporativni menadžeri nemaju ni pravo ni sposobnost postavljati si višestruke nefinancijske ciljeve. Suprotno tome, teorija dionika tvrdi da su sudionici korporacije i svi oni koji imaju zakoniti interes u aktivnosti tvrtke, neovisno o eventualnom interesu kojeg tvrtka ima prema njima. Nadalje, interesi tih grupa dionika trebaju biti uzeti u obzir zbog njih samih a ne radi njihove koristi za tvrtku. Teorija dionika nije razvijena kao punopravna alternativa financijskoj teoriji, te je upitno je li nužno s njom nekompatibilna. SWM je opravdan u financijskoj teoriji radi dobrobiti koju donosi cjelokupnom društvu, što uključuje sve grupe dionika. Korporativni menadžeri ne moraju uzimati u obzir interese svih dionika sve dok su ti interesi na neki način adekvatno zaštićeni, kao na primjer vladinim regulativama. Osim toga, upravljanje korporacijom na način da se posvećuje pažnja interesima dionika može biti efikasan način maksimiziranja vrijednosti dioničara. Neke vrlo uspješne tvrtke imaju filozofiju koja zaposlenike i klijente stavlja na prvo mjesto.

Ključne riječi: *etika, posao, financijska teorija, menadžer, tržište, etički kodeks, dostojanstvo osobe*