

# ETHICS IN PRACTICE FOR BANKING AND FINANCE

Series 1, 2016

**BFO**  
BANKING +  
FINANCE OATH



INTEGRITY • TRUST • ETHICS

[thebfo.org](http://thebfo.org)

# FOREWORD



## DR JOHN LAKER, CHAIRMAN THE BANKING AND FINANCE OATH

*“Years of experience as a financial regulator, in good times and in crisis, have confirmed to me that financial institutions are much more likely to prosper if their culture is one that promotes accountability, transparency and strong ethical principles. However, an institution’s culture will have feet of clay if it is not built on and supported by*

*individual integrity. And there is no more simple or more powerful expression of an individual’s commitment to act with integrity than the statement ‘my word is my bond.’”*

Dr. Laker was Chairman of the Australian Prudential Regulation Authority (APRA) over an 11-year period to 30 June 2014. An economist by training, Dr Laker had an extensive career in the RBA prior to his appointment to APRA. He has also worked for the Commonwealth Treasury and the International Monetary Fund. Dr. Laker was appointed an Officer of the Order of Australia in 2008 for his services to financial regulation.



## DR SIMON LONGSTAFF, THE ETHICS CENTRE

*“The banking and finance industry should be encouraged to compete on every ground except its ethical foundations.”*

Named a 21st Century leader by Australia’s financial newspaper, one business identity observed they “don’t know one CEO or chairman in corporate Australia who has not worked with Simon Longstaff”. For over 25 years, Simon has been executive director

of The Ethics Centre, a unique not-for profit bringing ethics to personal and professional life. With a Doctorate in Philosophy from Cambridge University, Simon is a Fellow of CPA Australia and Honorary Professor at the Australian National University’s Centre for Indigenous Studies. Simon helped give birth to the Banking and Finance Oath, the annual Festival of Dangerous Ideas, and ethics classes in schools. Simon serves on a number of boards and committees.

# ETHICS IN PRACTICE

## For Banking and Finance

*Ethics in Practice* is designed as a simple and practical guide for all those in the banking and finance industry. *Ethics in Practice* provides an outline of the ethical practices individuals can adopt on a day-to-day basis to ensure they, and in turn the industry, can meet the community's needs and earn its trust and confidence.

Ethics is by no means new to banking and finance, but perhaps there has not been a more pressing time for those who choose banking and finance as their profession to assert their commitment to the highest ethical standards.

*Ethics in Practice*, whilst outlining much of what we might already know, collects the essentials in one place and profiles two important Australian initiatives designed to equip individuals to make good decisions and assist in building a profession of which they can be proud, like many that have served before them.



The vision of The Banking and Finance Oath  
is for a banking and finance industry that  
meets the community's needs and has  
its full confidence.

# CONTENTS

<b>1.0 LIVING ETHICS</b>	<b>04</b>
1.1 Ethics Defined	
1.2 Ethics in the Context of Financial Services	
<b>2.0 PURPOSE AND SOCIAL CONTRACT</b>	<b>06</b>
2.1 Evolving Theories and Practices	
2.2 Professionalism	
<b>3.0 THE INDIVIDUAL</b>	<b>08</b>
3.1 Individual Accountability in Financial Services	
3.2 The Moral Compass	
3.3 Self-Interest	
<b>4.0 UNDERSTANDING INFLUENCES</b>	<b>10</b>
4.1 Work Environments	
4.2 Other People	
4.3 Conscious and Unconscious Bias	
4.4 Self-Deception and Moral Fading	
<b>5.0 GOOD PRACTICES</b>	<b>15</b>
5.1 Good decision-making	
5.2 Reflection	
5.3 Storytelling	
5.4 Language	
<b>6. AN ETHICAL LENS</b>	<b>20</b>
6.1 The Banking and Finance Oath	
6.2 The Ethical Professional Program	
<b>REFERENCES</b>	<b>23</b>

# LIVING ETHICS

## 1.1 ETHICS DEFINED

Australia's national dictionary defines ethics as 'a system of moral principles, by which human actions and proposals may be judged good or bad, or right or wrong'. Other definitions make reference to specific values relating to human conduct, principles of right conduct and moral principles. Popular understandings of ethics are more likely to include notions such as: trust, integrity, honesty, social responsibility and doing the right thing. However, it should be noted that these definitions fail to capture the essence of ethics – especially in relation to its historical foundations in Western philosophy.

Within that tradition, 'ethics' is concerned with the exploration of the question of 'what ought one to do?', as posed by Socrates, the Classical Greek Philosopher. Ethics isn't just concerned with abstract philosophical concerns, it is at the core of everyday life. We 'do ethics' every time we think about how we might act. Practicing ethics requires a thoughtful (rather than habitual) approach in which emotion is tempered by reason.

We 'do ethics' every time we think about how we might act.

Dr. Simon Longstaff, Executive Director, The Ethics Centre, explains that ethics encompasses a general conversation about how people should live a 'good' life. When contemplating the difference between ethics and morality, Dr. Longstaff uses the analogy of a conversation. He states, "*If one imagines that the field of ethics is a conversation that has arisen in order to answer the question, "What ought one to do?", then moralities, and they are various, are voices in that conversation.*"

Being ethical is a part of what defines us as human beings. We are thinking, choosing creatures. We have the capacity to make conscious choices – although we often act out of habit or in line with the views of others.



We are thinking, choosing creatures. We have the capacity to make conscious choices – although we often act out of habit or in line with the views of others. Being ethical is a part of what defines us as human beings.

Whilst most of us have an understanding of what ethics is, and believe in the importance of ethical conduct in our society, difficulty is often met when determining agreed standards of ethical behaviour for the various complex situations in which we find ourselves. In addition, society's ethical 'goal posts' might seem to shift, presenting particular challenges to businesses and executives.

## 1.2 ETHICS IN THE CONTEXT OF FINANCIAL SERVICES

According to the Organisation for Economic Co-operation and Development, financial services accounts for approximately 20% of the total Gross Domestic Product in developed economies and constitutes the largest group of companies in the world in terms of earnings and equity market capitalisation. According to the Financial Services Council of Australia, in 2014 the finance and insurance sectors contributed \$130 billion to Australia's Gross Domestic Product. This makes financial services the largest industry in Australia. Such statistics highlight the significance of financial services to the world economy and to our society more broadly.

By its very nature - involving money - the financial services sector's performance is susceptible to quantifiable analysis and measurement. Historically, the success of the sector has been judged by profits. Increasingly however, society is seeking to judge the financial services sector's performance and role in society according to broader criteria, such as its impact and ethical conduct.



*Persaud and Plender (2007), in *All you need to know about Ethics and Finance*, raised an important point that has been echoed by politicians and customers, when they stated, 'If the public is to be persuaded of the legitimacy of wealth creation, trust in business and finance has to be rebuilt and a more robust ethical climate established.'*

Persaud and Plender (2007), in *All you need to know about Ethics and Finance*, raised an important point that has been echoed by politicians and customers, when they stated, "If the public is to be persuaded of the legitimacy of wealth creation, trust in business and finance has to be rebuilt and a more robust ethical climate established."

References to ethics in financial services organisations are most commonly found in mission and statements of values and principles. An organisation's ethics are most often appealed to in times of crisis. However, ethics should not be limited to this context. Instead, ethics and the practice of good decision-making should be incorporated into the everyday language, decisions and actions of individuals at work, and of the organisations as a whole.

Boatright (2008), author of *Ethics in Finance*, holds that it matters for financial services to be conducted ethically, not only because of the crucial role that financial activity plays in the personal, economic, political and social realms, but also because of the opportunities for large financial gains that may tempt people to act unethically.

Individuals working in financial services have an opportunity to contribute to creating and maintaining an ethical sector by practicing ethical decision-making, demonstrating ethical leadership and supporting ethical work cultures.

# PURPOSE AND SOCIAL CONTRACT

## 2.1 EVOLVING THEORIES AND PRACTICES

The purpose of business is an area of constant inquiry and contention by academics, economists, business leaders and the community. Views range from business existing purely to post profits to the role of business in performing a social good.

The dominance of the belief that business exists to generate a profit has been evident through the elevation of the shareholder as the supreme stakeholder.

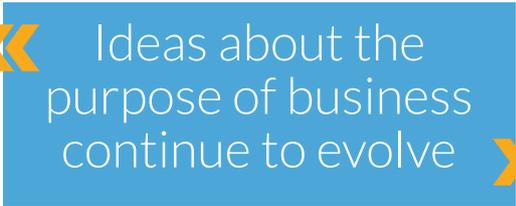
The theories of Milton Friedman, particularly as articulated in his essay titled, *The Social Responsibility of Business is to Increase its Profits*<sup>1</sup>, first published in 1970, appear to have resonated with business leaders and particularly those in financial services. Friedman's theories continue to be cited in popular commentary and are often used to guide business practices and condone decisions and behaviours.

As early as the 1980s, however, shareholder dominance was being challenged by 'stakeholder theory', which suggested that corporations should take into consideration other stakeholder groups, including employees, governments and importantly the customer.

In contrast to the principles of 'business solely for profit', this theory of management places emphasis on the role of core values and principles in the management of an organisation (across the full span of relationships), as outlined by R. Edward Freeman in *Strategic Management: A Stakeholder Approach*, published in 1984.

Despite what some might consider the compelling rationale for stakeholder theory, 'business solely for profit' (with the shareholder as the supreme stakeholder) appears to have remained the dominant model for business, with stakeholder theory having gained only limited mainstream traction to date outside of the area of corporate social responsibility and responsible investment.

Nevertheless, ideas about the purpose of business continue to evolve, with more recent calls for business to redefine its purpose as creating 'shared value', a term employed by Professor Michael E. Porter and Mark R. Kramer in the *Harvard Business Review* article, *Creating Shared Value*, published in 2011.



Ideas about the purpose of business continue to evolve

Shared Value is based on business generating economic value in a way that also produces value for society by addressing societal difficulties and constraints. Shared Value presents a challenge to the current approach of many financial services organisations.

Financial services organisations are now commonly adopting tools such as the Global Reporting Initiative and Environmental and Social and Governance frameworks, as well as committing to initiatives such as the UN-backed Principles for Responsible Investment (PRI). These tools are designed to assist management to understand, manage and communicate the impact of their business, particularly in relation to such issues as climate change, human rights and corruption.

<sup>1</sup><http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html>. <sup>2</sup>Freeman, R. Edward. *Strategic Management: A stakeholder approach*. Boston: Pitman. ISBN 0-273-01913-9. 1984.

## 2.2 PROFESSIONALISM

Whilst the definition of a profession is debated with some claiming banking as a profession and others insisting it is not, the concept of a professional and professionalism are more easily agreed upon.

It is important however to understand what is meant when people refer to a 'profession.' Three features of a profession are commonly cited as follows:

- A specialised body of knowledge: This technical knowledge requires specific training to acquire.
- Self- Regulation: Professions have considerable control over their own work, mostly through professional organisations where they set standards for practice and have processes for disciplining those who violate them.
- A commitment to public service: The knowledge of those in a profession serves an important social need and there is a commitment to using their knowledge for the benefit of all.

The 'social contract' of professions is often referenced, this refers to an implicit agreement with society. Professions also commonly have a code of ethics and ethics training embedded in expectations and requirements.

Dr. Simon Longstaff, The Ethics Centre, identifies that while the 'market' satisfies customer's wants in the legitimate pursuit of self interest, the 'professional' subordinates their self-interest in the service of others' (notably the public interest).

It is well documented and often lamented by those in financial services that there was a time when the financial services sector and those who worked within it were highly respected and trusted. In fact, much effort within the sector is focused on restoring trust to these former times.



**Professions have a commitment to public service through an implicit agreement with society**

# THE INDIVIDUAL

## 3.1 INDIVIDUAL ACCOUNTABILITY IN FINANCIAL SERVICES

« Across financial services globally there is an increasing focus on individual accountability »

Across financial services globally there is an increasing focus on individual accountability. This change is being called for by customers and from the community more broadly who wish to see individuals held accountable for the impact and losses experienced by customers as a result of poor financial advice, excessive risk taking and products that have operated unethically.

Regulators have responded by taking steps to hold individuals accountable for their actions. This has meant individuals being subject to not just disciplinary procedures within a firm but also prosecution in courts that can result in fines, criminal, civil liability and professional disbarment.

Christine Lagarde, Managing Director, International Monetary Fund, has called for this strengthening of personal accountability believing it will provide the right set of incentives for ethical behaviour.

In November 2015, in an address at the Federal Reserve Bank of New York, Lagarde called for a culture of greater virtue and integrity at the individual level in financial services. Lagarde specifically stated that cultural change within the sector should involve appealing to the 'moral compass' of individuals.

## 3.2 THE MORAL COMPASS

A moral compass refers to an inner sense which distinguishes what is right from what is wrong, operating as a personal guide akin to that of a compass used for navigation.

Some prefer to use the term 'gut instinct' in relation to decision-making. 'Gut' referring to an instinctive feeling, as opposed to a considered opinion or position based on facts.

Nobel laureate Daniel Kahneman and Gary Klein (2010), psychologist, in their paper titled, *Strategic Decisions: When can you trust your gut?* explored the issue of whether we can actually rely on our 'gut'. They concluded that we cannot prevent our gut instinct from influencing our judgements, however it is possible to identify situations where we are likely to be biased and strengthen our decision-making processes to reduce risks and thus make better decisions.

Most importantly, people have the opportunity to 'calibrate' and refine their gut instincts. This can be done by moving beyond reliance on a 'moral compass' (that may have been adopted without much thought) in favour of an 'ethical compass' that is consciously adopted and developed.

### 3.3 SELF-INTEREST

Self-interest refers to focusing on the needs and desires of the self. In financial services discussions of self-interest tend to focus on decisions and actions that elicit financial gain for individuals and firms over the interests of customers and other stakeholders.

Those that have studied economics will be familiar with the theories of Adam Smith in relation to self-interest and competition in the market economy. Smith concluded that the best economic benefit for all can actually be accomplished when individuals act in their own self-interest. His theory of the 'invisible hand' held that when dozens and even thousands act in their own self-interest then goods and services are created that benefit consumers and producers.

Smith (1982) held that self-interest is arguably the single largest motivator of economic activity. In his book covering the subject, *The Wealth of Nations*, Smith described it as follows:

*"It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest."*

Supreme Court Justice Lucy McCallum, highlighted the ramifications of the unfettered pursuit of self-interest when sentencing Oliver Curtis for insider trading conspiracy in June 2016. She stated, *"While many people have spoken of his positive qualities in business and as a family man, he shows no sign of progression beyond the self-interested pursuit of material wealth which prompted his offending."*

Lynn Stout, Distinguished Professor of Corporate & Business Law at the Cornell Law School and a range of other academics and commentators have questioned this idea of individuals and our conduct. Stout holds that we have blinded ourselves to our own goodness and highlights an abundance of data from psychology, law and other disciplines suggesting that people are in fact motivated by more than just self-interest.



Supreme Court Justice Lucy McCallum, highlighted the ramifications of the unfettered pursuit of self-interest when sentencing Oliver Curtis for insider trading conspiracy in June 2016. She stated, "While many people have spoken of his positive qualities in business and as a family man, he shows no sign of progression beyond the self-interested pursuit of material wealth which prompted his offending."



# UNDERSTANDING INFLUENCES

## 4.1 WORK ENVIRONMENTS



Our environment plays a significant role in shaping our decisions and actions.

Our environment plays a significant role in shaping our decisions and actions, both in our personal and professional lives. It is well documented that work environments are a significant driver of behaviour, ethical or otherwise.

A body of research, originally developed by Gerald Salancik and Jeffrey Pfeffer in the 1970s, has confirmed individuals look for cues in their work environment to guide them on how to behave, particularly when facing ambiguous or uncertain situations.

Despite evidence that the environment and context of decisions and behaviours matters, explanations of unethical behaviour tend to focus on identifying 'bad apples' or 'rogues'. These terms are common to scandals in financial services with 'rogue' somewhat synonymous with 'trader'. This labelling serves to assign responsibility for fraudulent and unethical behaviour to an individual rather than the broader systems or culture. This however is increasingly being questioned and more deeply understood.

Dennis Gentilin (2016), author of *The Origin of Ethical Failures* and the individual publically named as a whistleblower in the Foreign Exchange trading scandal of National Australia Bank, states, "As a starting point, any explanation of unethical behaviour must consider the environment within which the "bad apples" operate, recognising that it can have a profound effect on behaviour."

Gentilin continues, "What's more, if an assessment of the environment reveals a rotten "barrel", then one will also find that the unethical behaviour is rarely constrained to a few "bad apples" – it has more than likely permeated the system.

Ashforth and Anand (2003) in *The Normalization of Corruption in Organizations* identify socialisation as a factor in explaining how otherwise morally upright individuals can routinely engage in corruption without experiencing conflict and how corruption can persist despite the turnover of its initial practitioners. Importantly they conclude that the individual as the 'evil-doer' misses the point that systems and individuals are mutually reinforcing.

In 2010, John Hartman, became the youngest person jailed for insider trading in Australia. The Chief Judge Peter McClellan concluded when sentencing Hartman, that the financial services industry had 'corrupted his values.'

*Gentilin warned of this when he stated, "As my experience in the FX trading scandal at the NAB taught me, young people in particular are vulnerable to embracing and endorsing immoral social norms. It is rare that a young person entering the workforce for the first time would have taken the time to seriously consider and explore their values and what is important to them.*

*Having not calibrated their moral compass, young people are more likely to use environmental cues to help them determine what type of behaviour is appropriate. As Michael Lewis rightly points out with reference to young people embarking on a career in finance, this can ultimately shape character.*

*The question I've always had about this army of young people with seemingly endless career options who wind up in finance is: What happens next to them? People like to think they have a "character", and that this character of theirs will endure, no matter the situation. It's not really so.*

*People are vulnerable to the incentives of their environment, and often the best a person can do, if he wants to behave in a certain manner, is to choose carefully the environment that will go to work on his character."*

It is clear that individuals must remain aware of the influence of their environment as it undoubtedly affects decisions and behavior.

## 4.2 OTHER PEOPLE

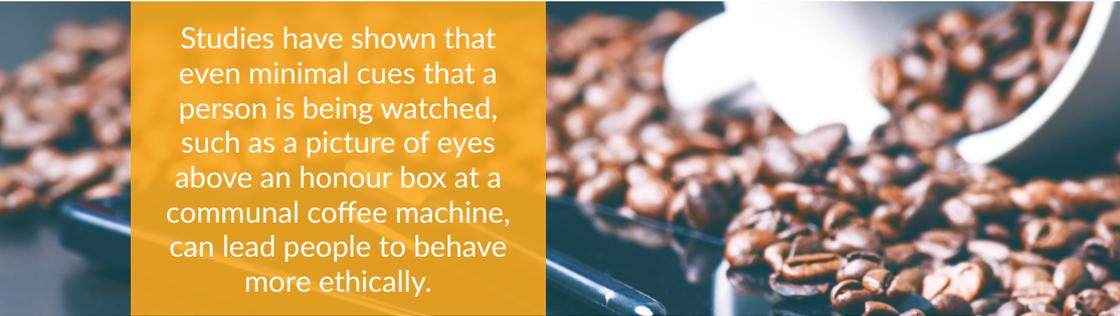
There is also much research and academic commentary confirming the influence of other people on our decisions and behaviours.

The bystander effect or bystander apathy is a phenomenon identified through social psychology referring to cases in which individuals do not offer any means of help to a victim when other people are present. The probability of help is actually inversely related to the number of bystanders. In other words, the greater the number of bystanders, the less likely it is that any one of them will help. A number of reasons are identified to explain this including ambiguity (as to whether the bystander really needs help), cohesiveness (groups with closer relationships being more likely to help) and diffusion of responsibility (believing someone else will take responsibility).

Robert Cialdini (2008), Regents' Professor Emeritus of Psychology and Marketing at Arizona State University, has concluded through his research that when people are figuring out what to do in a new situation, they take their cue from what seems to be other people's normal behavior – what is termed 'the social norm'.

When people are figuring out what to do in a new situation, they take their cue from what seems to be other people's normal behavior – what is termed 'the social norm'.

The good news is that social researchers have also confirmed that the presence of others can lead people to behave more ethically, particularly if they know they're being watched. Studies have shown that even minimal cues that a person is being watched, such as a picture of eyes above an honour box at a communal coffee machine, can lead people to behave more ethically.



Studies have shown that even minimal cues that a person is being watched, such as a picture of eyes above an honour box at a communal coffee machine, can lead people to behave more ethically.

The theory that human behaviour is determined by surrounding circumstances rather than by personal qualities is referred to as 'Situationist.' Situationists' argue that our circumstances will largely drive our behavior and we may not be rational when it comes to our own moral behaviour.

The well-known Stanford Prison Experiment conducted in 1971 to study the psychological effects of becoming a prisoner or prison guard vividly highlighted how situational forces can drive ordinary people to behave in ways which are not only totally out of character, but also contrary to what most people would consider to be appropriate and ethical.

It is clear that individuals must remain aware of and account for the powerful effect of both their environment and the influence of others in order to practice and encourage ethical behavior and good decision-making.

### 4.3 BIAS AND UNCONSCIOUS BIAS

Biases, of which individuals may not even be fully aware, influence our decisions and actions. Bias is a prejudice in favour of or against one thing, person, or group compared with another usually in a way that's considered to be unfair. Biases may be held by an individual, group, or institution and can have negative or positive consequences.

Biases are commonly divided into two groups as follows:

- Conscious bias, also known as explicit bias; and
- Unconscious bias, also known as implicit bias

Increasingly attention is focusing on understanding our unconscious biases with some organisations offering training programs to draw attention to this influence.

Unconscious biases commonly revolve around social stereotypes about certain groups of people that individuals form outside their own conscious awareness. It is important to note that everyone holds unconscious beliefs and these biases stem from our tendency to organise social worlds by categorising.

Unconscious bias is more prevalent than conscious prejudice and is often actually incompatible with one's conscious values. Certain scenarios can activate unconscious attitudes and beliefs. For example, biases may be more prevalent when multi-tasking or working under time pressure.

According to Dore (2014) research indicates that unconscious biases develop at an early age, emerging during middle childhood and developing across childhood however they are not permanent. In fact, Dasgupta (2013) has found that unconscious biases are malleable and steps can be taken to limit their impact on our thoughts and behaviours.

« Dasgupta (2013) has found that unconscious biases are malleable and steps can be taken to limit their impact on our thoughts and behaviours. »

Strategies to address unconscious bias include increased self-awareness, understanding the nature of bias and engaging in opportunities to have discussions with others, particularly those from socially dissimilar groups.



## 4.4 SELF-DECEPTION AND MORAL FADING

Increasingly researchers are pointing to the process of self-deception to understand unethical behavior. Self-deception allows one to behave in their self-interest while, at the same time, falsely believing their moral principles are being upheld. The result being that the ethical aspects of a decision can 'fade' into the background with the moral implications of a decision or behaviour obscured.

John Knapp, Founder of The Southern Institute for Business and Professional Ethics, argues that unethical corporate behavior emerges when well-meaning individuals blind themselves to the moral dimensions of their activity and he warns that this can inadvertently wreak havoc upon the public good.

Knapp identifies four categories of corporate self-deception as follows:

- Tribalism, or the belief that the company is always right;
- Legalism, the inability to imagine moral obligations beyond the law;
- Moral relativism, the excusing of unethical practices by viewing business as 'a game' and oneself as having 'a role'; and
- Scientism, the elevation of science, including management science, to a position of unquestioned authority.

After reviewing the research and commentary on the potential influences on our decision-making including environment, people, biases and self-deception one may conclude that humans are so 'flawed' that it's surprising we can make good decisions at all. However, through developing awareness of these influences and by using a good decision-making model individuals can develop as ethical practitioners and ultimately ethical leaders.



# GOOD PRACTICES

## 5.1 GOOD DECISION-MAKING

The consistent practice of using a good decision-making model can help to foster ethical work cultures and develop ethical leaders. By understanding the potential impact of decisions on stakeholders, including customers, and exploring options to minimise harm and protect their interests, positive outcomes for customers can be maximised.

Good decision-making generally explores the question of ‘what ought one to do? As posed by Socrates, the Classical Greek Philosopher. Boatright (2012), in *Ethics and the Conduct of Business*, states that, “some situations are easily handled because what ought one to do or what is right and wrong are evident. Those situations that give us pause or produce moral anguish require careful thought and ultimately an ability to engage in ethical reasoning.”



Good decision-making generally explores the question of ‘what ought one to do?’



In *An Introduction to Business Ethics*, Joseph DesJardins (2011) outlines that a model for responsible, ethical decisions involves the following steps:

- Understanding the facts;
- Identifying the ethical issues involved
- Identifying all of the stakeholders
- Understanding how those stakeholders will be affected
- Employing moral imagination to understand the alternatives
- Considering how others will judge your decisions; and
- Making a decision and monitoring and learning from the results

Identifying the relevant ethical issues as part of a good decision-making model will involve the consideration of ethical theories. There are four dominant theories, and contemplating an issue in line with each theory will assist to effectively understand a situation. The theories are:

1. **Utilitarianism:** According to utilitarianism, the rightness of an action is determined solely by its consequences. Utilitarianism is typically identified with the policy of maximising the overall good, otherwise referred to as producing the greatest good for the greatest number.
2. **Duties and Rights:** This theory emphasises that the correct action is determined not by its consequences but by certain duties. Duties take into account obligations, commitments and responsibilities. The theory holds that there are some things we should – or should not – do regardless of the consequences, and that individuals have rights, which should not be sacrificed simply to produce a net increase in the collective good. German philosopher Immanuel Kant believed that the ethical act must be applied universally and does not treat people as a mere means to an end.
3. **Virtue Ethics:** This area asks what kind of person we should be? Moral character, rather than the right action, is considered fundamental and requires consideration of what constitutes a good and full human life. There is a marked shift from questions about what a person should do, to a focus on what type of person one is.
4. **Ethical Relativism:** Ethical relativism holds that ethical values, principles and judgements are ultimately dependant upon, or relative to, one's culture, society or personal feelings. Relativism denies that we can make rational or objective ethical judgements, instead claiming there is no right or wrong, moral or immoral, except in terms of a particular culture or society.

After considering each theory as part of a decision-making model, it may be that a team or individual reaches the same decision they would otherwise have made. However, through the process of using a good decision-making model they are in a much better position to explain a decision. Importantly, having understood the impact of a proposed decision, they can plan and mitigate risks in advance of setting an approach and acting upon it.

Undoubtedly the speed of business will not always allow for the comprehensive process required of a good decision-making model and there will be many decisions that must rely on experience and good judgement.

Paul Robertson, the Former Treasurer of Macquarie Bank who also held the position of Integrity Officer, advises that he promoted two simple tests to ensure ethical decision-making in such situations: *'To put yourself in the other person's shoes'* and the *'Front Page of the newspaper test.'* In the context of Australia, he called it *'The Fin Review Test'*, the *'Fin'* being an abbreviation for *The Australian Financial Review*, an Australian business and finance newspaper published by Fairfax Media.



Two simple tests to ensure ethical decision-making in such situations: *'To put yourself in the other person's shoes'* and the *'Front Page of the newspaper test.'* In the context of Australia, he called it *'The Fin Review Test'*

Dr. Simon Longstaff, Managing Director of The Ethics Centre, explains, “*This question of ‘Would I be happy for this decision to be headlining the news tomorrow?’ is what’s known as the Sunlight Test. Imagine how it might feel if your decision – and the reasons you made it – were public knowledge. What if the people you most admire knew what you’d done and why?*”. He notes, “*it’s the ‘don’t be ashamed’ test not the ‘don’t get caught’ test*”.

Of course, if these decisions cannot be answered in the affirmative, then time must be made for a good decision-making model.

## 5.2 REFLECTION

Reflection is defined as serious thought or consideration. Reflection is a component of good decision-making. Importantly, reflection facilitates the correction of mistakes and mitigation of risks, particularly those that were not immediately apparent. Whilst it may seem that the pace of business does not always allow for extensive reflection, the practice can still be encouraged and even formalised as part of team meetings, business reporting and individual performance appraisals.



Importantly, reflection facilitates the correction of mistakes and mitigation of risks, particularly those that were not immediately apparent.

As DesGardin (2011) outlines in *An Introduction to Business Ethics*, the final and ongoing part of ethical decision-making is to monitor and learn from the results of a decision.

Giada Di Stefano, Francesca Gino, Gary Pisano & Bradley Staats (2014) conclude in *Learning By Thinking: How Reflection Improves Performance* that reflection is a powerful mechanism behind learning, confirming the words of American philosopher, psychologist and educational reformer John Dewey: “We do not learn from experience ... we learn from reflecting on experience.”<sup>31</sup>

## 5.3 STORYTELLING

Storytelling is a practice that can be used in business to articulate purpose, describe organisational values, demonstrate expectations of behaviour and, importantly, enhance customer understanding.

<sup>31</sup>[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2414478](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2414478)

Nick Morgan (2014), author of *Power Cues*, posits, “*Facts and figures and all the rational things that we think are important in the business world actually don’t stick in our minds at all.*” However, stories do resonate, as they create “sticky” memories by attaching emotions to things that happen<sup>4</sup>.



Stories do resonate, as they create “sticky” memories by attaching emotions to things that happen.



There is much guidance for business leaders on how they can become effective storytellers. Of note, the language used to tell a story will invariably be more personal, expressive and emotional, even in a business context.

Harrison Monarth, in his article *The Irresistible Power of Storytelling as a Strategic Business Tool* (2014), draws on an example from the health care industry: at Penn State College of Medicine, researchers found that medical students’ attitudes about dementia patients, who are perceived as difficult to treat, improved substantially after students participated in storytelling exercises that made them more sympathetic to their patients’ conditions<sup>5</sup>. For the financial services sector this same approach could be applied to the customer, making storytelling a strategic business tool to ensure customer interests are properly factored into product development, sales and support.

## 5.4 LANGUAGE

According to the Harvard Business Review, English is now the global language of business. English is declared the working language of the World Bank, The European Central Bank, (based in Frankfurt, Germany) and AXA (the French multinational insurance firm headquartered in Paris). The English we use in business however is distinct, perhaps forming a unique dialect. The language of banking and finance is an even more discrete and particular sub-dialect that has evolved to become increasingly abstract, technical and morally and ethically neutral.



The language of ethics in business includes words such as right, wrong, good, bad, fair, trust, honesty, integrity, respect, commitment, care, conscience, community, society and service.



The language of ethics in business includes words such as right, wrong, good, bad, fair, trust, honesty, integrity, respect, commitment, care, conscience, community, society and service. Whilst these words are commonly found in bank mission and value statements and used in the case of crisis, they are less common in the everyday language of workplaces. Instead banking executives tend to talk of *feasibility*, *forecasts*, *cost benefit analysis*, *adjustments*, *return on investment* and ‘*the business case*’ – which frequently focuses solely on a financial analysis.

<sup>4</sup><https://hbr.org/2014/07/how-to-tell-a-great-story/> <sup>5</sup><https://hbr.org/2014/03/the-irresistible-power-of-storytelling-as-a-strategic-business-tool/>

This limited vocabulary of economic and financial terms, not only actively excludes the language of ethics but also tends to present absolutes, making complex arguments appear simple. Compelling graphs and models coupled with morally and ethically neutral language can strip decisions and actions of the 'human' element of business and can expose businesses to unforeseen risks that might otherwise have been obvious.

In 1989, Bird and Walters identified the concept of 'moral muteness' in their paper titled *The Moral Muteness of Managers*. Moral muteness refers to the phenomenon by which managers choose not to voice moral sentiments. Alternatively, they communicate in ways that obscure their moral beliefs and commitments, even when these beliefs have impacted their decisions or actions.

In addition, the overuse of acronyms, whilst being efficient can actually serve to confuse and isolate those not 'in the know'. Moreover, acronyms can remove or mask the real meaning and/or effect of something. The use and overuse of acronyms risks de-humanising not just our language but the decisions and actions that follow.

As with acronyms, the use of abstractions in business, whereby specific words are replaced with abstract ones, can also serve to confuse stakeholders and disguise real meaning.

Dennis Gentilin (2016), in his book *The Origins of Ethical Failures (2016)*, warns that the power of language cannot be underestimated. He concludes that language can make totally inappropriate conduct appear respectable. Furthermore, language can work to relieve people of any guilt associated with their unethical conduct.

Gentilin draws special attention to the labelling applied to unethical behavior, asserting that it can sanitise the conduct and make it seem appropriate. For example, in the LIBOR rate-fixing scandal, traders were not "manipulating the true value of the 6-month benchmark rate", but were asking for "high 6M fix." Referring to the foreign exchange trading scandal of National Australia Bank – of which Gentilin was named publicly as a whistleblower – he observes that the business of National Australia Bank was not "misrepresenting the true value of the foreign exchange options portfolio", but was "smoothing the profit and loss."



Language has the power to shape the way we think and behave.

Language has the power to shape the way we think and behave. Therefore, it is essential for executives to consider how language is used – both in formal communications and in day-to-day interactions. A greater awareness and understanding of the impact of language, and in particular the potential for negative outcomes through the dominance of economic and financial discourse, will contribute to efforts to restore trust and ensure an ethical financial services sector.



The vision of The Banking and Finance Oath is for a banking and finance industry that meets the community's needs and has its full confidence.

The vision of The Banking and Finance Oath is for a banking and finance industry that meets the community's needs and has its full confidence. John Laker, current Chair of The Banking and Finance Oath and former Chair of the Australian Prudential Regulation Authority, states, *"The Oath is founded on a shared belief in the inherent 'good' of the banking and finance industry and is an effort to re-assert the ethical foundation of the industry beyond regulation and compliance, by broadening expectations and importantly discussions to include ethics, integrity and trust."*



The Banking and Finance Oath seeks to support a network of like-minded individuals who represent and uphold the principles of the Oath.

The Banking and Finance Oath seeks to support a network of like-minded individuals who represent and uphold the principles of The Oath. A number of programs support the Signatories and provide a forum for the discussion of ethical issues. The Like-Minded Series is one such opportunity for individuals who have been recognised by their organisation for displaying leadership, ethics and sound decision-making. They are invited to a Like-Minded Lunch hosted by a senior leader from the industry. The leader presents an overview of his or her career path, noting the ethical challenges encountered along the way. Each lunch has a guest speaker from a separate industry who, similarly, has demonstrated ethical leadership. The intention of the program is not only to assist in creating a network of support for individuals but also to expose them to, and equip them with, the language of ethics.

In recognition of the fact that the students of today are the future leaders of the industry, there is also a Young Ambassador Program, both for students intending to enter the industry and for those already working in the industry who are under thirty years of age. Throughout the program, these students are exposed to the language of ethics through a Vision Workshop. Dr. Simon Longstaff, Executive Director of The Ethics Centre, covers the good decision-making model used by The Centre. Additionally, the Ambassadors have individual sessions with an industry 'Elder,' a retired leader of the industry known for their good judgment and ethics. The Ambassadors work together throughout the year to develop a program or campaign designed to reinforce the ethical foundation of the industry.

# AN ETHICAL LENS

## 6.1 THE BANKING AND FINANCE OATH

The Banking and Finance Oath, an initiative of leaders from the banking and finance industry in Australia, is a Hippocratic-type oath for those working in the banking and finance industry. It contains a set of commitments that individuals can adopt, on a voluntary basis, and apply as personal principles in their work.

### THE WORDS OF THE OATH ARE:

Trust is the foundation of my profession

I will serve all interests in good faith

I will compete with honour

I will pursue my ends with ethical restraint

I will help create a sustainable future

I will help create a more just society

I will speak out against wrongdoing and support others who do the same

I will accept responsibility for my actions

In these and all other matters

My word is my bond

The Banking and Finance Oath Board and affiliated Policy Council believe that Industry Elders can make a valuable and ongoing contribution to the industry, particularly in relation to discussions on the ethics and integrity of financial institutions and the industry as a whole.

The formal role of The Policy Council of The Banking and Finance Oath is to review the words of the Oath, and to host forums to investigate issues – through an ethical lens – that are facing the industry.

## 6.2 THE ETHICAL PROFESSIONAL PROGRAM

The Ethical Professional Program of The Ethics Centre, an independent not-for-profit organisation, aims to equip people working across the financial advice sector with the knowledge and skills necessary to make ethically-sound decisions.

Through a combination of workshops, coaching, online learning and discussion, the program develops participants to make more informed decisions, and to build better relationships with customers and colleagues



John Neil, Co-Head of Advice and Education at The Ethics Centre, states, *“The Ethical Professional Program draws on contemporary research in ethics and neuroscience to support the understanding of how ethics relates to the day-to-day work of people employed across the industry.”*

John Neil, Co-Head of Advice and Education at The Ethics Centre, states, *“The Ethical Professional Program draws on contemporary research in ethics and neuroscience to support the understanding of how ethics relates to the day-to-day work of people employed across the industry.”*

Representatives of key stakeholders, including the Australian Prudential Regulatory Authority, Australian Securities and Investment Commission, Association of Financial Advisers, Financial Planning Association, SMSF Association, Financial Services Council, and the Australian Bankers' Association, oversaw the program's development.

The Ethics Centre believes that people who are ethically aware are better able to see the bigger picture, and to contribute to a culture that supports an organisation's strategy, purpose and risk management<sup>7</sup>.

<sup>7</sup><http://www.ethics.org.au/on-ethics/blog/july-2015/ethical-literacy-program-launched>

## REFERENCES

- Ashforth and Anand The Norminalisation of Corruption in Organisations, Elsevier, Volume 25, 2003.
- Bird, Frederick B., and James A. Waters. 1989. "The Moral Muteness Of Managers." California Management Review 32 (1): 73-88 <http://cmr.berkeley.edu/search/articleDetail.aspx?article=5315>
- Boatright, J.R. Ethics in Finance, Blackwell Publishing, 2nd Edition, 2008.
- Boatright, J.R. Ethics and the Conduct of Business, Seventh Edition, Pearson, 2012.
- Cialdini, R. Influence: Science and Practice, 5th Edition, Paperback, 2008.
- Dasgupta, N. (2013). Implicit Attitudes and Beliefs Adapt to Situations: A Decade of Research on the Malleability of Implicit Prejudice, Stereotypes, and the Self-Concept. Advances in Experimental Social Psychology, 47, 233-279.
- DesJardins, J. An Introduction to Business Ethics, Fourth Edition, McGraw-Hill, 2011.
- Dore, R. A., Hoffman, K. M., Lillard, A. S. and Trawalter, S. (2014), Children's racial bias in perceptions of others' pain, British Journal of Developmental Psychology, 32: 218–231.
- Di Stefano, G, Gino, F., Pisano, G. & Staats, B. Learning By Thinking: How Reflection Improves Performance, Harvard Business School, 2014. <http://hbswk.hbs.edu/item/learning-by-thinking-how-reflection-improves-performance>
- Gentilin, D. The Origins of Ethical Failures: Lessons for Leaders, Routledge. 2016.
- Kahneman, D. and Klein, G. Strategic Decisions: When can you trust your gut? McKinsey Quarterly, March 2010.
- Kramer, M and Porter, M. Creating Shared Value, Harvard Business Review, 2011.
- Persaud, A. and Plender, J. All you need to now about Ethics and Finance, Longtail, 2007/08 Edition.
- Smith, A. The Wealth of Nations, Penguin Classics, 1982.



The Ethics Centre established the voluntary role of Consulting Fellow for Ethics in Banking and Finance in 2008. Through this role, Clare Payne, a Vincent Fairfax Fellow for Ethics in Leadership and at the time an Associate

Director of the Integrity Office of Macquarie, engaged broadly across the industry. Many finance leaders were willing to be involved in an ethics-focused initiative. As a result, The Banking and Finance Oath (The BFO), a Hippocratic-type oath for the banking and finance industry, was formalised as an industry-led initiative in 2010 and supported by The Ethics Centre.

The Ethics Centre is an independent not-for-profit organisation that has been working for over 25 years to improve lives and support communities built on strong ethical foundations. It remains the only organisation in the world providing practical guidance on complex ethical issues across all levels of society.