ETHICS IN FINANCE: RESPONSE

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If you mention the words ‘sex’ and ‘sexual ethics’, you immediately get people’s attention. Say the words ‘finance’ and ‘ethics in finance’, and you see them lose the will to live before your very eyes. Yet, finance, badly managed, can wreak devastation in a local community, or in a country, or on a global scale. The name ‘Enron’, or the phrase ‘sub-prime mortgages’, demonstrate only too well the truth of this. If recent history has taught us anything, it is that ‘ethics in finance’ is one of the most pressing needs today both in terms of education and in practice.

Quentin’s paper makes the point that we must ‘get them young’, and speaks about ‘formation’ which is a much richer idea than simply providing ways of solving problems. Changes in attitude are more possible if we provide an ethical grounding at the very point of delivery of the finance curriculum. Although Quentin does not explicitly mention ‘stakeholder theory’, he alludes to it, in terms of the idea that financial decisions affect many different groups – employees, suppliers, customers, local communities, and so on – as well as shareholders.

So perhaps a question that emerges from Quentin’s paper is: how can we maximise shareholder value in a way that acknowledges the reality of other stakeholder groups? Or, putting it another way: does acknowledging the consideration of stakeholder groups actually contribute towards the maximisation of shareholder value? However, in the light of the reality that much of business has tended to be focussed on the short-term, another question emerges: how can we educate shareholders about the desirability of a focus on long-term profit management rather than short-term profit maximisation?

If I foresee a challenge, it is in relation to Catholic Social Teaching (‘the Church’s best kept secret’). We believe that God became one of us through the Incarnation-event, and Jesus has shown us what to be, and the values and principles that ought to underlie our actions. The challenge for us is how we incarnate – give flesh to – those values, expressed in that body of teaching at a practical level. As Quentin noted, getting students to discuss these issues and raise questions is a necessary and important first step.

This leads us to Adrian’s paper which took us into the practical realm, and provided an imaginative way of putting principles and values into action. Socially responsible investment is not new, as Adrian acknowledges. No longer is it considered as something undertaken by wild-eyed, woolly-hatted, lentil-munching tree-huggers. Rather, it is now seen as mainstream, respectable and profitable.

I noted in the description of how the students manage the portfolio that there are positive and negative investment screens. Clearly, we do not want to make money from companies that engage in certain practices or who produce dodgy products such as landmines. We also want to promote and invest in those companies who are positive ethical in terms of certain criteria such as the environment or good labour practices. But questions arise. Firstly, how do we decide on a particular exclusion? Some, such as armaments, tobacco or landmines, may be more obvious to us than others. But what of something such as nuclear power? There is no doubt that accidents such as Three Mile Island and Chernobyl remind us only too well of the dangers, yet the present-day energy alternatives, such as oil and fossil fuels, impose their own environmental charge. We rightly abhor the exploitation of women and children in labour markets, and do not want to invest in companies that take advantage of their desperation. However, what about the reality that child workers may be the only breadwinners in a family and that, by our insistence on not employing children, we end up impoverishing a whole family?   Similar arguments can be made against other exclusionary criteria such as ‘gambling’ and ‘alcohol’.

While it is understandable, and often the only course of action, to exclude certain products or companies from our investment portfolio, it is perhaps also important to consider the strategy of telling companies where they are going wrong. Such ‘shareholder action’ requires the acquisition of a certain number of shares and collaboration with other shareholders. Views are then aired on certain company activities, such as executive pay that is considered excessive, or a company’s environmental record, at the annual general meeting. Such a course of action often brings media attention, and at the least is an irritant to companies where there is perceived wrongdoing. It may also be an informative or educative process for companies about the wishes and aspirations of a part of their shareholder body.

So, thank you, Quentin and Adrian, for your papers and for helping us to formulate – if not answers – then certainly better questions.