

Central Rating Index for Ethics and Trust in Finance

Ethics & Trust in Finance
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Finalist

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The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated with or of the Jury.

It is both worrying and reassuring that young people working in finance are encouraged to write about ethics and trust in finance today – “worrying” because it means there is a systemic issue, but “reassuring” because action is being taken to improve the situation. What is even more reassuring is that young people are not obliged to write about this topic but rather encouraged to – this point is central to this essay. Ethics must be guided by one’s own understanding and urge to do the right thing. It is practised as a set of cultural circumstances and cannot be rigidly imposed as a set of rules or regulations but should rather be debated and constantly challenged, with ideals changed positively.

In *Ideas and Opinions*, one of the greatest moral philosophers of the twentieth century wrote: “A man’s

ethical behaviour should be based effectually on sympathy, education, and social ties and needs; no religious basis is necessary” (Einstein, 2010). In a financial context, the “religious basis” can be taken as the fear of retribution and hope of reward for acting ethically. This should not be the driving force for ethics because people tend to find loopholes and use this as a measure for behaving ethically when they are instead merely acting in accordance with a set of rules.

Challenging the *status quo*

The current ethical foundation of most worldwide financial enterprise is embedded in a set of official rules and regulations which must be adhered to. Ethical behaviour cannot be fully ensured

La position éthique de la plupart des entreprises financières du monde est ancrée dans un ensemble de règles et de réglementations officielles, mais ils ne peuvent pas seuls assurer pleinement le comportement éthique. Se comporter de manière éthique n'est pas aussi simple que de cocher une case. Par conséquent, une définition rudimentaire de l'éthique est nécessaire, elle pourrait être la suivante : «agir de manière à promouvoir et renforcer la confiance dans les relations mutuelles». Il s'agit de gérer des désirs personnels contradictoires avec ceux de parties prenantes internes et externes correspondantes. L'objectif de cet essai est simple: proposer un nouveau système, complémentaires à la législation et aux directives en matière d'éthique en vigueur, afin de créer un index ou un «spectre» d'éthique. Il est évident que les consommateurs exigent que l'éthique soit prise au sérieux et c'est la raison pour laquelle cela fonctionnera mieux que toute réglementation.

by rules and regulations alone. What is incorrect about our current thinking regarding ethics in finance is that it can be kept in check by either following regulation or by not following regulation. Behaving ethically should not be considered as a box-ticking exercise. This is what is fundamentally amiss with our application of ethics in finance.

If ethics is not as simple as following an ascribed ethos, then a basic definition to start with is needed. Most will assume it is the difference between right and wrong but the inherent difficulty with this is that most people have different definitions about what is right and what is wrong. Instead, describing it in a utilitarian manner would help define it better; in other words, “acting in a way that promotes and strengthens trust and confidence in mutual relations” (Osesik, 2013). It is about managing conflicting personal desires with those of related internal and external stakeholder groups. Every action in finance must consider whether the effect of that action will be beneficial to all parties involved or only to some.

The purpose of the essay is simple: to propose a new system that will work alongside current ethical legislation and guidelines. Given that ethics is complex, and that any action can be beneficial for some related parties and not for others, there is a need to create an index or “spectrum” of ethics. If consumers and investors are becoming increasingly conscientious

about how companies behave, then there is a demand for commercial organisations to be scored on their ethical behaviour.

In an age where fines and penalties are no longer seen as the deterrent they should be, affording consumers and investors the choice to know how ethically an entity behaves will be far more revolutionary. This paper will discuss how such a significant change in thinking will be implemented and will also give reasons and evidence as to why it will work.

Who decides what is ethical?

Currently, many investors are unaware of how ethical a company truly is. Many investors do not even know they are investors. Take, for example, the huge number of UK employees contributing towards the national pension scheme in which they are automatically enrolled; many will not know how their contributions are being invested. If we are operating on the basis that people wish to invest ethically, then it should be their right to know this information, especially if they are “defaulted” into this position. Furthermore, if pension companies are aware of their contributors’ lack of investment knowledge then it creates an impetus to ignore the ethics of their actions and instead simply invest in the company with the greatest returns.

While this is not entirely the reality - thanks in part to the increase

À l'heure actuelle, chaque caisse de pension décide elle-même ce qu'elle considère comme «éthique». Cela serait sans importance, si ce n'est le fait que de nombreuses retraites britanniques sont financées par des employés automatiquement affiliés à ces mêmes caisses. Une caisse de retraite a décrit son fonds éthique comme étant «destiné aux personnes souhaitant investir conformément à des préoccupations éthiques ou morales spécifiques, par exemple dans des domaines tels que les droits de l'homme et le commerce équitable». Cette caisses ne fait pas qu'exclure les entreprises qui nuisent au monde, à ses habitants ou à l'environnement, elle investit également de manière proactive dans des organisations qui apportent une contribution positive à la société »mais ne fournit aucune documentation sur ce que cela signifie au juste.

in demand for ethical investment - most of these pension schemes provide an “Ethical Fund” which one can choose to contribute to. NEST is one of these providers and it is interesting to note that while its default “Retirement Fund” and “Higher Risk Fund” [first quarter, 2019] consist of investments in Alphabet Inc, Facebook Inc, Johnson & Johnson, Samsung Electronics, Exxon Mobil Corp. and Nestlé SA (Fawcett, 2019), their Ethical Fund does not consider these companies at all.

Given the negative press encircling some of these companies it is not surprising that they have been cut as a consideration from the Ethical Fund of NEST, but there are certain things wrong with this situation:

- (i) the default fund should be the Ethical Fund (most people stay with the default option (Kahneman, 2017)), and surely the principle behind the Ethical Fund is diminished if it is also part of an entity that invests in unethical companies;
- (ii) the decision to deem one shareholding as ethical or unethical is ambiguous here. No reason is given for the exclusion of certain companies from the Ethical Fund;
- (iii) the need to know on what factors the decision of exclusion based, which is important because it would make for an interesting debate.

This interesting debate begins with NEST's description of the Ethical Fund, which is “for people who want to invest in line with specific ethical or moral concerns, for example, in areas such as human rights and fair trade”. It does not just exclude companies that harm the world, its people or the environment; the fund also proactively invests in organisations that make a positive contribution to society (Fawcett, 2019). The even more interesting aspect is that, since launch, the annualised total return of the Ethical Fund has been 10.3%, while the default Retirement Fund has only returned 8.8% over its life. This would suggest that there is no direct benefit to acting unethically as an entity. In fact, we might be witnessing a shift towards making it beneficial to invest in conscientious companies.

How too many rules can cloud our moral compass

This last paragraph suggests that we are already shifting our attitude to a more integral and holistic approach towards what can be deemed ethical. This is in contrast with the last 10 years of post-financial crisis fallout of strict external regulation, which has not been successful in achieving the systemic stability it promised. Kaptein argued that there could be an “optimum number of rules after which an organization becomes riddled with them” (Kaptein, 2012). Beyond this optimum amount of

Il existe un nombre optimal de règles au-delà duquel une organisation est saturée et toute réglementation supplémentaire ne ferait que nuire, car l'effort de plus sera déployé pour se conformer aux règles au détriment d'un comportement éthique. Par exemple, si une réglementation officielle doit être suffisamment détaillée pour prendre en compte chaque infraction possible, alors elle prive la personne de sa capacité de penser de manière indépendante et la poussera plutôt à chercher un moyen de contourner les règles. Trop de réglementation réduit la capacité des personnes à réfléchir de manière critique à leurs propres actions, ce qui conduit de nombreuses entreprises à confondre le comportement éthique avec le respect de la loi. Suivre aveuglément les mesures et les procédures sape l'esprit éthique que l'on essaie d'obtenir.

rules, extra regulation will only be damaging, as more effort is put into abiding by the rules at the expense of operational effectiveness and ethical behaviour (Osesik, 2013). Too much regulation only leads to complexity and ambiguity, rather than raising the level of morality: "Modern finance is complex, perhaps too complex. Regulation of modern finance is complex, almost certainly too complex ... As you do not fight fire with fire, you do not fight complexity with complexity" (Haldane & Madouros, 2012). This is proved by the actual size of published regulation, which is supposed to guide our morality, the first and most famous of which being the Ten Commandments, which have survived more than two thousand years. Compare this with a more recent example: the 1933 Glass-Steagall Act, written and designed as a response to the Great Depression, which at 37 pages has been perused with economic stability for over 70 years; or even the US Bill of Rights, that most influential and long-standing of modern constitutional documents, which fits on a page of A4. Contrast this with the latest financial crisis, bringing a remedy of some 849 pages and more than 27,270 new regulatory restrictions (Zuluaga, 2018).

If an official regulation needs to be so detailed as to take every single possible infringement into account, then it robs the person of their ability to think independently and morally. Furthermore, it causes them instead to look for ways around

the rules, which will then be justified as "moral". Following rules while searching for ways to exploit an opportunity is still unethical, but it is ever more difficult to illustrate as such if they can be seen to be acting within the law. Ethics should always return to self-criticism and inner-reflection: "is the action I am about to take going to be beneficial to myself only and damage others or is it mutually beneficial?" More regulation actually reduces people's ability to think critically about their own actions (Osesik, 2013).

Ethics in finance is currently limited mostly to two things: our own cultural upbringing, and multiple pages of regulation. In certain professions, such as accountancy, there is an emphasis on following a code of ethics, but unfortunately this does not apply to all financial professions. This leads to many companies confusing acting ethically with legal compliance. They simply follow measures and procedures imposed on them which undermine the ethical spirit trying to be achieved, as people will just consult legislation rather than their own conscience when judging what is right and wrong (Osesik, 2013). Ethical decisions should be guided by one's inner moral compass, built over years of cultural experience, and challenged. It is an all-inclusive debate which can only be upheld if its principles are constantly disputed and consequently bettered. To accept the *status quo* is to deny personal agency.

The link between morality and free will

Une approche utilitariste l'éthique est la «maximisation» du bonheur pour toutes les parties concernées. Plus le nombre de personnes bénéficiant de nos actions est élevé, plus ces dernières sont considérées comme éthiques et créent un cadre de moralité qui peut être amélioré davantage qu'un ensemble rigide de directives. Woo et Einstein croient tous deux que le libre-arbitre est illusoire et que tout est l'effet d'une cause (c'est-à-dire que vous avez fait un «choix» mais il s'agit en réalité de la conséquence des circonstances prédéterminées, et non par volonté d'être «bon» ou «mauvais»). Ainsi, même si le libre-arbitre est illusoire, il est important de croire que nous contrôlons nos propres actions. L'abandon de l'idée du libre-arbitre nous conduit à ne plus nous considérer comme blâmables pour nos actions et à commencer à céder à nos pires instincts.

We think of ethics as a constant set of formal standards and rules to religiously follow in order to remain safe. As previously explored, it is possible to both follow rules and act unethically. Ching-Hung Woo argues that Einstein believed morality should be treated as a secular matter of bringing dignity and happiness, as much as possible, to all people (Woo, 2015). This “maximisation” of happiness is essential to having a guiding hand in ethics and morality. The more people who benefit from any action we take, the more utilitarian it is and the more ethical it is perceived as being. All of this creates a framework for morality which can be enhanced more than a rigid set of guidelines. Woo also highlights that we have no free will when it comes to ethics; in other words, the decision has already been made by the set of circumstances that made the decision come about in the first place: “Now in the scientific framework favored [sic] by Einstein, where events unfold by deterministic laws, once an initial state of the world is completely specified, all subsequent phenomena are determined. Hence when a person faces multiple alternatives and makes a choice, the will of the decision-maker at the moment of decision was actually already fixed from the beginning of the universe. Hence the feeling of having a choice is only an illusion” (Woo, 2015). In other words, there was only one actual choice made at that point, and it was dictated by prior causes.

This is of course dangerous thinking and can condone behaviour with disregard for other parties. However, it does also make sense and is worthy of discussion. Would, for instance, the Ethics & Trust Prize have been established had the financial crisis of 2007-8 not happened? This paper has been written as a causal effect from this crisis. Given these points, it is easy to see why distinguishing between good and bad is not as easy as writing an 849-page dossier. It is better to conceptualise ethics, which is the true key to its perpetuation and lasting impact.

Even if free will is illusory, it is still important to believe that we are in control of our own actions. One experiment conducted by Vohs found that, when the control group's belief in free will was undermined, they took more opportunity to pilfer envelopes of \$1 coins. It seems that when people stop believing they are free agents, they stop seeing themselves as blameworthy for their actions. Consequently, they act less responsibly and give in to their baser instincts (Caves, 2016). It is important here to reiterate that this essay argues that a disbelief in free will, and hence ethics, is as bad as rigidly following a set of rules which form legal compliance, rather than a notion of morality. A happy middle-ground lies in the space that allows the individual to constantly distinguish “doing good” from “doing bad”.

Même Association of Chartered Certified Accountants (ACCA) a abandonné une compréhension erronée de l'éthique selon laquelle cette dernière pouvait être rapidement assimilée grâce à un manuel, préférant maintenant la notion de «bon comportement» plutôt qu'un «code d'éthique». En termes simples, «se comporter de manière éthique» signifie faire «la bonne chose». Cela va au-delà du respect de la loi - le respect des normes et réglementations en vigueur fait également partie du comportement éthique, mais implique surtout d'agir dans l'intérêt général.

“Good” behaviour as a starting point

Even the Association of Chartered Certified Accountants (ACCA) has shifted from the flawed notion that ethics can be gathered quickly from a handbook, preferring instead to now market it as “Good Behaviour”¹ rather than a “Code of Ethics”. Accountants from this organisation are still expected to follow the guidelines: “Most professionals are required to comply with an ethical code – in the case of ACCA, you will be required to comply by ACCA’s Code of Ethics and Conduct”. However, this is stated as a bare minimum and is intended to provide the accountant with a framework upon which to build. ACCA stresses that “these principles provide a framework to guide the professional accountant” but not to “ignore your personal values when at work” (Waters, 2011).

The best definition on this webpage asks “what does it mean to behave and work ethically” and it is from this description that a professional can begin an independent ideology of what encompasses ethics in finance: “simply put, it means doing ‘the right thing’. This goes beyond compliance with the law; compliance with relevant standards and regulations is also part of ethical behaviour...It also means *acting in the public interest*

¹ See, for example, the ACCA webpage on Ethics: <https://www.accaglobal.com/an/en/student/sa/features/good-behaviour.html>

[emphasis added]” (Waters, 2011). The key parts of this last statement are in finding out what doing “the right thing” encompasses and how best to act “in the public interest”.

Of course, the ACCA is most interested in ethics where it specifically involves trust in the workplace, and not necessarily the other arm of ethics in finance relating to ethical investment. Therefore, when the ACCA speaks of ethics, it is really speaking of trust. The ACCA instils this trait and reinforces its importance because it has essentially given the professional accountant the power to decide how money is accounted for within an organisation, which can lead to conflicts of interest further down the line. It would be a futile exercise to deliver someone this power if they had no intention of using it correctly, circling us back to the ancient question of whether it is worse to be merely incompetent as a professional, or rather competent but evil.

The nature of trust in finance

Geoffrey Whittington writes of trust in finance:

“[It is] an essential ingredient in facilitating financial transactions. The financial reporting process helps to create trust, but it, in turn, must be trusted. Auditing and professional standards have been the traditional means by which trust in financial reporting has been fostered. Recently, these institutions have been put under great pressure

La confiance dans la finance est un ingrédient essentiel pour la conduite des transactions financières. Par exemple, les maisons de disques sont essentiellement des fonds d'investissement – la maison donne à l'artiste une avance en échange des bénéfices futurs sur les ventes de la musique enregistrée. L'élément de confiance est liée au fonctionnement interne de la maison car tous les flux de revenus sont comptabilisés en premier par le label, et non par l'artiste. De plus, alors que nous entrons dans une ère de plus en plus numérique, les flux de revenus comptés numériquement signifient que nous devons faire confiance aux ordinateurs qui nous fournissent les informations correctes. Il est nécessaire de s'assurer ici que les données sont là pour faciliter l'art, pas pour le menacer.

by changes in the size and scope of financial markets. The consequence is likely to be a continuing change in the nature of trust and the means by which it is supported. In the future, personal trust is likely to be substituted increasingly by trust in systems supported by regulatory bodies. This does not mean that trust is no longer important, but rather that the form which it takes has changed. The importance of trust needs to be recognised by those engaged in shaping the future of financial reporting, if they are to meet the needs of users of financial information” (Whittington, 1999).

A good example of trust in both people and systems can be observed within the recorded music industry. One such record label, Warp Records, goes as far as to refer jocularly to itself using an acronym: We Are Reasonable People (WARP). Record labels are essentially investment funds: the label gives the artist an advance of cash in exchange for future profits realised on contracted supplies of recorded music. Sometimes it is profitable, upon which, after recouping the said advance, any profits are usually split on a fifty-fifty basis. If it is not profitable then the investment is simply written-off (as with any other investment). The trust element comes from within, however, as all revenue streams are accounted by the label first, and not by the artist, as would be typical with any other supplier-customer arrangements. In the recorded music industry,

the label (customer) tells the artist (supplier) how much money has been generated from sales of their music (this is repeated all the way up the supply chain). As can be seen, trust will play a major role here, as the artist is fully dependent on the royalty accountant for giving a fair and accurate report of all profit the artist is entitled to. Of course, it is written into any contract that they have the right to audit this report. Yet most artists choose to trust that the statements are materially correct.

The second issue is, as we enter an increasingly digital age, most music revenue streams are made up of micro-penny transactions multiplied million-fold. This creates the need to trust a computer system that counts and ensures precision within accounted revenue and expenditure. There is a need to ensure here that data is here to facilitate art, not threaten it (Bussinger, 2016).

In conclusion the fabric of ethics must come from within the organisation. Even if employees are determined to maintain high ethical standards, they become less ethical when corporate management adopts a profit-oriented approach compared with when it values integrity, or when no corporate values are professed (Ghosh, 2008). There is ample experimental evidence from 1979 that suggests that employees working in companies where work-life balance was emphasised and where CEOs or people in leadership positions encouraged ethical behaviour were found to accept

Il y a clairement une nécessité de créer un tableau de bord de l'éthique pour que les gens l'utilisent et fassent des investissements éthiques, mais il n'existe actuellement sous aucune forme définie. Les investisseurs prennent simplement des décisions éthiques fondées sur ce qui est disponible dans les médias, ce qui pose deux problèmes: les médias sont malheureusement souvent biaisés ou mal informés, et ensuite, cela donne aux entreprises peu d'élan pour essayer de s'améliorer à l'avenir.

Actuellement, il existe peu de systèmes de notation qui se concentrent sur certaines catégories, telles que les caractéristiques des conseils d'administration, la structure de propriété, les régimes de rémunération, les dispositifs anti-OPA, les informations financières, les contrôles internes et la formation des administrateurs.

kick-backs less than employees who worked at profit-driven corporations (Hegarty & Sims, 1979). Therefore, we must empower financial sector employees to think critically about their ethics, instead of limiting their thinking by a set of rules.

Proposal for the introduction of an “Ethical Spectrum”

Clearly there is a need to create a scorecard of ethics for people to utilise and make ethical investments, but it does not currently exist in any defined form. Investors simply make ethical decisions based on what is available in the media, which holds two problems: the media is unfortunately often biased or misinformed, and secondly, it affords companies little incentive to try and better themselves in future. Given that the public's interest in ethical governance and ethical leadership has grown, it is necessary to enhance the importance and clarity of ethics over and above the typical response: governments tend to respond to scandal with regulations, without considering that it is the “obedience culture” which often fails in the first place (Financial Conduct Authority, 2014).

Conversely, can any financial firm be considered ethical given that its primary function is to create positive returns for its investors? Some would argue that it cannot, but the key point is that an ethical position should be considered both externally as well as internally. There should be

a strict separation between financial regulators and professionals in finance. While an exchange of ideas should be encouraged, fraternisation as well as a change in employment across the divide should not. The relationship between judges and lawyers could serve as a guide (Bieber & Viehoff, 2017). This would limit any conflict of interest that could arise when making important decisions regarding an entity's ethos.

Sub-sections of Ethics & Trust Scoring

There are two main fields which this scoring can be broken down to, each with a valid motive:

- (i) Trust in Corporate Governance Ratings, giving users of the scores the ability to see how well-run and well-managed an entity is;
- (ii) Social & Environmental Responsibility Ratings, giving users corporate insight into how ethical an investment might be.

The value of subdividing the scoring system into two sections like this is to highlight the way in which these scores will be affected. Corporate Governance, for instance, depends on directors and employees within an entity acting selflessly and in the best interest of the related stakeholders, while Social & Environmental Responsibility will examine how the entity regards its day-to-day trade as ethical. In other words, one is internal and the other is broadly external.

Scoring Index: Trust in Corporate Governance Ratings

Toutes les sociétés cotées en bourse devraient participer à la promotion d'un sens de l'éthique sur les marchés financiers. Le Tableau de Bord de la Gouvernance d'Entreprise aurait donc pour principal objectif de faciliter le travail des analystes; permettre aux entreprises d'évaluer facilement la qualité de leur propre situation de gouvernance; permettre aux investisseurs d'établir des niveaux minima dans le cadre des politiques générales d'investissement; permettre des comparaisons entre industries et entre pays et être facilement accessible à toutes les parties intéressées. Les critères d'évaluation prendront en compte trois domaines principaux: la composition du conseil d'administration, l'approche de l'audit externe et l'effet des indicateurs clés de performance sur les normes d'éthique.

Once the two categories are identified, we can begin scoring the entity using an index. While there have been many attempts to measure governance from a compliance perspective, there are currently no global benchmarks with which to measure Corporate Governance standards. As a starting point, there are currently a few ratings systems which concentrate on certain categories, such as board compositions, ownership structures, compensation plans, anti-takeover devices, financial disclosures, internal controls and directors' educational backgrounds.²

In recent years there has been demand for ratings agencies to introduce these systems as a means of assessing the very real risk factor that a board of directors can have on an investment. The aim would not be to be merely compliant, but to be guided by the "spirit" of the ratings system. Every publicly-listed company should be part of bringing this about, in order not only to "level the playing field" but also to trickle this sense of ethics into the private sector.

The main goals of the Corporate Governance scorecard would therefore be:

² Examples include: Governance Metrics International (GMI) Ratings, the Corporate Governance Quotient (CGQ), the Corporate Governance Score (CGS) of Standard & Poor's and the Board Effectiveness Rating (BER) of the Corporate Library (TCL).

- (a) To facilitate the work of analysts and investors through a systematic and easy overview of all relevant issues of good governance. It is vitally important that the users of these reports understand the information contained within them.
- (b) To enable companies to easily assess the quality of their governance situation. There is a need to give executive boards the impetus to succeed at becoming ethical.
- (c) To allow the setting of minimum scores by investors for governance as part of general investment policies. External parties should be given the right to affect the score if they can justify the means for doing so. Internal parties can either accept this change and try to improve their situation, or challenge the verdict.
- (d) To enable comparisons across industries and across countries, because we can only really assess progress when using comparative information.
- (e) To be readily available to all interested parties via the internet. This can be via a paid subscription; it does not necessarily have to be free. The results should also come with a description of how they formed their rating and what the index was based against (Bhasin, 2009).

Cet index explique comment une entité se comporte dans l'environnement dans lequel elle opère. La demande en investissement responsable a explosé ces dernières années, les investisseurs ordinaires devenant de plus en plus conscients de la nécessité de protéger la planète sur laquelle ils vivent. À l'heure actuelle, deux agences ont pour objectif d'évaluer les grandes marques en fonction de leur impact environnemental et social: Ethical Consumer et Good on You. Ils basent leurs faits sur le degré de transparence d'une société concernant sa chaîne d'approvisionnement, si la société a pris plusieurs initiatives positives importantes, si elles ont été conçues pour être éthiques dès le départ et si elles possèdent une accréditation ou une certification appropriée.

The assessment criteria will be fluid, but will broadly consider three main areas:

- Composition of the Board of Directors: the Board's structure and related-party disclosures; the size of the board and its attendance at meetings; level of executive share ownership; the independence of its members; and the emphasis on communication of the company's ethos.
- Approach to External Audit: the presence of an audit committee; which audit firm is used, and if subsidiaries are "split out" to different firms; what percentage of revenue the audit represents; what are the standards for audit in the given territory.
- Effect of Key Performance Indicators on Ethics Standards: most importantly, a measure of how effective being ethical really is to the company.

This last point is important as it is vital to highlight that behaving ethically through responsible corporate governance can pay dividends in the long run, perhaps to the extent of preventing another crisis.

Scoring Index: Social & Environmental Responsibility Ratings

The next index discusses not the internal governance of an entity but rather how that entity behaves within the environment it operates. The demand for responsible investment

has boomed in recent years, with ordinary investors becoming more aware of their need to protect the planet they live on. There is also a realisation that growth can only occur sustainably when there are limited resources available.

Currently, there are two agencies which have made it their goal to assess large brands based on their environmental and social impact: Ethical Consumer and Good on You³. There is also an index for listed companies called FTSE4Good. However, it has received criticism (ironically creating an unethical situation by trying to be perceived as being ethical) because it lists some fossil fuel companies as environmental, which merely serves to "greenwash the reputations of major polluters" (Jolly, 2019). This has led to a situation where environmentally-conscious investors are unaware that they are essentially funding fossil-fuel extraction. The FTSE4Good is owned by the London Stock Exchange which further signals a conflict of interest. It is good that the London Stock Exchange is addressing its need to be environmental, but ratings should look at clear facts with the inclusion of all related stakeholders.

In contrast, Good on You is an independent ratings agency, and its model for rating is quite straightforward. The model is based on how transparent a company is

³ See, for example, Ethical Consumer: <https://www.ethicalconsumer.org> and Good on You: <https://goodonyou.eco>

Le but de cet article était de souligner que l'approche actuelle en matière d'éthique fonctionne jusqu'à un certain point, mais il risque de s'effondrer suite à une dégénérescence cachée. Il n'est pas nécessaire d'éliminer le cadre actuel, mais il faut le centraliser et le renforcer au moyen de mesures qui encourageront un débat libéral. Le problème clé est que notre enracinement actuel dans l'éthique repose sur le respect de règles plutôt que sur la compréhension de l'essence même de ce que signifie être éthique. La confiance ne doit pas être considérée comme acquise et c'est avec cette proposition que je souhaite ne pas garder les entreprises sous contrôle, mais tenir toutes les parties prenantes connectées et informées, et savoir comment elles peuvent apporter un réel changement avec les bonnes informations.

regarding its supply chain; whether the company has taken several significant positive initiatives (often as leaders on one or more key issues); whether it is designed to be ethical from the ground up; and whether it has relevant accreditation or certification.⁴

Ethical Consumer uses the following method: "We score each company out of 14 and each product out of 20. We use a negative based scoring system where a company starts with 14 and then gets marks taken away if it gets criticised in one or more of our categories. There is one exception to this. Companies can score a positive mark under company ethos if they commit to certain things (e.g. Fairtrade) across their whole company group."⁵ Ethical Consumer also award points for accreditation.

Conclusion

It is obvious that environmental and social awareness is consumer-driven rather than investor-driven. Steps should be taken to include the foundations of ethics that companies have used to successfully drive

campaigns that result in either a company changing the way it trades, or by a product being boycotted or shunned. Investors take notice of market demand and this is how real change can occur. Compounded with the addition of a centralised ethical ratings system, there is a genuine hope that ethics and trust can be restored in finance.

The aim of this paper has been to highlight that the current approach to ethics works to a degree but is prone to collapse through hidden deterioration. It is not necessary to get rid of the current framework but there is a need to centralise and enhance it through measures which will bring about free debate. The key issue is that our current ethical grounding is based on following rules rather than grasping the spirit of the essence of what it means to be ethical. Trust should not be taken for granted. With this proposal, I hope not to keep corporations "in check" but to keep all connected stakeholders informed about how they can bring about real change with the right information. •

⁴ <https://goodonyou.eco/how-we-rate/>

⁵ <https://www.ethicalconsumer.org/about-us/our-ethical-ratings>

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