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ETHICS IN FINANCE: SURVIVING THE CRISIS

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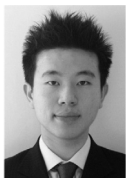
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I nternationalism, Institutions and Individuals: Systemic Changes for a Systemic Ethical Crisis

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L'énormité de la
crise mondiale actuelle
indique clairement
que quelque chose ne
tourne pas rond, fon-
damentalement, dans
le système financier.

It was 2006, when the world still celebrated the heady days of ever-rising property values, ever-rising equity values, and ever-rising bonuses for the investment bankers, hedge fund managers and private equity captains who made the good times happen. The head of McKinsey's Corporate Performance Center in New York was in the Wharton School giving a presentation on 'The Tao of Finance'. There was a reverent hush as the students eagerly took notes on valuing companies. No one would have imagined then that the good times would roll to an end just one year later.

What is the way of finance?

I found it interesting that he chose the Chinese word 'Tao'. In modern Chinese, the character translates as 'way' or 'path'. Perhaps the current financial crisis could have been averted if the hordes of business school students eager to find their place on Wall Street had had a different conception of 'The Tao of Finance': The

fundamentals of finance should be founded on ethics, and not just on *Corporate Valuation 101*.

Finance is built on a complex social system facilitating the exchange of goods and services that are often abstract and intangible. Wealth in such a system is built on the interplay of trust and ethics. As such, ethics is as important in establishing the modern financial system as CAPM (Capital Asset Pricing Model), DCF (Discounted Cash Flows), or any other modern valuation techniques so emphasized in business school. They are like the Yin and Yang of the financial world, both are essential for harmony to exist.

The enormity of the current global credit crisis reveals something fundamentally wrong with the financial system. For a field meant to create wealth, and which succeeded at doing just that for so many years, it has suddenly given way to a rapid and massive destruction of wealth. And this impact is being felt not just on Wall Street, but also on Main Street, which now faces mas-

Au cours des 30 dernières années, les relations qui liaient les banques d'investissement à leurs clients ont changé. D'une relation construite sur la confiance, nous sommes passés à des relations marchandisées, dans un contexte de pleine concurrence.

Dans le monde de la finance, certains avancent que ces relations se sont imposées en toute connaissance de cause, c'est-à-dire aux risques assumés de l'acheteur. Mais cette vision choque généralement le grand public, qui fait confiance au système financier et attend de lui un certain niveau d'éthique et de responsabilité.

Les failles éthiques généralisées de l'industrie de la finance appellent à de profonds changements, qui devront être équitablement appliqués à tous les niveaux du secteur.

sive retrenchment after years of heady growth. The current financial crisis is a major challenge, and to be fair, the crisis is not just the fault of the financial industry, even if at the World Economic Forum's 'Summer Davos' in China, I watched Morgan Stanley's renowned Asia Economist, Stephen Roach criticize poor regulatory policies, such as the Fed's low interest rates, as a cause of the current mess. While astute in his analysis, he misses the point of the public's outrage: people want to know that we can trust the financial industry and the financial elite to act in the public's interest, instead of requiring an adversarial government watchdog to make them behave.

Systemic and widespread ethical failure

Banking has undergone incredible changes in the last 30 years. Investment banking, a segment of the financial system, exemplifies this transformation. In 2006, I met Joseph R. Perella, a former Morgan Stanley investment banker and an industry legend, just as he was setting up a new investment banking boutique. He claimed that relationships between investment bankers and their clients have changed from one built on trust to one that is commoditized, arms-length, and ruled by caveat emptor.

More broadly, investment banks themselves have become giant trading machines, piling on layer upon layer of complexity on an already opaque system, making the role of ethics all

the more important in a system increasingly reliant on self-policing.

The current crisis reveals that the financial industry has failed this ethics test. The collapse of Madoff's \$50 billion Ponzi scheme is an extreme example of a broader abrogation of corporate responsibility in the financial sector. UBS's alleged role in helping its US clients to evade taxes reveals a company that aggressively chases profits at the boundaries of the law. Most pertinent to today's financial crisis is the aggressive selling of collateralized debt obligations (CDOs) that placed subprime mortgages in the hands of investors who are ill-equipped to monitor and evaluate the actual risks of their investments.

Some people in the financial industry argue that such relationships come with caveat emptor, that is 'let the buyer beware'. While such arguments might hold sway in a court of law, they offend the general public who trust the financial system, and expect this system to have a certain level of ethics and responsibility. Profit seeking has to happen within the bounds of corporate responsibility. Firms exist because they have a mandate from society to steward society's wealth. In return, they are responsible to society, in ways that go beyond simply obeying the law.

Multi-level solutions

The widespread ethical failures of the financial industry call for equally broad-reaching changes to the industry. In looking at Madoff, we witness an individual at the epicenter of

Dans la finance, les problèmes d'éthique sont multidimensionnels. Toute solution complète doit aborder trois dimensions : la dimension individuelle, la dimension institutionnelle et la dimension internationale.

L'internationalisme des entreprises de la finance constitue un vrai frein à leur capacité à se comporter de façon éthique.

Le premier obstacle vient du profond enracinement des sociétés dans le tissu culturel et législatif local.

La divergence de conception de l'éthique en fonction des contextes culturels et les différences des législations régissant le comportement des sociétés empêchent les acteurs financiers de définir une norme éthique mondiale standard.

a financial fraud. In examining the subprime mess, we witness institutions who fail at putting their 'clients first'. In studying UBS, we witness an international clash over the meaning of banking secrecy.

The ethical problems in finance are multi-dimensional, with causes situated at different levels of corporate organization. This means that the comprehensive solution we need should comprise three levels: the individual, institutional and international. Each of these levels exerts a different set of pressures on ethical decision-making. The following analysis defines how the organization and composition of the financial industry at each of these levels poses systemic challenges to ethical

decision-making. It then outlines solutions to ethical challenges at each level, with the aim of creating an interlocking system that reinforces ethical decisions made by individuals, firms and the entire financial industry.

The internationalism of financial firms

The rise of international firms, whether pursuing a multi-domestic or transnational strategy, resulted in firm assets that are embedded in different locations. In turn, these assets are embedded in the local legislative and cultural context (Yip, 1989).

Financial firms in particular are some of the world's most globally oriented firms as they deal with foot-

Figure 1: Internationalism's impact on ethical performance

	Internal	External
Internationalism	Differences in culture across business units	Differences in ethical and legislative context across countries
<i>Internal and external challenges exacerbated by international competition</i>		

loose capital - even under present circumstances, capital is an incredibly mobile asset.

The internationalism of financial firms poses major challenges for their ability to behave ethically. Two specific challenges arise out of this situation (see Figure 1). The first challenge arises from the embedded-

ness of firms in the local legislative and cultural context. Operating in different regimes raises the complexity of ethical issues a financial firm faces. Differing conceptions of ethics in the different cultural contexts and the different laws that govern firm behavior prevent the firm from defining a global ethical standard.

Un autre problème a une origine interne. La culture de l'entreprise au sein d'une multinationale est loin d'être uniforme. Elle est généralement disparate et souvent dépourvue de cohérence.

Les unités commerciales aux quatre coins du monde peuvent adopter des pratiques différentes, ce qui rend difficile l'adhésion à un processus décisionnel éthique.

Le dernier aspect de cette notion d'internationalisme concerne la pression concurrentielle provenant des autres pays ; une pression qui peut miner la stabilité de codes de conduite qui pourraient avoir été convenus au sein de l'industrie financière d'un pays donné.

Les relativistes estiment que les entreprises devraient établir des conventions et des pratiques locales pour répondre aux demandes d'éthique spécifiques de chaque pays.

Without a common definition of ethics, actions in one part of the firm can be excoriated by its critics in another part of the world, often with just cause.

The other challenge arises internally. Culture across a transnational firm is far from uniform, frequently patchy and often inconsistent, thus leading to blind spots in detecting internal corporate practices that lead to unethical behavior. Business units in different parts of the world could adopt different practices making it difficult to ensure ethical decision-making. The differences in managerial structures under this international setting pose problems for firms trying to pursue one-dimensional solutions that assume compliance across the board. Instead, financial firms need to pursue solutions that address this international dimension of ethical behavior. An example of this internal inconsistency in structures is exemplified by a study of Japanese brokerages with operations in both New York City and Tokyo. Although they belonged to the same company, many firms ended up adopting different reward systems in their different locations: New York branches had a market-oriented reward system while the Tokyo branches had a hierarchical-oriented reward system (Zaheer, 1995).

These two problems are exacerbated by one last aspect of internationalism. Competitive pressure from outside a country can erode the stability of agreed-upon codes of conduct within the financial indus-

try in a country. As ethical codes for an industry are developed largely on a national level, based on a common cultural context and over time, the entrance of a foreign competitor or the desire to overtake a competitor abroad can erode codes of conduct at the national level.

Financial firms have gone international and their internationalism is here to stay. Thus, it is imperative that we develop measures to address both the external challenge and the internal challenge to ethics posed by internationalism.

A demand for a global ethical standard

Ethicists have proposed various solutions to the external challenge of differing ethical demands and context caused by firms' embeddedness in different country contexts. Relativists believe that firms should tailor local policies and operations to the ethical demands in each country. However, such an approach is inappropriate for financial firms as it clashes with the cross-border realities of the financial industry. UBS's problems juggling tax secrecy laws in Switzerland, where it is headquartered, and its alleged attempts to aid tax evasion elsewhere in the world, is an example of how inter-connected markets demands a global ethical standard.

In a world of inter-connected markets, firm operations between different countries are linked even in the most localized of firms. Business

Mais cette approche est inadaptée aux entreprises financières, car incompatible avec les réalités d'internationalisation du monde de la finance.

Les impérialistes de l'éthique prônent le contraire : au lieu d'adopter des modèles éthiques locaux « conflictuels », l'entreprise devrait plutôt appliquer un code d'éthique unique et efficace, commun à toute l'entreprise.

Mais une règle aussi rigide pourrait facilement être taxée d'impérialisme culturel, car les critiques ont observé que les projets de code éthique « universel » sont généralement élaborés autour des règles du monde occidental.

Selon le philosophe de l'éthique des affaires, feu Thomas W. Dunfee, un contrat social intégré sous-tend les comportements éthiques dans le monde des affaires.

units in a firm share common resources that make units of a firm in one part of the world ethically culpable for actions in another part of the world. For example, the capital flow across borders that takes advantage of arbitrage opportunities links business units across countries. HSBC, which claims to be the world's local bank, sells a common brand across countries that would be tarnished by inappropriate actions taken in any part of the world. These interconnections demand a global ethical standard.

The important integration of all cultures

Ethical imperialists argue the opposite: instead of the endless 'conflict' between localized ethics, firms should adopt a single and effective firm-wide code of ethics. Underlying this approach is the belief that a fundamental set of ethical obligations is relevant to all cultures and to all companies. In particular, a globalized financial industry should be most receptive to such an approach.

Such a rigid code is easily criticized as cultural imperialism. Critics have observed that a 'universal' ethical code is often based on Western standards. Differences in interpreting ethics exist between different societies, and financial firms need to be able to adapt some of their processes and procedures to these differences.

Perhaps gift-giving for the purpose of cultivating business ties is frowned upon within Anglo-Saxon

circles, but should such an action be as intolerable from an ethical viewpoint in China or Japan? For investment bankers in China, gift-giving is often fundamental to building the 'guanxi' necessary for long-term business relationships, although such actions can easily become a slippery slope. For their counterparts in Japan, friendships are often built on the exchange of gifts. In these countries, gifts do not necessarily have the same connotations of direct bribery as in the West but instead fall into an ambiguous grey area. New approaches are needed to address these problems.

Consensus can exist

Some ethicists and philosophers have argued for a third way that attempt to find common ethical ground in the major cultures of the world. The late philosopher of business ethics, Thomas W. Dunfee (Dunfee and Donaldson, 1999) argues that an Integrated Social Contract underlies ethical business behavior. Hypernorms, norms common to most if not all of the world's major cultures, form the ethical standards which firms should conform to. In each society, micro-social contracts exist that business units in these countries can then obey separately. While Dunfee does not specifically identify what these norms would be, he argues that they can be identified for relevant industries and communities. Perhaps this allows financial firms to escape the external challenge of internationalism by binding them to a world-wide

Les hypernormes (ces normes communes à la majorité - si ce n'est à l'intégralité- des cultures mondiales majeures) forment des règles éthiques auxquelles les entreprises devraient se plier.

Dans le monde de la finance, il paraît urgent de s'entendre sur un code de conduite mondial.

Le problème interne lié à l'internationalisme des entreprises constitue un vrai défi dans la pratique : comment assurer le respect de codes d'éthique dans toute l'entreprise, dans le monde entier ?

Ce défi consiste à organiser une supervision et une application plus efficaces des codes d'éthique dans les entreprises financières transnationales.

À l'instar des systèmes d'audit, qui jouent un rôle crucial dans la supervision des activités nationales et régionales, un système d'audit similaire pourrait peut-être être utile en vue de garantir des pratiques éthiques.

code of conduct on ethical issues where consensus exists, while allowing them the flexibility to adapt their operations elsewhere. Agreeing on this global code of conduct should be an urgent task for the financial industry. This can help ensure that ethical behavior crosses borders. In addition, financial firms need to be constantly aware of the external challenge as ethical standards are evolving and changing. De Bettignies argues that a new mindset will develop in China that espouses the traditional and the western simultaneously in ways that are neither Western nor traditional Chinese (see http://info.emeraldinsight.com/learning/management_thinking/interviews/bettignies.htm?PHPSESSID=4cte414vc4303vfk93r4idbmc7&).

The fusion of thoughts in various countries around the world will lead to a different set of ethical demands in the future. Financial firms have to adapt their operations to these changes to conform to changing ethical standards.

An ethics audit system to face internal challenge

Unlike the external challenge, the internal challenge arises not from incongruence between the firm's behavior with its environment's demands, but from the difficulties of managing the modern financial firm. The modern financial firm is a complex international entity. Many banks have operations spread across the globe. This internationalism poses a practical challenge: ensuring

compliance with codes of ethics for an entire firm, across the world, is incredibly difficult, especially since business units' attitudes towards ethics in different parts of the world might differ. A headquarters-imposed ethics requirement might be ignored by operations at the country-level.

The challenge is to make monitoring and enforcement of codes of ethics more effective for transnational financial firms. Audit systems play a major role in monitoring country or regional level performance, and perhaps a similar audit system can play a role in ensuring ethical performance.

For an ethics audit system to work, the audit team needs to have an explicit focus on 'accounting for ethics'. The current accounting system fails to uncover ethical failures effectively as such failures, when they do not directly influence balance sheet results, often fall outside of the system's purview. Furthermore, when an ethics audit team exists and has an explicit goal of uncovering ethical failures, their awareness of what they are looking for can greatly increase the chances of detecting ethical failures.

Such ethical audit teams need to be hired and managed out of headquarters if they are to be effective. Conflicts of interests are prevalent in the accounting industry. If the company desires to crack down on ethical violations, its ethical audit teams must be free of such conflicts of interests to be effective.

Pour qu'un système d'audit de l'éthique fonctionne, l'équipe d'audit doit 1) explicitement cibler un système de responsabilisation en matière d'éthique et 2) être embauchée et gérée indépendamment du siège de l'entreprise pour éviter les conflits d'intérêt.

Lorsqu'elles sont confrontées aux mêmes contraintes environnementales, les structures organisationnelles adoptent les mêmes processus et les mêmes formes : c'est ce que l'on appelle l'isomorphisme institutionnel.

Ces pressions isomorphes façonnent les choix éthiques d'une entreprise au niveau institutionnel.

Plusieurs types d'isomorphisme existent. Les entreprises financières adoptent par exemple des mesures similaires pour la publication de leurs résultats afin de se donner une légitimité aux yeux des parties prenantes externes.

This is possible if they are hired externally and are responsible to senior level management instead of local operations.

Isomorphic pressures at the institutional dimension

At the institutional level, isomorphic pressures restrict the domain of ethical options faced by individuals. Organizations adopt similar processes or structures when facing similar environmental constraints. Organizational behaviorists call this institutional isomorphism. Isomorphic pressures influence the structure and culture of an organization, shaping the ethical choices of a firm at the institutional level.

Different forms of isomorphism exist. Financial firms adopt similar reporting measures of assets to seek legitimacy in the eyes of external stakeholders (coercive isomorphism). Professionalization leads to similar behaviors between different financial firms, made all the more apparent by the constant flow of talent between firms on Wall Street (normative isomorphism). Under uncertainty, Wall Street firms also engineer similar financial products and pursue similar trading strategies, consoling themselves by noting how their competitors are doing the same (mimetic isomorphism). We can make financial firms more responsible by shaping these isomorphic pressures to influence firm behavior. Changing the underlying isomorphic pressures in the industry to reinforce firm-level ethical decisions

is about changing the fundamental behavioral drivers in the industry. Current ad-hoc measures introduced to ensure ethical behaviors are often relegated to superficial box-ticking that can be easily circumvented by the talented people that work in the financial industry. This is because such measures fail to truly change the institutional structure of financial firms in any meaningful way.

A common story that reflects this problem emerges from risk control departments at investment banks. In theory, traders are supposed to be answerable to the risk control department for their trades. In reality, highly profitable traders perch at the top of the corporate hierarchy and employ a range of strategies to delay or avoid compliance with risk controls. Requests for information can be brushed aside, risky trades are explained as being sophisticated, and evasive answers buy time. Isomorphism has resulted in a common industry structure where revenue centers are prioritized in decision-making processes over cost and control centers, leading to ethical lapses.

What can be done?

The firm is embedded in a network of social institutions that control and shape its behavior. To achieve the deep-rooted ethical changes in the financial industry we are arguing for, we need to shape isomorphic pressures to 'lock-in' desirable institutional characteristics.

Pour réaliser les changements éthiques profonds que nous prônons, il faudrait modeler les pressions isomorphes de manière à y « capturer » les caractéristiques institutionnelles souhaitables.

La circulation relativement libre des talents entre les différentes entreprises financières pose un vrai problème. L'arrivée permanente d'un personnel façonné par la culture des autres entreprises a pour effet de diluer le potentiel des mesures qu'une entreprise pourrait prendre pour garantir un comportement éthique.

La professionnalisation du secteur de la finance constituerait une avancée audacieuse dans l'élaboration d'une culture éthique commune destinée aux professionnels de la finance.

The relatively free flow of talent between financial firms poses a critical challenge. The constant inflow of personnel shaped by the cultures of other firms dilutes measures taken by any firm to ensure ethical behavior. As soon as Lehman Brothers collapsed, top executives at the failed firm were recruited by other Wall Street firms. Thus, measures promoting ethics have to influence the industry as a whole, instead of being atomized actions taken by individual firms - brave actions that will unfortunately be weakened by the constant inflow of personnel.

The professionalization of finance

Professionalization of the financial industry would be a bold step forward in building a common ethical culture for financial professionals. Parts of the financial industry that deals with complex financial instruments are remarkably similar to professions such as law or medicine. The practitioners have a consensus on a body of knowledge surrounding their work, and are asymmetrically equipped with this knowledge vis-à-vis their customers. Professionals in finance also have relatively homogeneous backgrounds - coming from a small set of universities or business schools. Given the importance of finance for the modern economy and the shared backgrounds of practitioners, the industry is ripe for professionalization.

Professionalization of finance is meant to allow the industry to devel-

op a common set of ethics and sense of responsibility to society. By having financial professionals uphold industry-specific ethical standards, we force them to confront the responsibilities their importance to society entails, and become more conscious of the impact of their decisions. By socializing them to an industry-standard for ethics, we enable these professionals to understand how their profession as a whole should approach ethical dilemmas. Such a professional body also allows firms to overcome the problem of atomized socialization to codes of conducts: by having an industry code of conduct, the flow of professionals between firms poses less of a challenge in maintaining an ethical culture.

Full professionalization of finance can take place by developing a national or regional body to build consensus on financial issues. Given that many financial professionals are trained in business schools, such training grounds have to be included in the professionalization process. A business degree (or program) should be a prerequisite in the industry, and much thought should be given to how individuals are socialized through this program. The next section looks at this in greater detail, but with a focus on how ethics in general is affected by the current business school process, which I argue is flawed and self-destructive.

While the international structure of firms and the institutional isomorphism of firms influence ethical outcomes, we cannot ignore the role

En fédérant les professionnels de la finance autour d'un code d'éthique régissant le secteur, nous leur permettrions de comprendre l'approche que leur profession, en tant qu'ensemble, se doit d'avoir des questions d'éthique.

N'ignorons pas non plus le rôle que les individus jouent, à tous les niveaux de l'entreprise, dans l'adoption de comportements éthiques.

Personnellement, je recommande de restructurer l'éthique à l'échelle des individus en ciblant prioritairement le processus de fédéralisation des individus.

En tant que gardiens contrôlant l'accès au monde de la finance, les écoles de commerce jouent un rôle déterminant dans la fédéralisation des individus qui exerceront par la suite une influence sur la finance. Mais ce système est brisé.

individuals play at all levels of the firm in ensuring ethical behavior. While I argued that a set of forces circumscribe the domain of possible choices individuals can make, they do so in ways that still leave considerable room for individual decision-making. The ethical compasses of individuals still influence how they choose over their remaining options.

Room for individual decision-making

I recommend an approach to reshaping ethics in individuals in the financial industry by focusing on the main socialization process for such individuals. A large proportion of financial elites in the 'commanding heights' of the financial industry (i.e. those who work in the top investment banks, private equity firms and hedge funds) come from a small set of business schools. Business schools (both at the undergraduate and graduate level) play a significant role as a gatekeeper for the financial industry, socializing individuals who go on to wield influence in finance. But this system is broken.

It is essential that we reform the process by which financial talents are trained. In addition to developing professional ethics in support of the professionalization of the industry, business schools need to work with companies to ensure that ethics become an integral and useful means of selecting potential employees. This has to go beyond

simply having more ethics classes or mandatory ethics components. Instead, we need a reform in the overall environment of many business schools. The current environment creates unhealthy social pressures that retard student ethics. Some schools have taken the lead in changing this environment, but more has to be done.

Business schools that fail to create a culture of ethics fail to develop business leaders capable of questioning unethical practices in finance and other industries. Creating such leaders is important, as the rapid pace of decision-making in the financial industry and broad impact of those decisions make such decisions particularly complex.

This complexity renders the tradition of box-ticking as a means of fulfilling ethical mandates irresponsible if not dangerous. For the investors who invested in Madoff and helped him solicit investment funds, perhaps it should have crossed their minds that reaping these outsized returns might involve some ethical breaches? Then again, who can fault them when ethics has been confined to a box to fill rather than a crucial consideration throughout the investment process?

What kind of business leadership is wanted?

By targeting business schools for change, we can focus our effort on a major pipeline socializing individuals into the finance industry. Further-

Box 1: **Business schools: ethics as secondary to success**

My personal experiences studying at a business school made me realize the need for reform in the business school environment. In an incident at business school, a friend approached me to edit his resume. Instead of stating his actual role collecting data for a professor, the resume implied that my friend had a forthcoming academic publication. Who could blame him? After all, this is part and parcel of the hyper-competitive race for the most prestigious Wall Street jobs or consulting gigs. He eventually got his dream job at a top firm.

In another incident, a friend was awarded a prestigious award from a top investment bank for his leadership in society. His biography for the award talked about how he worked on a social entrepreneurial project using cutting edge technol-

ogies to deliver education to underprivileged students. His friends mentioned that all he did was to teach English to students over the Internet for a private tutoring company. Who could blame him? After all, business schools too often focus on packaging its students in ways that clash with reality.

In pointing out these examples, I am not trying to assign blame to these individuals, but to draw attention to the environment which compels individuals to act in unethical ways. Such actions are by no means rare in a business school. While administrators at business schools are genuinely concerned about the ethical conduct of their students, the overall culture at such schools is one where ethics is considered secondary to 'success' - usually a well-paying job in the finance or consulting industry. It is an environment where students feel that they have to 'do whatever it takes' to get the job done.

Les écoles de commerce doivent travailler avec les entreprises pour veiller à ce que l'éthique devienne un mode de sélection effectif, à part entière, des collaborateurs potentiels.

more, the current financial crisis provides additional impetus for business schools to do some soul-searching on how their alumni have contributed to the current mess, and how they can ensure that the next generation of business leaders to emerge from their schools can change this system. For too long, business schools have focused on helping their students

succeed within the existing corporate system, rather than helping their students shape it.

This debate, at its fundamental level, is about what business leadership should be and could be. Is leadership defined as having alumni who go on to become the Presidents and CEOs of Morgan Stanley, Goldman Sachs, or Blackstone? Or is it about

Mais, pour cela, il ne suffit pas de prévoir davantage de cours sur l'éthique ou d'intégrer des modules obligatoires sur l'éthique. Ce qu'il faut, c'est plutôt une réforme de l'environnement général de nombre d'écoles de commerce.

Le cœur de ce débat consiste à déterminer ce que peut et ce que doit être le leadership dans ce secteur.

Un système financier éthique est essentiel au bon fonctionnement de l'économie tout entière.

alumni who through their positions in these companies (or outside of corporate circles) help shape business responsibility? It is a fundamental question about position versus impact. Business schools have tilted too much towards the former and they increasingly must address the latter.

Such a revolution in thinking is slowly taking place: in the US, Harvard Business School in its centennial celebration last year, asked itself what impact it wanted its students to have on society. In the Wharton School, newly elected dean Thomas Robertson declares a vision of 'business as a force for good'. Internationally, INSEAD has a long history of promoting the idea of sustainability and corporate responsibility, setting up important centers and programs in this area.

By changing the philosophy on which business schools are built, schools will be able to provide an environment more conducive to developing ethical leaders. By changing the purpose and approach of business schools, we can provide an environment for nurturing leaders who want to make an impact on the corporate world, instead of students who simply want 'success' - defined as a top position at a top firm. This requires a thorough change in the culture and purpose of business schools instead of piecemeal programs that struggle against an entrenched culture.

This change will require bold visionaries to implement. Successful alternatives to the current business school model do not exist. Tried and tested actions are hard to specify, given the diversity of paths in making the change.

There are no easy solutions here. Schools will have to make the leap of faith, and some might fail along the way. But the greater threat to creating an ethical financial system is for schools to fail to try.

From top to bottom

The ethical crisis in finance has deep roots at all levels of the industry, from its international nature, to the institutions that define the industry, down to its individual employees. Bringing ethical behavior back into the industry requires us to comprehensively tackle the problem at the different levels at which it exists.

At the international level, ethics have to be effective across the firm, with stronger emphasis on monitoring. Corporate behavior has to be aligned with an evolving external definition of ethics.

At the institutional level, professionalization of the finance profession can aid in defining ethical standards at the industry level, thus preventing the flow of individuals between firms from eroding the effectiveness of company-level ethical codes.

La réalisation de ces changements est essentielle pour la réhabilitation du système financier en ces temps d'excès.

At the individual level, we can target the key pipeline into the financial industry - the business school - for reform, in order to nurture leaders who want to use their positions in the financial world to pursue corporate responsibility.

An ethical financial system is essential to the healthy functioning of the entire economy.

Making these changes should be an essential part of the rehabilitating the financial system from this age of excesses. •

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