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To Study about Ethical Concern in Business Finance

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Abstract:. *Ethics in finance is a prevailing topic of discussion and observation within the industry. It is the set of standards that professionals must hold themselves to as they conduct their business in order to maintain a sense of trust and confidence with their clients, colleagues, and the public. Many careers in finance interact with the public and consumers, and their money is being entrusted to financial professionals to help them generate wealth or find ways to utilize it effectively. It is a very sensitive level of trust that unfortunately has been violated in the past in many different ways. There have been countless stories in the news about financial professionals who have embezzled or defrauded people and organizations. In the wake of these types of violations and crimes, a code of ethics is a must for financial professionals.*

Keywords: Ethics

I. INTRODUCTION

Ethics in financial accounting is concerned with making morally correct choices in preparing, presenting, and disclosing relevant financial information when being associated with the public sector or private practice as a financial accountant. The responsibilities of an accounting professional are not limited to the employers but also to the clients and the public in general. The information they provide has to be trusted by the public, apart from the stakeholders, clients, and others involved in receiving financial information.

Objectives

To identify the ethical issues faced by the financial services industry in general and banking industry in particular.

To understand the impact of corruption on the financial sectors & economic development of the country.

To analyze the role of Indian culture in developing ethical behavior.

To explore suggestive measures to make the acts of financial services industry ethically correct.

Discussion

Some ethical issues in accounting and finance

Knowing some of the ethical issues in accounting and finance can help you understand the implications of the unethical actions of an accountant.

Inaccurate Financial Reporting

Manipulating and misrepresenting financial information to a layman is one of the most unethical actions as per financial and accounting principles, as it violates the code of trust between the accountant and the others dependent on him for such confidential financial information. Some may do this to mislead stakeholders and investors and maintain the company's share price. While it may still work in the short term, the effects of misreporting financial information may soon catch up.

Disclosure Violations

Disclosing too much or too little has consequences that must be faced. It is unlawful and has dangerous consequences. If there is a loss and the accountants try to hide it from the investors and stakeholders, it will negatively impact the actual business of the organization. Failure to disclose financial information can also be considered inaccurate financial reporting. Additionally, intentionally recording transactions in a manner that does not follow the generally accepted accounting principles is also considered unethical and misrepresents financial information.

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Executive-focused Organizational Environment

In an organization where the executive is given a lot of power, he can influence the decisions and reporting of financial analysis. They may force the manipulation of numbers, trying to get more investors to rise in power and money. Due to this, the real picture of the company's finances may not be shown, which may harm the organization in the long term.

Misappropriation of Assets

Using the resources of the company for purposes other than the interests of the company is termed as misappropriation of assets. It can happen at any level of the organization. Still, accountants may help fish out the discrepancies with the help of accounting and financial analysis tools and techniques conforming to financial principles. But if the accountant is involved in the embezzlement issue, it will negatively affect the organization's business.

No Direct Chain of Command

Every organization requires a well-specified chain of command to ensure proper and efficient financial decision-making and analysis reporting. Without efficient communication and collaboration between departments and relevant employees, essential financial information may remain unreported to the accountant, leading to discrepancies in reporting and disrupting accounting principles.

Principles of financial accounting

To prevent harm to the business, every organization must have certain ethical principles to abide by as a benchmark of their professional practice. There may also be other more specific principles of financial accounting pertaining to the company's specific needs.
Here are some of the ethical considerations in the principles of accounting and finance.

Objectivity

Avoiding bias and objectivity towards financial representation is a principle to stand by. Presenting financial information without personal bias or outside pressure is essential for the organization's business.

Integrity

Being honest, truthful, and abiding by the correct rules and laws for providing analysis and representation of financial information is important. It is also implied in being able to handle pressure, people, and situations with fairness and impartiality. The accountant is also expected not to provide misleading or incorrect information while reporting financial information.

Confidentiality

Maintaining the confidentiality and legal compliance of financial matters on the company's behalf is crucial to preventing sensitive information from getting leaked. It can cause confusion, discontent, and mistrust among employees and shareholders, as well as become leverage for competitors. It is extremely important to involve only those in the financial analysis process who have the right to know and are an indispensable part of the process.

Professional Competence

It relates to the personal working standards of the accountant in being competent and skilled enough to handle the responsibilities of financial and accounting analysis while maintaining the required level of competence to undertake professional duties.

Professional Behavior

Every company has a code of ethics and standards for practices that everyone must follow. Accountants are expected to follow such codes of standards and company laws to avoid violations of trust and any action that may be brought against them if discrepancies are detected.

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Why is ethics (financial principles) important in financial accounting?
Ethics act as a guide and standard benchmark for all financial accounting professionals on how to approach actions subject to the analysis and reporting of financial information to the layman. Ethics is also necessary to teach the essential moral values and principles of financial accounting that accounting professionals should apply during their practice. Ethics can also impose penalties on offenders to deter further unethical practices in the future.
A code of ethics is a set of guidelines that are designed to hold one accountable for their actions and ensure that the right decisions are made by that professional in order to maintain trust and integrity. JP Morgan Chase lists their code of ethics with the Securities Exchange Commission as well as on their website for all to see. Their code is as follows.
"Carry out their responsibilities honestly, in good faith and with integrity, due care, competence and diligence"
"Never misrepresent or withhold material facts or allow their independent judgment to be compromised"
"Avoid actual or apparent conflicts of interest in personal and professional relationships"
"Comply with applicable government laws, rules and regulations of federal, state and local governments and other appropriate regulatory agencies"
"Never take, directly or indirectly, any action to coerce, manipulate, mislead or fraudulently influence the firm's independent auditors in the performance of their audit or review of the firm's External Financial Reporting, as applicable"
"Assist in the production of complete, accurate, timely and understandable External Financial Reporting and in other public communications made by the firm"
"Take all reasonable measures to protect the confidentiality of non-public information relating to the firm and its clients"
Many other firms and individual professionals hold themselves to the same code of ethics. It is the only way to ensure that all activities are above board when conducting business

Ethical Codes

Approaches to dealing with ethical problems in finance range from establishing ethical codes for financial professionals to efforts to replace the rational-maximizer (egoistic) paradigm that underlies the modern capitalist system by one in which individuals are assumed to be altruistic, honest, and basically virtuous.
It is not uncommon to find established ethical codes and ethical offices in American corporations and in financial markets. Ethical codes for financial markets are established by the official regulatory agencies and self-regulating organizations to ensure ethically responsible behavior on the part of the operatives in the financial markets.
One of the most important and powerful official regulatory agencies for the securities industry in the United States is the Securities and Exchange Commission (SEC). It is in charge of implementing federal securities laws, and, as such, it sets up rules and regulations for the proper conduct of professionals operating within its regulatory jurisdiction. Many professionals play a role within the securities industry, among the most important of which are accountants, broker-dealers, investment advisers, and investment companies. Any improper or unethical conduct on the part of these professionals is of great concern to the SEC, whose primary responsibility is to protect investor interests and maintain the integrity of the securities market. The SEC can censure, suspend, or bar professionals who practice within its regulatory domain for lack of requisite qualifications or unethical and improper conduct. The SEC also oversees self-regulatory organizations (SROs), which include stock exchanges, the National Association of Security Dealers (NASD), the Municipal Securities Rulemaking Board (MSRB), clearing agencies, transfer agents, and securities information processors. An SRO is a membership organization that makes and enforces rules for its members based on the federal securities laws. The SEC has the responsibility of reviewing and approving the rules made by SROs.
Toward a paradigm shift
There has been an effort to address the ethical problems in business and finance by reexamining the conceptual foundation of the modern capitalist system and changing it to one that is consistent with the traditional model of agency relationship. The proponents of a paradigm shift question the rational- maximizer assumption that underlies the modern financial-economic theory and reject the idea that all human actions are motivated by self-interest. They embrace an alternative assumption that human beings are to some degree ethical and altruistic and emphasize the role of the traditional principal-agent relationship based on honesty, loyalty, and trust. Duska (1992) argues, "Clearly, there is an extent to which [Adam] Smith and the economists are right. Human beings are self-interested and will not always look

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out for the interest of others. But there are times they will set aside their interests to act on behalf of others. Agency situations were presumably set up to guarantee those times."

The idea that human beings can be honest and altruistic is an empirically valid assumption; it is not hard to find examples of honesty and altruism in both private and public dealings. There is no reason this idea should not be embraced and nurtured. As Bowie (1991) points out: "Looking out for oneself is a natural, powerful motive that needs little, if any, social reinforcement … Altruistic motives, even if they too are natural, are not as powerful: they need to be socially reinforced and nurtured" (p. 19). If the financial- economic theory accepts the fact that behavioral motivations other than that of wealth maximization are both realistic and desirable, then the agency problem that economists try to deal with will be a no problem. For Dobson (1993), the true role of ethics in finance is to be found in the acceptance of "internal good" ("good" in the sense of "right" rather than in the sense of "physical product"), which, he adds, is what classical philosophers describe as "virtue"—that is, the internal good toward which all human endeavor should strive. He contends: "If the attainment of internal goods were to become generally accepted as the ultimate objective of all human endeavor, both personal and professional, then financial markets would become truly ethical"

Ethics in Financial Management

The turn of the century was marked with several high-profile financial scandals and incidents that prompted action from the United States government to ensure that financial firms and professionals were held accountable for actions that could harm clients as well as the overall economy. Probably the most notable scandal was that of Enron, which involved the hiding of massive debts and losses in order to sustain a good stock price, when in reality, the company was struggling. Three pieces of legislation have dictated how financial professionals and firms should behave and have given protection to whistleblowers. Whistleblowers are people who have knowledge of wrongdoing and call it to the attention of regulators or the public. It is not an easy thing to do, as historically, the groups subjected to whistleblowers have sought to retaliate against them.

The following are those pieces of legislation and how they have impacted ethics in financial management.

Sarbanes-Oxley Act: Abbreviated as SOX, the Sarbanes-Oxley Act is one of the most important pieces of financial ethics regulation in existence. It was enacted in 2002 after a string of high profile incidents involving hiding debts and losses via accounting tricks resulted in the collapse of Enron, Worldcom, and Tyco International and millions of dollars in investor money lost. SOX now requires publicly traded companies to have a set of reporting procedures in place that keep high level executives from interfering. It also imposes criminal penalties if any wrongdoing is discovered and protects whistleblowers from retaliation.

Patriot Act: The Patriot Act was signed into law shortly after the September 11 attacks as a means to expand the federal government's ability to monitor for potential terrorist activity in the United States. Part of the law was designed to monitor the financial channels that could possibly be funding terrorist activities in the country. It encourages financial firms to be open in sharing information about clients who may be funding terrorism or laundering money for that purpose. One visible requirement of the law to this day is the part where employees at financial institutions must confirm the identity of those opening a checking, savings, or investment account with their firm.

Gramm-Leach-Bliley Act: This law was a driver in loosening some varieties of regulation on financial institutions before the 2008 financial crisis, but it also has an important provision about customer privacy. GLBA requires financial institutions to notify customers about their information sharing practices and to ensure customer data remains private.

Ethical Behavior: Roots of Indian Culture

Ethics is closely associated with trust. In order to develop trust, behavior must be ethical. Survival and morality must go hand in hand and the companies can best benefit their stakeholders by fulfilling their economic, legal, ethical and discretionary responsibility. Western model of management is based on rationality while Indian model is based on morality besides this, there are various key differences due to which Indian business and practices can be termed as unique and can give rise to ethical behavior. In Indian culture friendship is a highly valued relation. Indian culture always propagates the value of 'being loyal to one's group' which can serve as a base of developing trust and lead to ethical behavior if directed properly whereas in western culture due to rationality conflict of interest is seen. Indian culture gives due importance to corporate social responsibility and believes in development of society as a whole. In

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western culture the decisions are made by the person at the top while it has been observed that in Indian culture participatory way is being preferred. Indian government acts as a gatekeeper rather than an enabler. Thus all these characteristics of the Indian culture can be considered as driving forces towards development of trust which can ultimately lead to ethical behavior. It said that – 'Leaders play a pivotal role in framing the decision-making process, and discernment practices can help them draw on their team's best creativity and thinking'. In India also various leaders have contributed immensely towards development of the ethical behaviour and have stressed on its importance for the economic as well as social development of the country. Mahatma Gandhi repeatedly used to emphasise the importance of ethics and use of fair means to attain the objectives. He said that the large companies have to set the pace in this regard and the rest of the corporate sector will quickly follow as this becomes a national norm. The Prime Minister, Dr. Manmohan Singh, in the inaugural ceremony of India Corporate Week 2010 said –"Ethical and responsible behaviour needs to become the

Cornerstone of corporate behaviour, as indeed our national outlook. Ethics encompass a wide sphere of actions, economic, social and human, involving the consumer, labour, society at large and the government". Thus, if the ideologies of Indian culture are implemented in a proper way, ethical dilemmas which are being faced in different sectors can be resolved. Suggestive Measures: Ethical issues faced by financial institutions can be resolved by teaching ethics in management development programs, by establishing appropriate company policy or a code of ethics, by using a formally appointed ethics committee and if unethical managers are held responsible for their actions and punished for their acts. Another factor that could raise ethical standards is the teaching of ethics and values in business and other universities. It should be mandatory for all companies to furnish a social report every year showing to what extent it has been able to meet its social obligations. Conclusion: It can be concluded that for the financial services industry trust is a vital asset. Transparent and ethical practices are needed to restore the reputation of the industry which has been deteriorating due to continuous scams which are surfing in the industry. Enlightened leadership is essential to provide the impetus to set the industry in motion. The heart of the matter is that financial institutions have the power to shape the future as they are the one who mange investment funds they can invest these funds in the responsible companies which are eco-friendly, doing ethical research, raising quality standards, improving safety standards at work or to sustain sound projects which can lead towards the economic and social development of the country. If such acts are accompanied with ethical behavior eternal success can be gained. Development of one's professional competence is necessary but not enough. It is the development of the whole human being combining a strong professionalism with a broader humanistic education.

II. CONCLUSION

It can be concluded that for the financial services industry trust is a vital asset. Transparent and ethical practices are needed to restore the reputation of the industry which has been deteriorating due to continuous scams which are surfing in the industry. Enlightened leadership is essential to provide the impetus to set the industry in motion. The heart of the matter is that financial institutions have the power to shape the future as they are the one who manage investment funds they can invest these funds in the responsible companies which are eco-friendly, doing ethical research, raising quality standards, improving safety standards at work or to sustain sound projects which can lead towards the economic and social development of the country. If such acts are accompanied with ethical behavior eternal success can be gained. Development of one's professional competence is necessary but not enough. It is the development of the whole human being combining a strong professionalism with a broader humanistic education.

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