Introduction

Managing ethical risk: How investing in ethics adds value

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Abstract

In September 1999, the University of Notre Dame hosted a conference entitled “Measuring and Managing Ethical Risk: How Investing in Ethics Adds Value”. The motivations for hosting the conference and the papers presented there are summarized. Several themes that are present in the papers are discussed. These include the gains from combining the anthropological approach to business ethics with the neoclassical economics approach, the central role of trust in business ethics, the role of ethics in the corporation, and the function of the legal system in setting and enforcing ethical standards for the financial system.

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1. Introduction

In September 1999, the College of Business at the University of Notre Dame held a conference entitled “Measuring and Managing Ethical Risk: How Investing in Ethics Adds Value”. This conference brought together experts in Economics, Finance, Law, and Philosophy to discuss the role of ethics in economics and finance.

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One of our motivations for hosting a conference on this particular subject at this particular time was the East Asian crisis of 1997–1998 and the halting progress toward economic development in the nations of the former Soviet Union. Over the last decade, societies in eastern Europe and Asia have been using various approaches to change their government dominated economic systems to ones based on markets. In making these transitions, these societies have received substantial advice from both academics (including several of the conference organizers) and international organizations. This advice tends to focus on the development of private property rights and the various institutions that support these rights such as bankruptcy laws and courts.  

While such property rights are necessary for a market economy, Arrow emphasizes in the quote below that there is an intimate connection among the price system, property rights and ethical behavior.

"More basic yet, I will say, is the idea that the price system, in order to work at all, must involve the concept of property (even in the socialistic state there is public property). Property systems are in general not completely self-enforcing. They depend for their definition upon a constellation of legal procedures, both civil and criminal. The course of the law itself cannot be regarded as subject to the price system. The judges and the police may indeed be paid, but the system itself would disappear if on each occasion they were to sell their services and decisions. Thus the definition of property rights based on the price system depends precisely on the lack of universality of private property and the price system. This ties in with the third hypothesis put forward in Section 1. The price system is not, and perhaps in some basic sense cannot be, universal. To the extent that is it is incomplete, it must be supplemented by an implicit or explicit social contract. Thus one might loosely say that the categorical imperative and the price system are essential complements” Arrow (1972, p. 357).

One of the ethical complements to the price system that Arrow explicitly recognized is trust. This includes trust between individuals in the society as well as trust in the fundamental institutions in the economy. Starting with basic interactions between individuals, any transaction involves a promise to deliver a particular good in good condition in exchange for a promised payment either in terms of money or other goods. In this transaction, the individual trusts that the good will be delivered, that the individual’s property rights will be protected in a fair and honest proceeding by the courts, that the government’s tax laws will be enforced in a fair and uniform manner, and that the value of the money will be protected by the central bank. This trust is often taken for granted in a well functioning economy, but recent economic history has made painfully clear how important trust is by demonstrating what happens when it is missing from the society.  

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1 See Stiglitz’s (1999) address to the World Bank conference on development economics for a general discussion of these issues. Stiglitz also quotes part of the statement by Arrow (1972).

2 This third condition is “... an implicit social contract such that each performs duties for the other in a way calculated to enhance the satisfaction of all”.

3 An obvious example is the VEFA Ponzi scheme in Albania during the early nineties. See Associated Press (1997).
mistrust or corruption, then the efficiency and fairness of the economic system will be severely impaired.  

A simple example of this inefficiency is the lack of long-term corporate debt for financing projects in developing economies. In advising treasury and finance officials from developing countries, we quickly realized that financial instruments that are taken for granted in developed countries simply do not exist in developing countries, and that lack of trust helps explain why. The use of long-term debt implies well-defined property rights over the future cash flows of the projects, but it also implies a trust in the long-term viability of institutions within the society. Without the establishment of trust in the society, it is not possible to support long-term debt or the instruments that accompany it, such as interest rate swaps and asset-backed securities.

A further motivation for hosting this conference was our perception of a widespread belief, both inside and outside the economics and finance professions, that economists have little to say about business ethics beyond pointing out a tradeoff between ethics and efficiency. Consequently, the academic conversation about business ethics has taken place without sufficient input from the economics profession. We thought that the input of economists was needed, first to dispel the presumption that ethics is always and everywhere the enemy of efficiency. In addition, we wanted to bring economists and economic thought into the academic discussion of the proper role of ethics within the firm. Finally, we also wanted to incorporate insights from economics into the enforcement mechanisms used to make sure that businesses live up to their ethical responsibilities. These three places where we wanted to bring more economics into the discussion of ethics became the organizing themes for the sessions and for the special issue.

We believe that the conference, and the resulting special issue, have been very successful in bringing economics and finance into the discussion of the three issues mentioned above. Given the disparate terminology and modes of inquiry used by scholars from different disciplines, we were uncertain about the outcome. Yet the papers presented here demonstrate a strong desire for each scholar to communicate with other disciplines.

For example, the first paper in this volume, by Ali Khan, addresses a difference in perspective between economists and non-economists that proves to be a key theme throughout this special issue. In this paper, Khan pursues a simple goal: defining trust. He does this by interpreting both economic and what we shall call anthropological views of trust, finding both the insights as well as the limitations of each approach. The essence of the economic approach to ethics is captured in the first part of Khan’s title, “Trust as a Commodity”. Using this image, it is easy to picture an economist finding a way to make trust concrete and quantifiable in order to measure its costs and benefits. On the other hand, the anthropological approach is

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4 See Young (1995), Tirole (1996), Dixit (2001) and Fudenberg and Levine (1999) for an economic analysis of social norms, group reputations, governance of economic transactions and the evolution of these concepts.
represented by the rest of Khan’s title, “On the Grammar of Trust”. This approach sees trust as a set of evolving, often implicit rules that guide human relationships, just as a grammar is an evolving, often implicit set of rules for guiding language and communication.

A typical example of an economic view of trust is contained in Avinash Dixit’s 2001 Presidential Address to the Econometric Society. In this paper, he analyzes the governance of economic transactions subject to the prisoners’ dilemma in which agents may be honest, dishonest or an opportunist. The opportunist decides whether or not to be honest based on a perception of whether or not the opportunist is trading with an honest person. Within this analysis, the cost and benefits of honest behavior are carefully cataloged and conditions for honest behavior established. He goes on to find the conditions in which a private intermediary can act as a monitor that can screen out people camouflaged as opportunists. In this work an analytical meaning is attached to honest behavior so as to increase our understanding about how this aspect of trustworthy behavior may increase welfare in a society.

An example of an anthropological view is seen in the book *Trust: The Social Virtues and The Creation of Prosperity* by Fukuyama (1995). This work examines business practices in both developed and developing societies. The hallmark of this approach is a description of the relation among business partners with an eye toward understanding what trust means and how it influences business decisions. An important concept gleaned from these case studies is the reliance on family relations to increase the efficiency of business transactions since there is more likely to be trust in the relation.\(^5\)

Khan’s paper clearly demonstrates how our understanding of ethics is enhanced through the use of a multidisciplinary approach. He points out how the anthropological view can be used to increase the characteristics used in defining a trustful relation in economics. In turn, the economic analysis can help in interpreting the anthropological cases. Khan’s paper, as well as the rest of the special issue, exemplifies the idea expressed by Douglas North in concluding the volume *Economics, Values and Organization*. “This essay is little more than an agenda for research. How do we achieve economic growth, order, and a creative and democratic society? The issues go far beyond the customary agenda of economists and entail the cooperative interaction, of social scientists in the elusive pursuit of understanding the process of societal change. This is a big enough challenge for all of us”. (North, 1998, p. 507) Through such an interdisciplinary approach to ethics in economics and business we think the reader will gain a better understanding about how a society may evolve into a market economy which yields substantial gains to both business and society.

We have organized the volume and the rest of this introduction around the three themes that dominated the conference. Section 2 addresses the issue of trust in eco-

\(^5\) See also Chami (2001) for a discussion of the dynamics of a family business.
nomic and financial decisions. Section 3 examines the role of ethics within the corporation. Section 4 looks at the interrelation between ethical standards and legal institutions. In each of these sections, different papers address its theme from both the economic and anthropological points of view.

2. Trust in economics and finance

This section of the special issue addresses the role of trust and trustworthiness in the economy. As mentioned above, trust and trustworthiness appear to be essential to economic efficiency. In economic analysis, however, the role of trust has not been sufficiently examined or appreciated. On one hand, basic trust in institutions is often presumed. For example, it is the usual practice to assume certain common knowledge that economic agents take for granted in making their decisions. The ability to have this shared base of knowledge reflects the presence of trust. On the other hand, trust between individuals has generally been rejected in favor of selfish, opportunistic behavior. Those who would employ trust to model relationships must find some way to make trust compatible with this picture of human nature. Complicating the entire situation is the problem that trust itself is not well defined, and for practical purposes has been a black box.

The papers in this section investigate the underlying mechanisms of this black box, with two objectives in mind: to first understand what exactly is meant by trust; and to show how it influences economic and financial decisions. Although all four papers present their own varying definitions of trust, Ali Khan’s essay deals exclusively with this difficult issue. The remaining three essays focus on the desirability and feasibility of trust and trustworthiness as a goal of the individual, the firm, or the economy. Daniel Hausman examines whether trustworthiness is in the firm’s interest, using both economic and philosophical techniques in his inquiry. Ralph Chami and Connel Fullenkamp discuss the microeconomic effects of mutual trust on the behavior of the firm. Finally, Herschel Grossman and Minseong Kim discuss the impact of trustworthy behavior on the overall economy.

The first paper in this section is “Trust as a Commodity and on the Grammar of Trust” by Ali Khan. Since we have already discussed the main thrust of Khan’s argument, we would like to highlight two particular contributions of this paper. The first is the comprehensive and thorough discussion of trust’s function in economic theory. Khan carefully builds up the economist’s view of trust, starting from a traditional general equilibrium model of an exchange economy. Even in this simple environment, Khan points out the need for complete trust in the price list used to support the desired outcome and the institutional structure which generates the price list and guarantees the trades. He then moves to a production economy, and considers whether firms and individuals will produce sufficient trust to make the decentralized solution efficient. Finding that in the presence of externalities, public goods, asymmetric information, and other market imperfections, trust and trustworthy behavior cannot be sustained, he argues that in order to establish a stable environment it becomes necessary to introduce political and philosophical
considerations through an examination of the Game of Life. In this way the invisible hand is interconnected with moral sentiments as suggested by Arrow’s quote.

After extracting as much as possible from a discussion of the invisible hand, he moves on to a discussion of trust in the context of a two-person game. He starts with a description of the lemon problem and turns to the case in which there are both honest and dishonest salesmen so that a transaction can be agreed to under certain circumstances. This leads to an exploration of the impact of asymmetric information, adverse selection and moral hazard on the concept of whom to trust within a bilateral transaction. With the introduction of time, reputation of trustworthy behavior becomes a central issue of trust. Khan’s discussion of the problems of establishing a reputation leads back to the same political and philosophical issues raised in his discussion of the invisible hand.

The second contribution of Khan’s paper is to present a framework in which we can understand the differences between the economist’s and anthropologist’s view of trust, and from which we can fashion a more comprehensive understanding of trust. Khan’s framework is based on the connection between relationship and trust. He describes two extreme types of relationships in which trust is defined. The first may be associated with the economist’s view of trust. It is mechanical in the sense that what is required in the relationship and the incentive compatibility constraints are well defined. The second extreme relationship corresponds to the anthropologist’s view. This is an instinctive relationship where there is no requirement that the individual undertakes the action they are trusted to do. Khan effectively argues that all the concepts of trust discussed in his paper are some combination of these types of relationships.

Hausman in “Trustworthiness and Self-Interest” argues that acting in a trustworthy manner is generally in a firm’s self interest. In doing so, he blends the economic and anthropological approaches to make an interesting and convincing case. Hausman’s overall strategy is to investigate the costs and benefits of trustworthy behavior for individuals and then apply these costs and benefits to the firm. While the idea of cost–benefit analysis is a mainstay of economics, the use of analogy between the individual and the firm comes from classical philosophy. Hausman acknowledges that his approach is borrowed from Plato’s Republic, though with a key difference: whereas Plato described the collective and applied his lessons to the individual, Hausman proceeds in the opposite direction. The interplay between philosophy and economics in Hausman’s essay is an excellent and instructive example of how the interdisciplinary approach yields new insights into the role of ethics in business.

The author identifies five propositions about the costs and benefits to the individual of trustworthy behavior within a benign environment (which takes on a precise

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7 The existence of these problems is the basis for modern banking theory. See Freixas and Rochet (1997) for example.
8 Binmore’s (1998, 282–292) discussion of free will is a good example of this approach.
definition in the essay) and relates each to the trustworthiness of a corporation. Several of the propositions claim that the costs of acting in a trustworthy way are smaller than one may at first imagine. For example, uncertainty over the impact of actions reduces the prospective cost of trustworthy behavior. Hausman makes the argument that the connection between action and reward is tenuous, and as a result, it is difficult for an individual or a firm to ascertain the cost of trustworthy behavior. On average, the costs and benefits will tend to cancel each other out. Similarly, ambiguity in the individual’s objectives also lessens the cost of trustworthy behavior. The ambiguity in the firm’s objectives arises not so much from conflicts in the objectives of a particular stakeholder, but from the multiple number of constituencies that a firm may serve. Following a trustworthy policy will sometimes serve the interest of the shareholders while other times it may serve the interest of workers or the community. However, over the long term these impacts would tend to cancel out so that the long-term cost of trustworthy behavior would not be as significant. Finally, society limits how much trustworthiness is demanded of individuals, again lowering the prospective cost of acting in a trustworthy manner. Hausman gives the example that “We expect strangers to give us truthful directions. We do not expect them to take us to our destination”.

Acting in a trustworthy manner has two main benefits, according to Hausman’s analysis. First, a trustworthy reputation encourages cooperative behavior, which has significant benefits. A corporation is generally viewed as an institution set up to more efficiently contract among various constituencies of the corporation. Because the cost of contracting against every contingency is prohibitive, a reputation for trustworthiness encourages cooperative behavior and reduces the amount of resources that must be devoted to explicit contracts.

The other benefit of trustworthiness is that it increases self-respect, intimacy and identity of individuals. In order to explain this point and make the analogy to the firm, Hausman illustrates this proposition with a scene from literature. Again, Hausman combines the anthropological and economic approaches to ethics in order to drive his point home. He discusses the situation from Oliver Twist in which Oliver has been kidnapped by Nancy and Sikes and pleads with them to return some books and money that were entrusted to him by Mr. Brownlow. Hausman inquires what could possibly make Oliver more concerned about returning the books than his own safety and freedom, and argues that it is the prospect of losing his reputation for trustworthiness, which damages Oliver’s identity, self-respect, and the ties of intimacy with people he holds in esteem. In this way, Hausman argues, trustworthiness is a primary factor in building the self that self-interest serves. This discussion helps shed light on the importance of corporate culture and the value of trustworthiness to a firm. A trustworthy firm gains self-respect, identity and intimacy in that the employees and other constituents of the firm are proud to be associated with the firm.

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and seek to help it further its goals. Ultimately, this results in the firm’s functioning more efficiently.

In “Trust and Efficiency” Chami and Fullenkamp make concrete the relationship aspect of trust emphasized by the anthropological view and introduce it into a standard agency model. They define trust as “mutual, reciprocal altruism between individuals where the weight on the other person’s utility is close to unity”. In setting up this definition, they emphasize the importance of mutuality and hidden actions. They focus on how trust can overcome the moral hazard problem associated with employer–employee relationships. Within a corporation many relations are agency relationships in which a principal delegates a task to an agent. When the actions are not observable the principal is subject to a moral hazard problem. The efficiency of the corporation is dependent on its ability to overcome these agency problems. In this paper, they examine how mutual trust may mitigate the agency problems between firm and employee.

To investigate the impact of trust on agency relations within corporations they start with a standard two-person game between an owner-manager and an employee. The firm operates in a competitive environment. The revenue of the firm is uncertain and is assumed to be either high or low. The probability of the low revenue is inversely related to the hidden effort of the employee. The effort is hidden because of the cost of monitoring an employee in a large organization. The employee receives utility from wages but dislikes effort. In setting up the optimal contract, the firm must account for the basic conflict within the principal–agent relation. This conflict is between the desire by the worker for a high wage which is guaranteed, and the firm’s desire for the highest level of effort from the worker. As the insurance against fluctuation increases, the worker’s incentive to put forth the highest effort declines.

The first contract they consider is the non-cooperative solution in which the firm maximizes its profits given the expected actions of the employee. They call this the leaner and meaner firm. This contract corresponds to the confess–confess solution of the prisoner dilemma or hunting stag game in that the worker is worse off since the insurance aspect of the contract is minimized while the employer is worse off since the effort is lower. Next, they examine a paternalistic firm in which the firm is concerned about the welfare of the worker. In this case, the firm offers a higher wage to the worker so that the worker receives higher utility relative to other opportunities and puts forth less effort. As a result, the firm receives less revenue compared with other firms and will be eventually driven out of business. Thus, the paternalistic firm represents the cooperate–do not cooperate alternative of the hunting stag game.10

Finally, Chami and Fullenkamp define a trusting firm in which there is mutual trust between employer and employee. They represent mutual trust as equal altruism by the employer and employee. In a trusting firm, the worker puts forward more ef-

10 This corresponds to the stag-hunt game in the sense that everyone loses relative to the cooperative solution. See Binmore (1994, pp. 120–122).
fort so that the moral hazard problem is mitigated. As a result, the firm reduces the monitoring of workers and provides more insurance to the employee. In addition, the firm enjoys higher expected revenue so that it is more efficient. Thus the trusting firm represents the cooperative solution in the hunting stag game.

They show that the results for the trusting firm may also be achieved through a profit sharing program, but this result is dependent on a direct connection between the reward and effort of the worker and a large weight placed on future rewards by the worker. As the corporation becomes larger this first condition becomes problematic. As a result, they focus on trust as an alternative way to implement the cooperative solution. This raises the question of how a trusting relation is developed within the corporation. They suggest several alternatives to encourage trust, including delegation of tasks, risk sharing, and working groups. Through these actions the firm attempts to develop the mutual understanding and concern that are essential to a trusting relation.

While Chami and Fullenkamp show the benefits of trust to a firm, an explanation of how this mutual trust develops over time is outside the scope of their paper. However, by viewing their three cases as a repeated hunting stag game, it may be possible to develop an explanation about how trust is developed and improved over time within a corporation using the analysis of Binmore (1998). In this analysis, the players play the cooperative solution as long as the other agents play the cooperative solution. From the Folk theorem, the players who place a high weight on the future will play the cooperative solution, while those who receive a large weight from current consumption will renege on the deal. As long as the probability of individuals playing the cooperative solution is above a critical value, then each agent will find it optimal to play the cooperative solution. Through the appropriate encouragement of trustful behavior by the employees, the firm will be more likely to operate as a trustful firm. However, it is important to keep in mind that the trust must be mutual. As a result, the firm needs to reward the cooperative behavior and punish the inappropriate behavior so that cooperative behavior becomes more likely. If firms hire and promote individuals with these characteristics, then the firm is more efficient and more likely to survive as a viable firm.

Under what circumstances are trustworthy individuals better off than amoral individuals? Grossman and Kim (2002) address this issue in the context of a general equilibrium model of the economy. In their economy an individual has the opportunity to be either a producer or a predator. A trustworthy individual is someone who would produce whether or not predatory behavior is more lucrative. On the other hand, an amoral person may choose to produce only if their consumption is larger than the proceeds from predatory behavior. They take as given that a trustworthy individual is more productive. However, the level of consumption by an individual

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11 Brickley et al. (2002) also emphasizes this point.
12 Binmore (1998, p. 267) refers to this concept as a meme which “is a norm or idea, rule of thumb, a code of conduct – something that can be replicated from one head to another by imitation or education, and which determines some aspects of the behavior of the person whose head it is logged”.

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is adversely affected by the amount of resources devoted to guarding against predatory behavior and the probability that their goods may be appropriated by a predator. In equilibrium whether or not trustworthy behavior is rewarded is dependent on the ratio of amoral to moral people relative to the chance of goods being appropriated.

They model the effect of predatory behavior by introducing a production function for predatory behavior. This production function relates the average amount of goods appropriated to the number of predators, the resources devoted to guarding produced resources and a technological parameter. If there are more predators, then the predators are more effective. If more resources are devoted to guarding the produced goods, then the predators are less productive. Finally, an increase in technology leads to more lucrative predatory behavior. This latter effect may be viewed as a more corrupt society in which the possibility of punishment for criminal activity is relatively low. They show that the optimal amount of guarding by both moral and amoral individuals is increasing in the number of predators and the efficiency of these predators.

The amoral individuals also decide whether to produce or appropriate goods from other producers. This decision is based on which activity provides the higher level of consumption to the amoral person. They examine the ratio of consumption by an amoral individual for the case when the person is a producer relative to the case when the person is a predator. This ratio is positively related to the income of the amoral producer and the resources devoted to guarding the produced goods. In addition, this ratio is negatively related to the percentage of amoral people who are predators.

In equilibrium, the amount of guarding and predators are determined by the interaction of these decisions. In equilibrium, they show amoral individuals will produce only if the fraction of amoral to moral individuals is larger than the efficiency of appropriating resources. This means that amoral individuals would be more likely to be predators in a more corrupt society. In addition, they show in these circumstances that the consumption of amoral producers and predators are the same, which in turn is less than the consumption of the moral individuals. Thus, moral behavior is rewarded when there are more amoral individuals relative to the efficiency of predatory behavior.

The other possible equilibrium has all the amoral individuals choosing to be predators. In this case, whether moral behavior is rewarded is dependent on the ratio of amoral to moral individuals relative to the efficiency of predatory behavior. The consumption of the amoral individuals is proportional to the income of the moral individuals since only the moral individuals produce goods. For a low level of efficiency for predatory behavior the moral individual consumes more than the predators. As the efficiency of predatory behavior increases, the consumption of predators goes up and the consumption of the moral individuals goes down. At a critical value equal to the ratio of amoral to moral individuals, the consumption of the amoral individuals exceeds the consumption of moral individuals. Thus for a sufficiently corrupt society it is possible that amoral behavior is rewarded even though moral individuals are able to produce more than amoral individuals.
We mentioned above that the purposes of this section are to sharpen our understanding of the role of ethical behavior in economics and to show that ethics is not always the enemy of economic efficiency. The four papers in this section present trust as an example of an ethical ideal that is not merely compatible with economic efficiency, but contributes in fundamental and essential ways to efficiency. This is not to suggest that trust, or other ethical ideals, unambiguously enhance efficiency. Rather, we believe that a more complete understanding of the economic benefits of ethical behavior will lead to a better understanding of the costs and benefits of ethical behavior. We hope that the papers in this section will serve as an inspiration for future research to show the contributions of other ethical principles to economic efficiency.

3. Ethics within the corporation

This section of the volume presents three papers that focus on what ethical behavior means for the corporation. Applying ethical analysis to corporations presents three challenges, which we pose as questions. The first question is common to the ethics of all organizations: how can ethical standards be applied to groups of people who sometimes act collectively, and other times as collections of individuals? For example, does it even make sense to characterize the behavior of the collective (the government, the corporation) as ethical or unethical? Is the corporation, as some economists and lawyers put it, merely a veil used to conceal individual behavior and responsibility?

The second question seeks justification for applying ethical standards to the corporation, asking, why should corporations care about ethics? This question may appear trivial, since most would agree that corporations should be at least minimally concerned with ethics. But a specific and convincing argument why the firm should care about ethics is more difficult to construct. First, the researcher must model both the corporation and ethical behavior. Then the researcher must show that there is an inherent relationship between the two, or make compelling arguments why ethical behavior is important to the corporation. Because there exist many different approaches to modeling the corporation as well as ethical behavior, the answers to this question will vary significantly.

The third question follows closely on the second. Given that the corporation ought to concern itself with ethical issues, will it choose to do so of its own accord, or must outside entities force the firm to do so? Since the corporation’s first priority is to make profits, the answer probably lies somewhere between the two extremes. Corporations may voluntarily concern themselves to a limited extent with ethics, or with a limited set of ethical issues. This limited involvement with ethics will probably fall short of the firm’s full ethical responsibilities, but this is not certain. And even in the cases when firms clearly fall short of their responsibilities, it may not be clear what action should be taken. It may be possible to induce a firm to resolve the ethical issues it is a party to, rather than to have to coerce the firm or impose a resolution on it.
Any systematic attempt to apply ethical analysis or standards to the corporation will answer the above questions, often implicitly rather than explicitly. As a way to introduce the three papers in this section, we will focus on how the framework developed in each essay can be used to answer these three questions. Afterwards, we will discuss the contributions made by each paper to the ongoing discussion of ethics within the firm.

The first paper in this section, “Business Ethics and Organizational Architecture” by Brickley, Smith, and Zimmerman, presents a framework based on neoclassical economics and its application to finance. The authors maintain that the tools of economics, particularly the analysis of rational choice, can accommodate an ethical dimension. Indeed, they argue that ethical considerations are inherent to the organizational architecture of the firm, which is the set of incentives established within the corporation. The employees of the corporation respond to these incentives, often vigorously. Ethical problems arise for the firm when its organizational architecture creates perverse incentives that lead employees to choose behaviors that are ethically objectionable.

Although the Brickley, Smith, and Zimmerman paper emphasizes individual choice and behavior, there is collective responsibility that works through market channels. In their framework, the collective ethical reputation of the corporation is an intangible asset created by the actions of individual employees. Individual actions are ascribed to the entire firm through the process of reputation building. A corporation may acquire a good or poor ethical reputation based on the actions of relatively few, but visible, employees. For example, in 1992 some operators of Sears Automotive Centers in California were found to be cheating their customers, and the entire chain acquired this reputation.¹³

The authors’ answer to the first question – that ethical behavior is an individual choice with collective consequences in terms of reputation – appears to lead to a dead end with respect to the other two questions: so what if the firm acquires a bad ethical reputation? The answer, however, is that individuals in the market care. The market aggregates their judgments and transmits them to the firm in the form of financial rewards and punishments. Financial economists have long recognized that the stock market is able to value intangible assets such as brand names. Intangible assets generate profits – and losses – for the firm just as surely as plant and equipment do. A firm that acquires a reputation for unethical behavior will lose current as well as potential future customers and the profits they would have generated. The authors argue that the corporation should, and will, care about ethics because the ethical reputation of the firm will affect the market price of its shares. In this way, the market transmits ethical principles and consequences to the firm in a language that its managers understand.

The ethical engagement of the firm, in the neoclassical economic framework, is thus limited by the ability of the market to transmit ethical demands to the firm.

Ethical concerns must somehow muster enough dollar votes to gain the corporation’s attention. This can be done in a number of ways, ranging from boycotts to shareholder activism, but in general, two conditions must be met. First, the individuals who have the ethical concern must take part in a market that affects the firm. Second, these individuals must have sufficient resources to transmit a clear and strong market signal to the firm. In practice, these conditions can be quite difficult to fulfill. Brickley, Smith, and Zimmerman acknowledge the limits of the neoclassical economic framework by arguing that its proper role is to complement traditional discussions of ethics rather than to supplant them.

The paper by Jonathan Boatright, “Contractors as Stakeholders: Reconciling Stakeholder Theory with the Nexus-of-Contracts Firm”, uses the nexus-of-contracts framework to analyze an ongoing debate between proponents of the so-called shareholder and stakeholder views of the corporation. As the name given to this approach suggests, the nexus-of-contracts framework views the firm as a constellation of contracts between the various constituencies or interest groups who make up the firm, as well as between the firm and the constituencies that the firm interacts with. Generally speaking, each contract is an agreement to exchange some asset or input the firm needs in return for compensation. In addition to wages and benefits, compensation may come in the form of a right, such as the right to control the firm, or in the form of a privilege, such as fiduciary protection. The terms of each contract are determined by bargaining among the various constituencies. The contracts themselves may be explicit or implicit, real (determined by actual bargaining) or hypothetical (created by legislators and judges).

The nexus-of-contracts framework takes an intermediate view of the firm in terms of its existence as a collective or a collection of individuals. This view sees the corporation as a collection – really, a confederation – of many groups with diverse interests. The various groups work together so that each group may enjoy some benefit from this association. Ethical behavior, therefore, is defined at the level of group–group interaction. Rather than saying that the firm as a whole is acting in an ethically objectionable way, one must identify the offending constituency within the firm. Often, though not always, this will be one of the groups whose contract vests it with control rights over the firm.

Under ideal circumstances, the nexus-of-contracts firm would not have to concern itself with ethical problems. All of the constituencies would be represented in the bargaining, and the bargaining process itself would be free and fair. No constituency would have to consent to any contract that it deemed unreasonable or objectionable. This is not to say that such a situation would generate angelic behavior on the part of all groups. What it does do is admit the possibility that some groups would exchange certain rights for what they consider fair compensation.

In the real world, however, ethical problems are common within the firm because constituencies are omitted from the bargaining, or because the bargaining is neither free nor fair. Within the firm, the groups that receive excessive benefits from this situation are not likely to complain, but the constituencies whose rights are denied can press for renegotiation. Even when a disadvantaged constituency is not able to make its case, the situation may offend other constituencies who can use their leverage to
negotiate on behalf of the affected group. An example of this is the recent reaction to sweatshop conditions in developing-country factories that produce clothing for sale under leading American brand names. Pressure from these firms’ American consumer constituencies has resulted in changes in the contracts between these factories and the American firms. In many cases, however, the interests of overlooked or offended constituencies must be represented by the government because no other constituency will look after these groups’ rights.

The third paper in this section, “Ties that Bind in Business Ethics: Social Contracts and Why They Matter,” by Donaldson and Dunfee, also establishes a contracting framework for analyzing business ethics. In this essay, however, the contracts are social contracts, which constitute broad agreements over behavioral norms, rather than compensation contracts. The authors have developed a theory of social contracting, called integrative social contract theory (ISCT), which identifies, characterizes, and ranks social contracts. They argue that many social contracts are necessary for the conduct of business. Some of these contracts express universal truths, which the authors call hypernorms that govern the conduct of all businesses everywhere. But other social contracts derive from smaller groups, such as nations, or ethnic groups, or employees of a particular firm. While the social contracts that originate from smaller groups must be consistent with the hypernorms in order to carry objective moral weight, there is considerable “moral free space” in which groups are able to form social contracts. The result is that the “micro” social contracts that govern economic activity in different nations or among different communities may differ considerably.

The social contracts that the ISCT uncovers tend to be expressed as norms on individual behavior. Nonetheless, the ISCT views the rules that govern individual conduct within the firm as social contracts themselves, established by the community defined by the employees of the firm. Therefore, speaking collectively of the firm is useful in the ISCT because the microsocial contracts that exist inside the firm must be based on mutual consent in order to be “authentic,” in the terminology of Donaldson and Dunfee. Thus, when a firm’s authentic micronorm conflicts with one or more universal hypernorms, this renders the micronorm “illegitimate,” and this reflects on the entire firm’s moral character. In short, the ethical behavior of individuals is reflected in whether they follow the norms that apply to them, while the ethical behavior of a corporation is reflected in the micronorms that this economic community chooses for itself.

From the perspective of the ISCT, the corporation ought to care about ethics, and indeed it does care about them to a certain extent, since firms spend much time and effort creating microsocial norms that Brickley, Smith, and Zimmerman would call organizational architecture. The firm’s conscious concern with ethics may end there. From the perspective of ISCT, however, the corporation should care about hypernorms as well. As the authors make clear, firms rely on extremely basic hypernorms

14 See, for example, Greenhouse (2001).
that make modern commerce possible, but usually take them for granted. In addition, firms may not be aware or may not want to admit that the micronorms they establish for themselves sometimes come in conflict with other norms established by the larger communities in which they participate. Thus firms may need to be reminded that they have consented to follow hypernorms that take precedence over the microsocial contracts that they have created. In fact, it may require substantial pressure or even coercion to make the corporation abandon an illegitimate microsocial contract.

Each of the papers in this section does an excellent job of laying out its respective framework, and serves as a very good introduction for readers unfamiliar with the particular view of business ethics espoused by its authors. In addition, each paper contributes new understanding to the discussion of ethics within the firm by demonstrating one or more practical applications of its framework to current ethical debates and problems.

The Brickley, Smith, and Zimmerman paper makes two practical contributions. First, it gives a complete and concrete discussion of the components of a firm’s organizational architecture. These include, on one hand, the “hard” or formal parts such as the distribution of decision (control) rights within the firm and the structure of rewards to employees. But they also include the “soft” or informal aspects of a firm’s organizational architecture, such as the rituals a firm follows and the role models it presents to the employees. The authors’ discussion focuses attention on the key role that organizational architecture plays in shaping ethical behavior within the corporation, and it makes a strong argument that lasting changes in a firm’s ethical character must begin there.

The second contribution of the Brickley, Smith, and Zimmerman paper is to show, using an example, how the neoclassical framework complements traditional ethical discussions. The ethical issue they examine is a firm lying to its customers about the quality of their products. Clearly, lying and deceit in pursuit of profit is unethical, but the authors use economic tools to gain deeper understanding into the more interesting and practical aspects of this problem, such as why it happens and what can be done about it. The authors show how several economic factors affect the likelihood that a firm will attempt to deceive its customers about the quality of the product. Characteristics of the product itself, such as the cost of determining the quality of the good or service, affect a firm’s incentive to mislead. In addition, characteristics of the market for the product, especially the impact of deception on future sales and profits, also affect a firm’s incentives to cheat on quality. Finally, characteristics of the firm – its organizational architecture – further affect the likelihood of cheating. The authors not only discuss the incentive problems that can arise from these factors, but they also show that the market has devised structures that resolve some of these incentive problems. To illustrate this, the authors discuss several of the features that eBay has developed to minimize the problem of sellers’ misrepresenting the quality of their goods.

The contribution of the Boatright essay is to provide a common language for use in the ongoing debate in business ethics: the shareholder–stakeholder debate. There are several different variants of both the shareholder and stakeholder conceptions of
the firm, but Boatright’s general characterization of each side’s fundamental position is apt. He writes that the normative form of the shareholder theory states that “… the duty of managers is to serve the shareholders alone”. Of the stakeholder theory, he writes “… this theory holds that corporations ought to be managed for the benefit of all stakeholder groups, including but not limited to employees, customers, suppliers and local communities”. Boatright shows that the nexus-of-contracts view of the corporation can accommodate both positions. According to this view, all of the parties mentioned have contracted in some way with one another in order to create the firm and enjoy benefits from it. Boatright argues that the shareholder–stakeholder debate can be seen as disagreement over the terms of the contracts of the various parties. Who, for example, should receive control rights over the firm as part of their contract?

Though Boatright’s contribution may at first seem abstract, it does have great practical value for addressing ethical issues and problems within the firm. The language of contracting that Boatright introduces to the shareholder–stakeholder debate can also sharpen our discussion and understanding of specific cases. Knowing the terms of the contracts that exist between the constituencies of a particular firm can give insight into the causes and exact nature of conflicts between these constituencies. For example, one constituency of a firm may appear to be taking advantage of another, when in reality the “offended” constituency has exchanged a right or other asset for something it deems more valuable. In addition, asking whether each constituency was represented in the bargaining, or whether the bargaining was free and fair, can show whether existing contracts should be renegotiated and can justify intervention by courts or legislatures.

The contribution of the Donaldson and Dunfee essay lies in its demonstration of how ISCT is applied to a particular ethical issue. The issue the authors consider is the conflict of interest on the part of securities analysts who work for investment banks. Beginning in 2000, and perhaps prompted by the stubborn optimism of analysts’ recommendations in the face of a dramatically declining stock market, a series of reports in the media15 began to suggest that analysts were knowingly biasing their recommendations towards the “buy” end of the buy–hold–sell spectrum. The reason for the bias was that the analysts were being compensated, at least indirectly, based on how much business they generated for the investment banking divisions of the firms. This is a classic conflict of interest. But is the situation unethical?

Donaldson and Dunfee apply their ISCT to this issue in three steps. First, they discuss how the ethical problem arose. Various changes in the financial services industry have led investment banks to abandon an old microsocial contract – the “Chinese Walls” separating the lines of business within the firm – and adopt a new one in which it is appropriate for stock analysts to be compensated for bringing in investment banking business. Next, they discuss how we recognize this as an ethics problem. The investment banks’ new microsocial contract conflicts with at least two hyper-

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15 See, for example, Lauricella (2000).
norms that Donaldson and Dunfee identify. It is the conflict with hypernorms that creates the sense that something is wrong. Finally, the authors use priority rules of thumb to show which norms should take precedence. In particular, one of the ISCT’s rules of thumb has direct relevance to this issue: norms which help maintain the economic environment take priority over norms that are damaging to the economic environment. To the extent that the conflict of interest is damaging to public confidence in the stock market, the new microsocial contract prevailing inside investment banks is illegitimate. Though the ISCT is deeply rooted in moral philosophy, Donaldson and Dunfee demonstrate clearly that it is a powerful practical tool as well.

We invite the reader, after digesting all three papers, to apply each framework to the specific ethical problems discussed in the three papers and to compare findings. Each approach successfully overcomes the challenges of applying ethical standards to the modern firm, makes real world ethical problems involving the firm more tractable, and gives insights into the solutions to these problems.

4. Ethics and the law

Several papers in the conference addressed the issue of how the legal system can, and does, integrate ethical considerations into everyday business decisions. Although the papers address very different issues, they share a common view that the legal system functions as an incentive mechanism to promote ethical behavior in society. Certainly the legal system shapes incentives through its rules, regulations, and punishments. But the papers in this section also show how that the legal system incorporates expectations, guidelines, and even rewards as well, making it a flexible and powerful incentive system.

“The Securities Industry and the Law,” by Larry Bear and Rita Maldonado-Bear, shows how the structure of the US legal system transforms the ethical concerns of society into concrete guides and standards for business, amply illustrating their analysis with examples taken from the securities industry. They argue that the US legal system is designed to articulate and enforce society’s rising expectations for ethical behavior on the part of business, and that those who ignore this reality place their careers and their firms in jeopardy.

Bear and Maldonado-Bear first discuss the Common Law, Rule of Law framework employed in the US and how it adapts to the ethical needs of our society. They argue that the purpose of this framework is to uphold the permanent values of our society, which do not change. As the economy develops and technology changes, however, the context in which these values must be interpreted changes. Thus, the legal system must be flexible enough to respond quickly to these changes while remaining strong enough to protect these fundamental values. The authors argue that the Common Law tradition, which the US inherited from Great Britain, is well suited to meet this challenge. The essential feature of the Common Law system is that it adheres to principles, rather than rules. Thus, judges, legislators and administrators are free to change the rules in order to serve the guiding principles. And, more importantly, this keeps the entire system focused on the underlying values.
Bear and Maldonado-Bear aim their argument directly at those in business, especially in the securities industry, who maintain that the extent of business' ethical responsibility is simply following the rules. They demonstrate that this opinion is not only incorrect, but can even be dangerous to a person’s career. For example, they discuss the Federal Sentencing Guidelines in detail. The Sentencing Guidelines have two ethical components that all in business should be aware of: the culpability score, and mitigating factors. Both of these components can dramatically alter the penalties imposed, to increase as well as decrease them. These components try to measure how hard the company tried to avoid the illegal activity before it took place, and how much the company cooperated with the government once the activity was discovered. In other words, these factors try to measure the firm’s commitment to the spirit of the law. One of the main mitigating factors that judges look for is a corporate culture that attempts to prevent and detect violations of the law. A firm that instructs employees simply to follow the rules and nothing more will find itself facing harsh penalties if employees are found breaking the rules. Bear and Maldonado-Bear argue that the Federal Sentencing Guidelines constitute a powerful carrot-and-stick approach for inducing firms to live up to their ethical responsibilities under the law.

This paper also shows several examples that are specific to the securities industry, in which the legal system transmits society’s expectation for ethical behavior to Wall Street, and punishes those firms who focus only on following the rules. They also describe clearly how the legal system responds to society’s concerns by changing the rules. Their examples include society’s reaction, through the legal system, to revelations of IPO spinning and share misallocation, as well as clearinghouses’ failure to oversee and police the activities of their clients. In the latter case, Bear and Maldonado-Bear show how the law “assigns basic duties of care to those who are paid to provide skilled services to others for a fee”. The duty of care is not spelled out in specific rules, but is an ethical principle that is applied on a case-by-case basis.

The authors further illustrate their argument by discussing the implications for the securities industry of advances in technology. Bear and Maldonado-Bear argue that the Common Law process is adapting our permanent values to the world of online trading and electronic exchanges. For example, the authors predict that the legal system will find that brokers owe their clients a duty of care, no matter whether the relationship plays out in person, over the phone, or over the Internet. Similarly, the law will adapt to other changes in technology, such as the ones brought about by biotechnology and the commercialization of DNA, through the Common Law, Rule of Law process.

Rose-Ackerman’s paper on “Grand Corruption and the Ethics of Global Environment” applies Arrow’s call for a social contract to global firms operating in so-

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16 The Bear and Maldonado-Bear paper very nicely illustrates the process by which we form and alter what Donaldson and Dunfee would call hypernorms.
sities where the market system is not fully entrenched. The implicit agreement, according to Rose-Ackerman, goes beyond global firms’ avoiding partaking in corrupt activities, to also playing an active role in combating corruption. The paper presents economic arguments against the rationale that rent-seeking behavior by multinational corporations, in countries where corruption exists, may be efficiency enhancing. In particular, Rose-Ackerman focuses on corruption involving winning major contracts, concessions, and privatizing public enterprises in developing countries. The typical rationale for firms partaking in bribery, or for other firms turning a blind eye when such practices take place, is that rent seeking by firms bidding for large contracts would lead the firm with the highest value added to win the contract. Thus, in countries where the market system is not deeply rooted, laws not enforced, and state intervention is invasive, bribes and payoffs may help firms overcome bottlenecks, enhance the market system and raise overall welfare.

Rose-Ackerman, however, argues that such an argument does not take into consideration the true economic cost of such behavior by multinationals. When costs are correctly accounted for, then corruption is inefficient and detrimental to all players, and to the welfare of the country in question. For example, corruption increases the level of uncertainty regarding the return on investment, as the current political climate could change dramatically against the favored firms. The uncertainty arises due to the lack of credible commitments that current officials can make to investors. Moreover, the officials’ choices may reflect their preference for short-term gains, and for investments that are more likely to hide corrupt behavior. These uncertainties and others arising from corrupt behavior would induce investors to follow a short horizon approach and reversible investments, when choosing among projects in such countries. Together, choices made by the corrupt officials and wary investors increase the level of uncertainty in the country, which is detrimental to the economic growth and welfare.

Given the recent push for privatization in developing countries, Rose-Ackerman argues that even privatization efforts in such an environment cannot achieve their intended objective of reducing fiscal pressure, expanding the market system and enhancing efficiency. In contrast, corrupt officials with inside information would seek to favor insiders in acquiring undervalued viable public enterprises. They would push for maintaining the existing monopoly power of such institutions, even after privatization takes place, which cannot be beneficial for enhancing the growth and stability of the private sector, and the economy as a whole.

Rose-Ackerman goes further to argue that profit and efficiency concerns should not be the only principles for judging the rationale for ethical behavior by competing firms. Building on work in business ethics and political science, she argues that the firm possesses a political-economic identity that depends “on the state for its [legal] existence, [which] gives it an obligation to consider the consequences of its actions for the state and sometimes to act affirmatively to preserve political values”. These obligations are to enhance market system efficiency and not to undermine legitimate government institutions. These can be achieved through a “social contract” between the corporations and the societies in which they operate. This implicit agreement
would govern both the internal functioning of the firm as well as its relationship with the state and the market in which it operates.

Moreover, Rose-Ackerman argues that it is not sufficient for the firm to rely on the morals of its employees to resolve ethical dilemmas that would arise in the normal conduct of business. Instead, firms should have in place personnel policy and codes of conduct, which reflect ethical principles rather than just rules, and which aim to induce employees to feel that they ought to “comply with” rather “obey” firm imposed rules. These guidelines would ameliorate ethical dilemmas that individual employees may face on their own, and would assist them in making ethical choices, which accord with those of the corporation. Moreover, the codes of conduct would also recognize incentive problems that may arise, and make use of the carrot-and-stick approach, in order to induce employees to internalize the costs and benefits of ethical behavior. Such instruments would include screening potential employees, rewarding ethical behavior, peer monitoring, and monetary as well as criminal prosecution for offenders.

However, according to Rose-Ackerman combating “grand” corruption should also be an inter-firm effort. By rejecting the prisoner’s dilemma characterization of the problem among competing multinationals, she argues that firms can build coalitions that can work together, and expose corrupt behavior. Cooperation and coordination can achieve a win–win situation for competing multinationals and the countries where they operate. Multinational initiatives are already underway to forge such a cooperative approach, which include NGOs as well as governmental and private initiatives. Rose-Ackerman discusses in some detail the efforts to combat corruption by OECD countries, Organization of America States, Council of Europe, International Monetary Fund and the World Bank, as well as private business initiatives, among others. Such current attempts by international organizations constitute a good first step, which should be followed by the formation of an “independent” international forum for resolving business disputes arising due to claims of corruption, and whose workings and findings are made “transparent,” and which is endowed with the power to “enforce” its decisions on the parties in dispute.

Whereas the two aforementioned papers discuss how existing legal structures induce ethical behavior among firms, Edward Kane’s paper “Using Deferred Compensation to Strengthen the Ethics of Financial Regulation” designs a new legal mechanism to improve the ethical behavior of regulators in the financial markets. In a representative democracy, an individual is appointed by the elected representatives to carry out the regulations which the representatives decide to endorse. Kane refers to this individual as the CEO of the regulatory agency. He views the CEO as an agent of the taxpayer so that a principal agent problem, like that discussed by Chami and Fullenkamp, exists. While social norms for regulators tend to support trustworthy behavior by CEO regulators, there are still limits to the enforceability of these contracts.

An essential requirement for the efficient operation of the economy is that individuals believe that the regulators are trustworthy. The financial regulators are charged with overseeing the behavior of financial institutions, assuring the fair implementation of contract terms, and providing a safety net for depositors. A trustworthy reg-
ulator fairly and honestly implements these obligations for the financial institutions and their clients at minimum cost to the taxpayers. Through this trustworthy behavior, social welfare is increased since the financial intermediaries provide services to their clients at lower cost and risk.

Kane argues that the CEO’s contract should be structured to minimize the cost of the agency relation with the taxpayers. As pointed out by Boatright among others, it is generally too costly to write and enforce contracts that account for all the contingencies that may arise. In addition, the contract must account for the impact the CEO’s decisions will have on all stakeholders of the regulatory agency. Kane points out that these problems are similar to those addressed by corporate government mechanisms in that taxpayers are passive beneficiaries of the CEO’s decisions. As a result, the lessons learned from the control of corporate CEO’s can be used to modify the behavior of regulatory CEO’s.

Based on the CEO incentive compensation literature, Kane argues that the CEO’s contract should be based partially on a security issued by the regulatory agency. Following previous work, he argues that the deposit insurer should fund its activities by issuing debt based on the cash flow (premiums) from the agency. In addition, the CEO’s compensation should be based on the value of this debt. He goes on to argue that these conditions could also be approximated by a forfeitable fund which defers part of the CEO’s compensation.

The value of this fund would be based on the public’s perceived value of the earnings of the agency. The perceived value is used since the true value of all future earnings would be difficult to observe. This perceived value would be equal to reported earnings plus a weighted average of past deviations between reported and true value over a period longer than the term of the CEO. The purpose of past errors is to reduce the incentives for the CEO to manipulate earnings forecasts for short-term gains. To improve the accuracy of reported earnings, a new CEO would be responsible for the auditing of the behavior of the outgoing CEO since the new CEO has an incentive to uncover any errors made by the previous CEO. The horizon of the fund is chosen to lengthen the decision horizon of the CEO beyond their term of office. Finally the fund is forfeited if the value of the fund drops below a critical value. The purpose of this provision is to create the income and control rights over the success of the agency that is suggested by the optimal contracting literature. This fund is designed to align the incentives of the CEO with that of the taxpayers so that the CEO takes substantial risk when they undertake actions at variance with the welfare of the society.

The three papers in this section work together very well to provide a full picture of the role of the legal system in articulating and enforcing ethical standards for the firm. The Bear and Rose-Ackerman papers, for example, show how the legal system transforms sometimes-vague expectations and values into concrete rules and guidelines. The Bear paper shows how underlying goals of fairness and justice become concrete standards such as suitability, and the Rose-Ackerman paper shows how the legal system assigns the responsibility for pursuing social objectives such as the elimination of corruption. Rose-Ackerman and Kane, in turn, show how the legal system can and does weigh costs against benefits in order to reach a welfare-improving law, regulation, or judgement. And all three papers emphasize that the legal
system employs both positive and negative incentives to achieve its overall goal of ethical behavior on the part of corporations and their employees.

5. Conclusion

We believe that the papers presented in this volume shed light on the several issues that originally motivated this conference. Ultimately, we think that this volume makes two simple points that merit elaboration in future research. First, ethical considerations are vitally important to the efficient functioning of individual businesses and entire economies. Ethical behavior can certainly be costly, but the consequences of ignoring ethics are costlier still, in terms of foregone opportunities as well as economic inefficiency. Second, economic ideas and methodology are essential to any discussion of business ethics. A discussion of business ethics that does not reflect the economic realities of the business setting or the tools of economic analysis is doomed to be incomplete and unconvincing. This is not to argue that economic ideas should take precedence over ethical principles – indeed, as the papers throughout this volume demonstrate, economics complements ethics by contributing to our understanding of the ethical issues and by showing how ethical ideals can be reached in imperfect markets.

References

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