

Job-Related Ethical Judgment in the Finance Profession

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This article investigates the attitudes of 230 finance practitioners with respect to ethical issues in their industry. The respondents' ethical ideology is first measured on the scales of idealism and relativism. Respondents are asked to react to behavior in five scenarios relating to the financial world, ranging from advice on questionable tax avoidance techniques to illegal insider trading. Overall idealism and relativism levels are in line with those found in previous studies of businesspeople in non-financial occupations. Women tend to score higher on idealism and lower on relativism than men, and older respondents exhibit a similar pattern. Age seems to be the major determinant in responses given to professional scenarios; older respondents tend to be stricter in their views, while sex differences are less marked. This result may imply the profession would benefit from increased exposure to ethical issues integrated into academic finance courses and made a part of entry-level job orientation. [G20, K22, Z13]

■ People in general tend to take a rather dim view of ethical standards in the business world. Fiction abounds with unsavory portrayals of financial world characters, ranging from the psychotic (Patrick Bateman in *American Psycho*) through amoral (Gordon Gekko in *Wall Street*) to simply obnoxious (Sherman McCoy in *Bonfire of the Vanities*).

And real life provides quite a bit of material for authors. Scandals featuring professionals from John Law to Michael Milken have been a steady source of inspiration. Although our current corporate scandals focus on executive compensation and audit quality, the financial profession is in no way immune. On April 28, 2003, ten leading investment banks settled charges of deceiving investors—without admitting or denying guilt—for the sum of \$1.4 billion. This arrangement with a group of federal and state regulators became known as the global NYSE settlement, although separate investigations may remain active in certain cases not covered by the settlement.

Is it something about finance that attracts unethical

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behavior? Is it as infamous bank robber Willie Sutton once put it, “that’s where the money is”? Or is the whole profession getting a bad reputation because of some individual cases? These thoughts prompted us to find out what a larger population of finance professionals thinks of ethical issues in financial practice.

Ethical issues are receiving increasing attention in the financial community. The Association for Investment Management and Research (AIMR) publishes a Code of Ethics and Standards of Practice now available in 11 languages. Dobson (1993) and Bonvin and Dembinski (2002) discuss the major issues from a finance perspective.

Yet it is surprising to find no empirical investigation of financial ethics. Academic journals seem to have been less interested in financial ethics than practitioners, authors, or investigative journalists—and perhaps the general public. There are studies on the ethics of business students (Barnett, Bass, and Brown, 1994); marketing and sales professionals (Dubinsky and Loken, 1989, Barnett et al., 1998, Bass, Barnett, and Brown, 1998,); and accountants (Douglas, Davidson, and Schwartz, 2001), but none that we are aware of on finance practitioners. We hope to complement the literature by examining ethical thinking in the finance profession.

Our study is built on a mail questionnaire sent to 596 finance practitioners in Finland, with 230 responses. While many of our key research questions,

such as the effects of sex and age, are not limited to Finland, one might well ask how representative our respondents are of the finance practitioners overall and how relevant the results are for US or international readers.

Generalizations are inherently difficult, but Finnish corporate culture is often perceived to be on the honest side. Transparency International, a Berlin-based non-governmental organization, publishes a Corruption Perceptions Index including 133 countries. Finland has topped the index as the least corrupt country for three years in a row. Most of the major industrialized countries are in the top 20. An investigation of financial ethics in a country whose business practices are relatively honorable provides, in effect, an upper bound estimate for international attitudes.

Another element in our findings supports the idea that our sample may not be wholly unrepresentative of the international finance profession. The idealism and relativism scores of our respondents are consistent with those in earlier studies of businesspeople, such as Barnett et al. (1998), Bass et al. (1998), and Douglas et al. (2001). Average idealism and relativism scores in five previous studies have been 70% and 54% of maximum, respectively, versus 72% and 49% for our sample practitioners.

Some of our results are as expected. We find, for example, the typical result that people believe they themselves have higher standards than their colleagues. In other ways, the results are quite surprising: Even in the world's supposedly least corrupt country, 24% of finance practitioners seem to condone insider trading. Stealing clients from an ex-employer, or failing to blow the whistle on colleagues' illegal actions, while less clear situations in terms of criminal law, are condoned to about the same extent. Dispensing questionable tax advice or tax advice that pushes the edge of legitimacy is largely accepted, while respondents are most dismissive of spreading deceptive securities advice.

Does working in finance change a person? Standards may evolve, for better or worse, as experience is gained. We can easily picture an idealistic newcomer confronting a greedy and unprincipled corporate world. This is not at all what our results show. Age (or work experience and salary, which proxy for it) is clearly the most significant demographic variable in our study—the older the respondent, the more condemning of the behavior in our scenarios. In several scenarios, this age difference holds even after controlling for personal world view through individual idealism and relativism variables. Perhaps young people entering the profession are more self-indulgent to start with and develop honesty only with age?

We start with a discussion of existing research, focusing on empirical ethics research in the business

world. We consider several demographic variables linked to ethical views such as sex, age, and organizational status, and formulate testable hypotheses. Then we describe the details of our sample, survey design, and questionnaire. Results are presented in two sections: first with regard to the idealism and relativism scores of respondents as in Forsyth (1980), and then on answers respondents gave to five professional scenarios. We analyze the relationship between demographic variables and ethical ideology and professional judgment in difficult situations, and show, among other things, how age is linked to the answers. The results have a variety of implications for finance practitioners and educators.

I. Factors Associated with Job-Related Moral Judgment

Ethical ideology, demographic background, and job market situation are among the factors that may influence practical ethical judgment.

A. The Concept of Ethical Ideology

Schlenker and Forsyth (1977) and Forsyth (1980) argue that individual differences in moral judgments can be attributed to personal ethical ideologies defined along two dimensions: relativism and idealism. Relativism describes the extent to which a person may reject "universal" moral principles. The idealism dimension measures how much the consequences of an action and the welfare of others mean to an individual.

Forsyth bases on these relativism and idealism dimensions a taxonomy of four personal ethical ideologies (situationist, absolutist, subjectivist, and exceptionist) that we show in Exhibit 1.

Ethical ideology must be distinguished from practical judgment in unique situations involving moral judgment. According to Forsyth, however, the two are connected; ethical ideology significantly affects individuals' moral judgments. Absolutists (low relativism, high idealism) tend to be the strictest, and subjectivists (high relativism, low idealism) are most lenient. Business ethics studies have later supported these findings (see Barnett, Bass, and Brown, 1994; Barnett et al., 1998). Given this evidence, we would expect to find finance practitioners in our sample with an absolutist ethical ideology (high idealism, low relativism) to express stricter judgments in job-related circumstances than the subjectivists (low idealism, high relativism).

B. Demographic Factors

Sex of the respondent is probably the most researched demographic factor in ethics studies, and

Exhibit 1. Taxonomy of Personal Ethical Ideologies

		Relativism	
		High	Low
Idealism	High	Situationist Rejects universal moral rules, advocates individualistic analysis of each act in each situation. Idealistic skeptic	Absolutist Believes that the best possible outcome can always be achieved through conformity to moral rules. Deontologist
	Low	Subjectivist Appraisals based on personal values and perspective, does not believe in moral absolutes. Ethical egoist	Exceptionist Moral absolutes guide judgments, but pragmatically open to exceptions to these standards. Rule utilitarian

Note: Adapted from Forsyth (1980, p.176) and Forsyth (1992).

some researchers suggest women may be more sensitive to ethical issues than men. The empirical findings on the sex–ethical ideology relation are mixed, in fact. Bass et al. (1998) find women are more idealistic and less relativistic than men, but Singhapakdi, Vitell, and Franke (1999) do not find a significant relation between sex and ideology dimensions.

Results on sex differences with regard to practical moral judgments are also mixed in the literature. Some studies do not find any significant differences between judgments of men and women (see, e.g., Serwinek, 1992, and Sikula and Costa, 1994). When differences have been found, results tend to show women have stricter attitudes than men (see, e.g., Akaah, 1989; Weeks et al., 1999; and Cohen, Pant, and Sharp, 2001). Consequently, while the research reports somewhat mixed results, we would not be entirely surprised to find the women in our sample to be more idealistic and less relativistic than the men. As to moral judgments in unique scenarios, we similarly expect either stricter opinions by female respondents or no significant difference.

Age can be another major factor that affects ethical ideology and practical moral judgments. As work experience and salary tend to correlate strongly with age, the effects of all these characteristics on ethical decision-making are difficult to distinguish.

Serwinek (1992) argues that as people age they tend to become more conservative in their attitudes and beliefs. In addition, older individuals often have more secure job positions, and will not want to jeopardize their financial security by engaging in immoral

actions—they have more to lose (Serwinek, 1992 and Dawson, 1997). Older people, it has also been suggested, become more idealistic than younger ones as their focus shifts toward the well-being of others (Singhapakdi, Vitell, and Franke, 1999). Furthermore, Serwinek (1992) argues that older people today are less relativistic because during their formative years they were more exposed to strict norms.

According to these results, we would expect to find that older and more experienced financial professionals express stricter moral judgments in professional situations.

C. Job Market Factors

Some empirical evidence supports the argument that organizational role affects ethical ideology. Ziegenfuss, Singhapakdi, and Martinson (1994) find that among management accountants absolutism (low relativism, high idealism) is more common, while subjectivism (high relativism, low idealism) prevails among internal auditors. They argue that internal auditors deal with a wider cross-section of personnel and situations, and are not as likely to adhere to strict ethical rules. On the other hand, Douglas, Davidson, and Schwartz (2001) do not find any relation between rank and ethical ideology. As to moral judgments, Akaah and Riordan (1989), and Akaah (1996) find that marketing professionals in research positions express stricter moral judgments than those in executive roles.

To account for any such variation in our study, we include in our study such variables as job title and

organizational rank. We also control for whether the practitioner works in banking, other financial services, insurance, or the financial functions of industrial firms.

II. Survey Design and Sample Description

The research data were collected by mail survey. The survey questionnaire, reproduced in the Appendix, is organized in three sections:

- I. Respondent's background information.
- II. An ethics position questionnaire based on Forsyth (1980).
- III. Five job-related scenarios to evaluate practical moral judgments in a professional context.

In Forsyth's 20-statement Ethics Position Questionnaire (EPQ), the first ten items measure idealism, and the remaining ten relativism. Respondents were asked to indicate their disagreement or agreement on the statements on a seven-point Likert scale. Each respondent's mean scores for idealism and relativism are taken as their EPQ scores, and respondents are classified into ideology categories by using median scores for idealism and relativism as cut-off points. Cronbach's alphas measuring the consistency of the scores are relatively high at 0.86 for idealism and 0.82 for relativism.

The posing of ethical scenarios is common in business ethics research, as they allow researchers to simulate real-life decision-making. Our survey includes five scenarios involving ethical dilemmas related to the financial industry. Scenario 1 describes advising a client on avoiding a wealth tax. Scenario 2 deals with issuing misleading investment recommendations. In Scenario 3 a trader has to decide whether to blow the whistle on a colleague's insider trading. Scenario 4 presents a conflict between a fund manager's self-interest and loyalty to the employer, as the manager decides whether to solicit an ex-employer's clients. Scenario 5, finally, deals with illegal insider trading, and entails a clear breach of current Finnish criminal law that is punishable with up to two years in prison.

The respondents' opinions on the scenarios are measured using the multidimensional ethics scale (MES) developed by Reidenbach and Robin (1988, 1990). For our purposes, we apply a four-item scale including the items *personally acceptable*, *generally acceptable*, *morally right*, and *acceptable to colleagues/fellow students*, adapted from the original 33-item and 8-item MES.

The MES was originally intended to measure moral judgments across three distinct dimensions, but Hansen (1992) and Tansey, Hyman, and Brown (1992)

provide evidence that the scale collapses into one generalized moral judgment factor. Thus, several later researchers have calculated individuals' moral judgment scores by averaging scores of the individual MES items (see Bass, Barnett, and Brown, 1998).

Cronbach's alphas for the four items in each scenario range from 0.78 in scenario 2 to 0.92 in scenario 5, indicating that the different MES scores can be used with sufficient reliability. Our reported results focus on the item "personally acceptable."

To avoid a halo effect, i.e., a tendency to tick only one side of a scale, the anchor points in the statements *generally acceptable* and *acceptable to colleagues* are reversed in the questionnaire. In the coding phase the order of all the scales is harmonized so that lower scores denote stricter attitudes ("personally not acceptable"), and higher scores more lenient attitudes ("personally acceptable").

Our sample of 596 individuals working in finance is drawn from the register of SEFE (the Finnish Association of Graduates in Economics and Business Administration) by applying systematic sampling based on the alphabetical order of last names.¹ In addition to banking, other financial services, and insurance sectors, professionals working in other industries but with finance-related jobs are included in the frame population. The total response rate for the survey was 39%.

Exhibit 2 shows the respondents' demographic characteristics correspond fairly well to the characteristics of the frame populations. Exhibit 3 compares our sample idealism and relativism levels to those in previous research.

An analysis of items left unanswered requires some interpretation. Two EPQ items, 11 and 7, seemed relatively difficult to answer. Nine respondents left EPQ11 blank, and four left EPQ7 blank. These two points seem more complex in terms of their phrasing and may have confounded some respondents.

And in terms of practical moral judgments in the scenarios, respondents seem to have had the most difficulties in judging the action in Scenario 1. Respondents on average were also most lenient in their judgments in this scenario—some may even have refrained from answering out of fear this was a trick question. In general, missing answers occurred most often in the option, *acceptable to colleagues*. It is understandable that some respondents might regard this as too speculative a question.

¹We also sent the survey to 232 finance students at the Helsinki School of Economics, and received 76 responses. Including these in the analysis does not substantially change the reported results with respect to the effects of age and sex. The results including the student sample are available from the authors on request.

Exhibit 2. Frame Population and Responses Received

	Frame Population	Responses Received
<i>Gender</i>		
Male	63%	67%
Female	37%	33%
<i>Age</i>		
Under 25	1%	3%
25-34	29%	33%
35-44	34%	27%
45-54	29%	27%
55 and Over	7%	10%
NA		0.4%
<i>Industry</i>		
Banking	47%	45%
Other Financial Services	26%	23%
Insurance	18%	11%
Other Industries	9%	21%
NA		0.4%

Exhibit 3. Idealism and Relativism Levels in Research

Author	Sample and Size	Idealism	Relativism
		% of Max. Score	% of Max. Score
This Study	Financial Professionals (Finland) #230	72%	49%
Barnett et al. (1994)	Business Students (USA) #166	78%	60%
Barnett et al. (1998)	Marketing Professionals (USA) #381	70%	50%
Bass et al. (1998)	Marketing Managers (USA) #239	67%	53%
	Sales Managers (USA) #175	70%	54%
Douglas et al. (2001)	Accountants (USA) #304	64%	55%

III. Ethical Ideology in the Finance Profession

Exhibit 4 shows ordinary least squares regressions examining the relation between ethical ideology dimensions and demographic variables. The regression model includes age, sex, and job market control variables such as job title, organizational rank, and industry. As age, salary, and work experience correlate strongly with one another, only age is included in the reported specifications.

With idealism scores as the dependent variable, significant and positive coefficients for the female dummy variable indicate that women are more idealistic than men. This is consistent with the findings of Bass et al. (1998). With relativism as the dependent variable, the female dummy is significant as expected, but significant at conventional levels only in specification 1. Previous research supports the finding that sex differences in relativism are not consistently significant at conventional levels (see Bass et al. 1998

and Singhapakdi, Vitell, and Franke, 1999).

Age also has a significant effect on both idealism and relativism. The coefficient for age is positive for idealism and negative for relativism, both findings significant at conventional levels in all specifications. These findings are in also line with Bass et al. (1998).

The effects on idealism and relativism scores of job title, organizational status, and industry type seem very limited. The only variables that are significant at the 5% level are the dummy for practitioners working in the industrial sector (negative for idealism) and the dummy for the job title marketing/sales manager (negative for relativism). Results for occupations that have been in the spotlight as of late, such as analyst, fund manager, or trader, do not appear significantly different from the overall sample.

IV. Job-Related Scenarios and Moral Judgment

Part III of our questionnaire discusses five job-related

Exhibit 4. Determinants of Ethical Ideology

Dependent Var.		Idealism Score				Relativism Score				
Independent Var.	Predicted Sign	(1)		(2)		Predicted Sign	(1)		(2)	
		Coeff.	t-stat.	Coeff.	t-stat.		Coeff.	t-stat.	Coeff.	t-stat.
Constant		4.05***	15.71	4.51***	9.75		4.41***	15.86	4.40***	8.94
Female Dummy	+	0.53***	3.86	0.41***	2.80	-	-0.31**	-2.10	-0.30	-1.95
Age	+	0.02***	3.26	0.02**	2.50	-	-0.02***	-3.35	-0.02**	-2.61
<i>Job Title Dummies</i>										
<i>Financial</i>										
Manager (Ref.)										
Analyst	0			-0.41	-1.26	0			-0.55	-1.58
Accounting	0			0.01	0.05	0			-0.06	-0.19
Manager/Controllor										
Marketing/Sales	0			-0.07	-0.22	0			-0.73**	-2.07
Manager										
Trader/Dealer	0			-0.10	-0.26	0			0.16	0.40
Fund/Asset	0			-0.61	-1.93	0			-0.08	-0.23
Manager										
CEO	0			0.11	0.28	0			-0.33	-0.77
Other	0			-0.25	-1.15	0			-0.02	-0.09
<i>Organizational Rank Dummies</i>										
<i>Management (Ref.)</i>										
Upper	0			-0.51	-1.58	0			0.15	0.45
Management										
Middle	0			-0.16	-0.73				-0.22	-0.92
Management										
Specialist	0			0.10	0.46				-0.08	-0.32
Other	0			0.15	0.46				0.64	1.92
<i>Industry Dummies</i>										
<i>Banking (Ref.)</i>										
Other Financial	0			-0.12	-0.65	0			0.30	1.56
Services										
Insurance	0			0.02	0.10	0			0.19	0.82
Industrial	0			-0.53**	-2.26	0			0.08	0.32
Other	0			-0.39	-1.64	0			0.14	0.55
Adjusted R ²		0.09		0.11			0.06		0.08	
F-statistic		12.70***		2.56***			7.78***		2.12***	
N		228		224			228		224	

***Significant at the 0.01 level.

**Significant at the 0.05 level.

Note: Significance tests are two-sided.

scenarios that involve a moral choice. Exhibit 5 describes the various answers given to the scenarios, and Exhibit 6 provides an OLS analysis of determinants. As age

correlates strongly with work experience and salary, we use only age in the reported specifications.

For simplicity, we give each scenario a brief name (e.g.,

Exhibit 5. Mean Answers in Five Job-Related Scenarios

Mean Scores for Item "Personally Acceptable"	Scenario 1: Tax Advice	Scenario 2: Analyst Recommendation	Scenario 3: Whistle-Blowing	Scenario 4: Stealing Clients	Scenario 5: Insider Trading
	Mean Score	Mean Score	Mean Score	Mean Score	Mean Score
All Respondents	4.51	1.57	2.62	2.38	2.67
<i>Ethical Ideology</i>					
Situationist	4.46	1.39	2.17	2.35	2.39
Absolutist	3.90	1.55	2.14	1.97	2.58
Subjectivist	5.20	1.82	3.27	2.97	3.10
Exceptionist	4.60	1.53	2.95	2.30	2.56
<i>Gender</i>					
Male	4.74	1.58	2.63	2.39	2.66
Female	4.04	1.58	2.54	2.38	2.69
<i>Age</i>					
Under 25	5.67	1.83	4.17	5.33	2.00
25-34	5.47	1.71	3.08	3.11	3.01
35-44	4.47	1.35	2.27	1.81	2.69
45-54	3.56	1.51	2.28	1.97	2.34
55 and Over	3.76	1.71	2.38	1.95	2.52

Note: Scale from 1 (personally not acceptable) to 7 (personally acceptable).

"Tax Advice" for Scenario 1). We discuss each in turn.

Scenario 1: An asset manager considers whether he/she should advise a client to withdraw money from a money market fund before the year-end, and reinvest it in January. This would help the client avoid a tax on wealth. The asset manager knows that tax authorities would not necessarily accept this arrangement. However, he/she considers that as a good asset manager the client should be informed about this possibility.

Action: The asset manager advises the client to withdraw money in order to avoid the wealth tax.

This tax advice scenario is based on a relatively well-known loophole in local tax law. Finland applies a proportional tax of 0.9% on taxable wealth above 185,000 euros (around USD 230,000) at the end of each tax year on December 31, but a number of asset classes, such as ordinary checking accounts, are exempt from this tax. As a result, a great number of taxpayers are known to convert other asset classes, particularly money market mutual funds, into ordinary deposits just for December 31, and then move the funds back.

Exploiting this tax loophole, or tax loopholes generally, for that matter, does not constitute a breach of local criminal law as long as the transactions in question are reported accurately and fully. The tax authorities, however, have the power to disregard transactions that have, in their opinion, tax avoidance as their sole purpose.

Is using tax loopholes, or advising others on their use, morally acceptable? The range of opinion is wide. According to the Talmud "It is sinful to deceive the government regarding taxes and duties," while US Chief Justice William H. Rehnquist has argued that "There is nothing wrong with a strategy to avoid the payment of taxes. The Internal Revenue Code doesn't prevent that" (oral arguments in *United Dominion Industries, Inc. v. United States*, 532 U.S. 822 (2001)).

Our respondents seem to side with Rehnquist. Of the actions taken in all of our scenarios, this one is rated as the most understandable. On a scale of 1 to 7, where 1 represents personally not acceptable and 7 personally acceptable, our respondents' mean score is 4.51, clearly on the acceptable side. This is also the only scenario where the mean score is above four, the midpoint of the scale. Analysts (5.58) and people with under one year of work experience (5.55) are the most lenient groups of respondents, while people with over 25 years of work experience are strictest at 3.46. The difference between scores for "personally acceptable" and "acceptable to colleagues" is not significant in a paired-sample *t*-test. Fifty-nine percent of respondents give responses of 5, 6, or 7 for "personally acceptable."

In a regression framework we can note several interesting factors affecting opinions (Exhibit 6). In several of our scenarios, age is a significant determinant; older respondents hold significantly stricter opinions. The age factor holds for Scenario 1

Exhibit 6. Determinants of Opinion in Job-Related Scenarios

Dependent Var.: Score on Item "Personally Acceptable"		Scenario 1: Tax Advice		Scenario 2: Analyst Recommendation		Scenario 3: Whistle-Blowing		Scenario 4: Stealing Clients		Scenario 5: Insider Trading	
Independent Var.	Predicted Sign	Coeff.	t-stat.	Coeff.	t-stat.	Coeff.	t-stat.	Coeff.	t-stat.	Coeff.	t-stat.
Constant		8.21***	7.62	2.05	2.94	4.98***	5.19	3.77***	4.19	3.24**	3.16
Idealism Score	-	0.32***	-2.17	-0.20**	-2.04	-0.25	-1.88	-0.20	-1.61	-0.14	-1.03
Relativism Score	+	0.18	1.35	0.12	1.42	0.06	0.48	0.36***	3.18	0.19	1.43
Female Dummy	-	-0.52	-1.73	0.17	0.85	-0.01	-0.02	0.17	0.67	0.12	0.40
Age	-	-0.06***	-4.62	0.0001	0.01	-0.03***	-2.65	-0.04***	-3.63	-0.01	-0.96
Adjusted R ²		0.15		0.02		0.05		0.13		0.01	
F-Statistic		11.14***		1.99		3.82***		9.56***		1.53	
N		224		227		228		227		228	

***Statistically significant at the 0.01 level.

**Statistically significant at the 0.05 level.

Note: Significance tests are two-sided.

even after controlling for respondents' ethical ideology through idealism and relativism scores. The signs are as expected (negative for idealism, positive for relativism); only for idealism is the value significant at the 5% level.

Scenario 2: An analyst at a brokerage company prepares an analysis of a company specializing in data security. The key financial figures and future prospects of the company seem quite weak. However, the brokerage company's business would benefit if investors perceive the data security company as a good investment.

Action: The analyst recommends the company as a "Buy" in his/her report.

The analyst recommendation scenario is based on a widely reported and somewhat more colorful case involving a Merrill Lynch analyst. He was said to issue buy recommendations on several companies while disparaging the same companies in scatological terms in e-mails. Whether these conflicts of interests constituted fraud or related offenses was not resolved in court, as these claims were included in the \$1.4 billion global settlement of April 28, 2003.

Our respondents severely condemn this conduct. On a scale of 1 (personally not acceptable) to 7 (personally acceptable), the average score is 1.57. Over 90% of all responses are either 1 or 2. Of the five job-

related scenarios, this is the one our respondents were more critical about. One might wonder whether the media attention of the case that inspired our scenario had some effect. Analysts themselves, with a mean score of 1.60, do not differ from the whole sample at conventional levels of significance. CEOs are the strictest group here, with a mean answer of 1.13.

As there is quite little cross-sectional variation in our answers, we do not find significant determinants in an OLS setting, except in the case of idealism, which is negative at the 5% level. There is, interestingly, a highly significant difference between answers to the questions "personally acceptable" and "acceptable to colleagues" for this scenario. Respondents report thinking that their colleagues are more likely to accept this action than they are; a paired sample *t*-test produces a *t*-value of 7.4 for the difference.

Scenario 3: A trader overhears a colleague receive insider information on the stock of a certain company. The colleague immediately buys the stock for himself and after that for his client. The trader wonders whether he should tell superiors about the incident.

Action: Out of solidarity with his colleague, the trader does not inform superiors about the insider trading incident.

This whistle-blowing scenario is also obliquely related to current corporate scandals. The theme of

whistle-blowing, i.e., reporting fraudulent behavior by colleagues or employers, received important attention in the Enron and WorldCom cases. *Time Magazine* selected three such whistle-blowers as persons of the year in its 2002 New Year's issue.

Reporting fraud has received widespread acclaim in publicly discussed cases, but there has also been some consensus on the personal risks involved. Not reporting fraud has been defined as a breach of internal rules in many workplaces, but would not normally constitute a criminal offense. The criminal law in most countries obliges one to report knowledge of only certain categories of serious crimes, such as homicide or terrorism.

Overall, our respondents think fraud should be reported. On a scale of 1 (personally not acceptable not to report the fraud) to 7 (personally acceptable), the mean answer is 2.62. This represents a level close to judgments in Scenarios 4 and 5, which with scenario 3 are judged more leniently than Scenario 2 (analyst recommendation) but more severely than Scenario 1 (tax advice).

We graph an interesting difference between the scales "personally acceptable" and "morally right" in Exhibit 7. Respondents are more likely to find a failure to blow the whistle personally acceptable than morally right, and the difference is highly significant in a paired-sample *t*-test (*t*-value of 7.3). This may reflect a belief that whistle-blowing is the right thing to do, but that it also takes some degree of personal courage. In a regression framework, the only significant determinant of opinion is again age. Older people are likely to give lower (stricter) scores, and this result is significant at the 1% level. Other variables are not significant at conventional levels but have the expected signs.

Scenario 4: A fund manager is unsatisfied with his/her compensation in fund management company A, and has decided to transfer to fund management company B. The fund manager would like to take as many clients with him/her as possible.

Action: Before resigning, the fund manager contacts prospective clients of A to whom he/she has recently given a presentation on behalf of A. The fund manager asks them to contract with his/her future employer B instead of A.

The client-stealing scenario refers to loyalty to a former employer. The question of who "owns" client relationships arises in professions such as auditing, the law, or money management. While customers are mostly free to choose their suppliers, and some degree of competition between advisors is to be expected, professionals are often bound by contract, tacit agreements, or in some cases even legal sanction not to actively solicit clients they have had contact with

in the past.

Our respondents take a relatively severe view of such soliciting. On a scale of 1 (personally not acceptable) to 7 (personally acceptable), the average response is 2.38. This makes the attitudes reported the second-strictest in the five job-related scenarios. Only the analyst recommendation scenario is more strongly condemned.

Again, there are significant differences among respondent groups. Fund managers themselves (mean answer 1.76) and CEOs (1.40), for example, condemn stealing clients much more severely than the traders and dealers in our sample (3.56). Scenarios 3 and 4 also reflect a large difference between age groups but much less of a sex difference. Exhibit 5 shows that mean answers range from 5.33 for under 25s to 1.95 for the 55 and over group. People also seem to hold themselves to higher standards than they think their colleagues do (*t*-value of 3.6 for the difference).

Regressions indicate that age is again the key determinant of opinion. Older people report stricter attitudes, and the difference is significant at the 1% level, as it was in scenarios 1 and 3. The female dummy variable is not significant, but the relativism score of the respondent is; more relativist individuals report significantly higher scores (more lenient attitudes) here.

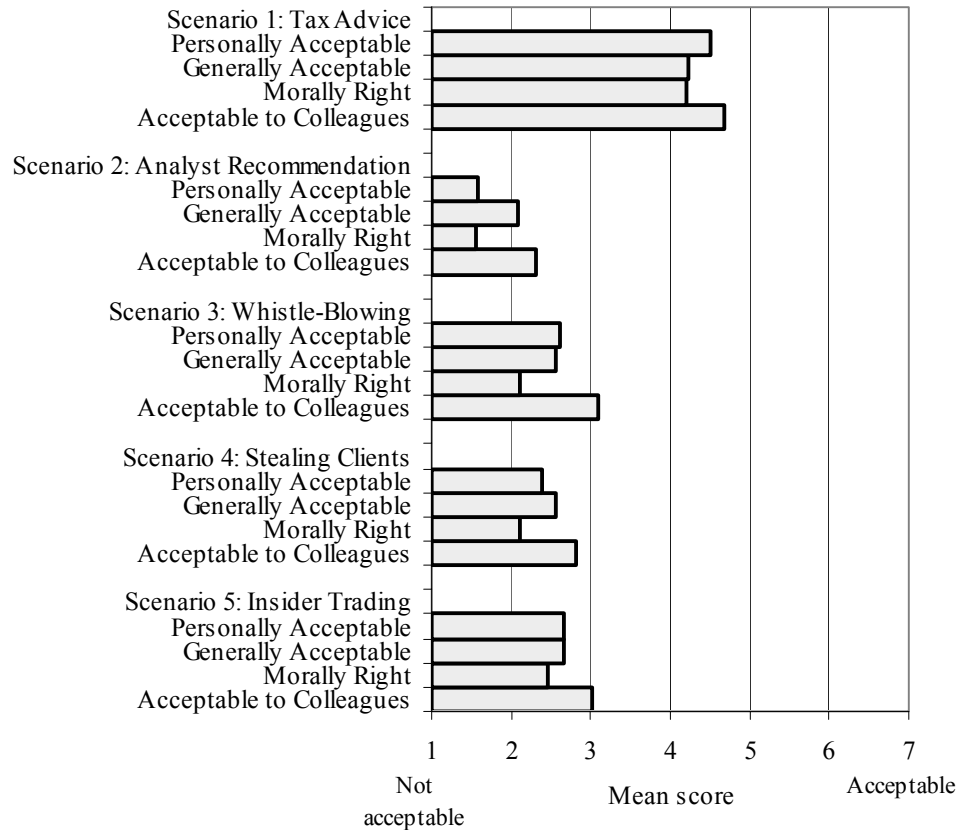
Scenario 5: A fund manager receives an invitation to a private meeting where the CEO of an IT company reveals to a group of asset and fund managers that the quarterly report, which will be released shortly, provides very positive news.

Action: The fund manager leaves the meeting, and buys shares of the IT company in question both for his/her fund and for him/herself.

Scenario 5 (insider trading) is the most clear-cut of the cases in terms of Finnish criminal law. The behavior described would constitute a clear breach of the insider trading laws in section 51 of the Finnish criminal code, and would be punishable by up to two years in prison. It should be noted that unlike US law following *Dirks v. SEC*, 463 U.S. 646 (1983), Finnish law requires no breach of fiduciary duty to constitute an insider trading offense.

We were quite surprised to find out our responders were relatively lenient toward insider trading. We expected this scenario to elicit the highest level of condemnation, but it ranked in fact as the second-most acceptable of the five scenarios, with a mean score of 2.67 on a scale of 1 (personally not acceptable) to 7 (personally acceptable). As many as 24% of respondents answered 4, 5, or 6. Traders and dealers are the most lenient occupational group, with a mean score of 3.33, closely followed by CEOs at 3.25. Age and sex differences are more limited than in other scenarios except Scenario 2 (analyst recommendation). The difference between the respondents' higher

Exhibit 7. Mean Answers in Five Job- Related Scenarios



opinion of themselves than their colleagues persisted, however, with a *t*-value of 4.1

The regression results for determinants are quite similar to those of Scenario 2. With limited cross-sectional variation, none of the explanatory variables is significant at conventional levels, although they retain their expected signs with the exception of the female dummy.

V. Implications

Are there any conclusions the financial community should draw from these results? To some extent, the results are a relief. A clear majority condemn (that is, answer 1, 2, and 3) the practices described in our scenarios. The proportions of these responses go from 93% in scenario 2 (analyst recommendation) to 69% in scenario 3 (stealing clients). Only our scenario 1 (tax advice) gains widespread acceptance, with 59% of respondents accepting the behavior (answers 5, 6, and 7). This is not grounds for complacency, however. It is hard not to wonder about the 24% of respondents who are quite accepting of a criminal insider trading offense.

As to the cross-sectional determinants of both

ethical ideology and professional judgment, age is the demographic variable most strongly associated with stricter attitudes. Younger people seem more accepting of the actions described in our scenarios.

Perhaps there are implications for finance practitioners and educators here. We would not want practitioners to become principled only toward the end of their careers and perhaps as a result of painful experience. Those entering financial professions must unfortunately expect some exposure to ethical and legal challenges during their careers. They should have the chance to discuss issues similar to our five scenarios ahead of time.

The responsibility here falls partly on finance educators, and partly on employers hiring graduates at the entry level. By thoroughly integrating business ethics-related issues into finance courses and job orientation, we may not be able to change students' fundamental attitudes, but we should be able to make them aware of the issues in time.

This may be what Mark Twain attempted in his classic advice in 1901 to the Young People's Society of a Brooklyn church: "Always do right—this will gratify some people, and astonish the rest."■

Appendix: Survey Questionnaire

[Translated from the original in Finnish]

I. Background Information

Please answer the questions by circling the number of the relevant variable, or write the answer on the line.

1. Sex

1. Male
2. Female

2. Age _____ in years

3. Do you consider yourself as

1. Working full-time
2. A student, studying for the _____ year

4. How many years of work experience do you have in total?

1. Less than 1
2. 1 - 3
3. 3 - 6
4. 6 - 15
5. 15 - 25
6. More than 25

5. What is your salary in Euros per month?

1. 0
2. 1 - 1500
3. 1501 - 3000
4. 3001 - 4500
5. 4501 - 6000
6. More than 6000

Please answer questions 6 - 8 only if you are working full-time.

6. In which industry do you work?

1. Banking
2. Other financial services
3. Insurance
4. Industrial
5. Trade
6. Other, please specify _____

7. What is your job title?

1. Analyst
2. Accounting manager / Controller
3. Marketing manager
4. Trader / Dealer
5. Asset manager / Fund manager
6. Chief financial officer (CFO)
7. IT specialist
8. Chief executive officer (CEO)
9. Other, please specify _____

8. What is your organizational rank?

1. Upper management
2. Management
3. Middle management
4. Specialist
5. Back-office
6. Other, please specify _____

II. Decision-Making Habits

Please circle the number of the alternative that best describes your opinion on the statement in question.

- | | |
|--------------------------------|----------------------|
| 1 = Completely disagree | 5 = Moderately agree |
| 2 = Largely disagree | 6 = Largely agree |
| 3 = Moderately disagree | 7 = Completely agree |
| 4 = Neither agree nor disagree | |

	<u>Completely disagree</u>							<u>Completely agree</u>		
1. A person should make certain that his or her actions never intentionally harm another even to a small degree.	1	2	3	4	5	6	7			
2. Risks to another should never be tolerated, irrespective of how small the risks might be.	1	2	3	4	5	6	7			
3. The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.	1	2	3	4	5	6	7			
4. One should never psychologically or physically harm another person.	1	2	3	4	5	6	7			
5. One should not perform an action that might in any way threaten the dignity and welfare of another individual.	1	2	3	4	5	6	7			
6. If an action could harm an innocent other, then it should not be done.	1	2	3	4	5	6	7			
7. Deciding whether or not to perform an act by balancing the positive consequence of the act against the negative consequences of the act is immoral.	1	2	3	4	5	6	7			
8. The dignity and welfare of people should be the most important concern in any society.	1	2	3	4	5	6	7			
9. It is never necessary to sacrifice the welfare of others.	1	2	3	4	5	6	7			
10. Moral actions are those that closely match ideals of the most "perfect" action.	1	2	3	4	5	6	7			
11. There are no ethical principles that are so important that they should be a part of any code of ethics.	1	2	3	4	5	6	7			
12. What is ethical varies from one situation and society to another.	1	2	3	4	5	6	7			
13. Moral standards should be seen as being individualistic; what one person considers to be moral may be judged immoral by another person.	1	2	3	4	5	6	7			
14. Different types of moralities cannot be compared as to "rightness."	1	2	3	4	5	6	7			

- | | | | | | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 15. Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 16. Moral standards are simply personal rules that indicate how a person should behave, and are not to be applied in making judgments of others. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 17. Ethical considerations in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 18. Rigidly codifying an ethical position that prevents certain types of actions could stand in the way of better human relations and adjustment. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 19. No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends upon the situation. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 20. Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the actions. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

III. Problem Situations in Working Life

Please circle on each a, b, c, and d answer the number of the alternative that best describes your opinion on the **action** in the scenario.

- An asset manager considers whether he/she should advise a client to withdraw money from a money market fund before the year end, and reinvest it in January. This would help the client avoid a tax on wealth. The asset manager knows that tax authorities would not necessarily accept this arrangement. However, he/she considers that as a good asset manager the client should be informed about this possibility.
Action: The asset manager advises the client to withdraw money in order to avoid the wealth tax.

a. Action is personally acceptable	1 2 3 4 5 6 7	Action is not personally acceptable
b. Action is not generally acceptable	1 2 3 4 5 6 7	Action is generally acceptable
c. Asset manager acted morally right	1 2 3 4 5 6 7	Asset manager acted morally wrong
d. Action is not acceptable to my colleagues / fellow students	1 2 3 4 5 6 7	Action is acceptable to my colleagues / fellow students
- An analyst at a brokerage company prepares an analysis of a company specializing in data security. The key financial figures and future prospects of the company seem quite weak. However, the brokerage company's business would benefit if investors perceive the data security company as a good investment.
Action: The analyst recommends the company as a "Buy" in his/her report.

a. Action is personally acceptable	1 2 3 4 5 6 7	Action is not personally acceptable
b. Action is not generally acceptable	1 2 3 4 5 6 7	Action is generally acceptable
c. Analyst acted morally right	1 2 3 4 5 6 7	Analyst acted morally wrong
d. Action is not acceptable to my colleagues / fellow students	1 2 3 4 5 6 7	Action is acceptable to my colleagues / fellow students
- A trader overhears a colleague receive insider information on the stock of a certain company. The colleague immediately buys the stock for himself and after that for his client. The trader wonders whether he should tell superiors about the incident.
Action: Out of solidarity with his colleague, the trader does not inform superiors about the insider trading incident.

a. Action is personally acceptable	1 2 3 4 5 6 7	Action is not personally acceptable
b. Action is not generally acceptable	1 2 3 4 5 6 7	Action is generally acceptable
c. Trader acted morally right	1 2 3 4 5 6 7	Trader acted morally wrong

- d. Action is not acceptable to my colleagues / fellow students 1 2 3 4 5 6 7 Action is acceptable to my colleagues / fellow students
4. A fund manager is unsatisfied with his/her compensation in fund management company A, and has decided to transfer to fund management company B. The fund manager would like to take as many clients with him/her as possible.
Action: Before resigning the fund manager contacts prospective clients of A to whom he/she has recently given a presentation on behalf of A. The fund manager asks them to contract with his/her future employer B instead of A.
- a. Action is personally acceptable 1 2 3 4 5 6 7 Action is not personally acceptable
b. Action is not generally acceptable 1 2 3 4 5 6 7 Action is generally acceptable
c. Fund manager acted morally right 1 2 3 4 5 6 7 Fund manager acted morally wrong
d. Action is not acceptable to my fellow students/ colleagues 1 2 3 4 5 6 7 Action is acceptable to my colleagues / fellow students
5. A fund manager receives an invitation to a private meeting, where the CEO of an IT company reveals to a group of asset and fund managers that the quarterly report, which will be released shortly, provides very positive news.
Action: The fund manager leaves the meeting, and buys shares of the IT company in question both for his/her fund and for him/herself.
- a. Action is personally acceptable 1 2 3 4 5 6 7 Action is not personally acceptable
b. Action is not generally acceptable 1 2 3 4 5 6 7 Action is generally acceptable
c. Fund manager acted morally right 1 2 3 4 5 6 7 Fund manager acted morally wrong
d. Action is not acceptable to my fellow students/ colleagues 1 2 3 4 5 6 7 Action is acceptable to my colleagues / fellow students

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