# A basic ingredient for finance to avoid a new crisis

**A decade after Lehman Brothers' collapse and the global financial crisis, Antonio Argandoña insists that ethics is the fundamental requirement to restore our sense of security and confidence in the financial system that was cracked by the last crisis.**

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Is it wise for people without stable work to commit a significant portion of their earnings on a mortgage to buy a home? Do investors have any moral responsibility for the activities of the company in which they place their money? Is it lawful to sell a complex financial asset to a client who lacks sufficient financial education or experience?

These are some of the questions that were on the table 10 years ago, when Lehman Brothers went bankrupt, and are still on the table today, despite all the regulatory and technological changes that have taken place in recent years.

And, according to IESE's Antonio Argandoña, these are the types of questions asked by good financial professionals, who must act "for the benefit of their clients." They also demonstrate the need to always consider two dimensions of finance. On the one hand, there's the economic dimension, which is measured in terms of income and expenses, risks and returns, among other variables. And on the other hand, there's the moral dimension, which is concerned with what is fair, prudent and responsible.

In fact, for Argandoña: "Ethics is not one restriction imposed from outside, but an essential component of profitable and responsible decisions." And this is what he expounds in "Money and Finance: Ethical Considerations," a chapter in *The Routledge Companion to Business Ethics*, a volume collecting articles from various experts.

## Ethical finance?

In his chapter, Argandoña outlines the ethical problems posed by modern finance. It is a critical analysis that reviews the legal and institutional framework in which financial institutions operate today and considers the various types of financial intermediaries (such as banks and investment vehicles) in terms of their roles, especially as they relate to risk. The author also addressed the practices of financial markets, particularly speculation and high-frequency trading. Finally, he looks to the emergence of some alternative models of finance — including socially responsible investing, ethical banking and crowdfunding — which may offer a correction to curb the excesses of unchecked capitalism.

And while each financial asset and endeavor has its very own characteristics, and may depend upon various institutions and markets for context, Argandoña insists on the need to recognize that they all involve human relationships.

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## Without ethics, there is no trust

Although the moral dimension of finance has become much more complex in recent decades — as products are increasingly sophisticated, relationships are multiplying at great speed and responsibilities tend to be diluted — that is no excuse for compromising it in search of a profit or reducing it down to a technical decision of risk and return.

Why? Because finance needs ethics not only to reassure the consciences of investors. Ethical practices also improve the sector, help develop sound legal and regulatory frameworks, maintain an appropriate institutional and cultural foundations, and, ultimately, "create the atmosphere of trust without which finance cannot succeed," as Argandoña writes.

Without ethics, there is no confidence. And trust is the foundation of every financial system. It was before and still is now.

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