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Editorial

Editorial on Financial Ethics

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EDITORIAL

Human behaviour that is acceptable or "right" and that is not acceptable or "wrong" based on traditional morality is the subject of ethics in general. Truthfulness, honesty, integrity, respect for others, fairness, and justice are all examples of general ethical standards. They have a wide range of applications, including industry and finance. As a result, financial ethics is a subset of general ethics. Ethical norms are necessary for maintaining stability and harmony in social interactions. Recognizing the needs and expectations of others, as well as honesty and cooperative efforts to address common problems, are all important. We have evolved not only an instinct to care for ourselves but also a conscience to care for others as a result of social evolution. There may be times when our desire to care for ourselves conflicts with our desire to care for others. In these circumstances, ethical norms are required to guide our actions. "Ethics represents the attempt to settle the conflict between selfishness and selflessness; between our material needs and our conscience," as Dempsey puts it.

Inconsistencies in the conceptual framework of contemporary financial-economic theory, as well as the extensive use of a principal-agent model of relationship in financial transactions, can be blamed for ethical dilemmas and breaches in finance. The rational-maximize paradigm, which holds that people are self-seeking (egoistic) and act rationally when trying to maximize their own interests, underpins the contemporary capitalist system's financial-economic theory. The principal-agent relationship model describes an arrangement in which one party, acting as an agent for another, performs certain functions. Such arrangements are an essential part of today's economy and financial system, and it's difficult to imagine how it would function without them. The behavioural assumption of modern financial-economic theory runs counter to the traditional principal-agent relationship's notions of trustworthiness, allegiance, fidelity, stewardship, and concern for others.

Traditional notions of agency are founded on moral values. However, if humans are rational maximizes, agency on behalf of others is impossible in the traditional sense. "To do something for another in a system geared to maximize self-interest is silly." writes Duska. However, such an answer reveals an inconsistency at the system's core, for a system that has in some areas of finance, such as corporate governance, the ethical dilemma posed by conflicting interests has been addressed by turning the agency relationship into a purely contractual relationship that employs a carrot-and-stick approach to ensure ethical behaviour by agents.

The conflict between management (agent) and stockholders (principal) is referred to as an agency issue in corporate governance. To address this issue, economists developed an agency theory. The conflict between management (agent) and stockholders (principal) is referred to as an agency issue in corporate governance. To address this issue, economists developed an agency theory.

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