Ethical concerns associated with Corporate Finance

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Abstract- Corporate Finance is the process by which a company acquires, uses, and sells its assets to generate cash and meet its financial obligations. Several ethical concerns can arise when performing corporate finance, and these should be considered when managing the risks associated with the practice. Several ethical concerns can arise with corporate finance, and managers should take these into account when making decisions. Some of the most common issues include the following- Conflicts of interest: Managers may have a personal interest in a transaction, which can create a conflict of interest. This conflict of interest can bias the manager's judgment and potentially lead to decisions that are not in the best interests of the company as a whole. Many ethical concerns can arise when performing corporate finance, and these should be considered when managing the risks associated with the practice. These concerns can include issues such as corporate governance, disclosure, and anti-corruption. One way to manage the ethical concerns associated with corporate finance is to have clear policies and procedures in place. These policies should address conflicts of interest and ensure that all decision-makers are acting in the best interests of the company.

Key Words: Corporate Finance, Conflict of Interest, Ethical Concerns, Anti-Corruption, Corporate Governance.

INTRODUCTION

Ethics in finance consists of the moral norms that apply to financial activity broadly conceived. That finance is conducted according to moral norms is of great importance, not only because of the crucial role that financial activity plays in the personal, economic, political, and social realms but also because of the opportunities for large financial gains that may tempt people to act unethically.

Ethics plays a vital role, in addition to laws and regulations, first, by guiding the formation of laws and regulations and second, by guiding conduct in areas not governed by laws and regulations.

Corporate Finance or Financial Economy are the two perspectives of Financial Economics, as a whole. The first reflects the financial decisions that business managers take to achieve efficiency of financial management in the company. The second is referenced by those investors' behaviors in the market. In corporate finance, the financial decision impact the corporate value, and it is influenced by the manager's corporate decisions in terms of the fact that they decide to uptake, distribute, and allocate financial resources, always under the control of the corporate governance. So corporate finance has gained importance in terms of business valuation, and this impact is translated into value creation.

REVIEW OF LITERATURE: FROM CLASSICAL TO ACTUAL APPROACH OF CORPORATE FINANCE

The financial economy in parallel with the evolution and development of firms and markets has changed substantially as a separate discipline from the 20th century. They are historical events that have defined economic development. Therefore, to improve the understanding of how the financial economy has evolved and to appreciate the changes that have a relation with the responsibilities and functions of corporate finance.

1. Classical Approach

The beginnings of financial economics as an autonomous discipline coincide with economic events that occurred in the United States in the late nineteenth and early twentieth century. And, in particular with the emergence of a large corporation that comes after industrial development, expansion, and increased competitiveness in the market due to the railway line.

One of the pioneers in studying financial economics, Arthur S. Dewing, published key research that lays the foundation of finance at that time, called " Traditional View of Finance" (Gomez-Bezares, 2005).

2. Actual Approach

After the economic expansion of the 50s and 60s, the 70s started a severe crisis in the Western world, with a dramatic increase in prices of raw materials, especially oil after the oil crisis of 1973. It had an impact on the general price index and high levels of inflation were hardly predictable, as recessions and restrictive government measures on economic activity. The main function of finance was to optimize the risk-return relationship.

3. Modern Approach

Returning to the economic and financial situation of that time, in the half of the fifties, there was a strong economic expansion. The economic development after the war was an impulse by technological advances, because of those new industries production emerged. This situation causes at the end of the 50s or beginning of the 60s a hard competence which impacts negatively in the reduction of corporate profits.

RESEARCH METHODOLOGY

For research purposes, we collect secondary data from different sources. For example- Research conducted by Jiari Anderson on how to decrease unethical Behaviour on "Financial Institutions" showed that use of policy is one of the most effective methods. We also collect the information from the financial institutions in the south-eastern region of the United States, it is clear that institutional leaders play a pivotal role in creating and building an ethical culture in their institutions (Anderson, 2018).

ETHICAL CONCERNS

Corporate finance is a branch of finance that focuses on how corporations approach their sources of funding, capital structure, investment decision, and accounting. Using corporate finance, one can assess the growth of a corporation, and the impact it has on a country's economy and its shareholders. Within the different entails of corporate finance, a corporation can act ethically or unethically. When unethical actions prevail, there are negative impacts on both a country's economy and the shareholders. As such, there are negative impacts on both the country's economy and the shareholders. As such, there is a need to address all the unethical issues that are found in corporate finance. Unethical concerns have numerous economic demerits on the shareholders, the corporation, and the economy of the government, but if the right action is taken these demerits can be significantly reduced.

ETHICS CODIFIED IN CORPORATE FINANCE

Today, many American Corporations and Financial Markets have adopted Ethical Codes,
Typically established by agencies such as:
"Securities and Exchange Commission (SEC)"
One of the top regulatory agencies for the securities industry.
This agency implements federal Laws and regulations that deal with the Ethical Conduct of
businesses and individuals operating within the securities field.
In addition, many companies have set up their own Ethics offices to self-govern their financial conduct.
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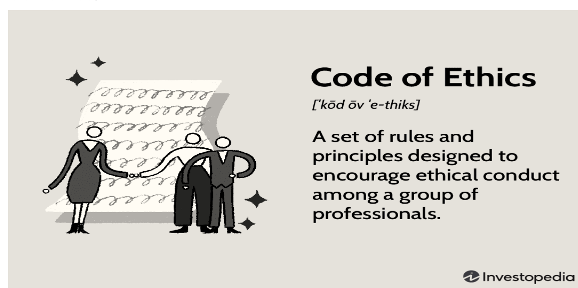

IMPORTANCE OF ETHICS

As mentioned, the financial crisis of 2008 hurt many people financially. As a result, many investors are paying more attention to the companies in which they have invested in. They want to make sure that their invested capital is secure and that the company is ethical. Additionally, the investor doesn't just want to make sure that the company is an ethical one, they want to be sure that the professional investor can be trusted and doesn't put his interests ahead of his clients.

To be sure that companies and professional investors have the right intentions, new regulations have been implemented. Companies nowadays have to go through a yearly due diligence control and need to record all the transactions they have made. The company needs to have open books and be able to explain how it earned its assets and why they have debts. Looking at the professional investor side, most investing companies oblige their employees to attend an ethical class, to teach them how to invest ethically and show them the consequences of unethical behavior. Also, investors cannot just invest in everything they want anymore. There are new rules with different types of stocks. Before the financial crisis investors could invest in stocks without having the money to cover their investment. When the crisis exploded the investors couldn't pay their debts anymore, which resulted in an immense loss for banks and clients. For this reason, investments need to have security. There are still stock types that have fewer restrictions, like hedge funds but these are only traded by a limited number of investors. At the moment the CFA Institute maintains and promotes the Code of ethics and standards of professional conduct in the financial industry.

If ethical behavior is not given in a company this can have further consequences as mentioned above. Investors might not want to invest or will demand a higher risk premium, because the risk of the investment is much higher. Also, it will reduce innovation and job creation, which will be bad for the company's growth. In general, it can hurt the economy and society as a whole, because of the reduced capital the investors will make.

PREDICTING THE FUTURE APPROACH OF CORPORATE FINANCE: THE NEW FINANCIAL PARADIGM

Since 1990 various crises have occurred throughout the planet (Caprio & Klingebiel, 1997). Principally, because of economic globalization, the financial crises are not isolated (Beim, 2001; Detragiache & Ho, 2010). The finances during this last stage seek to create value by operating new investment schemes, financial leverage, and even methods and techniques to avoid creating toxic assets (Urionabarrenetxea & Rodriguez, 2010). The study carried out by Santos et al. (2007) is very important in this sense because it is identified the aspects linked to theories that are booming in this discipline (agency theory, corporate governance, business ethics, and stakeholder theory) by reviewing the financial textbooks. The aim is to extract in an explorative way what the current financial paradigm is highlighted in the basis of the financial literature. In addition, Santos et al. (2007) also analyzed the business approach, and objective, in which the books have been framed, to identify if they conform to this new analysis of ethics.

CONCLUSION

To summarize, our history has shown us how important ethical behavior is in the financial world. The consequences of unethical behavior are too immense to let a financial crisis happen again. To prevent a crisis like that from happening again, the government and regulators have implemented new rules, which companies have to follow to do their business. But it's not just the company itself that has new and stricter regulations, it is also its employees. New processes have been made to prevent employees acting unethically. And to be 100% sure that a company is ethical the investor should do his research about a company, by analyzing and reading the code of ethics.

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