



## Ethical Analysis & Predicting Risk in an Uncertain World

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### Introduction

There are three issues in this discussion paper depicted in the title: Ethical Analysis, Predicting Risk and World's Uncertainty. Three specific concerns of today's corporate directors. I will try to take a surgical view into the issues first and then take a look into the issues separately and later discuss a gamut of my understandings together. This is mostly an opinionated essay. My opinion is shaped by some significant contemporary researches done by scholars in the field, and my personal observations. I am picking up a few issues as examples and expressing my views.

### Ethical Analysis

Ladies and Gentlemen. Business Ethics has become a study field as important as the study of finance, marketing or management. Some doubted whether capitalism could ever converge with ethics. However, after long arguments, we as sensible people can no longer defy the need of a straight set of ethics for sustainable business growth. There is a common problem. I have seen people often mix up personal morals, principles, and values with corporate ethics. And the crisis starts when most people do not have a specific and common definition of ethics and ethics related issues.

Personal ethics is no new thing in the Indian subcontinent. As soon as an Indian baby starts communicating with their guardians, they are taught of morals, principles and values. For millenniums, gurus in the under-tree schools have made sure that the young students memorise by heart a few mantras. Tell the truth. Never steal. Honesty is the best policy. Fifty years back these mantras were said to my ear again and again by my grandfather. My grandmother taught me to chant in every morning. And I have memorised it as every morning pledge:

Up in the morning, my mind I brew  
I should behave well all in this day.  
Whatever are the decrees of my Guru  
Happily, I perform whatever it may.

(Madanmohon Tranlanker, Professor, Fort William College, Calcutta, 1849)

In the 1960s all ethical issues were referred to religion and philosophy.

Pundits, Imams, Pastor, Rabbis, Monks and all Gurus referred to the holy books and the life of saints to explain the need of the ethics. Rewards waited in the heaven, in the life after death. There is no provision of hell and heaven for corporate entities and their CEOs.

Then what is the motivation for a company to do virtuous business, without harming others in an ethical way? Where loss and profit have to be measured by dollars only? At times, it looks like that you can harm others in an ethical way!

Corporate entities do not tend to respect public ethics, what others think. Rather the CEOs tend to spell out Ethics in their own languages. People give blood and their own lives for the sake of the independence of their country. But corporates will go far to evade and avoid tax which is needed to build the country. My observation is that Directors hardly want to know about the taxation facts and happy when tax laws are bend to maximise profit. Lawmakers opines to get things bound by the Laws instead of open-ended Ethics. Too many people try to define ethics and ethical analysis.

Let's take an example. Insider trading is a menace to corporate governance. This is so lucrative an ethical ban does not work. Insider trading has been brought under laws which spells out punishments, imprisonment and financial penalty. The Rules, however have not been enough. SEBI is extremely serious about combating insider trading. Professor JR Varma, a former SEBI member anxiously says that the "central problem in Indian corporate governance is how to manage the conflicts between dominant shareholders and minority shareholders." In 2015 significant improvements in the law have been made in India. The definitions of connected person and price sensitive information have been made clearer. Bangladesh Securities and Exchange Commission (BSEC) tightened its Rules too and established last year a special tribunal. But the worries are not gone.

Ladies and Gentlemen. Catching insiders is very hard and difficult to prove in the court. So I believe a great wall of ethics that guards one's greed could be more effective, I thought. My thoughts are negated by many other *bona fide* thinkers. New mantras are now replacing the old ones. It is said now a day that Greed is Good. And Insider trading is ethical.

Larry Saylor argues in the debate – if insider trading is acceptable ethically? Or we have to refute it? Saylor finds it to be a dilemma, not a



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straight forward refusal or acceptance of Insider trading. He examined the “dilemma” by an Economic model, Kant's two Categorical imperatives and four distributive justice models.

Talking about the economic model, when equal flow of information is a precondition of successful perfect competition, insider trading must be refuted straight way.

Personally, before reading Larry Saylor, I never imagined that there might be any grain of logic in favour of Insider Trading. I might think that these scholarly research and philosophical discussions are subversive to the capitalist society. But well, people are thinking of it many other ways. But I am worried, does a scholar attempt to make another crime legal and acceptable to make more and more money? It is said that parties in the transaction normally don't have equal information. Even diligent analysis and research may not make one more equipped. Gathering inside information is nothing but just a way for getting informed effectively. What is wrong with that? Question asked. Use the additional information you get from “inside” and get more money. It is all yours legally and ethically.

McGee and Block discussed favourably to the insider traders. Insider Trading is not wrong. The argument is that there is *“no moral duty to inform a potential buyer that the good you are trying sell is likely to change in the near future. Thus the insider has no moral duty to disclose that a price change will occur when a non-public information becomes publicly known. And Insider trading is not fraudulent because there is no loss. Without loss, there cannot be any fraud.”*

Stock trading is a knowledge based business. The more information you have, the more powerful you are to make money. So up in the morning, as you might have pledged, listen to your Guardian. Abide by the instruction of your boss (money is your boss, actually a god) And you accept Money which is your life's North star.

The differences of point of views matter largely. A libertarian world would not have speed limit or any other driving regulations or restriction. Thus insider trading is acceptable. Anyway. Saylor finally finds something against insider trading. The solution is in the religious faith. In the growing secular world and decreasing church goers, the logicians find it in a paradigm from the perspective of Christian worldview. *Walk humbly with your God.* The God is not expected to lead you to steal. He said: *Thou shalt not steal.* He said *as to the thief, Male or female, cut off his or her hands.* What is the ruling in Sikhism regarding the sentence for stealing? That is what I found most clear a dictum. “Depends on the nature of the crime and how it was committed and why. The answer is given by the Panj Pyaaray based on

each case. You cannot treat a poor man stealing bread to feed his family as the same as thief stealing gold from someone to fund a drug ring. This is a stark contrast to default amputations of limbs like the Muslims”.

The wickedness of evil-minded thieves, who secretly prowl over this earth, cannot be restrained except by punishment. Insider traders do steal INFORMATION, the most valuable commodity during the 4<sup>th</sup> industrial revolution. They are thieves. And the inside data of a listed company does not contain loaf of bread, but piles of gold.

Well, Ethics is a living thing. Some of its components will die. Some more stems will sprout. The definition will keep changing accordingly despite the irritation of conditioned outgoing generation. Stealing information might be treated as military intelligence which is very much required to win wars. (Now I feel really that I am an outdated man, and I cannot accept it.).

The ethical issues embrace new definition and change position in the list of importance. Below is an analysis of ethics time line by an American think tank. The last column is my non-American imagination.

### Risk Prediction

1960s	1970s	1980s	1990s	2000s	2010s
1. Environmental issues	1. Employee militancy	1. Bribe and illegal contracting practices	1. Sweatshops and unsafe working condition in third world countries	1. Cybercrime	1. Data stealing and Plagiarism
2. Civil right issues	2. Human right issues	2. Influence peddling	2. Rising corporate liability for personal damage (for example cigarette companies)	2. Financial Misconduct	2. Women rights and empowerment
3. Increased employee-employer tension	3. Covering up rather than correcting issues	3. Deceptive advertisement	3. Financial Mismanagement and fraud	3. Global Issues, Chinese product safety	3. Global Issues, US financial system safety
4. Changing work ethics	4. Disadvantages customers	4. Financial fraud (for example saving and loan scandal)	4. Organisational ethical misconduct	4. Sustainability	4. Conflict of interest and hidden agenda
5. Rising drug use	5. Transparency issues			5. Intellectual Property theft	5. Identity Theft.

Distinguished professional colleagues. In the middle of the corporate world in the era of capitalism, we the dwellers of the Indian subcontinent make no mistake in calculating the risk of death. The probability is One. The certified financial analysts are well trained in calculating the trend, moving averages, fundamental analysis of historical data. Projects risks are measured by many models. However, if you look at the most world-shaking failures, no financial risk model works. When probability is less than One, there are 99 other possibilities. And success of a risk return model also follows.

Did anyone forecast the meltdown of Enron? Sherron Watkins. Who pointed out to Harshad Mehta? Sucheta Dalal. Harry M. Markopolos is an American former securities industry executive and an



independent forensic accounting and financial fraud investigator first spoke of Madoff. None of the whistle-blowers was a finance person calculating IRR and Standard Deviation or performing sensitivity analysis. Their method was just like a post mortem operation. No prediction was there.

And Satyam? In 2008, a series of cyber-intrusions at the World Bank raised concerns about the security of international financial data held at the institution. The Bank's chief vendor for cyber-security, Satyam came under scrutiny and the company was exposed. Satyam, a billion-dollar IT outsourcing corporation collapsed under the weight of the fraud in January 2009.

In any of the cases I mentioned today, no one could make any prediction. No forecast anywhere that tornado is infusing. Cases were known and made famous post facto. Autopsy. All cases were referred to forensic accounting and financial fraud after the event. And given the strength thereafter.

### Uncertain World 2017

Ladies and Gentlemen. I had said a minute ago, and no doubt we all agree that risk is certain in the world. No doubt that no prediction is perfect. The world is uncertain. Uncertainty is nothing new. As we are discussing, the newspapers are making a few interesting headings: Mr Trump defends Mr Putin. BREXIT, Abuse of Australian catholic, Le Pen rails against globalisation, Tamil Nadu gets a new lady Chief Minister, India returns boy to mother in Pakistan. Chimps for sale. Textbook says ugliness causes dowry. Rohingas influx into Bangladesh. Missile interception, US and Japan pass critical test. Apple has 256 billion cash and so on. Each of us can add up some hair raising news with long run impact.

What is going on? We all are worried, possibly more than we should be. Tagore wrote:

Why fear the unknown?

Knowing the unknown, life will be fulfilled.

Knowing myself will never be over, I know.

On a path devoid of signposts, I tread along,

Dragged by the strings unknown.

Though unknown to my mother, I was lovingly cared for.

Unknown are all the lovers swaying and swinging the heart.

In this world unknown, so many songs play within.

Unknown is this life of mine, under its spell, I wander!

- Translated by Shailesh Parekh

We, the human race faced Zengish Khans, Vesuvius, Chernobyl, Tsunami, Great Depression. Two world wars. The holocaust. Massacre of Pakistani army in Bangladesh in 1971, I have seen in my own eyes. Our people faced Bhubaneswar gas leak. What else can

make us more scared? Let's stand first with our Sub-Himalayan values, faith and courage. Let's have faith in the power of Ethics. Whatever uncertainty is in our journey, we can overcome.

### Commentary

*However, there are certain matters of concerns. To me the uncertainty has at least two dimensions: First, the changing meaning of Ethics and Second, the 4<sup>th</sup> Industrial revolution.*

Talking about changing Ethics, it is scary. As I mentioned earlier, I am bothered by the pro Insider trading theories. Now let me take a minute to tell you about another issue: plagiarism. It looks like that plagiarism is also going to be a tolerable normal way to pretend our talent. Take an example. GPS is a popular programme at CNN and Mr Fareed Zakaria is the smart host. Jeff Zucker said he had "complete confidence" in CNN's Fareed Zakaria even after at least 24 instances of plagiarism had been discovered on his Fareed Zakaria's GPS show, a prominent journalism professor said he had no doubts that Zakaria is a serial plagiarizer. On Wednesday, Dan Kennedy, a journalism professor at Northeastern University, said he had "complete confidence that Zakaria is a plagiarist" after he saw Zucker's supportive comments. Fareed hosts Foreign Affairs and Foreign shows at CNN. My frustrated question is how the society and the viewers are still listening to him? Why does CNN continue to back him?

My question has been recently answered when Mr Donald Trump made a great American audience applaud to Mrs Trump.

On October 21<sup>st</sup> last year, Donald Trump joked at the Alfred Smith Dinner that media bias is clear when a speech Michelle Obama gave gets rave reviews, but when his wife Mrs Melania Trump gave, "the exact same speech," people got on her case. And Donald Trump said that he did not understand why that was. The audience applauded. So is plagiarism ethical and legal now?

Second, uncertainty is a sophisticated one, civilised and elegant. The 4<sup>th</sup> industrial revolution. The Founder and Executive Chairman of the World Economic Forum Mr Klaus Schwab made expensive surveys and predicted profound and systemic changes to come. He forecasted, among many things that by 2025, in 7 to 8 years' time, 10% of people will wear cloths connected to internet. 10% of people will have reading glasses connected with Internet. The first robotic pharmacist will be stationed in the US. The first 3 D printed car will be in production in the US. Tax will be collected for the first time by the Government by block chain. 30% of corporate audit will be done by Artificial intelligence. The scientific and technological advancement overtakes science fictions. Techno truth is more strange than science fiction.

We are talking about the 4<sup>th</sup> industrial revolution. The first profound revolution was our graduation from foraging to farming some 10 thousand years ago. Second revolution was the shifting of muscle power, any mechanical power in the first half of the 18<sup>th</sup> century. Third revolution began in the 1960s. Computer or digital revolution, as it was called. It was called the second machine age.

The 4<sup>th</sup> tectonic shift is my worry. We are in the Big Data age. Exciting. 10% of people are going to have spectacles connected to Internet.

Why should I be uncomfortable with this advancement?

If I say we are in the ice age, in Mumbai we will not believe it. But an Icelander or Siberian will still believe it. Now ask the same question in a sub-Saharan country like Sierra Leone, Guinee or Liberia. It is not the hot wind, but the sky is covered by high level dust flying out from the great Sahara. It is difficult to grow any crop, rice, potato or melon. No grass for the cattle. No electricity. What era are we living in? It is not an ice age. This is not an interglacial period. It is a sweaty age, arid age. Similarly, to the people without electricity the 4<sup>th</sup> revolution is a fairy tale.

The digital divide is expanding to a catastrophic crack. 1.3 billion people (17%) are without electricity. Electricity production fuels are hazardous. Education is expensive. Some 795 million people in the world do not have enough food to lead a healthy active life. That's about one in nine people on earth. 12.9 percent of the population is undernourished. Asia is the continent with the hungriest people - two thirds of the total. The percentage in southern Asia has fallen in recent years but in western Asia it has increased slightly. Poor nutrition causes nearly half (45%) of deaths in children under five - 3.1 million children each year. 66 million primary school-age children attend classes hungry across the developing world, with 23 million in Africa alone. Can our 4<sup>th</sup> revolution solve it? I look forward to seeing that. So far, however, there are no good omens that I can see.

### Conclusion

- The industrial revolution will bring changes in improving our audited accounts. Can we imagine that instead of catching thieves after the crime, our Artificial Intelligence will be impersonal and with a robotic spine catch them in advance?
- Can we expect the ethical differences will be ironed out by some heavy weight and hot sound minds? No artificial intelligence can help us. We, human beings have to use our IQ and EQ. Can we? If there was a single ethical standard among us in the human race.
- Can we reduce the digital divide? If we fail to do so, riots, mutiny, revolt, insurgence are inevitable.
- Let's arm ourselves with knowledge.

Whichever way civilisation and innovation may take us, let's not forget the Guruji's mantra. Don't tell lie. Don't steal. Do not ignore the human right of fellow inhabitants. The time of changing ethics has not yet come.

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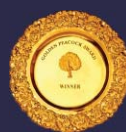
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