

# The financial crisis

[Literature](#), [Russian Literature](#)



In the context of 'stakeholder theory', it can be argued that large profits and concomitant bonuses as a reward for productivity are by no means a negative thing. As stakeholders in societies where successful business operate, all stands to gain provided business are willing to play the role of benefactor within the states that support them. 1. From a utilitarian perspective, would you argue for or against the proposed tightening of UK banking regulation?

According to utilitarianism, an action is morally right if it results in the greatest amount of good for the greatest amount of people affected by the action (Crane and Matten, 2007: 94). From a Utilitarian perspective, it seemed morally right until the financial crisis since it produced the greatest happiness of the greatest number. This included, for example, bank managers enjoying their bonuses and house owners being able to access mortgages for their homes.

However, after the financial crisis, it became clear that it was the greatest pain of the greatest number. For instance, banks were then bundling loans with 'toxic assets' which consisted of loans unlikely to be repaid. From a utilitarian perspective, the banking regulation caused more pleasure than pain in the short run, but since then it formed greater pain and less happiness in the long run as a result of the financial crisis. Therefore, the main principle of utilitarianism in the short run triggered the financial crisis in the long run.

According to the principle of the 'greatest happiness of the greatest number', it is clear that the result of the financial crisis was not morally right

because of the destructive structure and economic suffering that it formed. 1. Using arguments on the ' maxims' of duty, would you consider the UK banks to have acted ethically in their operations? Kant subsequently developed a theoretical framework through which these principles could be derived, called the categorical imperative (Crane and Matten, 2007: 97).

The categorical imperative consists of three parts, which Kant puts forward as follows: Maxim 1: Act only according to that maxim by which you can at the same time will that it should become a universal law (Crane and Matten, 2007: 98). The lending of loans and mortgages are morally right only if its maxim is universal. However, this maxim cannot be universalized because the financial system of the banks will collapse depending on the inaccurate information (toxic assets) that was passed on to borrowers. Therefore, this maxim cannot be universalized.

Maxim 2: Act so that you treat humanity, whether in your own person or in that of another, always as an end and never as a means only (Crane and Matten, 2007: 98). Lending of mortgages is morally right if and only if, in performing it, the lender refrains from treating any person as a means. In other words, every individual should be treated as an end in himself or herself. However, in the case study, the bank managers continued to maximise their lending for the sake of bonuses and so in turn, this made house owners suffer as prices rose and they are faced with negative equity. This meant that house owners became an end themselves while being treated as a merely means.

Maxim 3: Act only so that the will through its maxims could regard itself at the same time so universally lawgiving (Crane and Matten, 2007: 98). In this point, the motive for bank managers is 'desire' and so triggers them to exaggerate their lending which causes the increase in value of homes. This means that bank managers would not want their actions to be publicised, and so this act is immoral. 1. What clashes of rights are involved in this situation? Is it possible to judge their relative importance? Whose rights matter most in this situation? Natural rights are certain basic, important, unalienable entitlements that should be respected and protected in every single action (Crane and Matten, 2007: 100).

House owners' rights matter the most because those who borrowed off banks with mortgages were given false information about the hidden loans that were unlikely to be unpaid, let alone they had poor credit history. This relates to Maxim 2, whereas consumers were only used as a merely means, because bank managers' focus were bonuses. Therefore, it is not morally right that they were faced with negative equity and inability to sell, and so borrowers may have their assets repossessed because they are unable to pay back mortgages without the bank's support.

Subsequently, depositors' rights matter because when the financial crisis happened, banks were not getting a good return on capital, and so the only way they could have financed themselves were to opt the savings that depositors put into the banks. Clearly, this could have been a violation as the case study says 'depositors may have lost most of their savings'. This is

what led to massive deposits of withdrawals and accounts closing down so that those associated with the bank can save their money elsewhere.

Finally, shareholders' rights are the least important compare to the other stakeholder groups, because they were only affected by share price but not by the loss of their liquid assets that depositors faced. They also have rights because they invest and put trust in the company and so if the company is underperforming or not achieving, shareholders are not getting a good rate of return. Therefore, they have the right to withdraw their shares in the company and invest in another reliable bank.

1. Which other approaches to ethical analysis could help evaluate the current situation? An approach that could be applied to the current situation is postmodern ethics. According to Crane and Matten (2007) post-modern ethics is an approach that locates morality beyond the sphere of rationality in an emotional 'moral impulse' towards others. The application of post-modern perspectives would appeal to the 'moral impulse' and guilty feeling of the bank managers. The fact that deregulation was established, this allowed them to maximise lending and so this decision caused actual misery and economic destruction to the stakeholders (borrowers, shareholders etc.) involved. Parts of the decision were:

1. Holistic approach: the question could be whether bank managers have similar attitudes with regards to suffering in their financial circumstances? 2. Examples vs. principles: arguing in favour of borrowers and shareholder claims acknowledges important principles of business life in general. In this

situation, these principles complicate the moral issue of the economic suffering that is happening in the crisis.

3. Think local, act global: post-modern perspectives not only look at their decisions seriously but could decide on an issue in one way today and in other way tomorrow (Crane and Matten, 2007: 119). In this case, the governments are decision makers and they have to take one decision after the other as there is no moral principle valid for each and every situation. This relates to the governments bailing out banks in the UK for the sake of the global economy not to be affected.

4. Preliminary character: post-modern ethicists are often seen as more pessimistic than their modern counterparts (Crane and Matten, 2007: 119). In this example, this would suggest that an ethical decision on deregulation by the government would not mean that financial banks should start selling loans to anyone for the sake of bonuses. Rather one would argue that moral judgements have a preliminary character.

In conclusion, these perspectives suggest that if bank managers of the financial industry would be exposed to the misery they caused on their stakeholders, especially borrowers who believed to have suffered the most, their moral judgement would be different from just the way we see them as not using their borrowers as a means to an end. 1. Select a major financial organisation and critically appraise its current approach to Corporate Social Responsibility. Carroll and Buchholtz (2000: 35) state that corporate social responsibility encompasses the economic, legal and ethical and

philanthropic expectations placed on organisations by society at a given point in time.

For CSR to be accepted by a conscientious business person, it should be framed in a way that the entire of business responsibilities are embraced. There are four kinds of social responsibilities which form CSR; these include economic, legal, ethical and philanthropic. Also, these four components of CSR are presented as a pyramid and deserve closer consideration (Carroll, 1991). HSBC is headquartered in London, it is one of the largest banking and financial services organisations in the world.

HSBC's international network comprises around 7, 200 offices in over 80 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa (HSBC, 2012). For HSBC, corporate social responsibility means managing their business responsibly and sensitively for long-term success. Their goal is not, and never has been, profit at any cost because they know that tomorrow's success depends on the trust we build today. They also look to address the expectations of our customers, shareholders, employees and other stakeholders (HSBC, 2012).