If it's legal, it's ethical; and besides, everyone does it

Business

Trust is a cornerstone of ethics and financial markets transparency. Bank of America Vice President, Theodore Sihpol made profits from holding and placing stocks the following day when the profits were high. Mr. Tannin of Bear Stearns disseminated false information to investors. Galleon Group hedge-fund, Raj Rajaratnam obtained inside information through supporting the graduation parties of several young executives in major companies such as Intel. Arthur Anderson and Credit Suisse First Boston Corporation (CSFB) shredded documents that would be crucial in pending Enron investigations. The outcomes of such behaviors were costly legal suits by the SEC, loss of investor confidence in the industry (Jennings, 2012). Other executives were sentenced for long terms in jail.

There are no disadvantages competitively if companies do not engage in the same behaviors as those of the industry. Companies that behave ethically will attain a higher reputation and trust from clients thus gaining a competitive edge in the market. If firms do not follow the unethical industry behaviors, they will avoid costly suits by the SEC and gain market reputation (Jennings, 2012).

Some of the negative consequences for companies that adopted industry practices include costly suits by the SEC, loss of investor confidence and bankruptcy. Such companies distorted the market prices and led to a decline in the market capitalization since some investors sold their stocks below the issue prices in order to avoid further losses.