

<b>Institution:</b> Heythrop College
<b>Unit of Assessment:</b> Theology and Religious Studies
<b>Title of case study:</b> The ethics of finance and business
<p><b>1. Summary of the impact</b></p> <p>This case study looks at the impact on the international finance industry and big business of research conducted at Heythrop College by Catherine Cowley. Cowley's work is transforming the ethical framework with which some of the most powerful corporations in the world operate and how they understand their role in society, as well as influencing the direction and content of the public debate over the ethics of finance and business.</p>
<p><b>2. Underpinning research</b></p> <p>The research underpinning this case study was conducted by Dr Catherine Cowley, who was employed by Heythrop College throughout the project, before becoming an Emeritus Research Fellow in 2011. The findings were the culmination of several years of observation of the financial markets, but more specifically of work carried out in 2004-5.</p> <p>In the monograph that presented the findings, Cowley critiqued standard business ethics and mainstream economics, demonstrating that these prevented an adequate understanding of the particular features of the finance sector. The first half of the book set out a framework for understanding business and markets, the individual and common good, especially in the light of insights from Catholic social teaching. In the second half, following an examination of the nature and philosophy of money, Cowley presented a framework for examining the finance sector as a specific and distinctive sector of the economy. She examined the ethical implications of the use of derivatives, risk and cross-border capital flows for the finance sector itself and for the wider economy, and criticised the regulatory framework used by the Financial Services Authority, particularly as this was related to the individual financial practitioner through the Approved Persons regime.</p> <p>In particular, she argued that the ways in which risk measurement, distribution and evaluation were carried out, and the models used for that assessment, were fundamentally flawed. Giving a number of examples, she argued that risk was not dispersed through the system as the sector and mainstream economics claimed. Through the examination of the use of derivatives and the sector's volatility models, she argued that the whole financial system could be destabilised and suggested some corrective measures. Having looked at the systemic elements, she then focussed on the individual financial practitioner, both from the point of view of regulation by the FSA and by an examination of the employment and remuneration practices of the sector, including the use of bonuses. She highlighted areas where current assumptions and practices left the individual financial institution and the sector as a whole vulnerable to behaviour which was either unethical or at least lacking in judgement.</p> <p>A further piece of research carried out in 2006 extended the analysis of risk within the finance sector. In it, Cowley argued that the sector could undermine the necessary conditions for its own success by destabilizing currencies and markets. She correctly identified in advance that the use of credit derivatives in the US sub-prime mortgage market would bring about systemic failure.</p> <p>The financial crash in 2008 demonstrated that the findings of the research were correct – the distribution of risk was flawed, FSA regulation was inadequate, the whole financial system was open to destabilisation, and systemic failure resulted from practices in the US sub-prime mortgage market.</p>
<p><b>3. References to the research</b></p> <p><i>The Value of Money: Ethics and the World of Finance</i> (London: T&amp;T Clark, 2006)</p> <p>'Public Goods and Economic Risks', in <i>Values in Public Life: Aspects of the Common Good</i>, ed. by Patrick Riordan (Munster: Lit Verlag, 2007), pp. 173-187</p>
<p><b>4. Details of the impact</b></p> <p>Impact from the research was primarily generated by working directly with leading financiers and business leaders in two projects (the first leading into the second), instigated by the Archbishop of</p>

Westminster and president of the Catholic Bishops' Conference of England and Wales, Vincent Nichols.

### *The ethics of finance*

The first project began in October 2009. Cowley was involved by the Archbishop in a private seminar of leading international financiers, viz. the Chairmen of Barclays Bank, Lloyds TSB, Roundtable Investment Partners, HSBC Holdings, the Treasury Select Committee, and Marshall Wace; the Presidents of the CBI, PPF Partners Ltd, and Schroders; the CEO of Tudor Capital UK, the Global Head of Healthcare JP Morgan, the Director of Rothschild's, and senior representatives of McKinsey & Co, Goldman Sachs International, Deloitte, Schroders, Syntel, and Bain & Co. Also present were a former Chief of the Defence Staff, an Auxiliary Bishop in Westminster, the Vice-President and Assistant General Secretary of the Catholic Bishops' Conference, and Professor Stefano Zamagni, adviser to the Pontifical Council for Justice and Peace on the papal encyclical *Caritas in Veritate*.

The meeting was convened to discuss the implications of *Caritas in Veritate*, which seeks to place economic and financial activity in the broadest context of human flourishing and fulfilment. The encyclical outlines a vision for how 'integral human development' can be promoted through economic development and the opportunities afforded by technological change. Cowley was consulted in the preparatory note that raised questions for discussion, which drew heavily on her research into the ethics of financial markets, in particular, her analyses of (i) the relationship between the nature of derivatives, the use of risk assessment models and remuneration packages, and (ii) the relationship between market assumptions, the nature of the regulatory framework and the nature of moral decision-making. The purpose of the preparatory note and the discussions that followed, in which Cowley participated fully, was to help senior personnel to reflect on how these relationships operate and how behaviours might be modified.

The financiers were very positive about the first seminar, and requested a second seminar, convened in March 2010. They identified the need for a clear statement of their responsibilities as financial leaders and for a more philosophical statement of the underlying issues. Both were produced, with Cowley's involvement. The Assistant General Secretary of the Catholic Bishops' Conference drafted a letter, in consultation with Cowley, which was published in the *Financial Times* on 28 September 2010, entitled 'Financial leaders pledge excellence and integrity'. It was promoted by key participants from the seminars, and attracted significant support from other City leaders who co-signed. Archbishop Nichols comments that Cowley's 'detailed knowledge of both the Church's social teaching and the financial economy enabled her to act as a vital interpreter. She has greatly helped to shape and focus the work we have done to ensure that it is fully grounded in the reality of the market economy and the practical decisions of business leaders. At the same she has helped our secular audience to understand and engage with the moral and ethical challenge of CST [Catholic social teaching].'

The project was taken up by the Lord Mayor of the City, Nick Anstee, at a conference at Mansion House on 4 October 2010, at which the *Financial Times* letter was a focus for reference and discussion. Archbishop Nichols spoke at the conference, and his talk was informed by previous discussion with Cowley. The next Lord Mayor of the City, Michael Bear, took the work forward in a project entitled 'Trust and Values in the City', leading to a symposium in July 2011, a further conference in October 2011, a report on the conference, and the establishing of several further initiatives, including the City Values Forum and the Integrity Resources website. The *Financial Times* letter and the conference of October 2010 were identified as the origin of these development in a press release from the City of London Corporation on 27 October ('City institutions respond to demands for greater ethical accountability', note 1).

To further extend the reach of impact, Cowley also engaged extensively with the media, including a 30-minute television interview for *HARDTalk* broadcast on BBC News and BBC World News on 9 September 2009; *The Greed Imperative*, a 30-minute programme written and presented by Cowley and broadcast on Radio 4 on 23 May and 28 June 2010; a four-page feature interview in the monthly journal *Islamic Banker* in February 2010; and numerous appearances on Radio 4 and World Service panel discussions on the ethics of finance, including flagship programmes such as 'Beyond Belief', 'The Sunday Programme', 'The Moral Maze', and 'Front Row'.

### *Blueprint for Better Business*

The second project was initiated in 2012, when Cowley was involved in wider discussions hosted by Archbishop Nichols, not confined to the financial sector, but on the purpose of business. These discussions involved a working group that included senior representatives from JPMorgan, KPMG, private equity firms, a former Permanent Secretary for Tax, and Cowley. This work led to an initiative called 'Blueprint for Better Business?', with members of the working group becoming the 'core group' running the initiative. The Archbishop comments that Cowley 'plays a key role as a member of the core group guiding this initiative'. The aim is to turn the insights of Catholic social teaching and the tradition of virtue ethics into a body of knowledge that can be accessed by business leaders in a practical way. Cowley was involved in drafting and critiquing all the documents produced in creating the initiative, including a 20-page document 'Better Business' prepared for the conference, a Framework of Principles, and Archbishop Nichols's speech at the public launch. This work drew heavily on Cowley's research in the application of Catholic social teaching to business ethics in the first half of her monograph. She continues to assist in drafting and refining documents, ensuring that they both remain true to the tradition of Catholic social teaching and yet use everyday language and provide clear and actionable principles that those of all faiths and none can readily adopt.

The initiative was publicly launched at a conference on 18 September 2012, at which the CEOs of McKinseys, Vodafone, and Unilever addressed an audience of 200 business executives, mostly from 'the next generation' of CEOs – those on leadership development programmes in the top 20-30 companies internationally. After the conference, a number of work streams commenced, with funding raised and staff hired to co-ordinate. Cowley leads the group working with institutional investors. The work has included meetings with the CEO of Hermes Capital and other international players on how investors can encourage companies to embrace the principles outlined in the Framework as a practical way to enhance long term value, influence the allocation of capital and encourage seeking both a financial return and a return to society. This was followed, in spring 2013, by work with two of the largest asset managers in the world on how institutional investors can bring about change by changing the metrics demanded from fund managers. The group also introduced an interfaith dimension to its work by organising a meeting involving Chairmen and CEOs of different faiths and Jewish, Muslim and Sikh theologians.

Cowley was also centrally involved in work with Unilever and another large multinational to refine and shape a version of the Framework that can be used within a business, e.g. with employees, as well as a meeting with 25 CEOs of the largest UK companies.

As of the end of July 2013, the Blueprint core group was in preparation for two major events: a conference in October on 'Business Success Through Serving Society', with speakers to include, among others, the Archbishop of Canterbury, the former CEO of Oxfam, the Director General of the CBI, and business leaders from Unilever, Hermes, Blackrock, Credit Suisse, Morrisons, KPMG, Barratt's, and a former Director of the Institute of Fiscal Studies; and a 'soft launch' of the Framework of Principles at Davos in January 2014.

As the list of companies and executives with whom Cowley has worked indicates, the reach of the impact of Cowley's research extends throughout the international financial and business sector. Its significance cannot be exaggerated, as her work is at the vanguard of developments in business ethics at a time when there is more interest and dynamism in this field than ever before. It is notable that her involvement has, throughout, been at the request of research users, resulting in repeated engagements and the development of long-term projects and relationships.

### **5. Sources to corroborate the impact**

- 'Financial leaders pledge excellence and integrity', *Financial Times*, 28 September 2010: <http://www.ft.com/cms/s/0/eb26484e-cb2d-11df-95c0-00144feab49a.html#axzz2XoKiRarX>
- Report on the Lord Mayor's Conference on Trust and Values: <http://www.icaew.com/~media/Files/Technical/Ethics/trust-and-values-city-conference-287-11-2011.pdf>
- City Values Forum and the Integrity Resources: [www.cisi.org/IntegrityResources/index.html](http://www.cisi.org/IntegrityResources/index.html)
- Blueprint for Better Business project: <http://www.blueprintforbusiness.org/>
- The Archbishop of Westminster
- Assistant General Secretary, Catholic Bishops' Conference of England and Wales