

A call to Ethics

By Elchanan Rosenheim, Profimex
Tali Hadari, Profimex

The purpose of investing is to profit.

This is also our goal as investors, although, we do not pursue profit at any price. Unfortunately, we live in a society that sanctifies personal gain, money, and power; a society that does not attribute sufficient importance to the way profit is achieved. In such an environment, it is hardly surprising that public funds are squandered by controlling shareholders, and it is not uncommon to learn about fraud in the investment market.

Today, it is clearer than ever that improving the ethical business environment must be considered a matter of vital necessity.

Many of us wish to see profitable investments conducted ethically. This norm will place us on a better path as a society.

While efforts of the legal system to solve the problems of fraud, deception, and dishonest conduct are most welcome, the law is not enough on its own, because it can never cover every situation. The wheels of justice move slowly, and thus there is no substitute for ethical responsibility, especially in an environment that sometimes lacks enforcement and deterrence. Furthermore, illegal conduct is, by definition, unethical, but ethics holds much more than the law. The parts where ethics are most vital are in the areas not covered by law, i.e., in areas considered inappropriate, though not necessarily illegal.

Conducting business ethically does not attract the import it is due from lawmakers, the media, regulators, and stakeholders. Perhaps if honest conduct in business received the attention it deserves, we would at least be aware of fraud and deception and could reveal it before it is too late, saving us from having to pick up the pieces after the damage has been done and investors have already lost their money.

And as we are dealing with the law, I want to turn to the most venerable legal and ethical systems—our spiritual belief systems.

In Hebrew and Christian scriptures, for example, the Old Testament not only demands that we proactively refrain from forbidden acts—it also calls upon us to avoid acts that involve conflicts of interest or exploitation of a person's weakness, as detailed in the Book of Leviticus:


“Do not curse the deaf, do not place a stumbling block before the blind. Do not pervert justice; do not show partiality to the poor or favoritism to the great but judge your neighbor fairly. Do not stand idly by the blood of your neighbor. Do not hate your brother in your heart. You must surely reprove your fellow so that you do not incur sin on account of him.”

We have a duty to act, and to warn a person who is doing wrong, to try and prevent them from continuing this behavior.

Furthermore, as written in the Gospel of Luke in the Christian New Testament, “Whoever can be trusted with very little can also be trusted with much, and whoever is dishonest with very little will also be dishonest with much.” This is the precisely why we have the obligation to condemn immoral conduct. Although the parable refers to financial conduct, it has a much broader import. Ethically speaking, there is no such thing as de minimis; every choice of conduct is also a test of character.

The same Gospel of Luke also brings us the Parable of the Good Samaritan, which itself refers to the Old Testament command to “not stand idly by the blood of your neighbor.” This command has even been partially adopted by Israeli law (though it refers to civil law rather than criminal law), forbidding us from standing aloof while someone is in danger. This command has been interpreted to apply to any case in which a person may be harmed, including suffering financial damage, and one does nothing to warn that person.

Further, the verse that commands us to “not place a stumbling block before the blind” was interpreted to apply to any person who lacks information about a particular subject. Professor Nechama Leibowitz, an Israeli biblical scholar, expanded the interpretation of the verse, calling it a positive commandment to proactively prevent a person from failing.



So, is it possible to make a profit while applying high ethical standards?

This means that if we know of a person who may enter into a transaction with a dishonest person, perhaps due to their lack of knowledge or experience, we must take action to prevent them from making such a transaction (or investment).

Maimonides (“Rambam”), the 12th Century philosopher, also interprets this verse to suggest that blindness may also refer to a low moral level, and the “stumbling block” is the temptation of something forbidden. Which means that we, as a society, must create an environment in which legislation, enforcement, and punishment do not place a stumbling block before the blind. We need a society that condemns unethical and fraudulent conduct; a society that has ethical norms and wields tools to reward honest behavior.

Other religious scriptures, such as the Islamic Quran, not only forbid doing wrong for personal benefit, but also questions a person’s entire belief system if they are dishonest: “There is no faith for one who lacks honesty.” There is a holistic connection between how we conduct business and who we are as people. If we heal our business environment, we may also be able to heal society itself, regardless of religious belief.

Similarly, a well-known Hindu passage states, “the entire purpose of our life on this earth is to benefit others through one’s life, possessions, thoughts, and words.” (And, importantly, our professions, as well.)

The philosophers of moral relativism, such as Protagoras, Nietzsche, and Weber, believe that morality varies between times, geography, and cultures. However, these few examples addressed above demonstrate that all spiritual beliefs acknowledge the importance of moral standards. Establishing a profound code of ethics for our profession will take this to the next level as a unified code of conduct.

Yes, it is possible

—but it is not easy. It requires that we work much harder at the challenges that stand before us, as difficult as they may be. In truth, this is the simpler case. We want to focus on another, more challenging, situation in which the choice to act ethically may seemingly contradict making a profit, which is not unusual in the world of business.

We use the term “seemingly” due to the belief that even if preserving our values costs us money, it creates value. When we manage investments responsibly, we have a profound obligation to be accountable for our actions and obligations, even during difficult times. The good news is that ethical, moral, and transparent management of our businesses is not at odds with making a profit. Ethical business conduct ultimately makes excellent commercial sense. Whether you call it “smart ethics” or “enlightened egotism,” taking the moral path is good for business and makes sound, long-term economic sense.

The financial crisis of 2008 was the most significant in the past century. Companies were obliterated, and securities and bonds were rendered worthless. Throughout this challenging environment, we never abandoned the investors at our firm. Rather, we worked hard, and often without compensation, to minimize losses. Regretfully, we could not manage to prevent them all, though we succeeded in minimizing losses and even making a profit for our investors in many investments that were at a high risk of losing funds, while many other investment managers worked only to protect themselves and their personal losses.

This lesson brings us finally to one of the most important points of all—the Law of the Conservation of Value (similar to the Law of Conservation of Energy), which says that hard work, even that done at a considerable cost, will never have been made in vain. Even if we eat into our profits, we are still able to preserve value through our reputation, the trust of our investors, and in the extensive experience that we accumulated during and after the crisis.

Therefore, despite upsetting incidents that hurt our industry’s reputation from time to time, we refuse to give in to pessimism. We believe that consistent honest conduct is most effective and rewarding—especially in the long run. If everyone plays their part, whether out of religious conviction, private conscience, or pragmatism, together we can work in a decent society grounded in ethical business conduct and a healthier commercial world.

To learn more about AFIRE’s ethics program, visit afire.org/about