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Ethics in Finance, Financial Globalization and Stakeholder Responsibility: New Concept of Corporate Finance

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Abstract--- *This article deals with the foundation of financial theory into corporate finance. Using analysis and synthesis scientific methods, and especially with the requirements for the successful application of these methods, in this article is not only review the financial literature but also it is shown the future approach of the expected financial paradigm. The aim of the paper is to describe and review financial theories in terms of classical, modern and actual approach; but also it is described the future approach of corporate finance in terms of financial function to establish the evolution and the cultural situation that affects the financial theories. This financial paradigm integrates ethics in finance, financial globalization, ICTs and stakeholder responsibility. The main result of this paper shows that it is necessary to take into consideration into financial paradigm aspects relate to the ethics, and concern to broad stakeholders interests to improve the efficiency of corporate finance that carry out the common good of the society.*

Keywords--- *Descriptive, Ethics in Finance, Financial Theories, Corporate Finance, Internationalization, Stakeholder.*

I. INTRODUCTION

The evolution of financial economics has led to a dichotomy between financial market and corporate finance. This differentiation is interesting not only because their intrinsic character, but also because of the interrelation that maintain both approaches, especially until 50s. This point will be the basic area in which this article is framed.

Corporate Finance or Financial Economy and Financial Market or Corporate Financial Economics are the two perspectives of Financial Economics, as a whole. The first reflects the financial decisions that business managers take in order to achieve efficiency of financial management in the company. The second is referenced by those investors' behaviours in the market. In corporate finance, the financial decision impact into the corporate value and it is influenced by manager corporate decisions in terms of the fact that they decide to uptake, distribute and allocate financial resources, always under the control of the corporate governance. So corporate finance has gained importance in terms of business valuation, and this impact is translated into value creation (Azofra, 2005, Brennan, 1995; Flórez, 2008, Miller, 2000; Zingales, 1998). Then, in this line the finance function could be considered as a

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description of resources and financial means to have it on the generation and adding value to the company as a whole (Ross et al., 2005). However, financial market´s theories focus on consumer choice and investment portfolios and asset pricing models, are usually under theories of efficient markets.

II. Review Of Literature: From Classical To Actual Approach Of Corporate Finance

The financial economy in parallel with the evolution and development of firms and markets has changed substantially as a separate discipline from the 20s century. They are historical events which have defined economic development. Therefore, in order to improve the understanding about how the financial economy has evolved and in order to appreciate the changes that have a relation with the responsibilities and functions of corporate finance, we have developed a chronological analysis to show financial economics´ scope based on the financial theories.

In its origins Financial Economic has focuses on the description of mergers and acquisitions (Dewing, 1914). In this era, known as *classical* period it is studied the financial area in a descriptive way; investments are made because of technical reasons and companies exclusively linked the investment to profitability, as funding was secured. The two major events of the time, the Great Depression and the World War, cause a change in the focus that concentrates in the bankruptcy, corporate reorganization, corporate liquidity, capital budgeting, financing and regulation of markets values in a context characterized by the failure in business and markets. At this time the company is the apex of all financial explanation.

2.1. Classical Approach

The beginnings of financial economics as an autonomous discipline coincide with economic events that occurred in the United States in the late nineteenth and early twentieth century. And, in particular with the emergence of large corporations that come after industrial development, expansion and increased competitiveness in the market due to railway line. In this context, financial studies focused on the description of the media and financial institutions, through which companies got their money, especially in the long-term as well as the causes of failure and business reorganization processes for adapt to new conditions in the economic environment. Investment decisions were not given attention, since, at that time, the problems that arose from the asset were minimal.

One of the pioneers in studying financial economics, Arthur S. Dewing, published his key research that lays the foundation of finance in that time, called "Traditional View of Finance" (Gomez-Bezares, 2005). Dewing's work, a Finance Professor at Harvard, "Corporate Promotions and Reorganizations", written in 1914 reflects the facts that gave rise to reorganisations and mergers resulted in concentrations during the first decade of this century. One of the more relevance evidence and cause of the failure of certain companies was their inadequate financial structure.

2.2. Modern Approach

Similar to the development of Economy was the Companies situation; the modern approach of the financial function is originated after Second World War. Continuing, period in which there is a strong economy expansion in the occidental World. Moreover, the technological changes led the diversification of companies, motivated by the different level of technology of companies´ production structures.

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Returning to the economic and financial situation of that time, in the half of fifties there were a strong economic expansion. The economic development after the war was impulse by technological advances, because of that new industries production emerged. This situation causes at the end of 50s or beginning of 60s a hard competence which impact negatively in the reduction of corporate profits. The greatest diversity of business opportunities in terms of their profitability, and the lack of financial resources as a result of financial constraints, highlighted the financial function relate to the proper allocation of scarce financial resources and the search for profitable investment alternatives.

2.3. Actual Approach

After the economic expansion of 50s and 60s, the 70s started a severe economic crisis in the Western world, with a dramatic increase in prices of raw materials, especially oil after the oil crisis of 1973. It had an impact on the general price index and high levels of inflation hardly predictable, recessions andrestrictive government measures on economic activity. The main function of finance was to optimize the risk-return relationship.

The 70s was considered as the most productive decade in terms of research about financial concepts; specifically, in the mid-70s at the time coinciding with the publication in the Journal of Financial Economics from the work of Jensen & Meckling (1976) about agency theory. It produces a change in financial area and principally in terms of corporate finance or, as some financial experts prefer to say organizational finances significantly increased compared to the previous period (Azofra, 2005; Brealey et al., 2007; Mascareñas, 1999; Tirole, 2006, among others). Azofra argues (2005), for example, that the most important contributions of research conducted over the past twenty-five years of the last century are part of the scope of the agency paradigm and, with the help of it, "lived their organizational finances golden age during the 80's" (Azofra, 2005: 125).

III. The Financial Function In Corporate Finance: The Results From Classical To Actual Approach

Economic fluctuations and the scientific and technical development have allowed to the finance function evolves from a descriptive to an analytic perspective that focuses on the study and development of financial instruments and techniques leading to complex financial models designed to respond to business reality in each of the period. In this table it is established a summary about the new conceptions of the finance function. In actual period the financial resources of the company were managed for not only active but also predictive way, which requires anticipation of the variables that will influence financial decisions, although the models are made at this time using historical data which ends with minimal chance of anticipation of facts not previously occurred. The risk variable is introduced to make financial decisions both long and short term, and others such as profitability or liquidity were also incorporated.

IV. Methodology

In general, analysis is defined as the procedure by which we break down an intellectual or substantial whole into parts or components. Synthesis is defined as the opposite procedure: to combine separate elements or components in order to form a coherent whole (Soldevilla, 1988).

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Then, in this paper considered into Economy discipline we have used analytical-synthetical method because only through the decomposition of the phenomenon in its basic variables and generalizing their assumptions become the knowledge into law (San-Jose, 2012). In addition, we have considered that the economy, as a science, is intended to make predictions that can be made only when there is sufficient capacity available synthesis or common sense adequate to reach the ultimate knowledge of the causes of an economic phenomenon. The experience, study and support of financial experts have led to these results.

V. Predicting The Future Approach Of Corporate Finance: The New Financial Paradigm

Since 1990 various crises have occurred throughout the planet (Caprio & Klingebiel, 1997). Principally, because of the economic globalization, the financial crises are not isolated (Beim, 2001; Detragiache & Ho, 2010). The finances during this last stage seek to create value by operating new investment schemes, financial leverage and even methods and techniques to avoid creating toxic assets (Urionabarrenetxea & Rodriguez, 2010).

The study carried out by Santos et al. (2007) is very important in this sense because it is identified the aspects linked to theories that are booming in this discipline (agency theory, corporate governance, business ethics and stakeholder theory) by reviewing the financial textbooks. The aim is to extract in an explorative way what the current financial paradigm is highlighted in the basis of the financial literature. In addition, Santos et al. (2007) also analyzed the business approach, objective, in which the books have been framed, to identify if they conform to the development of finance.

5.1. Ethics in Finance

It is now possible to maintain in the financial economy the dichotomy between being and should be, because much of the financial decisions involve not only the means but also the ends. Likewise, the previous valid judgments of corporate finance experts may affect the results; therefore business ethics should be integrated into the discipline of financial economics analysis (Fernandez, 2004). However, finances are often considered free of "ethics charges" (Anbalagan, 2011: 60); one reason could be the thin line that is given to the relationship between finance and law.Within the financial paradigm tend to define that this rational agent is individualistic, materialistic and competitive (Dobson, 1997). In this context, finance has been reduced to the mathematical function of maximizing shareholder wealth; assumptions that are required for solid mathematical models (Anbalagan, 2011).

The integrated risk management in business and behavioural finance are specific areas of finance that require analysis from ethics. In financial theories, such as that of Modigliani & Miller, and the Valuation of financial stocks CAPM the main risk is systemic one, and this has minimized the need to manage the specific risk, and thus the impact that business decisions have on employees and other stakeholders that are greatly affected by that risk. However, currently in finance has appreciated the importance of managing risk, both systemic and specific in order to create value in the company by creating value for all stakeholders, not just shareholders. Thus, financial theories must evolve in this direction in order to reliably represent the company's financial reality.

In short, the lack of explanatory power through the theories of the firm and promote purely financial theories explaining financial events from ethical discipline. Currently the areas where ethics arouse greater interest in finance are the following ones (Anbalagan, 2011):

1. Creative accounting, revenue management and financial analysis misleading.
2. The insider trading, securities fraud and manipulation of financial markets.
3. The executive compensation: concerns excessive payments made to company CEOs and senior management.
4. Bribery, bribery and facilitation payments: while these may be in the interests (short-term) of the company and its shareholders, these practices may be anti-competitive or may violate the values of society.

5.2. Financial Globalization

In the late XIX century international finance had a great development with the consolidation of the union of industrial capital with bank capital and society system institutionalization (Hilferding, 1985). But until the last decade of the XX century it has not culminated the evolution of financial globalization, based on the increase in global relations through transnational financial flows (Prasad et al., 2003). This process has originated the development of the international financial system supported by liberalization policies, regulation of national and international markets, the expansion of multinational corporations and the advancement of information and communication technologies.

The globalization has influenced the business size and organizational complexity; and currently larger economic and legal structures are more complex (Ross et al., 2005). Corporate finance is changed, partly because of the phenomenon of financial globalization because the financial integration has affected and developed them substantially.

5.3. New Information and Communication Technologies in Finance

ICTs have become an engine of economic development, and thus of the financial economy (Weston & Brigham, 1994). According to Badawy (2009) there is now a new way of thinking about finances throughout the ICTs evolution.

The effects of ICT are improvements in productivity growth and economic growth at the firm level (Brynjolfsson & Hitt, 2000; Oliner & Sichel, 2000). The traditional management of the company evolves towards managing people and processes in which the use of digital tools and the Internet is essential (Mackenzie, 2010). The new business model is based on digital communication methods in which the functions of the company, among them also the financial function needs and requires the evolution of ICT. In this context, the technologies should be considered as tools that have promoted the change of the company's financial function. This variable has led the way to do finance, not only interms of how to manage the funds and financial instruments, but also creating new technology needs to which we must respond from electronic financial management.

5.4. Stakeholder Responsibility and Corporate Governance

In recent years, our understanding of corporate governance has been enriched by new insights into the problem that the evolution of the company has brought. As a result, "the government's approach from the perspective of

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shareholders (shareholder model), conservation-oriented financial capital, has ceded its dominance in corporate finance to approach the problem from the perspective of all stakeholders (stakeholder model), focused on organizational capital preservation "(Azofra, 2005: 133).

The vision of the problem stems from government redefining the notion of ownership, value creation is a result of the synergies that occur between the different factors of production, as in the positive agency theory. The stakeholder approach is based on the shareholders are not the only residual claimants of incomplete contracts (San-Jose & Retolaza, 2012). Thus, the property is defined both by residual decision rights as the appropriation of residual income, so that those stakeholders who are assigned a residual power of decision to better exploit their personal knowledge, become partially owners (Hart, 1995, Hart & Moore, 1990).

VI. Summary And Concluding Remarks

This paper provides an in-depth description of the most important financial theories during the classical, modern and actual approach. Moreover, it is shown not only the actual approach in corporate finance but also, it is established the future approach. The used view is the financial function because in this way it is useful for decision-making into corporate finance. Then, this theoretical paper supported by their approaches reinforce the roots of a new understanding of the corporate financial theory of nowadays that involve the moral decisions taking into considerations the stakeholders´ interests.

The most important contributions of this paper are twofold; firstly there is a scientific contribution because this different form to develop the corporate finance allowing for not only the efficiency as operational but also with the moral and ethical point improves financial strategically success of corporations. Secondly, the corporate finance in which the stakeholders value creation is taking into consideration permit the understanding of the firm in line with the integration into the governance and decision making of all of the interested agents that results into common good in terms of corporate finance not only because of higher financial performance, but also because social performance, as well. This paper involves the developing corporate finance future approach with ethical, global, technological and considering all of the stakeholder interests. It will be considerable into the management and strategy of companies to achieve the common good of all of them.

The main limitation of this work is that we have studied the corporate finance from a theoretical view. The robustness of this view is based on the option that it brings to achieve empirical results that will permit the corporate financial modeling integrating the explained aspects ethic, globalization, technologies and stakeholder interests that will result into the improvement of companies' performance, financial and social ones. In future works, other theories that may influence the corporate finance view, such as behavioral finance based on experimentation the financial institution theories, moral hazard theories and so on should be in-depth included in the analysis. The implementation view shows also, the necessary development of corporate financial tools that permit financial managers the identification and management of stakeholder interests bearing in mind the ethical issues in finance. Finally, a future possible research line will be the development of a tool in which the relationship between the ethics in finance and financial market are integrated.

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