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Underlying Values and Consequences in Financial Services

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Abstract. The freeing of financial markets has brought with it increasing sophistication in regulatory regimes. Over time, a succession of frauds and financial scandals has emphasised some limitations of these complex regulatory schemes. This paper seeks to address the reasons for the events that have caused concern, and suggests that they are to be found principally in three categories: (1) the underlying values that drive financial services; (2) the assumptions and values of regulatory regimes, and (3) the increased opportunities to break or evade the rules. Some possible ways forward are sketched.

Keywords: business values, financial regulation, stakeholders' expectations

1. Introduction

The globalisation of financial services accelerated after the Bretton Woods agreement of 1944 and further with the floating of exchange rates from the early 1970s. The continuing digital revolution, the accelerating growth of world trade and (albeit patchy) economic development, and the number and size of stock exchanges are all factors in the expansion of financial services.[1] The accompanying expressions of public concern are not new.[2] In proportion, the economic and social damage, especially to public confidence, may have been be no greater from the 1980s onwards than occurred in the South Sea Bubble[3] in the eighteenth century. Outcries and causes célèbres reappear frequently. As a result and over time, regulatory regimes, designed to control the effects and prevent further outbreaks, have become increasingly sophisticated and increasingly severe.[4]

The bankruptcy of the energy trader, Enron,[5] and the investigations in 2002, with the related accusations of wrongdoing on the part of the company's auditor, the major accounting conglomerate Arthur Andersen, have indicated the limitations of sophisticated regulatory regimes. The Maxwell pension collapse sets an alternative example. In turn, these limitations invite questions about the reasons for the problems and the assumptions of regulation.

This paper seeks to address the reasons for the events that have caused public concern (although not much academic research), and suggests that they

Table 1. Output by sector, U.K. (£/million)

	1992	(%)	2001	(%)
Agriculture	9,918	(1.8)	8,912	(1.1)
Manufacturing	115,891	(21.2)	155,531	(18.7)
Financial intermediation	131,127	(24.0)	238,510	(28.7)
Other	289,498	(53.0)	428,099	(51.5)
Total	546,434	(100.0)	831,052	(100.0)

Source: U.K. Annual Abstract of Statistics, 2002, p. 235.

are to be found principally in three categories: (1) the underlying values that drive financial services; (2) the assumptions and values of regulatory regimes, and (3) the increased opportunities to break or evade the rules. Finally, areas that promise ways forward are identified, and sketched in outline.

2. Financial services: underlying values

Financial services are not alone in being targets for regulatory intervention by governments, but their combined turnover accounts typically for a quarter of the output of developed countries, as the example of the U.K. shows in Table 1.

Thus, financial services' importance to a country's economic growth justifies in a way governments' preoccupation with regulatory interventions. Furthermore, although the need to maintain public confidence is not unique to financial services, yet the effect of stock market breaks (i.e. dramatic falls in prices) or lack of confidence in financial products that can be immediate and dramatic for those directly involved and, subsequently, for the public point to a need for a further investigation of their role to society in general. Of course, conditions of sale developed by each sector and by regulatory regimes vary between countries and in the same country over time. Despite all this, the outbreaks of public concern tend to focus on similar problems, ranging from major frauds to bank collapses. There are differences in the nature of concerns, however. For example, the so-called *mis-sold*, long-term insurance and assurance and house mortgages seem to be endemic in Britain. Mis-reporting by companies, apparently undetected by some auditors, appears to be a more specifically American concern.

2.1. *Identifying the underlying values:*[6] *some general remarks*

Normal values can be seen in, or inferred from what people say and do. They can also be seen in the policies adopted by business and in the official statements made about them. It is worth mentioning that the values are not new inventions for each action or policy statement. Their generation and propagation are the results of much discussion within firms and within the institutions that interact with them. Few values are new, and some assessments of business values echo through the ages. At the same time, it is often said[7] that the meanings of values change between different cultures and within the same culture over time. For instance, it is said that 'democracy' meant something different in classical Greece from what it means in America or Europe now.

Mostly, values are expressions of *ideals* that inform and guide practice. Sometimes they might be vague, but contain much *emotional* meaning. The vaguer they are, the easier it can be for people to become committed to them. At a less exalted level, values are visible in ordinary statements of company policy, where they share the characteristics just described. 'Official' values are usually beyond reproach. They appear in codes of practice in the form of assertions, for example, that all business will be pursued with *integrity*, that bribery will not be tolerated, and that the business will deal fairly with customers, suppliers and employees.

2.2. *'Normal values' in financial services*

Values drive all businesses. The values can be widely shared or idiosyncratic, competitive or co-operative.[8] They can be technical, prudential or moral (ethical).[9] For the purposes of this paper, *normal values* are normal in that they *set* the norms for behaviour, and can *usually* be seen to operate in practice. They are generally accepted in principle: it is the departures from the norms that attract attention. The causes for the departures are the subject of Sections 3 and 4 below.

Examples of normal values set in codes of practice by financial institutions are:

> 'Act fairly and reasonably in all our dealings with you' (specific commitments are listed, including, for example, 'have secure and reliable banking services,'[10] and procedures for handling complaints).

An American example is provided by the *Security Pacific* real estate broker.[11] The code, dating from the 1980s recognises the corporation's position as a leading financial institution, and offers and explains six principles:

1. To 'provide our customers with quality products and services which are innovative and technologically responsive to their current requirements at

appropriate prices. To perform these tasks with integrity requires that we maintain confidentiality and protect customer privacy, promote customer satisfaction and serve customer needs . . . .'

2. To 'establish an environment for our employees which promotes professional growth, encourages each person to achieve his or her highest potential, and promotes individual creativity and responsibility.'
3. Employees 'strive to understand and adhere to the Corporation's policies and objectives, act in a professional manner and give our best effort to improve Security Pacific . . . .'
4. Employees are 'committed to promote a climate of mutual respect, integrity and professional relationships characterized by open and honest communication within and across all levels of the organization.'
5. To 'strive to improve the quality of life through our support of community organizations and projects . . . '
6. To stockholders: 'We will strive to provide consistent growth and a superior rate of return on their investment, to maintain a position and reputation as a leading financial institution.'

From the Association of British Insurers: [12]

> 'It shall be an overriding obligation of an intermediary at all times to conduct business with utmost good faith and integrity.' Specific procedures for sales, explanations, documentation etc. are included.

2.3. *Insurance principles and values*

Insurance principles are sometimes presented as technical matters, involving complex statistical and actuarial concepts and procedures. Legal principles are also relevant: [13] *insurable interest, indemnity, contribution, subrogation and proximate cause.* These imply that the client must have a financial interest in what is to be insured; generally, insured clients are entitled to be returned to the relevant financial position as it was before the loss. If several policies are taken for the same event, each insurer will be liable for no more than a share in payments to the client; insurers are entitled to claim reimbursement from relevant third parties who are held to contribute to the risk-event when it occurs. Finally, the event must be shown to be caused as a result of a *peril covered by the policy.*

The point here is that the aspirations of the codes are usually impeccable. These 'normal values' are logically and temporally prior to the codes themselves. The value-set is a typical mixture of technical and prudential concepts, underpinned by the ethical/legal concepts that contracts shall be honoured and that claims must be genuine.

The codes also reinforce and help to ensure the maintenance of the values that they express. We have every reason to believe that the institutions quoted are effective in generating and maintaining the standards that they express.

2.4. *Persistence of issues*

Despite the expansion of codes of practice, especially in the Anglo-Saxon countries, the problems remain in financial services. They can arise, we suggest, from a variety of sources:

1. Not all persons who provide services in the industry subscribe to the codes, which are usually devised and promoted from the top, and enforced, with varying degrees of thoroughness on employees.[14]
2. Not all businesses are committed to the codes, even if they are officially required to endorse them.[15]
3. There can be (and have been) many examples in which the payment ('compensation') systems for agents, in insurance or securities, for example, encourage, or even require salespersons to 'cut corners' or flout the rules.[16]
4. In-company supervision is not always adequate, as appears to have been the case in the trading that precipitated the demise of Barings Bank in the early 1990s through its trading in Singapore.[17]

Problems thus can and do arise in the gap between impeccable aspirations and actual practices, some of which develop in the informal systems that support or militate against the official ones. These practices, if in breach of the codes only by a small minority, cannot always be resolved by remedial action in particular cases. The public perception of the industry concerned may be at risk, giving rise to the need for the authorities to be seen to have policies for reducing or eliminating the problems.

On the positive side, in business in general, most transactions are paid for more or less on time. Most products are beneficial to their users, notwithstanding major problems of uses of such substances as asbestos, or of environmental damage. Relationships between banks and insurance companies and their employees and customers are usually to their mutual advantage, even if the distribution of gains and costs remains controversial. But that the transactions are usually sound is no consolation to customers or others for whom the transaction go wrong. It is to prevent or repair these problems that the regulatory systems, voluntary or statutory have been developed.

3. The assumptions and values of regulatory regimes

3.1. *Regulatory problems: the U.K. case*

The U.K. has one of the largest financial markets in the world, which since the beginning of the last decade is in a continuous process of evolution like the majority of the financial markets in developed countries. However, there are still fundamental problems acknowledged by theorists and practitioners and much criticism is under way.

Howells and Bain (1994) [18] summarise the main issues as they were in the early 1990s:

> There have been in practice many serious problems since the implementation of the Financial Services Act and the City has been racked by a number of scandals. Some of these have been a hangover from the previous system of regulation, but even these have provided warnings for the future.

The scandals have included:

- The manipulation of markets in the takeover by Guinness of the Distillers Company.
- Investment fraud, notably in the Barlow Clowes affair.
- The problems of the losses at Lloyd's of London and the subsequent problems for Lloyd's 'Names.'
- The collapse of the Bank of Credit and Commerce International as well as other smaller banks.
- The failure of the London FOX (the London Futures and Options Exchange), one of the recognised investment exchanges, to prevent employees from engaging in improper conduct in collusion with firms operating in a new property futures exchange.
- The widespread sale of Home Income plans (products allowing purchasers to convert equity tied up in their homes into income) to customers for whom the product was not suitable, and, perhaps most worrying.
- Robert Maxwell's systematic theft of large sums of money from the pension funds of his various companies.

Later, in 1995, in Britain, the Chairman of the Securities and Investments Board (SIB), subsequently the Financial Services Authority, identified for the Treasury and Civil Service Committee some specific criticisms made to him, in his *Review* of the working of the legislation [19] that had been in force since 1986:

(a) The objectives of the act are unclear.
(b) There is suspicion that self-regulation equates with self-interest.
(c) Cost effectiveness is not evident.
(d) Too much fraud goes unpunished.
(e) The system is too complex.
(f) The retail area is ineffectively regulated.
(g) The regulation of professionals is still not sufficiently distinguished from that of the retail market.
(h) The compensation scheme is unfair as to funding and inappropriately structured.
(i) The regulation of exchanges and markets is imprecisely defined.

Many of these criticisms continued to be made to the Treasury and Civil Service Committee. The Committee's final Report was in October, 1995. The main recommendation was for no major change, and the Government agreed.

The government itself changed in May, 1997. The new administration of Prime Minister Blair, preferred to reverse direction, and opted for statutory regulation with a single Regulator (i.e. the Financial Services Authority), with voluntary support. The previous regime had been essentially a system of semi-voluntary 'industry self-regulation' with statutory backing. The new system was established in the Financial Services and Markets Act (2000). The main points of the Act are outlined below in Section 3.3.

3.2. *Regulatory problems: the U.S. case*

Rising tide of financial scandals: The Savings and Loans crisis of 1983–1984[20] heralded a collapse in high-yield bonds. In the 1970s and 1980s well-publicised insider dealing problems prompted much action from the Securities and Exchange Commission.[21] More recently, WorldCom telecoms group had exaggerated its revenues, and was subsequently made bankrupt; Arthur Andersen, the major accounting and consulting conglomerate collapsed as a result of discoveries that as auditor, it had signed off the false accounts of ENRON, and both were accused of shredding relevant, possibly incriminating documents;[22] Qwest accused of booking revenues that had not been earned: inflated sales by more than a billion dollars;[23] Merrill Lynch, merchant bank accused of 'endorsing stock that they privately denigrated in order to secure investment banking fees.'[24]

'The number of government investigations into allegations of company fraud in America has risen to more than 100.'[25]

Regulatory Capture fears: The SEC Chairman resigned[26] over his appointment of Mr William Webster as Chairman of the Public Company Accounting Oversight Board (he was on the audit committee of US Technologies, an internet firm, without telling the SEC). The Chairman, Harvey Pitt, had also worked for all of the big accountancy firms as a lawyer. Potential conflicts of interest were at issue. *Regulatory capture* is defined in the *Penguin Dictionary of Economics* as 'The situation that occurs when regulators advocate the interests of the producers that they regulate' (Bannock et al., 1998).

3.2.1. *Current proposals for reform*

Examples of current proposals for reform of the American system include Bloor Research,[27] suggesting 'Renovation in 3 areas: Cost of Intermediation; Economic return from technology investment; Financial Services Regulation to deliver real investor protection.[28] In November 2002, the head of the Senate Banking Committee is reported to have ordered an in-depth review of all Securities Acts, especially in the light of problems created by the rise of new technology.[29]

3.3. *British regulatory solutions: the Financial Services and Markets Act, 2000*

The main purpose of the Act was to create a single regulatory regime for financial services:

- A single authorisation to trade ('driving licence').
- Principles governing the conduct of authorised firms.
- A single 'prudential conduct of business' handbook.
- Codes of practice.

The stated objectives of the Act were:

(a) To promote confidence in the stability of U.K.'s financial markets.
(b) To protect customers (though recognising that customers have responsibility for their own decisions).
(c) To promote consumer understanding of the risks and benefits of financial products and services (a new aim for regulators).
(d) To seek to prevent financial businesses from being used for the purposes of financial crime.

In general, the Act can be said to be a shift from a voluntary to a statutory system and an attempt to meet European Union's Human Rights requirements. Comprehensive coverage was sought, including powers over unauthorised as well as authorised persons: provision for civil fines was included, and a Code of Market conduct (which will not require proof of intent) was applied, specifically to the Stock Market.

An important change is that the Financial Services Authority determines the action to be taken, not the courts. An external tribunal will consider any appeals.

3.4. *American regulatory solutions: the SEC*[30]

The United States has had a single securities regulator, the Securities and Exchange Commission (SEC) since the 1930s. Its origin was in the aftermath of the Great Crash in the stock markets of 1929. The SEC has long had statutory powers, an Office of the Law Judges, Investigations Branch, Office of Equal Opportunities. Its sophistication and expertise, though impressive, was not sufficient to prevent the ENRON scandal that surfaced early in 2002, to which reference has already been made.

The Securities Exchange Act, 1934, created the Securities and Exchange Commission, an independent, non-partisan, quasi-judicial, multidivisional regulatory body.

Its purposes are to enforce securities laws and to protect investors. It has many regulatory and investigative powers and can initiate cases at law. It includes an Equal Employment Department and 'Dedicated Agency Ethics Office.' Other financial regulatory bodies, separate from the SEC, include the Treasury Department; the Commodities Futures Trading Commission; the Federal Reserve Board; Office of the Controller of the Currency; Office of Thrift Supervision. SEC supervises Self Regulatory Organisations (SROs) such as the Stock Exchanges.

3.5. *Financial services: regulatory assumptions*

All regulatory action including that outlined above is based on assumptions. Of these, some are widely accepted, some are controversial, and some change with experience. Not all assumptions are made explicit or acknowledged. The following list is our interpretation of the assumptions underlying regulation:

1. *Motivation:* 'Greed and Fear?' Natural tendency to promote own advantage.
2. *Caveat emptor:* Let the buyer beware (cf. knowledge; 'real harm'). People should not be protected by the state from their own folly.
3. 1 and 2 can be controlled by enforced rules.
4. 'Positive harm' as sole justification.
5. Public pressure.
6. Fines and sanctions (particular forms of 3 above).
7. International context requires international similarities.
8. Specific regulators for particular markets.

9. Practitioners know the market best, and know how best to protect the public.
10. Chain of control: control hierarchy.
11. 'One best way' (single regulator versus specific regulators for each industry sub-sector or self-regulation versus regulation by statute).

For example, in the British case a key assumption of the 1986 act was the requirement for self-regulation. Another was for a separate regulator for each market. Assumptions 8 and 9 have been abandoned in the 2000 Act.

4. Greed, fear and opportunity

Reflecting on his experiences as a senior manager at the Enron energy trading company, (Cruver, 2002)[31] comments:

> Greed had lifted Enron's stock price up 1 700 per cent; greed had left competitors and customers, including the State of California, violently angry after dealing with Enron; Greed had pushed Enron to ignore the very same risk strategies that it was preaching to the world; greed left Enron Employees to madly buy stock just days before the bankruptcy; and it was greed that chose to ignore – or even punish – the messengers of bad news.

Bosworth Davies (1988)[32] notes that:

> Greed was a fairly regular feature in most investment-related scams. . . . Greed on the part of the investor did play a significant part in bringing the investor and fraudsman together. I was to discover that one of the most appealing influences on the decision to invest money in a speculative scheme was where the investor believed that the particular investment was dishonest or illegal.

Bosworth-Davies notes that individual victims, including directors of large companies, often turn their anger on the investigator out of the fear of ridicule, which is a powerful enough motive to persuade people to stand a loss, rather than admit they have been taken in.

It should be noted that the proportion of the British population buying shares remains usually in the order of around fifteen per cent of the adult population (and about fifty per cent of all traded shares[33] though growing somewhat during the privatisation waves of the 1980s. It seems to us that even if greed and fear (of loss or ridicule) are the main motives for participation in financial services, variations in their incidence or frequency are unlikely to provide an explanation for the frequency and intensity of the issues of concern to the public: (a) people in general are unlikely to be greedier or more corrupt now than they were, say 2000 years ago; (b) financial services and insurance may attract people with a characteristic set of attitudes, but (c) the causes of public concern are most likely to be determined by institutional arrangements and opportunities. Hence, the need to identify and examine the assumptions that underlie *regulation*. Our guess is that opportunities are often institutionally-driven. Where there is opportunity to flout the rules, the undesired events are more likely to occur than when there is little or no scope. Much of the jargon used in financial services is baffling to the public. Surveys[34] tend to support the view that members of the public understand little of the rules governing the financial services that they buy. Even sophisticated institutions are not aware at times of the processes that act to their detriment, internally or externally, as collapses of the Bank of Credit and Commerce International (BCCI), Barings, and the losses to the institutional customers of Enron show.

On a philosophical note, actions that can be performed in secret, or with the expectation of not being found out are more likely to occur than otherwise. Plato illustrated this effect long ago in the story of the Ring of Gyges that conferred invisibility to its wearer, leading to actions that would not be permitted if they were not invisible.

This suggests that opportunity is at least as potent a cause of the problems under review as any.

5. Ways forward: identifying aspirations

5.1. *Financial services control: further assumptions*

Behind the assumptions that we have noted, there are always values. Some values are mainly technical, as in the case of methods of statistical analysis of risk. Technical values shade into the prudential values that underlie the concepts of risk.[35] Ethical values underlie the concepts of the sanctity of contracts, freely entered into and of the moral worth of thrift and self-reliance that saving for the future can encourage. Values can also be presented as judgements of experience, as the following common assumptions about the provision of financial services show:

1. Financial services are too complicated for everyone to understand or spend enough time on learning the intricacies of financial services, particularly the actuarial and mathematical models, therefore we need 'agency' or intermediary arrangements in which professionals can act in the interests of clients.[36]

2. Financial services are too complicated for laws to prescribe every action in a complex and changing system.
3. Financial services are too complicated for 'agents' to know what consumers' expectations are.

We suggest that concentration on individual awareness and ethical skills can lead to what can be called the 'T-group' effect. In the 1960s and 1970s 'sensitivity training' was designed to sensitise managers to the needs and aspirations of others. The procedures declined with the advent of the methods of human resource management, but also when it was realised that 'sensitised' individuals could be placed back into a situation in which the pressures to behave in the ways that the sensitivity training sought to change could become too great, causing reversion to earlier behaviours.[37]

The problems noted in financial services, however, are not always one-way: as Rowan Bosworth Davies (1988) indicates: *victims are not always unaware of the malpractices, and are sometimes willing participants.*

Therefore,

(a) There appears to be a need (in addition to regulatory regimes, professional bodies, agencies, audit committees etc.) for more visibility and for additional checks and balances.
(b) Furthermore, as regards 'ownership' and 'control' by constituents: *codes* and *practices* are needed that are less top-down: the technology is now available through the Internet for the members of the public, if they so wish to influence the design of services that meet their wishes. One method of doing so was outlined by Huddy,[38] who proposed the establishment of a series of Registrars, who would record issues and solutions through a balanced publication of issues raised by stakeholders, and responses offered by providers. *The knowledge of issues and responses*, as they arise, *would provide essential market knowledge to all members of the public who wish to be aware of the issues and solutions.* No administrative or regulatory agency would be required to supplement those that already exist, but the economists' concept of 'perfect knowledge' would acquire an additional practical dimension.
(c) There is a need to find out what people's 'proper expectations' are. This involves making value judgements about what is *proper*. But such value judgements already underlie the services that insurance companies offer anyway. Value assumptions are detectable in the way that the companies spend large sums of money in trying to find out whether the product that they have designed will sell. *The making of value judgements* by insurance companies is implicit in the idea that the population is generally under-insured. Insurance companies have traditionally (and rightly, in our

view) sought to ensure that people make prudent provision for old age or for life's potential catastrophes. They have rightly been proud of their technical actuarial skills. 'My word is my bond' has been a traditional value in insurance provision. Huddy's proposal by no means exhausts the possibilities, and may be more suitable in some contexts than others.

(d) It is well recognised that the public is often ignorant of basic conditions under which its purchases of insurance are made. It may even be that consumers typically do not know what they want or know what is best for them. If this is so, the providers must make value assumptions. *It seems to us unlikely that the knowledge gap can be closed by statute.* Research that is based on finding out whether a product that has been designed will sell well enough is necessarily biased. Governments are reluctant to commit to a fully state-funded 'life and pensions' system, presumably for reasons of cost and complexity. Private provision seems to require regulation that becomes ever more sophisticated over time, though *causes célèbres* continue and become epidemic from time to time.

Opportunities for consumers to specify what they want are rare, and seem themselves to need close control.

The result is that suppliers' values necessarily dominate, but seem to permit major problems to continue. Asking consumers to design their own insurance services *may* be like opening Pandora's box. Excluding consumers from the design by ensuring that only general packages are available allows the problems to escalate. But it could be that, as in the case of schemes to promote employee participation in the cause of industrial peace and productivity improvement, the public's actual expectations, when they come to be known, are surprisingly modest.

(e) As long as the gap between the expectations of consumers and providers continues, so will the problems that regulation is designed to resolve. It seems to us that the gap is caused as much, and perhaps more, by mutual lack of knowledge of their basic values as by any fundamental inconsistency between suppliers' values and customers' values. More openness in design to meet stakeholders' expectations, and more research on ways to match and adjust these expectations acceptably could provide useful support to the existing methods of regulation and control, all of which are acknowledged to be far from perfect.

Notes

1. For an extensive discussion on financial services expansion, for example in the European Union countries, see Lown et al. (2000), pp. 39–55.
2. To give but few examples of the concerns described in the academic literature, see for example Vogel (1995) or Wallman (1999), pp. 207–227.
3. The South Sea Company was granted trading monopolies in the South Seas by the British Government in 1711 in return for a sum of money to pay off the National Debt of £51 million. Huge profits were expected, leading to many fraudulent ventures. The inevitable collapse less than ten years later led to the ruin of thousands of speculators. (Source: *Pears Cyclopaedia* 1997, Centenary edn, p. L 113).
4. For an overview of internationally introduced regulatory regimes, see for example La Porta et al. (1997), pp. 1131–1150.
5. ENRON, the major American energy trading company, once cited as the 7th in the Fortune 500 list of the largest firms, collapsed in December, 2001, also bringing down its auditor, Arthur Andersen, then one of the World's largest audit companies.
6. This section is developed from the argument first published in Donaldson, J. (1992), Chapters 12 and 13.
7. For an updated analysis of differences in values' understanding, see for example Hood and Logsdon (2002), pp. 883–890.
8. For a detailed description of different types of values identified, for example in the U.S.A. context, see Albert (1996) or Stewart and Bennett (1991).
9. On the disparity in the nature of values, see Donaldson, J. and I. Fafaliou (2002). 'Business ethics, corporate social responsibility and corporate governance: a review and summary critique.' *European Research Studies Journal* (forthcoming).
10. U.K. Banking Code (2002). See for example the Nationwide.co.uk Website.
11. The Conference Board (1987), *Corporate Ethics*, pp. 20–22.
12. Association of British Insurers (2002). *Code of Practice*.
13. The principles listed are taken from the Web-site: claimsguru.org.uk, October, 2002.
14. See for example, Weaver et al. (1999), pp. 283–294.
15. On such difficulties faced by business even within the European Union, see for example the analysis provided in ECOFIN (2000).
16. For an updated discussion on agents' compensation issues and related practices, see Mintzberg (2000), pp. 31–39. A related story is told by Murphy (1999).
17. For an analysis of monitoring problems, see for example Alexander and Dhumale (2000).
18. Howells and Bain, (1994), p. 272.
19. Treasury and Civil Service Committee. 1995, *Report*, Vol. I, para 17.
20. See, for example, P. Spencer (2000), p. 210.
21. For example, see Bosworth-Davies (1988).
22. C. Ayres, *The Times*, London, 12.04.02, p. 27.
23. C. Ayres, *The Times*, 11.7.02, p. 21.
24. Caroline Merrill, *The Times*, London Times, p. 23, May 8, 02. (The firm subsequently agreed to pay $100 million) Abigail Raynor and Caroline Merrill, *The Times*, London, May 22, p. 23.
25. James Doran, *The Times*, London, 27.09.02, p. 29.
26. James Doran, *The Times*, London, 7.11.02.
27. Bloor Research: August 02 Press Release.
28. *loc.cit.*
29. CFO Magazine, 13.11.02.

30. United States Government (1997), *Federal Regulatory Directory*, 8th edn., 1997, pp. 250–271.
31. Cruver (2000), pp. xv–xvi.
32. Bosworth-Davies (1988), p. 5.
33. National Statistics Online (U.K. Government) 'Who owns shares?'
34. See for example Myers and Majluf (1984), pp. 187–222.
35. Along this rationale, see for example Dewatripont and Tirole (1993).
36. Agency theory treats problems of principals and agents. It is widely used in analysis of financial services provision. Statements can be found in Spencer, P. (2000), C. Goodhart et al. (1998), M. Jensen, and H. Meckling (1976).
37. See C. Argyris (1974).
38. Described in J. Donaldson (1992), pp. 40–41.

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