stock ownership in suppliers and competitors (avoidance) or else mandate disclosure. Rules and policies can also operate, however, by prohibiting the kind of conduct that would be an actual conflict of interest. For example, pension and mutual funds impose "blackout periods" during which managers are prohibited from personal trading in stocks that have been bought or sold by the funds they manage. Controls on the flow of information can also limit conflict of interest. Thus, if fund managers have no knowledge of the trading done by other funds in a firm, they have fewer opportunities for acting in a conflict of interest. Priority rules are another means for managing conflict of interest. For example, an investment bank that advises outside funds faces a conflict of interest in deciding which investment opportunities to bring to each fund and which ones to keep for the bank. This kind of case is generally managed by establishing priority rules so that each client knows in advance the order of favor. Thus informed, no client can complain of unfair treatment in the allocation of investment opportunities.

Structural Changes

Because conflicts of interest result from providing many different services to different customers or clients, they can be reduced by compartmentalizing these services. Advertising agencies, for example, form separate creative teams for each account, and commercial banks split trust management from the retail side of the business. Within multifunction institutions, conflicts can be reduced by strengthening the independence and integrity of each unit. For example, instead of treating their investment research divisions as arms of their brokerage units, investment banks are being urged to upgrade their status and insulate them from pressure. Some structural features of American business are dictated by law. Because of the potential conflicts of interest, Congress mandated in 1933 in the Glass-Steagall Act that commercial banks could not also sell stocks or insurance, thereby making investment banking and insurance separate businesses. The repeal of the Glass-Steagall Act in 1999 has permitted the rise of larger banks, which, in turn, not only creates greater potential for conflict of interest but also, arguably, better service. Some have proposed that accounting firms be required to divide into separate auditing and consulting organizations, although the accounting industry has vigorously opposed this measure. Addressing the problem of conflict of interest by structural changes should be done carefully because of the many advantages of combining different services in one firm.

READING 9.2

IS BUSINESS BLUFFING ETHICAL?

Albert Carr

A respected businessman with whom I discussed the theme of this article remarked with some heat, "You mean to say you're going to encourage men to bluff? Why, bluffing is nothing more than a form of lying! You're advising them to lie!"

I agreed that the basis of private morality is a respect for truth and that the closer a businessman comes to truth, the more he deserves respect. At the same time, I suggested that most bluffing in business might be regarded simply as game strategy—much like bluffing in poker which does not reflect on the morality of the bluffer.

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I quoted Henry Taylor, the British statesman who pointed out that "falsehood ceases to be falsehood when it is understood on all sides that the truth is not expected to be spoken"—an exact description of bluffing in poker, diplomacy, and business. I cited the analogy of the criminal court, where the criminal is not expected to tell the truth when he pleads "not guilty." Everyone from the judge down takes it for granted that the job of the defendant's attorney is to get his client off, not to reveal the truth; and this is considered ethical practice. I mentioned Representative Omar Burleson, the Democrat from Texas, who was quoted as saying, in regard to the ethics of Congress, "Ethics is a barrel of worms"—a pungent summing-up of the problem of deciding who is ethical in politics. I reminded my friend that millions of