ARTICLE

Why do virtuous individuals accept and promote unethical institutions?

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Governance scholar Dr Shann Turnbull explores the roots of dysfunctional ethical blindness arising from groupthink and intellectual dominance and argues that educating people about ethics is not enough to eliminate unethical behaviour.

1. Introduction

History provides countless examples of otherwise virtuous individuals accepting and promoting unethical institutions and practices. Consider army chaplains, otherwise virtuous civic leaders who in the past enslaved people, medieval bishops executing non-believers, and chairpersons of a public company who also chair and so control the meetings of members whose purpose is to hold the directors to account. There are also modern examples of individuals who may possess few virtues, introducing groupthink to support wars and terrorism.[1]

Motivation for this article

The motivation for this article arose from the February 2024 initiative of the Sydney-based Ethics Centre to establish the Australian Institute of Applied Ethics, supported by many potentially virtuous individuals.[2, 3] This article provides case studies to show how ethical blindness arises from

1. Keane, 2024; Ross, 2024; Pilon, 2024
2. *The economic case for ethics*, https://ethicsinstitute.au/#read-the-proposal
3. Henry, 2024, p. 39

groupthink and intellectual colonisation and how such outcomes could be avoided.

Ethical blindness may not be identified if ethics is defined in general terms like being honest, fair, equitable or acting according to social norms. For this reason, this article will focus on the morality of those possessing power over others to promote their self-interests so as to inhibit or deny promoting the common good. This is consistent with the concern of Martin Wolf, the Chief Economic Commentator of the London-based *Financial Times*, who stated: "Corruption – the abuse of power for private gain – is an eternal feature of organized societies".[4]

Economic benefits of good ethics

The Ethics Centre supported their initiative with a report "that a 10% improvement in ethics in Australia would lead to an improvement of $45 billion per annum in the nation's GDP. This research also shows that improving a business's ethical reputation can lead to a 7% increase in return on investment. And a 10% improvement in ethical behaviour is linked with a 2.7–6.6% increase in wages".[5] These estimates might well increase if the ethical blindness identified in this article was recognised.

The Centre has partnered with two Sydney-based universities, requesting the government to make a one-time payment of $33.3 million to establish an Australian Institute of Applied Ethics. This partnership suggests that the education of individuals can mitigate ethical problems. However, education can also become indoctrination and legitimising groupthink to perpetuate ethical blindness.

Financial support for the Ethics Centre has been provided over the last thirty years by organisations and individuals who support and promote the Australian Securities Exchange's (ASX) unethical and dysfunctional Principles of its Corporate Governance Council.[6]

Sources of ethical blindness

The ASX has created the problem of unethical practices being promoted as good governance. As a result, governments and their regulators accept and enforce unethical business relationships.[7] As pointed out Monks and Sykes, when the overall system is flawed, "best practice" comparisons have no place.[8] Unethical business relationships become a role model throughout society.[9] Also, the public loses the ability to know what is right and what is wrong.[10] Ethical failures become endemic because a demand is created to teach ethics instead of removing institutionally unethical relationships that benefit a minority of influential stakeholders.[11]

Colin Mayer, the former Dean of the Oxford Business School, points out that the UK provides an illustration of how conventional views on economic, business and finance can be profoundly wrong and have disastrous consequences for the performance of economies, nations and societies as well as firms and their investors.[12]

4. Wolf, 2023, p. 298
5. *The economic case for ethics*, https://ethicsinstitute.au/#read-the-proposal
6. https://www.asx.com.au/about/regulation/asx-corporate-governance-council
7. Turnbull, 2023
8. Monks and Sykes, 2002, p. 19
9. Charles and Williams, 2022
10. Owens, 2003; Hayne, 2019
11. https://ethicsinstitute.au/#read-the-proposal
12. Mayer, 2024, p. 316

The above problems lead to the concern that establishing an Institute of Applied Ethics could lead to:

a. Continued acceptance of existing unethical institutional relationships;
b. Continued acceptance of unethical behaviour;
c. Continued ethical blindness;
d. Further legitimising unethical groupthink;
e. Inefficiency, inequities[13] and lack of competitiveness in the economy.[14]

Objectives of this article

To inform the public and policy advisers that:

- The most direct, efficient, simple and sustainable way to raise ethical awareness is for the Treasurer of Australia to require financial regulators and the ASX to eliminate the unethical institutional practices identified in this article.
- Otherwise, virtuous individuals will become ethically compromised by being involved in what some authors described as "toxic",[15] dysfunctional and inefficient institutions. This will make many otherwise virtuous leaders role models for institutionalising groupthink in accepting and promoting unethical practices.

Toxic governance is described as good

It could shock many readers that such a crucial institution like the ASX could misrepresent systemic unethical conflicts of interest as good governance. However, this should not become a surprise by noting the lessons of history identified in the introductory paragraph. There have been countless other examples of otherwise virtuous individuals who have accepted and practised what is later considered unethical behaviour. In Australia, this situation now exists for government regulators, Treasury Officials, other advisers to the government, and elected members of parliaments.[16]

The pervasiveness of ethical blindness in modern societies may be compared to the unanimous groupthink views raised by the 2009 Nobel Prize committee. In awarding the first economic prize to a political scientist, they explained:

> **'It was long unanimously held among economists that natural resources that were collectively used by their users would be over-exploited and destroyed in the long-term. Elinor Ostrom disproved this idea by conducting field studies on how people in small, local communities manage shared natural resources, such as pastures, fishing waters, and forests. She showed that when natural resources are jointly used by their users, in time, rules are established for how these are to be cared for and used in a way that is both economically and ecologically sustainable.'**[17]

Consistent with Ostrom's research and system science, Indigenous Australians practised distributed bottom-up 'user' stakeholder self-governance[18] to sustain their society longer than any other living culture. Notably, this was achieved without 'Markets or States'.[19] Distributed decision-making, which Ostrom described as polycentric self-governance, 'mitigates or removes 20 toxic behavioural problems identified in hierarchies'.[20]

13. Turnbull, 2011a, 2021c
14. https://ethicsinstitute.au/#read-the-proposal
15. Carucci, 2018; Daniel, 2024
16. Turnbull, 2023
17. https://www.nobelprize.org/prizes/economic-sciences/2009/ostrom/facts
18. Turnbull and Poelina, 2022; Turnbull, Stoianoff and Poelina, 2023
19. Ostrom, 2009
20. Turnbull and Poelina, 2022, p. 27

Intellectual colonisation

Physical colonisation of Australia introduced modern intellectual colonisation of a belief system shared by capitalists, socialists and dictatorships. A belief that the natural order of modern management is a dictatorship. As a result, modern humans are the only species on the planet dominated by centralised command-and-control, alienating, exploitive, dysfunctional and therefore toxic hierarchies. These are incapable of simplifying complexity comprehensively,[21] reliably and expediently.[22]

Even when a hierarchy is not involved, a unitary board of directors typically provides directors with absolute power to identify and manage their conflicts of interest to allow absolute corruption of the directors, their organisation and society. As stated by Peter Drucker, 'whenever an institution malfunctions as consistently as boards of directors have in nearly every major fiasco of the last forty or fifty years it is futile to blame men. It is the institution that malfunctions'.[23]

There is no compelling commercial reason why directors should obtain the power to manage an organisation and the corporate entity to which they are accountable. It is as unethical as setting and marking your exam papers. The solution is no secret. Political scientists have long promoted the division of power.[24]

Universities neglect stakeholder governance

While no known university now provides education on introducing polycentric self-governance, it commonly arises from federations of self-governing lower organisational components. This typically occurs in local sporting clubs that compete against each other but cooperate to generate nested self-governing federations that terminate globally with the self-governing Olympic Committee. This has been achieved without necessarily evoking 'Markets or States'.[25]

For example, I wrote the self-governing constitutions for two Australian non-profit organisations. One was the controlling body of skiing that federated the self-governing State bodies. These were, in turn, formed by federating self-governing local ski clubs. The other example was the progenitor organisation of the Australian Institute of Company Directors. I established a federation of State Divisions in the progenitor organisations to decentralise power on a bottom-up basis. Each state has its own elected member on the national federated body to provide independent sources of checks and balances.

Such politically independent checks and balances are not typically found in business organisations. As a result, virtuous individuals can become compromised by becoming directors of institutions that provide excessive or inappropriate powers.[26]

The following section presents an Australian case study of colonisation and groupthink by the otherwise virtuous Sir Adrian Cadbury. The third section introduces systems science to evaluate solutions based on distributed decision-making. The fourth section presents two other Australian case studies of ethical blindness. The penultimate section identifies the opportunity to purify capitalism by reducing its inequalities to create a compelling incentive to act. This process is outlined in the concluding section.

21. Turnbull and Guthrie, 2019
22. Turnbull and Poelina, 2022, p. 27
23. Monks and Sykes, 2002, p. 15
24. Persson, Roland and Tabellini, 1996
25. Ostrom, 2009
26. Monks and Sykes, 2002, p. 9

2. How can otherwise virtuous individuals act unethically?

There are several ways this question can be answered. It could simply arise from groupthink. Everyone is doing it, so it must be an acceptable cultural norm. This could be the dominant reason for Australians who are influenced by adopting overseas practices. Especially the practices of their former colonising country. This has led one author to state that Australia has developed a dependent personality disorder.[27]

However, there is another possible reason why otherwise virtuous individuals do bad things.

Cadbury provides a critical case study

Cadbury established the first UK corporate governance code[28] in 1992. Cadbury was a practising Quaker who was chairman of his mainly family-owned publicly traded chocolate business in the UK. His board colleagues would no doubt also be virtuous individuals who would not misuse their powers to nominate and remunerate their auditor to convince their auditors to accept any questionable financial practices that their managers might undertake. Nevertheless, not all directors are potentially so virtuous.

However, extending their virtues to other public corporations is at least naïve and could be considered irresponsible. Monks and Sykes point out that ‘Corporations are ultimately a system of power’.[29] US legal scholar Lyn Dallas used a ‘Power model’ of a firm to conclude that many directors seek to maximise their autonomy and discretion.[30] Many other scholars have identified why unethical audit relationships do not work.[31]

In 1990, a year before Cadbury was appointed to lead a committee to make recommendations on the integrity of financial reporting,[32] the UK House of Lords had defined the purpose of an audit.[33] Lord Justice Oliver stated that the auditor’s purpose was to ‘provide shareholders with reliable intelligence to enable them to scrutinise the conduct of the company’s affairs and to exercise their collective powers to reward or control or remove’ their directors. Lord Bridge, who quoted an 1896 judgment on the auditor’s role, stated that he acted antagonistically to the directors because the shareholders appointed him to check upon them.

Director audit committees corrupt[34]

In other words, auditors and directors have a fundamental conflict of interest. This is quite different from the perspective of Cadbury, who considered the auditor to be only *a check on management*, not himself and his fellow otherwise virtuous directors.

Before the Securities and Exchange Commission was created in 1934, US directors employed outside accountants to provide them with *a check on management*.[35] The purpose of US auditors was to protect directors, not to inform shareholders on how to control directors, as in the UK.

In 1978, the New York Stock Exchange required all listed corporations to establish a director audit committee of so-called independent directors.[36]

27. Tewo Loono Ti, 2024
28. FACG, 1992
29. Monks and Sykes 2002, p. 37
30. Dallas, 1988, p. 114
31. Bazerman, Morgan and Loewenstein,1997; Bazerman, Loewenstein and Moore, 2002; Dallas, 1997; Hatherly, 1995; Hayward, 2003; Monks and Sykes, 2002; Romano, 2005; Shapiro, 2005; Turnbull, 2000c, p. 114, 2011a, b, 2017; Wolf, 2023, p. 293
32. Tewo Loono Ti, 2024
33. Caparo, 1990
34. Wolf, 2023, p. 293
35. O’Connor, 2004, p. 14; Turnbull, 2008c
36. Clarke, 2006

This was consistent with the different purposes of US audits: to protect directors from being sued when managers did not meet the conditions for borrowing money supported by negative pledges made by directors.

The Cadbury Committee was sponsored by London Stock Exchange, the Financial Reporting Council, and accounting trade bodies.[37] It was in the commercial interest of each of these sponsors that UK practices were competitive with those in the US. The result was consistent with Cadbury's naïve, uninformed and ethically blinded perspective. He failed to understand the systemic conflict of interest between directors and their auditors, which resulted in conflict between auditors and shareholders.[38] This ethical blindness was not just overlooked but promoted by the recommendations of the Cadbury committee that directors should form an audit committee to control the auditors judging their accounts for shareholders more closely.

The otherwise virtuous Cadbury became responsible for ethically blinding and poisoning the business cultures of the UK and the many other countries that followed the UK's toxic practices.

Cadbury was unaware of the UK history of audit relationships that institutionalised auditors' independence from directors. For example, the UK Joint Stock Companies Act of 1844 promoted auditor independence by the auditor being paid by Commissioners of the Treasury.[39] Another example was the UK 1862 Companies Act, which included an optional model corporate constitution with a shareholder committee that controlled the auditor.[40] This removed unethical relationships, as pointed out by Hatherly,[41] who was a member of the Auditing Practices Board for the UK and Ireland for a decade. The Bank of New South Wales Act of 1923 also removed the conflict in Australia. It required two shareholders to act as auditors.

Shareholder audit committees a step towards polycentric governance

The separation of powers introduced by the shareholder-elected audit committee was proposed for all publicly traded companies in Australia in a minority report to the Australian Parliament by Senator Andrew Murray.[42] US Scholars have identified several reasons why unethical audit relationships do not work.[43] Other authors have identified the 'inappropriate powers of management'.[44]

3. Why not simplify directors' duties with a separation of powers?

Benefits of divided power

Many benefits can arise from separating the power of directors to manage an organisation from the conflicting role of managing the corporate entity to which they are legally accountable. Venture Capital investors have proven the efficacy of a separation of powers. They typically invest on condition that they have a shareholder's agreement to give them the power to appoint and retire directors, determine their remuneration and control the auditor.

There is no commercial reason for directors to retain these powers that introduce systemic conflicts of interest. The separation of powers is also introduced by financiers of management

37. Rinaldo, 2013
38. Shapiro, 2005
39. Caparo, 1990
40. O'Connor, 2004, p. 17
41. Hatherly, 1995
42. Murray, 1998
43. Bazerman, Loewenstein and Moore, 2002
44. Monks and Sykes, 2002, p. 9; Turnbull, 2000c, p.114

Leverage Buyouts (LBOs). It is a proven governance structure.[45] The author has twice proven these benefits when funding new businesses as a promoting shareholder. It facilitates raising funds in high-risk situations while protecting the reputation of the promoters.

A benefit is to remove systemic unethical conflicts of interest. Without a separation of powers, virtuous directors become systemically and ethically compromised by being in positions like setting and marking their exam papers.

Tensegrity[46] **is another critical benefit** hidden from scholars who research hierarchies, because hierarchies deny or even punish differences of opinion. Distributed decision-making allows different viewpoints to emerge, be considered and negotiated. DNA hardwires contrary behaviour into all living things, generating various responses to survive complexity. Tensegrity describes the flight ~ fight, approach ~ avoidance, cooperate ~ compete, altruistic ~ selfish behaviours. These contrary behaviours are not tolerated in command-and-control hierarchies or welcomed in a unitary board.

Constructive conflicts

Tensegrity is a phenomenon found in all living things' physical and behavioural architecture. Cell biologist Donald Ingber describes it as the architecture of life.[47] It is a defining feature of self-governing systems. Tensegrity arises when distributed decision-making introduces different stakeholder voices for each stakeholder constituency, with distributed decision-making. In this way, polycentric governance makes conflicts between stakeholder interests explicit and negotiable in devising win-win solutions.

Conflicts of interest become constructive instead of becoming unethical. Tensegrity removes groupthink. It generates variety, adaptation and therefore survival, as well as evolution. These features are inhibited, denied or penalised in unitary boards and hierarchies.

Simplifying complexity is a crucial benefit of distributed decision-making.[48] It can introduce a 'prodigious'[49] reduction in data density required in communication and control channels in living things. Data is measured in bits or bytes.[50] Bits involve perturbations in energy and matter that make a difference. This is one reason biotas universally use distributed decision-making to economise the energy and material required to become self-regulating and self-governing. Self-regulation and self-governance depend upon distributed decision-making.

Modernity has infected humans with centralised, top-down decision-making that introduces data overload, described as bounded rationality.[51] This explains why centralised decision-making facilitates unethical behaviour and is operationally dysfunctional. Indigenous societies avoided bounded rationality by using distributed decision-making, as documented by Ostrom, and noted in Indigenous Australians.[52]

The separation of powers introduces a variety of human capabilities. It allows the introduction of different and specialised experiences and skill sets. Individuals elected by shareholders to become governors of a corporate entity require quite different skills from directors separately elected by members to become responsible for managing company operations, be it a business or a non-profit organisation.

45. Jensen, 1993, p. 869
46. Turnbull, 2022b
47. Ingber, 1998
48. Turnbull and Guthrie, 2019
49. Mathews, 1996, p. 30
50. Eight bits make a byte.
51. Simon, 1957, p. 198
52. Turnbull, Stoianoff and Poelina, 2023

It should be noted that (a) the separation of powers described here differs from the European two-tiered board, where shareholders only elect a supervisory board that appoints a management board, and (b) no separation of powers is introduced in the so-called For Benefit or B Corporations. This means their directors are ethically conflicted with absolute powers.

Contested specialised superior decisions

The author introduced a separation of powers when establishing two public Australian companies he founded and then funded in 1980 and 1988.[53] He was inspired to do so by the watchdog boards established by the stakeholder cooperatives around the town of Mondragon in 1956.[54] The operating advantages for non-executive (independent) directors, auditors, management, stakeholders and regulators are set out in a monthly newsletter published by a US-based corporate governance adviser.[55] However, their most important advantage was to improve the ability to attract investors with a more compelling basis to trust the promoters and managers of a new venture.

The point that absolute power can corrupt is illustrated by the failure of the Italian-based company Parmalat in 2003.[56] The CEO of Parmalat was a significant shareholder in control of the Supervisory Board and its management board. Parmalat also had a third board, as required in some European jurisdictions, to provide separate control of the auditor. However, the Parmalat CEO also controlled the Statutory Audit Board. This could not have occurred with the Australian watchdog boards, because shareholders elected the board of governors on the democratic basis of one vote per investor, instead of electing directors on the plutocratic basis of one vote per share.

As the powers of Australian watchdog boards were limited to vetoing any director conflict of interest, the conflict would need to be made public if a significant shareholder wished to overturn a veto. A 75% vote of issued shares was required to overturn conflicts arising from auditor control, director remuneration, nomination or retirement. The watchdog board also controlled the conduct of AGMs, with one of their number being the chairperson.

In several European jurisdictions, no director would control a meeting of members as they believe this is unethical. However, in Australia, ethical blindness in our culture has allowed corporate constitutions to give directors priority in controlling meetings at which they are held accountable. It is an example of unethical groupthink accepted and practised by otherwise virtuous Australians. Two additional case studies are next considered.

4. Examples of Australian unethical infrastructure

This section introduces additional Australian case studies of systemic institutional ethical blindness. Some unethical behaviour has been so long running and egregious that the blindness of Australian regulators was eventually lost. An example is the PwC[57] accounting partner who in 2015:

> **'emailed classified information obtained from a confidential briefing by the *Australian Tax Office (ATO)* to associates with the message, "For your eyes only", knowing they would subsequently exploit this information to benefit clients and profit handsomely.'**[58]

53. Guthrie and Turnbull 1995; Turnbull, 2002
54. Turnbull, 1998
55. Turnbull, 2012, p. 4
56. Melis, 2004
57. Lucas, Guthrie and Dumay, 2024; Lucas, Guthrie and Ricceri, 2024
58. Ratnatunga, 2023

It took nine years for an Australian Senate inquiry to report: 'The cover-up worsens the crime'.[59]

A quicker loss of ethical blindness and the exposure of remedial incapability of Australian regulators occurred in 2022. This was when the US Public Company Accounting Oversight Board (PCAOB) fined the Australian division of the KPMG global accounting firm. Over 1,100 of their staff had cheated when undertaking mandatory professional standards exams. It included 250 auditors and several partners. This highlights the futility and lack of relevance of promoting ethical education by the proposal to establish an Australian Institute of Applied Ethics. It is an example of how the concentration of power in organisations needs to be changed to build systemic checks and balances.

Ethically blind case studies

The first case study of ethical blindness by regulators and the government is based on the ASX. Our second case study of unadmitted ethical blindness is by regulators and others involved with the Westpac Banking Corporation.

Even though the bank incurred the most significant fine in Australian corporate history of $1.3 billion, ethical blindness meant it was only seen as a management problem, not one of ethics. Neither was it considered a governance problem because its governance was following the ASX's corporate governance code.[60] Regulators accept the corrupt conflicts of unitary boards and their auditors inherent in the ASX code as good governance.[61] Many scholars have identified the intrinsic conflicts of unitary boards,[62] with some describing them as corrupt or toxic.[63]

The ASX case study of ethical blindness

The most important reason for having a public marketplace for buying and selling securities is what economists describe as price discovery.[64] Comprehensive and immediate price discovery is impossible unless all market participants' identities are always publicly available. This is impossible with the ASX because its 'Operating Rules, Guidance note 6' section 7 allows[65] anonymity and pseudonymity unless otherwise authorised by law.

This makes it practical for the ASX to become a more convenient, covert process for money laundering, financing terrorists, bribery and corrupt practices than a legal casino where all operators should be routinely identified. Anonymity and pseudonymity also protect insider traders and brokers who covertly trade ahead of their clients, undisclosed and naked short selling. Naked short selling describes a situation when the seller does not own or have the option to own what is being offered for sale. It is unethical, deceptive conduct that rarely gets discovered or reported. One exception was when an Australian Senate committee discovered that members of the Sydney Stock Exchange committee had sold short a company known as Antimony Nickel in 1971.[66] Naked short selling was still reported over half a century later in 2020.[67]

Australia has two exchange-integrated public dark pools: ASX Centre Point and Chi-X Hidden Liquidity. Together, they account for around 12% of continuous on-market trading in Australia.[68] Dark pools are where institutional shareholders trade shares privately between themselves, with

59. SFPARC, 2024
60. ASX Release, 2020: 4
61. https://www.asx.com.au/about/regulation/asx-corporate-governance-council
62. Caparo, 1990; Clarke, 2006; Dallas, 1988, 1997; Hatherly, 1995; O'Connor, 2004; Turnbull, 2000c, 2009a, b, 2011b
63. Carucci, 2018; Daniel, 2024; Turnbull, 2017, 2023; Wolf, 2023, p. 293
64. Turnbull, 2021a
65. https://www.asx.com.au/documents/rules/asx_or_guidance_note_06.pdf
66. Parliamentary Paper 1974, p. 476
67. Keho, 2020
68. Budovsky, 2021

or without a broker. The public is not informed of either the volume of share trading or the nature of the beneficial owners selling or buying securities.

When beneficial ownership is not revealed, describing a company as public is misleading and deceptive, just like describing ASX governance principles as good. The ultimate owners can include those with loyalties and interests foreign to those of the host jurisdiction. It also means that reference to publicly traded companies is misleading when the identities of those trading shares are kept secret. Likewise, the ASX does not meet the test of being a public exchange when covert trading is required by its rules. Such doublespeak creates false comfort even with a financially literate public.

In 1998, the ASX increased its conflicts of interest by allowing covert or unreported share trades by trading its shares. Since then, some of the largest overseas exchanges have introduced this conflicting practice.[69] As they also do not require beneficial ownership disclosure, Australia has exported its ethical blindness internationally. The ASX operations are subject to the approval of the Australian Investment and Securities Commission (ASIC) and the personal discretion of the Minister, who is the Federal Treasurer. So, both are accountable for allowing non-disclosed unethical, inefficient and potentially deceptive share trading.

Ethical blindness by the government has allowed it to introduce counterproductive unethical conflicts through the action of the Australian Prudential Regulatory Authority (APRA). APRA requires otherwise virtuous company directors to become members of director audit committees of the financial institutions it regulates. The fact that directors possess power over the auditors judging the integrity of their accounts should be an ethical embarrassment to virtuous directors. APRA is acting against the purpose of its existence and even its name, promoting prudence—another example of doublespeak.

By mandating audit committees, APRA is corrupting: (a) the independence of auditors with the directors whose accounts they are judging, (b) the loyalty of auditors to shareholders to whom they report, and (c) the directors who obtain the ability to seek favours, and in effect bribe their auditors. In short, director auditor committees introduce unethical dysfunctional relationships that undermine the reason for appointing auditors. In this way, the government has become responsible for (a) reinforcing ethical blindness, (b) allowing unethical toxic governance to be described as good, and (c) poisoning the Australian business culture to such an extent that commissioners of inquiry into the financial system have noted that executives cannot tell what is wrong and what is good.[70]

Technology has removed the need for central stock exchanges. There is a rich proliferation of trading platforms for trading goods and services. Such trading platforms compete for business by the extent of their disclosure of trading data, such as the nature and identities of those trading. In addition, clients continuously post feedback on any shortcomings and problems in the services or goods transacted.

So instead of the government only licensing stock exchanges to trade their shares covertly, the government should licence any company to trade its shares on any internet platform subject to full disclosure of any change in beneficial ownership of any shares in the company. This creates sunlight trading.[71] Each self-listed company, or anyone else, could then identify undisclosed or illegal transactions. A self-regulating[72] regime is then established for share trading.

69. Turnbull, 2021a
70. Hayne, 2019; Owens, 2003
71. Turnbull, 2005
72. Turnbull, 2001

Crucially, sunlight trading would disinfect public share trades to improve the integrity of price discovery and seriously inhibit unethical activities. As a result, it could also seriously limit share trading volume and stockbrokers' fees. However, it would reduce costs for self-listed firms while allowing their directors to know who they represent. It could purify capitalism and improve the accountability of the owners of capital to the society that supports their operations.

The ASX argues that the non-disclosure of beneficial interests is required to protect investor privacy. More realistically, it protects insider trading and other corrupt activities. If investors wish privacy, then there are now extensive private equity opportunities. Public markets cannot carry out their purpose of providing integrity in price discovery, if the nature and relationships of those participating are not disclosed. Knowing whom you are dealing with has been a condition for business in many contexts. However, the ASX rejected evidence submitted to the Australian Senate in 2002.[73] Technology and the internet have made centralised exchanges an anachronism of an earlier society.[74] Unethical centralised securities trading is not efficient, acceptable, or needed.

A condition for the government to license self-listed corporations would need to include changes in corporate charters to create virtuous corporations[75] that would frustrate, inhibit and disclose unethical relationships or behaviour. This would introduce self-regulation[76] to reduce government costs and intrusiveness.[77] Unethical central so-called public exchanges would become extinct.

Westpac case study of ethical blindness

Westpac is the oldest bank in Australia. It was incorporated under the laws of the New South Wales colony in 1817 as The Bank of New South Wales. It is now one of the four largest banks in Australia. In 2020, it incurred the largest fine in Australian corporate history of $1.3 billion.[78]

The bank appointed an advisory panel of three prominent company directors to assess how the board handled the matters the regulator raised that led to the fine. Their 8 May 2020 report was made public in an ASX Release on 4 June.[79] The three prominent directors revealed they were also subject to dysfunctional groupthink by stating: "How the Westpac Board has organised its governance responsibilities is mainstream and 'fit for purpose'".[80] How can this be so after Westpac had agreed to pay a record fine? It proved that the advisory panel was also subject to groupthink, supporting the myth that the ASX corporate governance principles were satisfactory. The evidence they provided was that all three recognised levels of risk management had failed.[81] Again, this illustrates the futility of ethics education in solving systemic problems created by centralised governance regimes without checks and balances introduced by distributed decision-making to allow tensegrity to emerge.

Likewise, dysfunctional groupthink caused the global financial crisis in 2008. At that time, evidence of misleading good governance groupthink was contained in the US Financial Crisis Inquiry Commission (FCIC) report.[82] It stated

73. Senate Economic Reference Committee 2002, pp. 33, 36, 37, 38, 66
74. Turnbull, 2021a
75. Pirson and Turnbull, 2023; Turnbull, 2000a, 2016, 2019a, b
76. Turnbull, 2001
77. Turnbull, 2021b
78. https://www.abc.net.au/news/2020-09-24/westpac-money-laundering-austrac-fine-explained/12696746
79. ASX Release, 2020
80. ASX Release, 2020, p. 4
81. ASX Release, 2020, p. 14
82. FCIC, 2011, p. 11

that 'all 56 U.S. banks that required government support during the crisis from 2008 to 2009 possessed higher compliance to what is considered good governance'. However, according to the report, the crisis was 'avoidable' as it arose from 'widespread failures in financial regulation; dramatic breakdowns in corporate governance'.[83]

The last two paragraphs illustrate the power of groupthink to ignore inconvenient facts in Australia and the US.

Westpac provided another example of groupthink in 2024. An article was published to announce that 'Westpac ditches PwC as auditor for KPMG'.[84] PwC had been the auditor for the previous five decades. The article quoted the Chair of Westpac stating: 'Good governance supports the change of auditors at this time'. However, how can the situation be accepted as good governance unless there is ethical blindness to conflicts of interest, as discussed above and noted below?

First, the directors took the initiative to change the auditor, not the shareholders, who appoint, pay or dismiss the directors according to the audited report directors present to shareholders. Second, two directors of Westpac had been partners of KPMG, providing a basis for institutional loyalty between the two firms that, according to Lord Bridge cited earlier, should be acting antagonistically to each other. Third, at an individual level, the audit partners of KPMG could become ethically compromised when judging the integrity of their former audit partner colleagues who were now Westpac directors. Fourth, KPMG possessed an 'excruciating closeness to Westpac', its banker and prestigious major consulting client.[85]

As noted above, the misleadingly named prudential regulator mandates the systemic unethical relationship arising from directors nominating and paying their judges. The government should initiate immediate, direct corrective action. The initiative of the Sydney-based Ethics Centre to establish an Australian Institute of Applied Ethics is, therefore, an irrelevant, expensive distraction.

5. Purifying capitalism

The case studies presented above demonstrate the existence and extent of how deeply ingrained ethical blindness is built into Australian corporate culture. The existence of ethical blindness in the UK and the US has also been noted. The insights of systems science and the practices of self-governing biotas were introduced to support the need to introduce distributed decision-making and the self-governing Design Principles identified by Ostrom.

The biggest challenge is obtaining public and government support to purify capitalism. Some suggestions in this regard will be considered next.

Introduce sunlight share trading

In theory, the purification of capitalism could begin immediately. The Australian Treasurer and ASIC could begin licencing any public company to trade its shares on condition of continuous disclosure of beneficial ownership. Insider trading, dark pool trading, money laundering, terrorist financing and other illegal activities would become subject to continuous widespread public scrutiny.

Immediate correction could be initiated by opportunistic legal firms pre-empting government regulators. Regulation could begin to become privatised and decentralised.[86] Company directors, the public and the government would become informed of the identity of the owners of public companies.

83. https://cybercemetery.unt.edu/archive/fcic/20110310173535/http://www.fcic.gov/report/conclusions
84. Professional Services 2024
85. Robin and Di Stefano, 2024, p. 32
86. Turnbull, 2008b, 2019a

The degree of local or alien ownership and control of public firms would become disclosed to the public. The challenge of establishing self-reliant bioregional, eternally sustainable circular economies could be identified. Inequitable opportunistic high-speed share trading could be controlled by the firms concerned to safeguard the best interest of all shareholders.

Government regulators' concerns over the reliability of the ASX computer technology would be overcome.[87] The problem arose when the ASX failed to update its centralised computer share trading technology after spending seven years and $250 million.[88] If any public company could trade its shares in the sunlight, there would be no need for the ASX. Superior market efficiency and integrity would be achieved on a highly resilient, decentralised basis.

Changing the role of regulators

The role and cost of regulators could change from being slow, impotent and costly reactive to only a minority of indiscretions. Instead, their role would be to ensure that all corporate stakeholders possess the intelligence, incentive and resources to protect and promote their interests immediately and comprehensively.

In other words, the regulation would become bottom-up with various checks and balances to control the wide variety of misdeeds, mismanagement and malfeasance that can arise from complex business operations. This would make the complexity regulation consistent with the laws of nature identified by systems science.[89] Australia could establish a role model for regulators around the world.

However, the transfer of government regulation to citizens would need to be subject to testing and refinements by trial and error in regulatory 'sandboxes'. So, this process could take some years. A bigger problem is to motivate the government to initiate a vision and obtain the will to act. Government-employed advisors could resist the reduction of the role of government. Elected members of Parliaments could have more pressing agendas than even exposing ethical blindness, let alone running the risks of initiating corrective measures.

Political imperatives to purify capitalism

Improving ethics is not likely to be a top political agenda for many politicians, except for minority parties and independents. Accepting a request from the Ethics Centre for a one-time government allocation of $33 million to underwrite its succession with an Australian Institute of Applied Ethics is not likely to jeopardise voter loyalty to elect politicians. The estimated economic incentives appear significant but not compelling.

Gifting a wellbeing income to all citizens creates a compelling incentive to act

Such an opportunity arises because shareholders get overpaid in a way that accountants cannot report. Overpayments cannot be reported because accounting doctrines do not require investor time horizons to be identified. Overpayments described as 'surplus profits' cannot be reported if time horizons are not identified.

Surplus profits that cannot be reported cannot be taxed. However, sharing surplus profits with all resident citizens can be introduced with a self-financing tax incentive for shareholders who create and endow stakeholder shares and dividends. This would introduce a shareholder-led stakeholder economy that would reduce inequality and enrich democracy. An irresistible incentive is created for politicians or any political party to support.

87. ASIC, 2023; Eyres, 2024
88. Sadler, 2022
89. Turnbull and Guthrie, 2019; Turnbull, 2021b

The purifying of capitalism can then be extended to include reducing inequality with lifelong wellbeing support for all citizens. The self-funding tax incentive creates win-win outcomes for the wealthy minority and all other voting citizens.

The universal citizen dividend[90] could replace the need for employed citizens to sacrifice their salaries to fund their pensions compulsorily. After 2025, this would increase the income of employed citizens in Australia by 12%, increasing their spending or savings and investment to boost economic activity significantly.

The view that there is no limit to human greed may be widespread. This view can lead to the conclusion that it is impossible for investors to get overpaid. However, no investor can be confident about the future. So, even the greediest investor will select opportunities that will provide more significant profits sooner in the foreseeable future. In this way, all investors implicitly or explicitly establish their investment in time horizons.

Time horizons identify when an investor will not rely on obtaining any cash back to obtain the incentive to invest. This makes cash received after their time horizon surplus to obtain the investment incentive. It represents a windfall, unnecessary overpayment, or a surplus investment incentive.

Such surplus profits should not be confused with profits that are excessive, super or are described as economic rent.[91] Accountants can report these because they do not require identifying a time horizon. This difference makes it necessary to adopt a new word to communicate a different concept that could be unfamiliar to many.

Time horizons are not a theoretical social construct. I discovered investor time horizons when working in New York City as a financial analyst for a multinational business with global projects. Cashflow projections for new prospective investment opportunities worldwide could extend to thirty years. However, in deciding to invest in different countries the directors would set different time horizons for each country according to their perceived risks.

No time horizon accepted for any country longer than ten years. Time horizons were established for five or fewer years for some perceived high-risk countries. This meant that surplus profits could arise for at least 25 years. Surplus profits can become hundreds of times the cost of the initial investment.[92] The time horizons for venture capitalists can be as short as three or four years.[93] The average time horizon for US institutional investors in real estate is 7.6 years.[94]

To demonstrate the practicality of raising millions of dollars from hundreds of investors for high-risk start-up new ventures, the author has twice funded public corporations where he limited shareholder time horizons to 15 years.[95] We limited investor returns to seven years in a film financing business to avoid indefinite administration costs.

Corporate charters issued by State Governments in the US had a 20-year time horizon during the 17th and early 18th century.[96] All intellectual property possesses time horizons, with patents initially limited to 20 years. Government projects funded privately with Build, Owned Operated and Transferred (BOOT) contracts demonstrate the use of time horizons and ownership endowment.[97]

90. Described as a community dividend (Turnbull, 1975, p. 83)
91. Morehouse, 1997, p. 142
92. Penrose, 1956; Turnbull, 1973
93. Chladek, 2021
94. Fisher and Young, 2000
95. Saxonvale Wines Limited founded 1969 publicly traded 1975, and Barwon Cotton Limited, founded 1979, publicly traded 1984.
96. Grossman and Adams, 1993
97. https://www.wallstreetmojo.com/build-own-operate-and-transfer/

Surplus profits answer a question that Piketty could not. Piketty asked why the return on capital has been at least 10 to 20 times greater than the growth of output and incomes.[98] Surplus profits help explain that the inequality in people's living conditions across the world is 'tremendous',[99] and that 'eight men are wealthier than half the globe'.[100]

The Piketty solution to reduce inequality was to introduce taxes. The solution suggested in this article is counterintuitive. It proposes tax reductions to incentivise shareholders to support more efficient, equitable and eternally sustainable stakeholder capitalism. This is similar to the tax incentive proposed by Martin Wolf for the government 'to promote private investment', and also 'to change corporate governance'.[101]

6. Democratising purified capitalism

The tax incentive for shareholders to agree to amend corporate constitutions to endow a fraction of their equity each year to stakeholder shares can become self-funding. This arises from stakeholder tax payments increasing from their endowed dividends, with the cost of welfare being replaced with dividends from endowed stakeholder shares.

With the incentive becoming self-financing, it can be made sufficient to provide shareholders with a bigger, quicker and less risky profit. Institutional investors with a legal obligation to maximise returns would be obliged to vote in favour of corporations amending their constitutions to become endowment firms. The amendments would include reformatting[102] Ostrom's self-governing design principles to introduce distributed decision-making.

Endowment firms would greatly magnify and simplify the share ownership distribution achieved by US Employee Share Ownership Plans (ESOPs). Non-self-funding tax incentives were used by Senator Russel Long 50 years ago to introduce ESOP to the US Today, around 5% of voters are members of ESOPs.[103] Endowment firms could immediately make contributions to 100% of voters. This highlights the compelling political arithmetic of extending share ownership to all voting citizens.[104]

In addition, the process is greatly simplified.[105] US ESOPs involve the complications of securing bank loans to finance newly issued shares to employees via a trust.[106] This involves collateral, loan agreements, trust deeds, trustees, valuations, etc. Endowment firms achieve ownership transfer by simple book entries each year to transfer equity from the shareholder account to the stakeholder equity account. New stakeholder shares can be endowed to voting citizens each tax year. Their selection should make sense in developing bioregional, self-reliant, self-governing circular economies within 20 years.

It is worth noting that in 2022, Alaska distributed a non-ESOP dividend of $US3,284 from a single pipeline business to every resident voter and to every child resident of 12 months[107] If another four similar enterprises distributed similar dividends, every family with two children in Alaska would receive more than the US basic wage.[108]

98. Piketty, 2017, p. 353
99. Roser, 2017
100. Picchi, 2017
101. Wolf, 2023, p. 249
102. Turnbull, 2022a, p. 97
103. https://www.nceo.org/articles/employee-ownership-by-the-numbers
104. Turnbull, 1975
105. This is why Jeff Gates, who drafted the ESOP tax incentives for Senator Long, invited the author to join him in Beijing in 1991 as a guest of the State Commission for Reforming the National Economy.
106. Jeff Gates visited Russia in 1990 to introduce ESOPs, but the financial infrastructure was not available.
107. https://pfd.alaska.gov/docs/permanentfunddividendlibraries/annual-reports/2022-pfd-annual-report---final.pdf?sfvrsn=7cd131a2_3
108. Around 15% of US families hold shares directly while about 55% of US citizens hold shares indirectly through mutual funds and retirement funds; https://www.fool.com/research/how-many-americans-own-stock/

Investor-led stakeholder bioregional circular economies

Endowment firms grow by mimicking living things and creating new offspring businesses funded by dividend-redirected-investment plans. The new offspring firms provide a succession planning process for local and alien investors, as well as for employees, executives, customers, suppliers and other critical stakeholders on whom firms depend for their existence. This re-direction process would remove local or foreign ownership and control held in alien tax havens to enrich host economies. More citizens receive more taxable income to increase domestic savings and investment to build more self-reliant circular bioregional economies.

Firms would be kept to human scale.[109] Competition could emerge between sibling firms endowed with competing generations of technology, product and service innovations. Independently elected stakeholder associations would appoint qualified individuals as advocates to protect and further the interests of their different constituent stakeholders.

Ostrom's case studies[110] illustrated how competition between stakeholders resulted in cooperation and self-governance without 'Markets or States'. As a result, corporations could be transformed into becoming what Ostrom describes as 'Common Pool Resources', providing benefits for all stakeholders (a 2019 objective of the US Business Roundtable).[111]

Introducing competing feedback channels corrects biased, incomplete or missing data. Directors obtain superior scope and accuracy of intelligence on their organisations' strengths, weaknesses, opportunities and threats (SWOT).

Unlike government laws and regulators protecting stakeholder interests, independently elected stakeholder advocates can mentor management to discover and negotiate win-win solutions. Regulation becomes privatised, delivering bottom-up immediate and comprehensive responses.[112]

Superior stakeholder protection is achieved in a much more credible way than firms employing internal ombudspersons. Employees or contractors must be subject to systemic conflicts of interest. Growth of this less creditable way of promoting stakeholder care is revealed by fthe Association of Ombudsperson in many countries being formed, with an International Association[113] promoting their activities.

Enriching democracy for eternal wellbeing

The localisation of enterprise ownership and control into their host bioregions enriches democracy by helping to self-determine the population size that mainly locally available, eternally renewable resources can sustain. This is how Indigenous Australians sustained their existence for 65,000 years through the last Ice Age. During this time, sea levels increased by over 130 meters, shrinking Australia's size by 20%. This process of rising sea levels is expected to continue but with more significant degradation of the atmosphere, oceans, land, biodiversity, and so the wellbeing of humans. The 'ghastly'[114] future for humans expected by scientists requires both a reduction in population and inequality.

109. When Mondragon stakeholder cooperatives grow beyond human scale, they divide into two like an Amoeba with one firm becoming a supplier or customer of the other (Turnbull, 2000b: 218)
110. Ostrom, 1990
111. BRT, 2019
112. Turnbull 2019a, b; 2021c
113. https://www.ombudsassociation.org/
114. Bradshaw et al., 2021

As wellbeing reduces, the imperative for politicians to use tax incentives to improve a much more equal distribution of wellbeing will become increasingly compelling.

Humanity's wellbeing will depend upon the wellbeing of their host bioregions. This requires humanity to be governed by the nature of the bioregions as undertaken by Indigenous peoples. Modern society needs to become consistent with and become part of nature by adopting the governing practices of nature. Such biomimicry would replace exclusive, static, unlimited life property rights to land, buildings, enterprises, and money with dynamic, inclusive, and time-limited ones.[115]

In other words, modern society requires a Total Reset.[116] It must replace its toxic, alienating, undemocratic centralised, top-down hierarchical institutional power structures with stakeholder-driven bottom-up local polycentric self-governed organisations. In this way, tensegrity is introduced to remove ethical blindness.

Distributed decision-making is required to introduce tensegrity into social organisations. It also introduces a wide variety of contrary viewpoints. In this way, individuals get real-time practical education on right or wrong. The constructive conflicts introduced by tensegrity educate individuals without morals on how exercising organisational power can introduce harms or lack of wellbeing to others.

The take-home message is that education in ethics is best provided by replacing toxic institutions with virtuous institutions that reveal, restrict and control either good or bad people from doing bad things.

115. Turnbull, 2018
116. Campbell, 2023

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