

**ADDRESS BY  
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MALAYSIAN ANTI-CORRUPTION FOUNDATION'S  
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*PUTTING ETHICS TO WORK IN  
BUSINESS AND GOVERNMENT*

*Bismillahi Rahmani Rahim*

*Assalamualaikum Warahmatullahi Wabarakatuh.*

A very good morning, ladies and gentlemen:

1. It gives me great pleasure for me to be here this morning to address this gathering of representatives from civil society, academia, the corporate world and the public service. I hold in very high regard the aspirations of the Malaysian Anti-Corruption Foundation in battling the scourge of corruption that continues to take its toll on society, and as the theme of this conference suggests, to battle this scourge by championing ethics in business and government.

2. When I was invited to deliver an address on this topic, it led me to think about the dismal state of public confidence in our institutions today. It is therefore not surprising that ethics, and more so the dearth of it, is a subject that is gaining so much prominence of late, and no doubt, the reason it was selected as the theme of this conference.

3. Crises of ethics seem to be occurring everywhere. It is evident in the business and financial sector. The irresponsible actions of highly-paid individuals with offices in the executive suites on Wall Street that contributed to the global financial crisis in 2008 made us all wonder how so many educated men and women, many of whom were stalwarts of their communities, could find it in themselves to engage in reckless and irresponsible activities that put the life savings of so many others at risk.

4. It is also evident in the workings of government. For example, the lack of meaningful action over the increasingly grave consequences of climate change and environmental degradation has been described as one of the biggest failures of governments today. In this instance, governments have been criticised for not showing the resolve to do the right thing.

5. It has even tarnished the world of sports. The on-going investigations on FIFA officials who have allegedly amassed millions in kickbacks is but one of many unfortunate examples.

6. These are all current examples of an ethics dilemma. Indeed this dilemma is not a new one. Discussions on ethics have been going on for a very long time: one the earliest can be traced back to the *Analects* of Confucius (d. 479 BC) and to Plato's idea of the 'Philosopher-King'.

7. As a formal body of thought, the study of ethics goes back more than 1500 years to the *Nicomachean Ethics*, Aristotle's most important treatise on personal morality, where Aristotle (d. 322 BC) emphasised that excellence of character would lead man to do the right thing, at the right time, in the right way, and for the right ends. The study of ethics, according to Aristotle, is not merely for the sake of knowledge per se, but is meant to guide human behaviour. As he put it:

*"Our present study, unlike the other branches of philosophy, has a practical aim, for we are not investigating the nature of*

*virtue for the sake of knowing what it is, but in order that we may become good.”<sup>1</sup>*

8. The code of conduct and the explanations of virtue and goodness that Aristotle proposed also resonate strongly with teachings in practically all of the world’s major religions and cultures, where the fundamental values of honesty and integrity are prescribed and the evils of cruelty and deceit prohibited.

### **The dearth of ethics**

9. While the various universal ethical norms seem to have a binding significance for individuals in gaining a fuller and more satisfying understanding of their responsibilities as members of society, they have not prevented the crises of ethics that have endured and evolved into present-day forms. Ethics is a complex and hotly-debated topic, and depending on whom one speaks to, there are many ways of perceiving how individuals’ should be guided to do what is good and what is right.

10. As I continue to ponder on these difficult questions, I came to the realization that, speaking in general terms, there are three major

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<sup>1</sup> Aristotle, *Nicomachean Ethics*, 1103b.20 (Book II).

ways in which society has tried to put ethics to work in public life and to get individuals to do the right thing.

11. The first is through what I would call the theological and/or cultural approach. All religions and all cultures appeal to the better angels of our nature. Islam, for instance, advocates overcoming carnal desires and instincts by teaching us to achieve the purification of our souls, what is referred to as *Nafs*. Our religion teaches us to live piously and modestly, mindful of one's character in the presence of the Almighty.

12. The second broad approach is to view society through the lens of economics. Standard economic theory takes the view that human beings are essentially driven by rational self-interest, who respond to incentives in the marketplace. Thus, on this view, creating the right incentives, principally through the price mechanism, will induce consumers and producers to behave in the desired ways to achieve socially desirable outcomes. The founder of modern economics, Adam Smith (d. 1723), sees the market mechanism as a network of win-win transactions, with individuals protected and enabled to pursue their various aspirations in the light of their own notions of success. As he famously puts it: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but

from their regard to their own interest.”<sup>2</sup> This approach sees profit-maximizing behaviour as good and ethical in that it can bring benefits to the largest number of people. The last quarter of the twentieth century saw the explosive growth of the American business model that, in keeping with the spirit of American capitalism, placed a high premium on profit, efficiency and high performance.

13. The third broad approach is through the use of law and the establishment of legal institutions. Indeed the rule of law is a crucial element of any functioning democracy: it provides clarity about what the powers and respective responsibilities of managers, bureaucrats and elected officials are, and where the limits of those powers and responsibilities lie.

14. All of these three approaches, or at least, a combination of them, have been used at various times with varying degrees of success. Each has its own limitations of course. In the case of religion, we will fall when we allow the devil to get the better of us. Need I say more as weak human beings?

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<sup>2</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* in *The Glasgow Edition of the Works and Correspondence of Adam Smith*, edited by R. H. Cambell and A. S. Skinner (Oxford: Clarendon Press, 1976), vol. 2a, pp. 26-7.

15. By the same token, the economic model or the economic view of life has not worked in all cases. In the presence of what economists call 'market failure', individuals respond to perverse incentives to produce outcomes that are not socially desirable. During the last financial crisis, the financial industry suffered from what I would call an 'upside-down incentive model'. Profits are seen as the ultimate incentive over all other social and ethical factors. One example of this is the practice of predatory lending, which focuses on short term profits at the expense of the poor and disadvantaged. Lending programmes were encouraged aimed primarily at getting less qualified buyers into homes they could not afford. Managers who might otherwise prioritise the long-term growth of their businesses were encouraged, and even pressured, to put ethics aside and focus on immediate profit maximisation.

16. Finally, the limitation of the third approach is that overreliance on the law can also be unproductive. Experience has shown that the law on its own cannot always change human behaviour. Human ingenuity will always find loopholes in the law to exploit. Hence giving credence to the famous axiom 'laws are meant to be broken'!

17. The example of the Philippines under the administration of President Ferdinand Marcos (d. 1989) is instructive here. During the twenty-one year rule of Marcos, between 1965 and 1986,

several new Anti-Corruption Agencies were established making the Philippines the country with the highest number of anti-corruption laws and agencies among Asian countries. But it was also during this time that corrupt practices peaked in the Philippines, with relatives and cronies of the President appointed to posts in the highest echelons of government, many using their public office to increase personal wealth.<sup>3</sup>

18. Until and unless we are able to behave like pious Prophets of the past who could overcome our human frailties; until and unless we are somehow able to include moral rectitude and moral uprightness as part of our DNA, which we know as Muslims is practically impossible, then I'm afraid as perfectly imperfect creatures we will have to continue to rely making best use of these approaches to put ethics to work in our daily lives.

### **Promoting Ethical Behavior in Business and Government**

Ladies and gentlemen:

19. The spread of an 'ethics movement' since the last decade of the twentieth century is a recognition of the premiss that doing things the ethical way is the only guarantee towards achieving long-term

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<sup>3</sup> Jon S.T. Quah, *Curbing Corruption in Asian Countries: An Impossible Dream?* (Bingley: Emerald, 2011), p. 135.

sustainability of businesses and governments. The converse, on the other hand, is linked to poor performance, lack of trust, chronic inefficiency and massive corruption. This in turn, distorts the allocation of resources, drives away investors, curtails economic growth and puts the poor and vulnerable at great disadvantage.

20. If we are to be serious about instilling ethics in business and government, it is necessary for us to look at the problem in an honest and open manner. Indicators of ethics paint a bleak picture of the effectiveness of present laws and institutions. Indices such as the Corruption Perception Index and the Rule of Law Index show that Malaysia's performance is mediocre at best.<sup>4</sup> While there are many who believe that we should not be overly concerned by indices, we have to realize that perceptions of our country have not arisen out of thin air. Perception is part of the reality. And the perception tells us that, in many aspects of life, our moral compasses have gone awry.

21. In this regard, we are all culpable, if not as perpetrators, then as bystanders—guilty of dependence, apathy and unthinking obedience.

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<sup>4</sup> In the Corruption Perception Index 2014, Malaysia scored 52 out of 100; and ranked 50th of 175 countries (Transparency International, 2014). In the Rule of Law Index 2015, Malaysia scored 57 out of 100; and ranked 39th out of 102 countries (World Justice Project, 2015).

22. In moving forward, I believe Malaysia faces a few imperatives.

23. First and foremost, individual Malaysians must take personal responsibility for matters concerning ethics and integrity. They cannot afford to 'outsource' these matters to educational institutions, peer groups, employers and even the government. The family unit is absolutely critical in these efforts. When the foundations built in the home are not strong, then there is very little that outside institutions can achieve.

24. In Japan, as I understand it, families take the primary role in instilling core values in children from a very young age. The values of *omoiyari*, or empathy towards the feelings of others, helps children recognize that they are part of an interdependent group, and that they must respect and be kind and helpful towards other members of the group. These values are later reinforced in the neighbourhood, the school, the playground and the larger community. *Omoiyari* has been said by some to underpin Japanese culture, and to a large extent, has been credited for the high level of honesty in Japanese society.<sup>5</sup>

25. This brings me to my second imperative. It is essential that there be a very strong degree of coherence, congruence and

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<sup>5</sup> Anna Wierzbicka, *Understanding Cultures through their Key Words* (New York: Oxford Univ. Press), p. 276.

correspondence in terms of ethical practices in the home, the school, the workplace and the larger society. Partial or *ad hoc* attempts at inculcating ethical behaviour will not work, and less so if values and practices are at odds with each other. Any evidence of double standards, particularly among those in positions of power, will send mixed messages and undo the good work that has been done elsewhere. This in turn breeds a degree of cynicism that will be extremely difficult to eradicate from the mindsets of the present generations of Malaysians.

26. My third imperative is that there have to be in place *both* legal *and* social sanctions against those who seek to 'game' the system, so to speak, such as those exploiting weaknesses to take personal advantage of the situations they find themselves in. There has to be a sincere demonstration of zero-tolerance of unethical decisions or actions, especially by those holding high public office. These must be exposed and subjected to public disapproval in the strongest possible terms. If flagrant violations go unpunished, then any effort to put ethics to work in society will be ineffectual.

27. Where unethical behaviour is also illegal, prosecution and severe sentencing will send a clear message to the rest of society of what is acceptable and what is not. Where unethical behaviour is not illegal, the media and civil society must play an active and

instrumental role as the 'fourth estate', holding those in power accountable for decisions deemed illegitimate.

28. At the same time, those who speak up, make sacrifices and act in ways that promote ethical behaviour ought to be commended and celebrated. In far too many countries, and in far too many instances, they are instead silenced, penalised and persecuted.

29. Fourthly, it follows that ethical behaviour tends to flourish in a society that is open, democratic and transparent. This is not to say that openness, democracy and transparency by themselves will guarantee that ethical acts will follow naturally. They nevertheless act as restraints on unethical behaviour.

30. Finally, Malaysians need to work collectively to build a high-trust society. When the level of trust is low, everyone acts selfishly and believes that everyone else will do the same. This results in high transaction costs because people feel they need to have protections to cover any eventuality. On the other hand, developing norms that are fair and promote trust in society can provide enormous advantages for equitable growth and progress. To build trust, I believe we must strive to address comprehensively the divisions that exist in society, and which seem to be growing wider over time. These include the familiar ethnic, religious and territorial

divisions but also divisions in social class and ideology. We cannot build a high-trust society if we continue to be polarized in so many ways. It cannot happen if there is unequal or unfair treatment across the many communities and groupings.

31. In the business world, one very encouraging trend is the growth of what is called Socially Responsible Businesses and Social Entrepreneurship—concepts that have done very well in reclaiming trust in business. A good example, and one in which I have been actively promoting, is Islamic Finance as an alternative to and complement of conventional finance. I would like to see Islamic Finance as ethical finance. In Morocco and Turkey, Islamic Finance is also known as participatory finance. Applying Islamic financial principles to our financial system means applying a code of ethics, which seem to have been neglected in the industry in recent years. I believe we can all learn from Islamic Finance regardless of our differing faiths and beliefs. My hope is that policymakers and regulators can look beyond the bias and negative stereotypes of Islam and Islamic finance and consider what it has to offer the world of finance.

32. Since the 1970s, there have been at least 10 major financial crises in the world. That is, we have had a major financial crisis every three years on average. Furthermore, the financialization of

the global economy combined with the widespread use of highly speculative and complex financial instruments have created what we now refer to as systemic risk in the financial system. A severe shock in one country can easily spread to other countries.

33. In addition to all the illegal, criminal and fraudulent activities in the financial sector, unethical behaviour and activities have been found to be rampant in other parts of the system. For a financial system to be successful, it must have the trust of the people, companies and governments it serves. It must also adhere to a strict code of ethics in order to be fair and just to all. Sadly, this is not the case today.

34. Based on the objectives of social justice and equity, Islamic Finance adheres to a set of ethical standards that take into consideration social and environmental outcomes alongside commercial ones. I believe that it is for this reason that Islamic Finance has found favour not only in Muslim countries, but has been growing strongly in non-Muslim lands as well.

Ladies and gentlemen:

35. I hope the deliberations at this conference will take the conversation further—indeed, that they will shed light on how to

address this very important subject. I look forward to reading the proceedings of this Conference.

36. May the Almighty bless our country and its people, and grant us all the wisdom and strength to continuously pursue our aspirations for its betterment. I wish you all great success in your deliberations.

Thank you.