



Play fair! Innovating internal self-regulation in the market for profit



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Abstract Regulation imposes compliance demands on business, but these controls by no means ensure that corporations will act ethically. Externally imposed controls by government or industry are prompts intended to move organizations to engage in a moral minimum. Such efforts are typically reactionary corrective measures, often crafted and applied after an ethical scandal occurs, and thereby offer limited effectiveness in providing systemic change. To provide insight on internally driven controls, this article examines how a newer form of monetized self-regulation, referred to as *inverted moral markets*, might be leveraged to motivate corporate ethical behavior. Inverted moral market (IMM) operations target firms suspected of unethical action, providing a type of market whistleblowing. Such activities are monetized through the sale of information to investors and by short selling. Rather than a desire to build moral strength, IMM firms are motivated by self-interest and profit. They can potentially ‘do good’ by imposing self-correction within the market, but without virtuous intent. We explore IMMs and the varied impacts their activities may have on the functioning of the overall market. We argue that a more balanced approach between internal and external regulation may enhance the environment for moral balance in a capitalist market system.

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1. Limitations of external regulation

There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.
— Milton Friedman (1962, p. 112)

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With over 40 years of scholarship advocating corporate social responsibility (Post, 2015), many have come to embrace the notion that firms need to do more than what is required by law to be ethical. Friedman's treatise on capitalism assumes firms engage in fair play, requiring some level of ethicality where goals are achieved without deceit (e.g., cheating, bribery, corruption, fraud). Those in business, however, do not always adopt this assumption, and thus we see more and more government imposition of regulatory controls (Wagner-Tsukamoto, 2007). Firms tend to adopt a compliance-based approach aimed to prevent unethical activity rather than to promote ethical strength (Sekerka, 2012). As a result, we see an ongoing cycle of adding more and more compliance-based requirements that continue to impose costs on firms and their stakeholders with no promise of ethics development or change.

This cycle has contributed to corporate regulators adopting a variety of platforms that led to the commodification of regulation worldwide (Djelic, 2006). The notion of regulation as a product of exchange transforms the idea of regulatory control—traditionally viewed as an externally imposed demand—to one that includes internally derived opportunities for monetized trade. A commodity is, at its fundamental level, a transactional exchange—an action offering economic value. Thus, regulation as a commodity implies there is mutual benefit for those engaged. Given a firm's desire to maintain autonomy and the government's inability to be effective and/or to assume full responsibility for business ethics, we wondered how capitalistic motives might be leveraged to help infuse and/or restore ethical balance to market regulation activities. Drawing on literature from economics and business ethics, we provide a description of what we refer to as an *inverted moral market* (IMM). In describing IMMs, our article illustrates how capitalistic forces can be used to develop a market for services that impose a self-interest-driven corrective energy to prompt fair play. Because the aim is not to achieve a moral act but to make money, there is an inverted or inverse motive as those adopting this practice move toward a potential moral outcome (purging the market of unethical actors). Underlying this idea is the question of how self-regulation may unfold without ethical intent. We argue that IMMs represent a form of incremental rather than radical change.

2. Inverted moral markets

Businesses that find and target wrongdoers for profit are the drivers of IMMs. They regulate by short

selling shares and selling the information itself before making the information public. An expectation is that, once public, this information will set off a wave of share selling, which then drives down the share price of the wrongdoer and makes the IMMs' short position profitable. While not by design, IMMs inadvertently instill a self-correcting mechanism, offering a means of market retribution for foul play that simultaneously restores moral balance to the game. To better understand this innovative business concept, we look to answer this central question: When IMMs profit from revealing the unethical activity of a targeted firm, does this add value to the market and society as a whole?

Adam Smith (1776) explained how the pursuit of self-interest promotes the common good. Since his treatise, there has been a longstanding debate as to whether or not self-interest actually fosters societal welfare or stands in stark contrast to it (Cosans, 2009). The relentless trail of media stories about unethical corporate actors working at firms like Turing Pharmaceuticals, Toshiba, Valeant, Volkswagen, and Wells Fargo Bank demonstrate how regulatory controls often fail to ensure fair play in the market. While accounts of wrongdoing often evoke a sense of indignation among stakeholders, corporate cultures of ignorance, moral myopia, and complacency seem to persist. With each scandal, the public increasingly realizes that the presence of unethical behavior in business has become the norm rather than an anomaly (Palmer, 2013). Reliance upon organizational members to be the internal policing agents within an organization is a woefully inadequate means to deter, identify, and address fraudulent and unethical behavior (Blount & Markel, 2012). A new approach to see how firms can foster ethical strength is certainly needed (Hess & Broughton, 2014). We see the current insufficiency to ensure fair play in the market as a possible opportunity for incentivized market self-regulation. Put differently, innovative regulatory design is needed to instill moral balance in the marketplace.

2.1. Telling for profit

Anonymous Analytics, Citron Research, Gotham City, Iceberg Research, Muddy Waters, and The Friendly Bear exemplify IMM-type firms. Their operations are often described as mission-based to foster transparency. However, the concern for transparency is hardly motivated by ethical concerns, but rather by a desire to create wealth. These companies are self-interest-driven operations imposing a non-virtuous form of market whistleblowing. Said differently, IMMs are the market

looking inward and ‘telling’ on itself to make money.

Consider French retailer Casino, which found its shares dropping one-fifth in value after short seller and research firm Muddy Waters described it as one of the “most overvalued and misunderstood” companies it had ever come across (Stothard, 2015). Led by Carson Block, it continues to target European companies because of their high indebtedness and lack of scrutiny by investors, which makes them “ticking time bombs,” according to Block (Stothard, 2015). Gotham City Research is another top-ranked IMM operation with an average 1-year return of negative 58% for the share prices of targeted firms (out of more than 100 short sellers; see Kim, 2016). Daniel Yu of Gotham City Research was dubbed the caped crusader after his firm attacked MDC Partners, citing its accounting practices as highly disturbing, with understated debt and suspiciously high profits (Kim, 2016). After this information was released, shares of MDC fell more than 23%. Yu’s previous targets include the Endurance International Group and Spanish technology company Gowex. The former’s shares dropped 40% when Gotham targeted them, forcing the company to file for bankruptcy.

It is important to note that what is legal from a regulatory view may in fact still be unethical. For example, IMM firms can be thought of as monetizing two types of wrongdoing: regulatory-based actions and accounting-based actions (C. Block, personal communication, August 30, 2016). Regulatory-based refers to uncovering activities occurring in violation of existing external regulations. An example would be Lumber Liquidators and the accusation that some of its products contained cancer-causing chemicals, and Kase Capital taking a financial position against them (C. Block, personal communication, August 30, 2016). In addition, an accounting-based action may or may not be a violation of an external regulation. Companies may, in fact, be committing accounting fraud, or may simply be misleading investors (albeit legally) by using financial rules and engineering to their advantage (C. Block, personal communication, August 30, 2016). This sort of situation was exemplified by the French retailer Casino, which was scrutinized by Muddy Waters. In this case, the company was found to be acting legally, but the opinion was that it had been over-inflating its earnings. In sum, there can be a large difference between actual fraud and intellectual fraud (C. Block, personal communication, August 30, 2016).

In reflecting upon a variety of IMM activities, we acknowledge the fluid nature inherent in answering the question: What is ethical? Given the progressive

nature of society and cross-cultural values and their implications, along with personal, situational, and contextual construals (Treviño, 1986), there is a broad spectrum of interpretation. Determining where the so-called grey area begins and ends is relative. As such, in an effort to better understand IMM operations, we have applied a temporary dichotomous lens to impose logical clarity. In so doing, our goal is to shed light on this novel and emerging form of monetized regulatory control.

2.1.1. Attackers and targets

To explain and describe IMM activities, picture two types of firms: attackers and targets. *Attackers* gather and use the information they secure to make money. Firms like Muddy Waters or Gotham City Research could potentially become targets themselves, but because IMM operations are usually privately held companies, they are unlikely candidates. *Targets* are publicly traded firms identified by attackers as threats to the market, based upon their lack of ethical practices. Ideally, firms engage in business ethically but, absent fair play, an accurate accusation by an IMM operator can bring nefarious actions to light. This presumably leads to declines in a target firm’s shareholder value, which benefit the attacking firm’s profitability and reputation given it assumed a short-selling position and is known for its successful analyses. It should be noted, however, that attackers may or may not make an accusation and targets may or may not be committing deceptive practices, regardless of what IMM attackers claim.

In procuring accurate information, attackers can place effective market bets that the firm they have targeted will fail. These bets are expected to be profitable. Upon sharing this newsworthy information with the market research firm subscribers, investors can benefit and the market is expected to respond accordingly when this same news is shared with the public. It should be noted, however, that even when the IMM accusation is accurate, the market result may not occur as expected. Moreover, the process is not infallible. False attacks are possible and ethical violations by attackers may go unchecked. Despite these concerns, we believe that the mere existence of IMMs raises the risk for nefarious actors in the market, given that their deceptions can potentially be identified and targeted for profit. This self-regulatory force, driven from within the market itself, may guide firms to think twice about how they conduct their business operations. Of course, a variety of outcomes may evolve, affecting attackers, targets, and the market overall. Figure 1 outlines several possibilities and

potential underlying effects, which we discuss below in greater detail.

3. Market forces

Figure 1 outlines examples of the underlying market forces that might be affected (i.e., market functionality, moral sentiment, reputation, and stakeholder concern) by various combinations of attack/target situations. Attackers, targets, and the market in general (i.e., attackers, targets, and general investors in aggregate) will experience the effects differently. For clarity, we consider market functionality at the level of the overall market. Moral sentiment, reputation, and stakeholder concern are considered for attackers and targets respectively. We recognize there are likely alternative sensible categorizations (i.e., reputation of the attackers affects the reputation of the market, etc.). For purposes of analytical clarity, we do not consider such aggregative effects.

In the case where no accusation is made, the effects on the market as well as the attacker and targeted firm are largely unknown. It is worthwhile to distinguish between the cases in which no accusation is made yet wrongdoing occurs and in which there is no accusation and no wrongdoing. When wrongdoing goes undetected, there is a flaw in the market. The information surrounding both target and attacker is incorrect. And yet, that information is deemed credible. In a case where wrongdoing is not observed, the market, attacker, and target

remain largely unaffected. Therefore, it is important to recognize that in an undetected situation, unethical activities may continue to grow and the outcomes may be much worse than if an attack had been made. In the unaffected situation, there is no change. Having no impact implies that neither harm nor benefit has occurred. With these insights in mind, we define the elements of Figure 1 for cases in which accusations have been made.

3.1. Market functionality

Financial markets often rely on impersonal transactions between buyers and sellers. Absent direct interaction, the perception of value is prompted by social norms, reputations, patterns of behavior, and trust-establishing institutions. Firms and investors implicitly rely upon this information to establish good faith, commitment, and stability. People who engage in market activities rely upon a system of checks and balances, including industry standards and government enforcement of regulations and laws (Mayer, 2008). Such reliance demands trust. Economists believe that building trust in the market emerges through efficiency and fairness. Efficiency refers to an ability to allocate resources to where they are most valued. This is achieved, in part, via pricing, reflecting objective and known information (Shefrin & Statman, 1993). Fairness is often difficult to define, but can be summarized as playing by the rules (Callahan, 2004). Markets must be functional to inspire trust; thus, we view *market functionality* as a socially

Figure 1. Use of inverted moral markets to impose market self-regulatory control

		ATTACKERS	
		No Accusation	Accusation
TARGETS*	Commits unethical act	<p>Undetected</p> <p><i>Market functionality (flawed)</i></p> <ul style="list-style-type: none"> • Target <ul style="list-style-type: none"> - Moral sentiment (unaffected) - Reputation (unaffected) - Stakeholder concern (unaffected) • Attacker <ul style="list-style-type: none"> - Moral sentiment (unaffected) - Reputation (unaffected) - Stakeholder concern (unaffected) 	<p>Accurate Hit</p> <p><i>Market functionality (improved)</i></p> <ul style="list-style-type: none"> • Target <ul style="list-style-type: none"> - Moral sentiment (negative) - Reputation (diminished) - Stakeholder concern (increased) • Attacker <ul style="list-style-type: none"> - Moral sentiment (positive) - Reputation (mixed) - Stakeholder concern (increased)
	Does not commit unethical act	<p>Unobserved</p> <p><i>Market functionality (unchanged)</i></p> <ul style="list-style-type: none"> • Target <ul style="list-style-type: none"> - Moral sentiment (unaffected) - Reputation (unaffected) - Stakeholder concern (unaffected) • Attacker <ul style="list-style-type: none"> - Moral sentiment (unaffected) - Reputation (unaffected) - Stakeholder concern (unaffected) 	<p>Erroneous Hit</p> <p><i>Market functionality (diminished)</i></p> <ul style="list-style-type: none"> • Target <ul style="list-style-type: none"> - Moral sentiment (negative) - Reputation (mixed) - Stakeholder concern (increased) • Attacker <ul style="list-style-type: none"> - Moral sentiment (negative) - Reputation (diminished) - Stakeholder concern (increased)

*Listed on a financial exchange

accepted balance between efficiency and fairness. Adam Smith viewed market freedom (efficiency) and ethics (fairness) along with the rule of law as complementary (Evensky, 2005).

To achieve progress, Adam Smith argued that the market must simultaneously advance in each area. By implication, there is a need to blend and balance these elements, which is consistent with our conception of market functionality. When market functionality genuinely improves, it follows that market participants' trust is likely to increase. Trust is conducive to creating an atmosphere for moral balance (Yazdani & Murad, 2015). When trust is present, information provided by the market is perceived as being reliable, thereby conducive to a desire to play fair, honoring and following the rules. Conversely, a lack of trust detracts from fair play, potentially motivating excessive self-interest. A moral imbalance may contribute to an environment where cheating, fraud, and other unethical activities have an opportunity to fester.

When attack firms make a formal accusation, outcomes from this act can affect the market's functionality. If the targeted firm is indeed committing a wrongdoing, the accusation draws attention to the problem while also fostering clarity and transparency. Moreover, an accurate hit by an IMM may cause other firms to be wary about undertaking similar moral offenses. As a result, market participants can feel more confident in the system. Conversely, an erroneous accusation may result in even greater market uncertainty (Ullah, Massoud, & Scholnick, 2014). What's more, false accusations have the potential to lead stakeholders to discount all future IMM accusations. Imposing a lack of trust, attack errors will hinder an IMM's ability to be effective. However, clear distinctions may be difficult. As described in a 2012 issue of *Forbes*, Muddy Waters was initially applauded for showcasing a unique approach to unearth bad apples in the market (Li, 2012). But like all IMMs, Muddy Waters was also castigated for making allegations, sometimes viewed as rumor mongering or wrong. With sound investigation practices, we see that any accusation is likely to increase scrutiny, which, in general, is useful. Given the level of accuracy, the overall impact of IMMs may improve or diminish the market's functionality.

Practical wisdom suggests that humans are fallible, with or without intent. Researchers have empirically demonstrated why and how good people do bad things (Bandura, 2016). The fact of the matter is that everyone has the capacity to act unethically, as we all rationalize and justify ethically questionable behaviors as a way to support gaps in our integrity (Ariely, 2012). There is certainly no

shortage of this type of activity in business and the market (Fang & Casadevall, 2013). This is attributed to a multitude of forces, reasons, and situational conditions, including social norms, diffusion of responsibility, competing values, pressure to perform, and biases, to name just a few (see Prentice, 2007). But when firms operate unethically and go undetected (appearing to be sound via reputation and/or leader assurances), such falsehoods detract from and deplete the integrity of the market overall, throwing off its moral balance. When firms appear to be morally sound and they are not, the market's functionality can be jeopardized by rampant and undetected deceit.

In a capitalistic market, the system will be unlikely to address a moral imbalance unless there is incentive to do so. When information of a targeted firm's unethical activities is made known by an IMM, investors will react. These reactions can affect the market's functionality. When accusations made by an IMM are true, the firm and its investors will be affected. But the immediate impact to the market in largess is modest. However, if IMM activity serves as a reliable and sustained purging agent for targeting unethical players, the impact on the market may foster increased trust and thereby increase market functionality over time.

3.2. Moral sentiments, reputation, and stakeholder concern

Adam Smith affirmed the relevance of affective experience in human interaction with his treatise on civil society, noting the influence of moral sentiments and relational trust. Today's moral psychologists help us apply this thesis, seeing how specific feelings are "linked to the interests or welfare either of society as a whole or at least of persons other than the judge or agent" (Haidt, 2003, p. 276). These so-called moral emotions provide motivational forces that favor ethical behavior and oppose wrongdoing (Kroll & Egan, 2004). Research shows how feelings shape and guide our moral decisions and actions that are grounded in experience and motivated by unconscious values and personal desires that compete for supremacy (Bagozzi, Sekerka, Hill, & Seguera, 2013; Sekerka & Bagozzi, 2007). We see the potential for IMMs to influence the emotions of those involved in the market, which can drive corrective action responses through an attacker firm's self-regulatory activities.

Commercialization often erodes moral restraint. Excessive self-interest can easily burgeon into greed that fosters moral weakness and, ultimately, market instability. Countering this urge to focus on

the self naturally requires cooperation. Trust is a crucial element in forging cooperative interdependencies, which is vital for establishing and sustaining healthy market functionality. Relational trust is fueled by sentiment; social bonds are formed and supported by individual and collective affective experiences. In studying how markets are influenced by emotions, we see negative feelings (anger and fear) and positive feelings (excitement and pride) associated with bear and bull markets, respectively (Wang, Zhang, Wang, & Liu, 2014). Additionally, moral emotions (guilt, shame, and pride) may be associated with IMM activities. For example, when a target firm is caught, exposure of its activities may impose a sense of guilt or shame on those involved. In an accurate attack, IMM actors may experience pride. In an erroneous attack, members of the targeted firm are likely to feel anger, while the attacker may feel guilt or shame. The anticipation of moral emotions may also act as a deterrent to future unethical activities (i.e., hearing about IMM activities, unethical actors may be dissuaded from pursuing ethically risky actions).

Achieving responsibly driven financial performance leads to a better corporate reputation (Dowling & Moran, 2012), providing a sustained market advantage (Roberts & Dowling, 2002). Claims of impropriety can be deleterious to a firm's reputation and it is the job of corporate leaders to protect shareholder value. In general, firms that are singled out for their unethical activities by IMMs experience abnormally low financial returns in the year following the accusations (Lamont, 2012). In one case, Citron Research made an accusation against Valeant Pharmaceuticals (Gara, 2015) and the firm's stock price was substantially reduced. The firm has since acknowledged the harmful impact of the attack on its operations (Crow, 2015). If unethical behavior is exposed by an IMM, the reputation of the target will be diminished.

The impact on an attacker's reputation may be more mixed. As a benefit, an accurate attack demonstrates that the IMM is providing useful information to the market. Given that short selling is often viewed negatively by default, and targeted firms often use public relations strategies to defend themselves vigorously and counterattack, there is a risk of negative reputational consequences for the IMM (C. Block, personal communication, August 30, 2016). Thus, the overall effect on the attacker's reputation is ambiguous.

Related to the reputational effect, an attack—whether accurate or erroneous—likely increases stakeholder concern about both the

target and the attacker. Attacks often make the financial news and the activities of both the attacker and the target come under scrutiny (C. Block, personal communication, August 30, 2016). The attacking IMM's business model is to make the attack publically known and the target has an incentive to try to discredit the attacker. This results in an increase in stakeholder concern for both parties. The veracity of the attack itself does not alter those impacts. For example, in the case of Pershing Square, led by Bill Ackman, and its attack on Herbalife, stakeholder awareness related to Herbalife's business model increased, but so too did awareness of Ackman and his own company's business model (Versace, 2016).

Short-selling activities have the potential to offer external benefits (Karpoff & Lou, 2010). For example, the practice may enhance the efficiency of stock valuing—leading to more accurately priced shares—as a result of information gleaned by an IMM (Saffi & Sigurdsson, 2011). Recent evidence suggests the presence of short selling improves the internal governance of firms (Massa, Zhang, & Zhang, 2015), which, in turn, can have positive effects on the targeted firm's stakeholders. On the other hand, the practice is sometimes criticized by stakeholders as being short on ethics (Spivak, 2010), particularly when systemic loopholes are leveraged inappropriately (Lotz & Fix, 2013). To address this concern, we turn to an examination of how the ethical foundations for IMM activities can be supported and maintained.

4. External regulation

Adjectives used to describe IMMs tend to lean toward negative connotations: aggressive, self-interested, cowboy mentality, short-termism, hard-driving, and profit-seeking. Ironically, these are the very terms often associated with the types of firms that IMMs target, those found center stage in the unethical activities being reported. In view of this concern, the checks and balances from internal/external regulatory controls need to be imposed on IMM activities to ensure that they, too, are playing fair. While we are not aware of specific efforts to regulate the behavior of attack firms, short selling of stock shares has a long regulatory history (Angel & McCabe, 2009).

Of course, forms of external market regulation span a wide spectrum of possibilities. To make our analysis more tractable, we consider two basic levels of external regulation: heavy and light. An example of *heavy regulation* would be an outright

ban on short selling or other types of severe restriction of any short-selling activity. For example, in 2008, the U.S. temporarily banned short selling of financial stocks (Battalio, Mehran, & Schultz, 2012). An example of *light regulation* would be a more narrow limitation on certain short-selling activities. Many countries ban so-called ‘naked’ short selling (Jain, Jain, McInish, & McKenzie, 2013), whereby a party short sells a stock without actually following the process of first borrowing the stock. Another example would be an uptick rule such as the one currently in place in the U.S. The rule is designed to prevent further short selling when a stock’s price has already fallen by 10% or more in a day (SEC, 2010).

One way to view regulation of IMM short-selling activities is that alternative forms (heavy and light) can serve as a moderating force on the actions that can influence the market’s functionality. This leads us to the nexus of and/or interaction between external regulation and the market’s own home-grown internal regulatory controls. The system will eventually determine the ultimate functionality of the market, as well as IMMs and their usefulness.

We expect that heavy regulation would limit the accusations driven by IMM firms. This form of control would directly limit short-selling activities and thereby prevent IMM firms and their clients from selling and leveraging useful information. As such, the IMMs would be unable to profit from an accurate target attack/accusation. The presence of publicly traded companies committing unethical acts, combined with such heavy regulation, would support a high level of undetected violations (see Figure 1). Here, external regulation may block the usefulness of a systemically driven, regulatory force that an IMM firm provides. This is a less desirable outcome, both for the market’s functionality and society in general. Excessively heavy regulation will certainly prevent erroneous hits but could also make IMM activity too difficult to pursue, thereby curtailing the potential to benefit from efforts to expose unethical firms. An implication would be that if regulators ban short selling, they should only do so if they believe the prevalence of unethical acts by publicly traded companies is extremely low. Otherwise, the external regulation is actually preventing the market system from moving toward self-correction (i.e., internally imposed self-regulation).

Light regulation will also have a moderating effect on market functionality, albeit less impactful. This form of regulation may offer opportunities for moderating the effects of external regulation, enhancing the beneficial aspects of IMMs, while also limiting their potential excesses and/or ethical

risks. This nuanced view suggests that light regulation that is well designed, monitored, and audited could increase the ratio of accurate hits made by attack firms. In effect, external regulation would curb the incentives of the IMM firms to act unethically in their own right, while still allowing them to exert an internal regulatory force upon the market and improve functionality over time. A cooperative approach to IMM regulation would produce an outcome more beneficial for society than if attackers are allowed to operate unchecked.

A mix of external and internal regulatory forces, combined with a mix of appropriately guided heavy and light regulatory policies, might reveal a sweet spot wherein checks and balances help to support a free market regulatory process, one that is protected yet unencumbered by overbearing, externally imposed controls. Given that many rules come about as a reaction to unethical behavior (rather than well-designed, proactive initiatives) market regulation has become a hodgepodge of policies. A novel approach might be to broach regulation as a process based upon what supports the market’s ethical functionality.

We suggest the conceptual notion of achieving *regulatory balance*; that is, finding the appropriate mix of light and heavy regulation. External regulators need not encumber IMM operations, but they still must oversee and rein in any untethered profit seeking leading to unethical action that could diminish market functionality. We believe that by achieving regulatory balance we may succeed in propelling markets toward moral balance. External regulators must strive to achieve a more balanced mix of regulatory forces to ensure fair play in the market system. In working to establish ethicality, benefits can be found by leveraging IMMs as an internal corrective force. By carefully establishing a fair operational platform, the ethicality of this innovative regulatory tool can become a useful mechanism that does not become corrupt in itself on the way to reporting unethicality elsewhere.

5. Innovation and regulation

If we accept the basic notion that “an innovation is a new idea” (Van de Ven, 1986, p. 591), the blend of external and internal regulations represents a move toward regulatory innovation. The term innovation also refers to the generation of unique thoughts that differ from prior conceptions (Galbraith, 1982). We propose calls for regulators to recast their thought processes about preexisting regulatory frameworks. As our subsequent discussion illustrates, what we

propose reflects an important step in advancing incremental change rather than imposing some sort of radical movement (Moschella & Tsingou, 2013).

The IMM concept as incremental change stems from viewing it within a context of developmental forms of regulatory support. More concretely, we suggest IMMs can be a type of process-oriented regulation (Gilad, 2011). Firms typically adapt regulatory controls to fit their individual circumstances. Here, the role of regulating authorities is to ensure the effectiveness of how the regulation is actually adopted and exercised by the firms themselves. IMMs represent this notion but at the market level. In the spirit of free market capitalism, the market should be allowed the flexibility to adapt regulations to meet unique and evolving circumstances. Regulatory incentives need to increase an IMM's ability to produce accurate hits and limit erroneous ones, in an effort to lead the market toward outcomes that are closer to an ideal (see Figure 1), one that supports and encourages ongoing moral balance.

It is true that markets consist of individual actors whose behaviors reflect their personal motives. The market itself, however, bears no intent toward any participant. In our view, a process-oriented form of regulation (the type we advocate) will require ethical intent on the part of the IMM actors. In lieu of intent or fixed ethical design at the system or market level, stakeholders rely on the notion of spontaneous order (Hayek, 1948). This is the idea behind Smith's (1776) invisible hand wherein the market can produce an orderly and efficient outcome without intent. We advocate that IMMs be free to create a spontaneous order, but this order must also be guided and shaped (though not cast) by impartial guardians. The blending of capitalistic incentives with a mix of regulatory demands will tilt market outcomes toward those that are more beneficial to society. This would, in our view, reflect a meaningful and useful regulatory innovation.

6. Final thoughts

Adam Smith was quite clear regarding how self-regulation and morality are merely baseline conditions necessary to ensure healthy and functional capitalism (Wight, 2005). By kick-starting self-corrective action in the market, IMMs may be an effective mechanism for an internally directed means to accomplish free market regulatory control in a manner that strengthens regulatory-driven market behavior. Adding an inside-driven approach to discourage unethical practices can prompt

greater moral consistency than current externally imposed reactionary legislation. Alternatives to IMMs, such as shareholder activism and socially responsible investing, remain woefully underutilized (Oh, Park, & Ghauri, 2013).

As we have depicted, IMM operations clearly are prompted by self-interest; yet, the vetting and public exposé services they provide may offer short- and long-term benefits to the global economy. By revealing unethical firms, investors may be more informed of those violating the public's trust and those who do not engage in fair play. This enhances the risk of deceit for violators, forcing them to bear the cost of their transgressions (when revealed). We view IMMs as a tool to establish self-induced regulatory control.

Future research can pursue the idea of establishing regulatory moral balance and ethical consistency in the market. Cornelissen, Bashshur, Rode, and Le Menestrel (2013) offer some insights. They describe moral balancing as a phenomenon whereby behaving in a particular way (ethically or unethically) decreases the likelihood of engaging in the same type of behavior in the future. Conversely, moral consistency is the opposite: behaving in a particular way increases the likelihood of engaging in the same type of behavior in the future. The findings revealed that focusing on outcomes facilitates moral balancing and a focus on rules facilitates moral consistency. We know that prudential judgment applied to moral decision making is driven by a combination of considering rules and consequences (deontological and teleological perspectives, respectively). In short, both are needed to impose balance and consistency in behavioral actions. Linking these concepts with the combination of externally and internally driven regulatory controls may provide a broader foundation from which market fair play can be prompted with enhanced acuity.

In addition, it seems that reactive means used to modify ethical ineptitude are relatively ineffective. More and more rules continue to be piled on, layering the demands and increasing regulatory complexity but producing only modest utility at the expense of taxpayers and businesses. Costly investment to attend to new regulatory demands seems endless, as cheaters continue to find ways around the rules and/or run the risk of arrogantly defying them. We also know that environments conducive to ethical malfeasance include those in which the rules continue to change and/or seem vague (Zimbardo, 2007). As such, an innovative systemic approach to establish moral balance and consistency, combining internal and external approaches, seems warranted.

Legislation that imposes compliance-based controls on firms and the market never gets at the core of what causes issues to emerge in the first place. Although IMMs represent an incremental form of regulatory change, we suggest that market leaders and policymakers work together to develop regulatory management processes using systems thinking. While there are numerous ways to define a system, it generally is thought of as a group of interacting, interrelated, or interdependent components that form a complex and unified whole. Systems thinking provides a framework for seeing relationships rather than examining independent elements (Senge, 1990). The underlying basis of a system is that there is never just one element in operation; every action radiates outward in time and space, affecting everything else in its path. Scholars, practitioners, and policymakers will need to work together to create a holistic and practical means for regulatory development, welcoming new forms of regulatory control that promote fair play and prevent cheating.

More research is needed to better understand how to manage and direct the work of IMMs to foster good, while not constraining the freedoms that enable their ability to do well. Few analysts in established institutions provide the kind of in-depth research that IMM operations offer. And yet, nagging concerns remain. Smith (2012) and other financial experts outline important questions that additional inquiry, discourse, and study can help address: How do stakeholders know if an attacker is making wild claims in the name of research, strictly to benefit their own position? Should the compliance requirements applied to research units of investment banks apply to IMMs? To whom are IMMs accountable? The long-term contribution of IMMs depends upon whether or not the attacker firms go about their operations ethically. That is, IMMs themselves must play fair.

Given market competition and pressure, alternative industry standards, relativism introduced by cross-cultural perspectives, and varying governmental standards—along with alternative views of justice shaping the meaning of what is fair—this article is a conceptual starter kit to prompt discussion, which will fuel more informed economic and financial market policy. As outlined by Brès and Gond (2014), the social construction of markets is open to virtue or vice. It is up to scholars, educators, practitioners, leaders and policymakers to influence the compelling nature of the former, while mitigating the lure of the latter. In so doing we can work together to foster innovative and evolving forms of regulation in capitalistic enterprise. If we truly hope to sustain the health

of our global economy, we must realize that this is not a luxury; rather, it is a necessity in establishing the financial stability that will build our shared collective future.

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