Why even good people are likely to do bad things in finance – it's not the people that are flawed, it's the culture

Ethics in Finance, Robin Cosgrove Prize
Global edition 2012-2013

Finalist

Krzysztof Osesik
Poland
*Associate, PwC*audit department, Warsaw*

* The views expressed herein are those of the author and do not necessarily reflect those of the Organization he is affiliated to.

This paper analyses the current state of ethics in finance, and especially banking institutions. The focus will be on identifying the factors that are conducive to unethical practices. I will argue that, although financial scandals are ultimately triggered by individuals, these should not bear the entire blame – for the prevailing work culture at many financial institutions is flawed, and directly encourages and rewards unethical behaviour and practices. This means that the system will face even more turmoil before long.

The paper begins by discussing the definition and importance of ethics in business relations. It then explains why ethical behaviour cannot be ensured by more financial regulation, and how too many rules can actually undermine ethical standards. The third part analyses the ethical shortcomings of the financial corporate culture, and the paper concludes with some final remarks.

What is ethics and why is it important?

Ethics is basically the science of what is right and wrong. However, there is no generally accepted definition of the term. When asked, people tend to confuse ethics with their own feelings, religions, legal principles or social norms (Andre & Velasquez, 2013). For the purpose of this analysis, I will define ethical behaviour in finance as 'acting in a way that promotes and strengthens trust and confidence in mutual relations'. Ethical behaviour is all about honesty and integrity. Its main objective is

noPrix GB2.indd 102 16/10/2013 16:10:43

Le texte se concentre sur les institutions bancaires et en particulier sur l'identification des facteurs propices aux pratiques non éthiques. Il s'agit d'expliquer pourquoi le comportement éthique ne peut pas être garanti par plus de règlementation financière et comment plus de procedures et règles nuisent aux normes d'éthique.

Dans le cadre de cette analyse, le terme de comportement éthique, dans un contexte financier, peut être défini comme une action qui encourage et renforce la confiance dans les relations mutuelles. Tout repose sur l'intégrité et l'honnêteté, l'objectif étant le bien commun au sein de la société, soit une situation *win-win* en affaires.

to promote the common good within society. In business, it means striving for 'win-win situations'. Ethical standards do not allow abuse of personal privilege through such things as asymmetrical information, strong bargaining power or legal loopholes.

Ethical principles are of fundamental importance in finance. This is because the financial sector is untypical. First, unlike many other industries, it offers intangible, highly complex products whose quality cannot be immediately verified by customers. Second, many financial services are by their very nature provided over a long period of time. Some government bonds or mortgage loans have maturities of 20 years or more. Both factors mean greater uncertainty for the parties involved. The most efficient risk-mitigating factor is thus mutual trust, which in turn must be rooted in high ethical standards. As the next section will show, in the absence of compliance with ethical principles, more regulation can do little to boost confidence in financial markets.

A jigsaw puzzle of ethics and legal compliance

Today's financial regulators seem to believe that systemic stability can only be achieved by more regulation. The fact that market confidence can also be boosted by promoting ethical values appears to have been overlooked. The prevailing ideology is more – and ever more detailed – regulation. Yet this may actually make things worse. Kaptein (2012) has argued that there is an optimum amount of regulation for every organization. Beyond that point, extra regulation will only be damaging, as more effort is put into abiding by the rules at the expense of operational effectiveness and ethical behaviour.

In a recent paper written for central bankers, Bank of England executive director Andrew Haldane said 'Modern finance is complex, perhaps too complex. Regulation of modern finance is complex, almost certainly too complex ... As you do not fight fire with fire, you do not fight complexity with complexity ... [C]omplexity ... requires a regulatory response grounded in simplicity' (Haldane & Madouros, 2012). He proved his point by comparing the size of various pieces of legislation designed to overhaul the system. The 1933 Glass-Steagall Act, adopted in response to the Great Depression, ran to a mere 37 pages, but secured overall financial stability for seventy years. In contrast, the 2010 Dodd-Frank Act, intended as a legislative countermeasure to the current crisis, occupies no fewer than 850 pages, with some 400 more to come in the form of implementing guidelines. The Basel I agreement, signed in 1988, was only 30 pages long. By the time Basel II was signed in 2004 the volume had increased tenfold, to more than 300 pages. The most recent agreement, Basel III, signed in 2010, runs to over 600 pages, almost twice the size of its predecessor. It is not just the length of these documents that is cumbersome, but also

noPrix GB2.indd 103 16/10/2013 16:10:44

Les principes éthiques sont fondamentaux dans la finance. La qualité des produits, souvent très complexes, ne peut pas être immédiatement vérifiée par les clients, tout comme les services fournis pendant de une longue période de temps. Il en résulte une grande incertitude, la confiance mutuelle devenant le facteur de diminution des risques le plus éfficace.

Le fait que la confiance du marché puisse être stimulée par la promotion de valeurs éthiques a été negligée. Dans tout sytème, trop de regulation, au delà de la quantité optimale, devient préjuduciable. Il ne faut pas combattre la complexité avec de la complexité. Une réponse réglementaire fondée sur la simplicité est nécessaire.

Les principes éthiques ne peuvent pas être imposés par la legislation. Les standards éthiques proviennent des valeurs et incitations encouragés sur le lieu du travail. De nombreuses enterprises confondent action

their detail. As Haldane says, 'this degree of complexity also raises serious questions about the robustness of the regulatory framework, given its degree of over-parameterization' (Haldane & Madouros, 2012).

Preliminary remarks on ethics in finance

In this connection it is also important to realize that ethical principles cannot be enforced by legislation. 'Fencing organizations in with procedures, systems and structures provides no guarantee that people will do the right thing' (Kaptein, 2012). Ethical standards stem from values and incentives that are fostered at the workplace. Many companies confuse acting ethically with legal compliance – which are not the same thing. To understand this, take the simple question of whether slavery or racial segregation were ethical even when they were legal.

Today, because of the bloated regulatory framework, companies pay far more attention to being legal than they do to being ethical. Banks' compliance departments employ hundreds of lawyers, but hardly any banks have hired ethical advisors. And extra regulation is counterproductive for two other reasons. First, it can never be complete, for there will always be gaps, grey areas and loopholes that can be exploited by those who are aware of them. Second, as numerous research results have shown, more regulation actually reduces people's ability to think critically about their own actions. They simply accept the measures and procedures imposed on them (Katz-Navon, T. *et al.*, 2005). Too many rules will undermine ethical standards, as people consult legislation rather than their own consciences when judging what is right and wrong.

On the other hand, the solution is not to get rid of the entire regulatory framework. Lack of regulations and supervisory mechanisms can indeed have destabilizing effects, as the sudden rise and fall of the derivatives market has made clear. Instead, it is a matter of striking the right balance between too little and too much. Regulation is an important stabilizing factor, but should be kept to the necessary minimum. Regulation can hardly promote ethical standards; but too much regulation will certainly undermine them.

The following part of the paper discusses whether people are inherently good or bad. This is a crucial issue, as different measures will be needed to ensure compliance with ethical standards depending on whether people are naturally good or bad. The paper will then examine whether only 'bad people' in the finance industry were responsible for the recent wave of scandal and fraud.

Are people inherently good or bad?

According to classic economic theory and its *homo oeconomicus* model, individuals derive their utility from consumption of material goods. They are driven by rational expec-

noPrix GB2.indd 104 16/10/2013 16:10:44

éthique et conformité légale. Une réglementation complémentaire est contre-productive car elle n'est jamais complète et réduit le regard critique sur ses propres actions.

Il ne faut pas pour autant réduire la règlementation et les mécanismes de supervision, qui pourrait créer des effets déstabilisateurs. Il s'agit de trouver le juste milieu entre pas assez et trop. La partie suivante se concentre sur le caractère intrinsèquement bon ou mauvais des gens.

L'utilité des individus, guidés par des attentes rationnelles et leur intérêt personnel, dépend de la consommation de biens matériels. Depuis que les émotions ne sont pas jugées comme pertinentes ni source de bonheur, il n'y pas de place pour la charité et le bénévolat. Les individus ne seraient donc pas dignes de confiance, mais très egoïstes et centrés sur eux-même.

tations and self-interest. The happiness of a nation can then simply be measured by adding up people's individual utilities. This theory ignores the possibility of synergies between individuals, and assumes that people can only increase their utility at other people's expense. Since emotions are irrelevant and cannot be a source of happiness, there is no room for charity or voluntary work. People can be just as happy on a desert island as they can among their families and friends. If this theory is correct, it follows that people should be inherently bad and untrustworthy. With limited, scarce resources, the easiest way for them to increase their utility is to take away what already belongs to others. Nor do they have any interest in contributing to the common good or well-being. This approach is consistent with the views of the English philosopher Thomas Hobbes, who believed that people were extremely egoistic and self-interested, and that in the absence of external authority there would be permanent conflict and war.

A completely different view was advanced by Aristotle and the French philosopher Jean-Jacques Rousseau. According to Aristotle, achieving *eudaimonia* – happiness or self-fulfillment – required people not just to display and practice virtue and excellence; external factors such as health, beauty and social ties were also important. People living on their own, in isolation from others, could never achieve *eudaimonia*. As for Rousseau, he believed that people were naturally good; unlike Hobbes, he blamed violence and conflicts on the corrupting influence of the external environment, rather than people's egoism and self-interest. He also argued that people could, and should, increase their happiness by cooperating with others.

The question of whether people are naturally good or bad has exercised philosophers' minds for centuries. However, the results of recent research on young children suggest it is more likely that people are naturally good rather than bad. Hamlin, Wynn and Bloom (2007) had shown that children as young as six months old are able to unconsciously judge people on the basis of their behaviour, distinguish right from wrong and, faced with a choice, have a preference for what is right. Other research, by Felix Warneken and Michael Tomasello, has shown that children aged 18 months display a tendency towards altruistic behaviour. Even where the people in need were strangers and there was nothing to be gained by helping them, the children chose to help them in the vast majority of cases (Warneken & Tomasello, 2006).

Good or bad? In finance it doesn't matter

However, if we accept that people are basically good, i.e. are not purely self-interested and can cooperate with others in accordance with social norms, where have all these financial scandals come from? Could it be that the financial industry

noPrix GB2.indd 105 16/10/2013 16:10:44

Selon une autre vision, l'épanouissement personnel repose sur la vertue et l'excellence, mais aussi sur des facteurs externes comme la beauté, la santé et les liens sociaux. Le bonheur serait donc inaccessible à ceux qui sont renfermés sur eux même. Les individus seraient donc bons et leur bonheur reposerait sur la cooperation avec les autres.

Les récentes études sur de jeunes enfants font état de prédispositions naturelles plutôt bonnes que mauvaises. L'entraide se fait de manière spontanée
Le milieu financier attirerait les exceptions, ceux qui se comportment de manière non éthique.

Il est nécessaire de se pencher sur la vie de plusieurs personnalités impliquées dans les récents scandals éthiques au sein d'institutions financières, à commencer par Kenneth Lay, dernier CEO d'Enron. Un homme très apprécié, mais à la double personnalité.

specifically attracts those few 'bad people', or those with a tendency to behave unethically?

To analyse this, we need to look at the biographies of several people who were behind some of the biggest recent ethical meltdowns in the financial sector. Enron's last CEO, Kenneth Lay, was raised in a rural family and his father was a Baptist preacher. Before joining Enron he was a navy officer and, during his time as CEO, he made contributions to charities and cancer treatment centres. He was a sociable and likable person. 'The employees loved him', said one senior executive. There was nothing to suggest he would become responsible for one of the largest corporate scandals in America. It is almost as if Lay had two quite different personas. 'Many … are struggling to reconcile the two images of Ken Lay. The first was a personable, civic-minded multimillionaire who took the lead in ... charity after charity ... The latter reigned over a company ... that spawned an atmosphere of arrogance and greed ...' (Goldberg & Flood, 2002).

A similar story can be told about Lloyd Blankfein – a Harvard Law School graduate, and CEO of Goldman Sachs since 2006. Yet during his tenure Blankfein has done little or nothing to alter the company's infamous culture (Smith G., 2012). His former boss said 'Blankfein was endowed with an unusual combination of humility and self-awareness, two traits not normally associated with hugely successful Wall Street executives' (Cohan, 2011). Other accounts describe him as 'very personable and witty', as well as 'funny and entertaining'. Blankfein appears to be much-loved at the company – 'he is just terrific (…) you will love him', said one of the executives (Pressler, 2011). It is remarkable how someone with such personality traits can run a company whose culture is described as ruthless and nasty.

A much more suitable person would surely be someone like Lehman Brothers' last CEO, Richard Fuld – nicknamed 'the gorilla' because of his confrontational style of management. In a public speech about traders who were short-selling Lehman Brothers stock, he said 'what I really want to do is reach in, rip out their heart and eat it before they die.'[1] He inspired great loyalty, but mostly through fear. 'Those closest to him slaved like courtiers to a medieval monarch, second-guessing his moods' (Oliver & Goodwin, 2010).

Another example is Kweku Adoboli – a UBS rogue trader whose excessive risk-taking lost the Swiss bank $2.3 billion. Given his background, he was rather an unlikely person to behave in this way. He came from an affluent family; his father was a senior UN diplomat. At his prestigious secondary school Adoboli was one of the brightest students – with a particular aptitude for mathematics and logic. In his final year he became 'head boy' of the school. Later on, he graduated with

[1] www.youtube.com/watch?v=GZCmWkQuyPc

noPrix GB2.indd 106 16/10/2013 16:10:44

L'histoire de Lloyd Blankfein, CEO de Goldman Sachs depuis 2006, est similaire. Un homm très apprécié au sein d'une enterprise dont la culture est décrite comme impitoyable et rude.

Richard Fuld, CEO de Lehman Brothers et Kweku Adoboli, tous deux au parcours pourtant remarquable, sont d'autres exemples très pertinents. Il en va de même pour Nick Leeson, dont les agissements ont conduit à l'éffondrement de la Barings Bank.

La culture d'entreprise, qui prévaut au sein des institutions financiers, serait en partie responsable des pratiques financières déloyales. L'un des facteurs générant ces méfaits est l'objectif unique de rendement propre au secteur.

Les pratiques visant à privilégier ses intérêts au depend des clients sont très répandues au sein de ces institutions. En terme scientifique, un tel dévouement dans un seul but se

honours from the University of Nottingham in computer science and management (Russell, 2012). At his trial, people who had met him described him as an intelligent, honest, generous and dependable person (Croft, 2012).

Yet his actions were not very different from those of another rogue trader, Nick Leeson, whose reckless trading lost Barings Bank $1.4 billion and led to its collapse. Unlike Adoboli, Leeson grew up in a working-class family, never graduated from a university, and finished his education at secondary-school level, with only limited qualifications. His teachers considered him a poor student and a poor mathematician (AETN UK, 2013). As for his personality, he is said to have been manipulative and deceitful to those around him. Leeson described himself as cynical and inconsiderate.[2]

Why is it so difficult to act ethically in finance?

The previous section has shown that apparently good people, as well as bad people, engage in unethical financial practices, regardless of their background, education or personality. I would argue that this can largely be blamed on the corporate culture that prevails at financial institutions. Below I identify and discuss the most pronounced aspects of this culture that lead to unethical behaviour in finance.

[2] www.youtube.com/watch?v=xfdtK-B_c7c

Focus on a single goal

One important factor that triggers many unethical practices in finance is the sector's extreme focus on a single goal – this year's returns. Virtually the whole organization is centred around generating higher turnover. Banks are said to have been 'focused on revenues and not on other aspects of performance' (The Economist, 2013). Pressure to achieve budgeted plans made some banks intentionally mislead their clients and jeopardize long-term relationships. For example, Barclays was found to be 'focused on revenue at the expense of its clients' (Mustoe, 2013). Goldman Sachs admitted it had misled its investors in failing to disclose relevant information. On the plus side, however, the bank made billions out of these unethical transactions with its own clients (Nasiripour, 2011).

Such practices are widespread across the industry. One former banker writes that a common expression now is '"IBG, YBG" – "I'll be gone, you'll be gone" (…) long-term consequences don't matter; all that counts is this year's kill.' The three most infamous rogue traders – Leeson, Kerviel and Adoboli – all defended themselves by saying that the banks encouraged them to take on more risk in order to boost potential profits, and that this was standard practice at their banks.

In the scientific world, such utter devotion to a single purpose is known as 'tunnel vision'. It has been experimentally shown that too much emphasis on a sin-

noPrix GB2.indd 107 16/10/2013 16:10:44

gle goal impairs people's ability to judge situations critically and draw the right conclusions. 'The focus on a goal then becomes a fixation, and other important things fall by the wayside. Just as with tunnel vision the rest is dark, does not count and is not seen' (Kaptein, 2012).

The current banking value system, with its overreliance on monetary aspects, has no future. To understand this, we must realize how detached financial institutions and financiers have become from the real economy. In an infamous interview, one trader said of the current crisis 'We do not care that much about the economy (…) Our job is to make money (…) Personally I have been dreaming of this moment for three years. I go to bed every night and I dream of another recession'.[3] At Goldman Sachs clients were allegedly referred to as 'muppets', and at internal meetings no attention was paid to how the bank could help its clients, but rather how it could make money out of them (Smith G., 2012).

In my view, the problem is not so much that banks are driven by money. It is rather that financial institutions are entirely focused on achieving a single goal – maximizing revenue forecasts. In the capitalist system it is natural for businesses to pursue higher sales; but our world has become too complex and interconnected for us to concentrate all our energy on a single goal, with little or no regard for other aspects. This paper is a modest attempt to reconcile capitalism and ethics, something many have argued is no longer possible. Capitalism is the best economic system mankind has so far developed, for it increases productivity and creates opportunities for all. However, financial institutions need to broaden their spectrum of objectives in order to perform their intended role in society. In a business environment where there is so much emphasis on achieving a single goal, ethical standards are likely to be pushed aside.

Intrinsic motives are superseded by bonuses

Some of the best-paid jobs in the world are in banking and finance. Average salaries for first-year analysts at investment banks are $100,000 a year, and the managing director is paid $400,000 or more (Rapoza, 2013). However, these are only *average* figures across the industry – the biggest firms pay much more than that. Of the nearly 30,000 people employed at Goldman Sachs, almost a thousand were paid $1 million or more in 2008. In 2009 the average individual bonus at the same bank was estimated at $675,000 (Quinn, 2009). During his trial, rogue trader Jérôme Kerviel revealed that he had performed risky transactions in the hope of receiving a large bonus – he had expected to net €600,000 for his 2007 results (Benedetti-Valentini, 2008). Wall Street bankers grew so accustomed to large remunerations that in 2009, amid huge losses and multi-billion bailouts with taxpayers' money, they granted themselves a total bonus of $18.4 billion (Shnayerson, 2009).

[3] Goldman Sachs Rules the World', www.youtube.com/watch?v=CTE6nXyKSnQ

nomme "tunnel vision". La concentration sur un unique objectif nuit à la capacité de jugement critique.
Le système actuel de valeur bancaire n'a aucun avenir s'il reste en l'état.

Le problème ne vient pas des banques dirigées par l'argent mais des efforts que les institutions financières concentrent sur cet unique objectif qu'il faut atteindre: la maximisation des prévisions de revenus.
Il s'agit d'une tentative, vaine peut-être, de réconciliation entre le capitalisme et l'éthique, alors que l'environnement actuel des affaires tend à ignorer les standards éthiques.

Les métiers du secteur financier et bancaires figurent parmi les mieux payés au monde. La célèbre tendance psychologique "effect d'éviction" est ici très présente, les motivations intrasèques étant progressivement dominées par celles extrinsèques.
Le sens de la moralité, l'égalité et la contribution à la société ont été remplacées par les hauts salaires et autres primes.

noPrix GB2.indd 108 16/10/2013 16:10:44

L'analyse de l'image de soi et des egos démesurés est importante à considérer dans le cas de pratiques financières déloyales. Les employés de banque perdent progressivement le sens de la proportion et l'humilité. Plusieurs raisons expliquent cette tendance: La grande taille des institutions financières, l'efficacité des lobbies du secteur, le train de vie luxueux de nombreux employés et la dépendence de nos vies au secteur financier qui gère tout.

A well-known phenomenon in psychology is the 'crowding-out effect', whereby intrinsic motives are gradually pushed aside by extrinsic motives for taking a particular action. In the case of bankers' huge salaries, monetary rewards may well have suppressed such intrinsic motives as a sense of morality, equality or contribution to society. In other words, financiers might in all conscience prefer to be involved in more socially beneficial projects – but their decisions will be affected by the prospect of large bonuses.

This phenomenon has been researched by David Greene, who offered his students a reward for studying harder. However, once he took the reward away, the students studied less than they had done to start with (Greene, Sternberg & Lepper, 1976). Essentially, their efforts were driven by the reward rather than by the wish to study in its own right. By the same token, bankers are driven by their bonuses rather than by what they do, and why.

Self-image and inflated egos

Another important factor when analysing the sources of unethical practices in finance is self-image, or what has been called the Galatea effect. The theory is that people's ideas about themselves can greatly affect their actions and attitudes. Bank employees are seemingly often convinced that they are not bound by society's normal standards. One former investment banker has talked about an atmosphere of 'inflated egos'. A comment by Goldman Sachs CEO Lloyd Blankfein that bankers are doing 'God's work' has been repeatedly criticized, and condemned (Phillips, 2009). According to an internal Barclays report, 'a few investment bankers seemed to lose a sense of proportion and humility' (Treanor, 2013). A feeling that you are not bound by the rules leads to disregard for normal standards, and has surely led to some of the unethical practices at financial institutions.

There are at least four sources of such exaggerated self-esteem. First, many of these institutions are 'too big to fail'; this gives them an upper hand in relations with regulators and the general public, who have to pay close attention to what banks say and do. Second, the financial sector has one of the largest and most effective lobbies. For example, in the early 2000s they proved very effective at making sure the derivatives market remained unregulated. In 2011 the US financial sector spent nearly $500 million on lobbying (Opensecrets, 2011). Third, high levels of remuneration and luxurious lifestyles have convinced many that their privileged status is justified. Finally, all of our lives are affected by finance, but only a few of us really understand it. It is only the bankers that actually know the sector inside-out, and this gives them a sense of power and authority. As one trader famously said, 'governments don't rule the world – Goldman Sachs rules the world.'[4]

Here it is also worth mentioning a contrary phenomenon known as

[4] Goldman Sachs Rules the World', http://www.youtube.com/watch?v=CTE6nXyKSnQ

noPrix GB2.indd 109 16/10/2013 16:10:44

L'effet Pygmalion est un phénomène contraire, qui repose sur la perception des autres et leurs attentes en matière de comportement. Les services financiers sont ceux qui inspirent le moins confiance. Selon cette théorie, si les gens pensent que les banquiers ne sont pas dignes de confiance, alors la probabilité est forte pour qu'ils le deviennent.

La pression du temps est un facteur important qui explique aussi les pratiques non éthiques. Il nuit à la capacité de prendre du recul et de juger de manière objective. Dans certaines banques, la semaine de travail comprend 70 à 80 heures et parfois jusqu'à 100 heures.

La très forte compétition interne est un autre facteur expliquant l'avènement de pratiques déloyales. Trop de rivalité interne incite les gens à tricher et à contourner les règles, la course aux primes ne faisant qu'accentuer cette tendance.

the Pygmalion effect. This concerns how individuals are perceived and expected to behave by others. According to the 2013 Edelman Trust Barometer, financial services have been the least trusted sector for three years in a row (Edelman, 2013). The problem is that if the general public thinks bankers are untrustworthy there is – according to the theory – a higher likelihood that they actually will be. Other people's expectations lead them to act accordingly. For example, the Pygmalion effect has played a part in many recent accounting frauds. One reason why financial statements at HealthSouth or Enron were falsified was to meet market analysts' high expectations (Associated Press, 2006). Another example is the Greek government, which asked Goldman Sachs to help it conceal the true size of its debt (Balzli, 2010). If the Greeks had not expected Goldman Sachs to be able to help, they would have never approached the bank, and the bank would never have had the opportunity to act unethically.

Time pressure

A fourth element conducive to unethical practices at financial institutions is time pressure. Tight schedules are often beneficial, as they make people work harder and more efficiently. However, working under constant deadlines with no time to reflect on what you are doing comes at a cost. This may seem strange, but in fact constant time pressure has much the same effect as the tunnel vision mentioned earlier: it impairs people's ability to judge situations from a different perspective. An experiment conducted by John Darley and Daniel Batson has shown that people tend to focus so much of their energy on deadlines that they fail to assess situations properly and respond in the right way (Darley & Batson, 1973).

Banks are known as places where you need to put in a lot of working hours. According to one former bank employee, 'You do not know how hard you can work, short of slavery, unless you have been an investment banker (…) It is not merely the hours, but the extreme and unrelenting time pressure' (Smith Y., 2010). Normally, a typical working week is 70-80 hours (Comstock, 2010); when necessary, however, this can increase to 100 hours or more.

Internal competition

Another element of corporate culture at financial institutions that is conducive to unethical practices is extremely intense internal rivalry. Research has shown that mid-level competition can be very useful in the workplace; but too much rivalry has been found to prompt people to cheat and bend the rules. This especially holds true in environments where winner-takes-all reward systems are applied. When people are faced with the prospect of failing to secure the first prize, their ethical standards are likely to be challenged and indeed compromised.

Jobs in finance are known to be

noPrix GB2.indd 110 16/10/2013 16:10:44

Les institutions financières entretiennent cette compétitivité via des méthodes d'évaluation éreintantes et extrêmement difficiles. La forte remuneration n'est plus le moyen d'acquérir des biens de consommation mais une donnée essentielle de sa propre image avec la reconnaissance comme objectif ultime.

highly competitive. According to an independent report on the culture at Barclays, 'winning at all costs comes at a price: collateral issues of rivalry, arrogance, selfishness and a lack of humility and generosity' (Treanor, 2013). Enron's culture was also based on constant conflict and competition. The company developed the most gruelling and harsh evaluation systems in the US, and each year 10-15% of employees were fired because of their low performance grades (Thomas, 2002). In financial institutions future employment is seldom guaranteed. Managers hold constant feedback sessions, and the poorest performers are quickly fired. At the same time, most banks publish motivational rankings of their best employees. Moreover, internal hierarchy – the 'corporate ladder' – is used to entice employees with prospects of quick promotion. Bank employees tend to be strong-willed and career-oriented. The rules for being promoted are usually laid out clearly in internal documents, so that people are in no doubt about what is expected of them. What makes internal competition even fiercer is that many financiers no longer just see their annual remuneration as a means of meeting their consumption and living requirements, but as a key part of their self-image. They pursue higher bonuses in order to win recognition and build self-esteem.[5]

Trois raisons externes expliquent cette constante compétition: le secteur attire toujours plus d'étudiants, il est très homogène au niveau du profil de ses employés, et en fin les résultats des employés sont très facilement comparables.

There are also at least three external reasons for fierce competition. The first is that a large number of finance and economics graduates enter the labour market each year. Since finance offers above-average salaries, many seek careers in this sector. The second reason is that finance is a very homogeneous environment. Financiers' personalities, work cultures, skills and abilities are very similar; almost the only differentiating factor is experience. This makes comparison and internal replacement easier. Moreover, since corporate cultures are almost identical across the industry, it is easy to recruit people from another companies. The third factor that boosts internal rivalry is the fact that employees' results are easily comparable in terms of revenues generated for the company.

Lack of true diversity or strong individuals

A final challenge to ethical standards is that working environments at financial institutions are very homogeneous. Companies impose strict rules and regulations on their employees to ensure similar attitudes and thinking patterns. Goldman Sachs employees were strictly forbidden to talk to the press, could not party in public in groups of more than twelve, and were told what kinds of clothes were and were not acceptable at work (Comstock & Wachtel, 2011). At Lehman Brothers, allegedly, people were fired because they wore the wrong clothes and were told which charities to sup-

[5] 'Ethical risks: why do good people end up doing bad things?', http://www.youtube.com/watch?v=XtFiHb_c6n4

noPrix GB2.indd 111 16/10/2013 16:10:44

Le manque de personnalités fortes et de véritable diversité, qui caractérise le secteur, est un challenge pour les standards éthiques. Les enterprises formatent les collaborateurs pour qu'ils préfèrent leur employeur à leur propre famille.

Les employés recrutés doivent rentrer dans le moule pour maintenir la meilleure homogénéité possible. Chaque recrutement peut inclure jusqu'à une dizaine d'entretiens pour flatter le candidat et le rendre encore plus dévoué à son entreprise.

Des études montrent que les individus adoptent très facilement les normes et actions imposés par leur environnement professionnel.
Les standards éthiques ont tendance à être plus facilement enfreints dans des environnements homogènes avec une forte loyauté propre à la culture d'entreprise.
L'exemple donné par les cadres supérieurs est donc déterminant.

port.[6] Employees are expected to show limitless commitment to the company. 'It wasn't uncommon to ask associates to reschedule their weddings' (Smith Y. 2010). A former intern at Goldman Sachs says her internship at the bank was 'deeply upsetting' and she felt 'indoctrinated' (Wachtel, 2011). Yet many bankers do not hesitate to talk about their love for the company. It is as if the institution has actually replaced their families.

The first stage in creating and maintaining homogeneity, commitment and subordination among employees is the recruitment process. Top investment banks typically only target graduates from a very limited number of schools. The recruiters' main job is to assess whether a candidate fits into the corporate culture.[7] They also look for 'money-mindedness', as well as 'hunger and drive'. Before making a job offer, top banks will have up to ten interviews with the best candidates. This is not so much to learn more about them as to make new employees grateful for the opportunity they have been given by being hired, and thus to increase their loyalty and commitment to the firm. The notion of diversity at investment banks is also a myth; it is only a slight exaggeration to say that everybody graduated from a top business school, passed CFA exams, lives a luxury life, is money-oriented and only has friends that work at the same bank.

Three separate experiments by Philip Zimbardo (Zimbardo, 2007), Solomon Asch (Asch, 1955) and Stanley Milgram (Milgram, 1963) have shown that people are very liable to adopt the norms and actions imposed on them by their environment, their peer group or a higher authority, without thinking much about what these really stand for. This is especially true of individuals who lack self-esteem and see themselves as a product of their environment rather than a driving force. A junior banker who lets himself be told what to wear and which charities to support, and cannot even decide his own wedding date, certainly fits this pattern.

Ethical standards are more likely to be violated in such a homogeneous and highly loyal corporate culture, since everybody is expected to toe the line and not ask too many questions. In fact, everything depends on whether a few top executives can set a good example, for middle-level bankers simply adopt the norms and behaviours that trickle down through the organization.

Conclusions

The finance industry is a key element in getting the economy back on track. It has never been bigger and more important than today. With its size, however, comes responsibility. Financial institutions failed the test of the 2008 financial crisis. Since then, owing to banks' stubborn resis-

[6] Lehman Brothers "Terrifying" Culture Exposed…', www.huffingtonpost.com/2010/03/22/lehman-brothers-terrifyin_n_508594.html
[7] 'Overview of the Investment Banking Analyst Recruiting Process', http://investmentbankingjobsguru.wordpress.com/2008/08/22/overview-of-the-investment-banking-analyst-recruiting-process/

noPrix GB2.indd 112 16/10/2013 16:10:45

L'industrie financière est un element clé pour remettre l'économie sur pieds. La responsabilité est devenue une donnée essentielle. La culture d'entreprise très critiquable a joué un role négatif dans la crise récente. Une action rapide est indispensable pour y remédier. Nous avons tendance à blamer les individus au lieu de s'intéresser aux lacunes du système pris dans son ensemble.

tance, very little has changed. Every so often yet another story of fraudulent practice comes to light.

Banks' flawed corporate culture has played a negative role in the recent crisis, and swift action must be taken to remedy it. I hope the above diagnosis of its most fragile points will prove a useful contribution. The paper's final conclusion is that the public is often too quick to blame individuals, describing them as greedy, arrogant risk-takers – and overlooking the shortcomings inherent in the system as a whole. •

References

AETN UK (2013). Nick Leeson: Rogue Trader. Retrieved from www.crimeandinvestigation.co.uk/crime-files/nick-leeson-rogue-trader/biography.html

Andre, C. & Velasquez, M. (2013). What is Ethics ? Retrieved from www.scu.edu/ethics/publications/iie/v1n1/whatis.html

Asch, S. (1955). Opinions and social pressure. *Scientific American*, 193, 31-35

Associated Press (2006). Enron witness: executives fudged numbers. Retrieved from www.sptimes.com/2006/02/02/Business/Enron_witness__Execut.shtml

Balzli, B. (2010). Greek debt crisis: How Goldman Sachs helped Greece to mask its true debt. Retrieved from www.spiegel.de/international/europe/greek-debt-crisis-how-goldman-sachs-helped-greece-to-mask-its-true-debt-a-676634.html

Benedetti-Valentini, F. (2008). Kerviel Losses Erase Promotion Chances for Clerks. Retrieved from www.bloomberg.com/apps/news?pid=newsarchive&refer=home&sid=ac7IQ1PTV_yE Blankenfein came from. Retrieved from management.fortune.cnn.com/2011/04/21/where-blankfein-came-from/

Comstock, C. (2010). Goldman Sachs's Alison Mass: I Work 70-80 Hours, I Have 2 Kids, I 'Non-Profit,' And I Work Out. Retrieved from www.businessinsider.com/goldmans-alison-mass-2010-7#ixzz2Ujrc51Dw

Comstock, C. & Wachtel, K. (2011).15 reasons you do not want to work at Goldman Sachs. Retrieved from www.businessinsider.com/goldman-sachs-job-sucks-2011?op=1

Croft, J. (2012). Rise and fall of Adoboli the family man. Retrieved from www.ft.com/intl/cms/s/0/91a2bd5c-2e9a-11e2-9b98-00144feabdc0.html

Darley, J.M. & Batson, C.D. (1973). From Jerusalem to Jericho: A study of situational variables in helping behavior. *Journal of Personality and Social Psychology*, 27, 100-108

Edelman (2013). 2013 Edelman Trust Barometer Reports Financial

noPrix GB2.indd 113 16/10/2013 16:10:45

Services is Least Trusted Industry Globally. Retrieved from www.edelman.com/news/2013-edelman-trust-barometer-reports-financial-services-is-least-trusted-industry-globally/

Goldberg, L. & Flood, M. (2002). The rise of Ken Lay as dramatic as his fall. Retrieved from www.chron.com/business/enron/article/The-rise-of-Ken-Lay-as-dramatic-as-his-fall-1963106.php

Greene, D., Sternberg, B. & Lepper, M.R. (1976). Overjustification in a token economy. *Journal of Personality and Social Psychology*, 34, 1219-1234

Hamlin, J. K., Wynn, K. & Bloom, P. (2007). Social evaluation by preverbal infants. *Nature*, 450, 557-560

Haldane, A. & Madouros, V. (2012). The dog and the Frisbee. Retrieved from www.bankofengland.co.uk/publications/Documents/speeches/2012/speech596.pdf

Kaptein, M. (2012). Why good people sometimes do bad things: 52 reflections on ethics at work. Retrieved from papers.ssrn.com/sol3/papers.cfm?abstract_id=2117396

Katz-Navon, T., Naveh, E. & Stern, Z. (2005). Safety climate in health care organizations: A multidimensional approach. *Academy of Management Journal*, 48 (6), 1075-1089

Milgram, S. (1963). Behavioral study of obedience. *Journal of Abnormal and Social Psychology*, 67 (4), 371–378

Mustoe, H. (2013). Barclays Report Finds Bonuses Incapable of Justification. Retrieved from www.businessweek.com/news/2013-04-03/barclays-report-finds-bank-too-complex-criticizes-pay#p1

Nasiripour , S. (2011). Goldman Sachs Ripped Off and Misled Clients. Retrieved from www.huffingtonpost.com/2011/04/15/goldman-sachs-levin-investigation_n_849708.html

Oliver, J. & Goodwin, T. (2010). Dick Fuld and the fall of Lehman Brothers. Retrieved from www.director.co.uk/ONLINE/2010/11_10_vince_cable_responsible_capitalism.html

Opensecrets (2011). Lobbying Spending Database. Retrieved from www.opensecrets.org/lobby/top.php?showYear=2011&indexType=c

Phillips, M. (2009). Goldman Sachs' Blankfein on Banking: Doing God's Work. Retrieved from blogs.wsj.com/marketbeat/2009/11/09/goldman-sachs-blankfein-on-banking-doing-gods-work/

Pressler, J. (2011). It's Too Bad. And I Don't Mean It's Too Bad Like 'Screw 'Em. Retrieved from nymag.com/news/business/lloyd-blankfein-2011-8/

Quinn, J. (2009). Bankers to receive huge bonuses despite financial crisis. Retrieved from www.telegraph.co.uk/finance/recession/5154915/Bankers-to-receive-huge-bonuses-despite-financial-crisis.html

Rapoza, K. (2013). How much do Wall Streeters Really Earn. Retrieved from www.forbes.com/sites/kenrapoza/2013/03/13/how-much-do-wall-streeters-really-earn/

Russell, J. (2012). UBS rogue trader Kweku Adoboli : profile. Retrieved from www.telegraph.co.uk/

noPrix GB2.indd 114 16/10/2013 16:10:45

finance/financial-crime/9690390/UBS-rogue-trader-Kweku-Adoboli-profile.html

Shnayerson, M. (2009). Wall Street's 18.4 Billion Bonus. Retrieved from www.vanityfair.com/politics/features/2009/03/wall-street-bonuses200903

Smith, G. (2012). Why I Am Leaving Goldman Sachs. Retrieved from www.nytimes.com/2012/03/14/opinion/why-i-am-leaving-goldman-sachs.html?pagewanted=all&_r=1&

Smith, Y. (2010). Indefensible Man. Retrieved from www.nakedcapitalism.com/2010/03/indefensible-men.html

The Economist. (2013).Twilight of the gods - special report on international banking. May 11- May 17 2013, 16

Thomas, C.W. (2002). The rise and fall of Enron. Retrieved from www.journalofaccountancy.com/Issues/2002/Apr/TheRiseAndFallOfEnron.htm

Treanor, J. (2013). Barclays independent review: bankers tried to win at all costs. Retrieved from www.guardian.co.uk/business/2013/apr/03/barclays-pay-profits-independent-review-salz

Wachtel, K. (2011). Hollywood Darling Brit Marling on why she quit banking for film. Retrieved from www.businessinsider.com/brit-marling-sundance-another-world-arbitrage-richard-gere-2011-7#ixzz1SYrMzOCA

Warneken, F. & Tomasello, M. (2006). Altruistic helping in human infants and young chimpanzees. *Science*, 311, 1301–1303

Zimbardo, P. (2007). *The Lucifer Effect: Understanding How Good People Turn Evil*. New York: Random House Trade Paperbacks

noPrix GB2.indd 115

16/10/2013 16:10:45