

**Discussant**  
**B Ridpath**

### **Internally-Driven Ethical Reconstruction: Is it Happening?**

Financial institutions need to be trustworthy to be trusted.<sup>1</sup> In other words they need to re-earn the public's trust and that takes far longer than losing it. This is not only a matter of ethical behaviour, but the distinctive social purpose, values and culture of the firm.

These companies need not only be perceived to have, but to actually have and live a social purpose in order to receive and retain a license to operate from the communities in which they work as well as their stakeholders, where stakeholders include shareholders, employees, customers, suppliers and the local community. This can be partially earned in grants to local communities, in staff volunteering for local charities and in arresting corporate tax minimisation. However, it is much more than this. It is remembering why the institution exists. The institution does not exist to maximize the returns to its staff. It does not exist to maximize its returns to its shareholders. It needs a clear, genuine and distinctive reason for being, or purpose, whether that is helping funds get to where they can be most fruitfully used for human flourishing, or raising living standards in emerging economies. The benefits that flow to shareholders and staff should be as a result of achieving the core social purpose of the company over the long term.

To do this requires a complete change in corporate culture for most firms. This too is difficult. It is particularly difficult when staff are considered 'human capital' and not people, and when many key services, often including recruitment, are 'outsourced.' Moreover, today the skills required are so specific and differentiated that staff are much less mobile within an organisation than they used to be, and some banks have set 'cultures' which are separately defined from unit to unit. Add to this the attitude of many young employees who join for a 'tour of duty' to learn skills and move on almost like mercenary soldiers, and it is difficult to know how to establish and maintain a corporate culture that prioritises the customer and improves trustworthiness.

After the crash, some people began to ask if some institutions were not only too big to fail, but too big to manage. Is it true that size is an impediment to trust and the consistent and coherent behaviours that becoming trustworthy requires? I fear so. This is for two reasons. First, trust is interpersonal, but banking is increasingly anonymous. Second, the larger the institution, the more difficult it is to ensure consistent behaviours. That said, there are different types of trust; we may trust a website enough to submit our credit card details and presume they won't be misused, but that is very different from the trust we put in loved ones, or friends, or colleagues.

Technology permits scale but leads to anonymity of the relationship between the customer and the institution. I have an account at Citibank but I haven't spoken to anyone there in at

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<sup>1</sup> Baroness Onora O'Neil at the Bank of England Open Forum 11 November 2015.

least 20 years. In fact, most financial institutions are actively trying to limit, or at least automate customer contact to reduce costs. Retail customer letters or emails almost never contain a contact name, number or monitored email address. How often do we get called from a bank checking a credit card transaction where we have to go through a lengthy identification process, but where the calling bank has no token to permit me to verify that it is a legitimate call and not someone on a phishing expedition? For all the talk of relationships, these days you have to have several cool million in the bank to have a personal relationship with your banker.

Modelling good behaviour within an institution means you have to see and know people. Recognizing good behaviour and creating a sense of belonging and community among a group of employees that numbers in the hundreds of thousands and is spread across the globe is terrifically difficult. It becomes necessary to break the institution down into manageable units or cohorts where such relationships can be established and maintained.

For culture to work, modelled behaviour has to be evident and consistent at all levels, sometimes called 'walking the walk' instead of just 'talking the talk.' Scorecards that consistently evaluate employees by their adherence to the firm's values and ethics help. But most importantly, institutions need to find non-monetary ways of recognizing outstanding role models.

Sadly in many big firms, culture and values feel more like advertising than genuine behavioural changes. Add to this the fact that a recent study by PWC suggests that employees are twice as likely to behave unethically when they are fearful, and one can only question the emphasis that has been placed on sanctions by the regulator.

So what are we to do? First, we need to go back to some basic psychology, and remember that what really motivates high achievers is a sense of purpose, of service, of continuous learning and belonging to something more important than themselves. Financial institutions need to accentuate opportunities for personal development as well as financial opportunity. Second, involving staff from the bottom up on defining values and culture rather than just top down will help engage staff, encourage buy-in and make them feel responsible for implementation in a way that differs dramatically from top-down culture. Third, we may just have to wait for what the British call the 'marzipan layer' to retire or be fired. These are the people in middle management who are just waiting for everything to go back to the way it used to be. Fourth, we need to think hard about what being trustworthy means in an automated, anonymous environment. And last of all and most important, financial institutions need to put their customers' interests before their own. It's the best long-term value creator there is.

Internally-driven ethical reconstruction is beginning to happen in many financial institutions, but it will take some considerable time yet for these programmes to be visible in client interaction, community engagement and a re-establishment of the trustworthiness.