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Excellence, Engagement and Ethics in Banking: An Attempt to Make Sense of the Financial  
Crises of 2008

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## Excellence, Engagement and Ethics in Banking: An Attempt to Make Sense of the Financial Crises of 2008

**Abstract:** Through conversations with 10 current and former bankers, we seek to understand some of the causes of the financial crises of 2008. We observe four striking changes in the banking sectors of the United States and the United Kingdom over the past thirty years: some banks have grown to be very large; shares of some banks are now publically traded; most banks now compete with each other vigorously; and the day-to-day working procedures of all banks have been transformed by information technology. We argue that, while some of these changes may have made banking faster and cheaper for some, their overall effect has been to impair the capacity of banks to undertake socially responsible work. The consequences of this debilitation became starkly apparent at the end of 2008 in one of the most serious financial crises in decades.

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## INRODUCTION

In the spring of 1310, fifty-four men in Paris were seized and taken by soldiers to the Convent of Saint-Antoine, just outside the city. They were stripped of all their clothing and bound to fence posts, which stood high above large mounds of wood. As the soldiers lit the wood, flames rose up and licked the captives' feet, filling the air with cries of innocence until they were extinguished by the ferocity of the fires (Weatherford, 1997).

The execution of these Knights Templar would bring Europe's first national banking system to its knees. Even though the men killed on that day were not the most senior members of their treasure-house, it ensured the permanent destruction of the credibility of their institution. The castles and fortresses of the Templars, once ideal depositories for money and other valuable assets in the politically uncertain European middle-ages, had grown fat and greedy as a result of the enormous wealth they sat on. Anxious of the power and influence they had accrued, King Philip IV of France aggressively crushed this empire of wealth, leaving a financial vacuum that the church was too afraid to fill and the government too small to do anything about.

At this important point in European economic history, a system of family banks began to emerge in the northern Italian city states of Pisa, Florence, Venice, Verona, and Genoa. These banks performed a similar role to that of the Knights Templar; yet they had a more independent relationship with the church, and were relatively free from the governments and monarchies of their day. They also had a more egalitarian relationship with their depositors and often set up benches or *bancu* in market squares, from which our word *bank* originates.

One of the best-known medieval Italian banks was the Medici, established in 1397 (Goldthwaite, 1995). However, their position as one of Europe's leading banks was undercut in the 16<sup>th</sup> century by the Fugger family from Bavaria. Jakob Fugger "The Rich" became very influential in 1519 when he loaned a vast sum of money to Charles V, once Charles I of Spain, to secure his appointment as Holy Roman Emperor over Francis I of France (Brechin, 1999). However, before his rise to power and great wealth, Jakob endowed his hometown, Augsburg, Bavaria, with more than 10,000 guilders with which to establish *almshouses* for the poor. By 1523, 52 houses and 106 apartments had been constructed and the Fuggerei had been born. Until this very day, it has sheltered a steady stream of poor and needy people, and its annual rent is still the same as it was in 1520: 1 Rhein guilder, about \$1.20.

The contrasting fates of the Knights Templar and Jakob Fugger illustrate that one of the most fundamental choices in banking has not changed in 700 years: namely, whether the immense power and wealth that arise from being in charge of a large bank should be used to attain private or social gain. This study is an attempt to understand the forces that affect that choice in our own times.

### **Today's Banks**

To the eye, today's banking system is markedly different from that of medieval Europe. We now have retail banks, commercial banks, community banks, cooperative banks, private banks, offshore banks, savings banks, ethical banks, Islamic banks, investment banks, merchant banks, universal banks, central banks, and even a World Bank. Moreover, a vast number and range of financial products are available from institutions that do not even call themselves banks, like insurance policies and mortgages.

However, despite apparent gross structural changes in the banking business, the role of American retail banks remained clearly defined by law and tradition until very recently. As Litan (1987) points out, retail banks were limited to taking deposits and extending credit in their home state, or even home county, until the middle of the 20<sup>th</sup> century. Furthermore, they could only pay interest on deposits up to a federally authorized limit. Legislation passed after the Depression and Second World War was successful in establishing sturdy and sound depository institutions, and preventing conflicts of interests over the allocation of credit.

During the past 30 years or so, though, two forces have chipped away at this stability: *inflation* and *information technology*. In the period 1974-81 the annual rate of inflation in America rose to almost 9.5 percent and became very volatile. Lenders reacted by demanding higher rates of interest because the dollars they would be repaid with in the future would be worth much less than they were at the time of the loan. Additionally, the use of computers brought the cost of financial transactions down and it became easier for lenders and borrowers to find each other. This led to the emergence of *the money market mutual fund*, which offered investors a greater rate of return than the federally-constrained banks and which started to drag capital away from the conventional financial system. By the 1980s Congress had no option but to relinquish its control of deposit interest rates.

Another governmental decision to influence the American banking sector was the repeal in 1999 of the 1932 Glass-Steagall Act. For a long time after the New Deal banking reforms, it was thought that the amalgamation of investment banking and commercial banking was one of the chief sources of the dangerous financial speculation of the 1920s and resultant instability of the 1930s. In an attempt to bring financial stability to the nation, the act sought to place a “firewall” between these two financial activities (Russell, 2008). However, there seems to have

been a shift in the financial zeitgeist during the late 1980s and early 1990s: where Glass-Steagall was once viewed as an essential layer of protection (Benston, 1990), it became to be seen as based on “little more than misplaced vengeance” (Russell, 2008, p. 63).

The repeal of Glass-Steagall has allowed commercial banks to again participate in activities that were once the preserve of investment banks: investment advisory, brokerage, commodities dealing, mutual funds activities, to name a few. But the difference between blending these areas of banking now and blending them in the 1920s is that today’s banks are not bound by national borders. It is very difficult for governments to resist the geographical expansion of banks when just about anyone can buy and sell assets instantaneously in almost any country in the world. As we will see in the next section, this trans-nationality of the banking system is one of its features that allowed the present crises to spread so far so quickly.

### **The Crises of 2008**

In the period 2000-07 most countries saw interest rates fall to their lowest rates ever after a surge in global liquidity. This led to an enormous expansion of credit as banks and other investors found it hard to obtain the return on loans they were accustomed to. According to Barrell and Davis (2008), banks during this time began to invest more in asset-backed securities (ABS) and other unconventional investments, which did not appear on their balance sheets in the same way as loans to traditional customers and businesses. Therefore, through various structured investment vehicles (SIV) and other conduits, banks bought equities and other assets without having to raise the capital that regulators would normally require. In other words, banks became effective at giving an illusion of liquidity when in fact they were aggressively speculating in asset markets.

In 2007 the value of houses in the US began to fall and defaults on mortgages rose. As Honohan (2008) says, over half of US mortgage-backed securities (MBS) had been passed on to other banks by this point, mostly in Europe. The value of these MBSs plummeted as a result of the fall in the housing market and many banks flooded the market with them in an attempt to recapitalize, a process which depressed their value further. When the Northern Rock bank in the UK failed in 2007, the Bank of England attempted to ameliorate difficulties in the interbank money markets by injecting large sums of money. In America in 2008, Bear Stearns experienced significant difficulties and was taken over with government guarantees. This was followed in quick succession by problems at IndyMac, Fannie Mae and Freddie Mac, the last two of which were effectively nationalized by the US government. The situation became even more serious in September 2008, when Lehman Brothers went bankrupt. By the end of 2008, the American Insurance Group (AIG) was also in deep trouble and many of the UK's largest financial groups, including the Royal Bank of Scotland (RBS), HBOS (Halifax Bank of Scotland), and Lloyds TSB faced serious difficulties and required additional amounts of government money to prevent bankruptcy.

At the time of writing, the US government has spent a total of \$1.3 trillion and the IMF predict that the UK government will lose about £200 billion (Conway and Winnett, 2009) attempting to repair this damage. As Connon (2009) points out, this expenditure by the US government alone is more than the total inflation-adjusted cost of four wars, the New Deal, the Marshall Plan, and a moon landing.

## **Good Work in Banking**

Good work is defined by Gardner, Csikszentmihalyi, and Damon (2001) as excellent in quality, engaging to the worker, and ethical. In this essay, I contend that at some point leading up to 2008 good work broke down in British and American banks. The aim of the paper is to understand why this happened and how it can be restored.

In order to stay in business, all banks must offer a degree of excellence in their services, but their workers do not have to be engaged or ethical. Indeed, the story of the Knights Templar shows that from an early point in history, many financial institutions have been perceived as being highly unethical. Therefore, this paper will concern itself with such issues as the conditions under which bankers conduct socially responsible work. What type of forces pose a threat to socially responsible banking? And how do British and American banks move from the position they are in now to one that supports good work?

Since the earliest European banks, and the depositories of cattle and grain of the ancient world before that, every financial institution in every age has been faced with one simple, yet vexing problem: how much private profit should it attempt to make with their depositors' assets? This paper attempts to examine some of the ethical tensions that arise from this question.

## **METHODS**

Nine current and past employees of banks and one employee of the Chartered Institute of Bankers in Scotland were interviewed in the research for this paper. The latter of these was chosen because of the extensive knowledge and experience his Institute has in attempting to raise ethical, professional, and technical standards in the whole of the United Kingdom's banking sector. Of the whole sample, five work or worked in the United Kingdom and five work or worked in the United States. This survey selected to focus on the banking sectors in these two countries in particular because of the central role they played in the global banking catastrophe of 2008.

All of the 10 interviewees were asked if they wanted their identity to be concealed and only one person requested that this be done. The five from the UK were: Allan Fair, a retired branch manager, who spent his whole career with RBS; William Roger, also a retired branch manager, who spent most of his career with RBS; Derek Busby, Regional Director of RBS's corporate activities in the Northeast of Scotland; Jim Lindsay, General Manager of Airdrie Savings Bank; and Simon Thompson, Chief Executive of the Chartered Institute of Bankers in Scotland. The five American-based interviewees were: Nelia Newell, a retired corporate banker for BankBoston; Ken Perine, President and CEO of the National Bank of Middlebury; Jeffrey Cheung, President and CEO of OneCalifornia Bank; Tyler Hardy, Vice President of RBS Global Banking and Capital Markets, Boston; and Richard Trainer, a former commodities trader with Deutsche Bank.

In constructing this sample, a concerted attempt was made to include a wide a range of ages, levels of responsibility, and area of expertise within banking. A deliberate effort was also made to speak to people from financial institutions of different sizes. All the interviewees were

white and only one of them was female. While the perspective of female bankers and those of other ethnic groups are thought to be valuable and worthy of study, it is unlikely that this lack of diversity in itself is problematic in studying the questions laid out in the previous section.

All of these people were interviewed in April 2009 by telephone or in person for a period of 45 minutes-1 hour. Each interviewee was asked the same questions about their background, values, and responsibilities in banking, a full list of which can be seen in Appendix A. All of these interviews were recorded.

## FINDINGS

*Dictum Meum Pactum (My word is my bond)*

—Motto of the London Stock Exchange

One of the most revealing questions posed to the interviewees in this study was, “to whom are banks responsible?” Many people gave more than one answer to this question but in this sample of ten interviewees, shareholders were mentioned in seven answers, the customer or the client in three answers, “the community” in three answers, and employees only once. In most of the interviews, this question set the scene for a discussion about the transfer of responsibility from customers, communities, and employees of banks to their shareholders over the past 30 years or so.

One retired banker recalled a time in the “Square Mile”, the financial district of Central London, in the late 1960s when the phrase “My word is my bond” was used regularly to invoke a sense of trust and integrity among members of the financial community. According to this person, banks and bankers saw themselves as stewards of people’s money at this time, always acting with prudence and in the interests of their depositors. He said that a certain amount of status or prestige went along with working for a “bank of standing”: one that could be depended upon and trusted by its customers.

Whenever the topic of responsibility came up in these interviews, the theme of trust between bank and customer was never far away, highlighting the very important role this quality plays in finance. To the follow-up question, “what is the most important role of banks?”, Jim Lindsay, General Manager of Airdrie Savings Bank in the West of Scotland said, “to provide a safe place for people’s money.” This sentiment was echoed by some of the older bankers but a more instrumental view of banks was evident in many younger respondents. They answered the

question with remarks like, “to keep people’s savings in circulation,” “to match up savers and borrowers,” “to provide new capital,” “to help people buy houses,” and “to help small businesses.”

The two youngest bankers in this sample did not mention trust at all when they answered this question. One of them said that the dominant view within his bank leading up to 2008 was that they were not trustees of people’s money at all. Rather, they perceived themselves as facilitators of efficient capital markets, the benefits of which would trickle down to society as a whole. Another a young banker said that the most important thing he does in his job is, “provide risk management solutions for corporate borrowers”, elucidating the giant gap between the way in which today’s young and old bankers organize their thoughts about the purpose and duty of banks.

A question that flowed naturally from this was: what has caused banks to change the way they perceive their responsibilities in the past 40 years?

### **The Size of Banks: “too big to fail” or too big to be responsible?**

According to the subjects interviewed in this study, one of the forces that has been most powerful in restructuring responsibility in banks has been their increase in size. The evolution of RBS is an interesting case in point. Chartered in 1727, shortly after the merging of the Scottish and English parliaments, it was once much smaller than its traditional rival the Bank of Scotland. However, after steady growth in the 18<sup>th</sup> and 19<sup>th</sup> centuries, it began buying up smaller English banks. In 1960 it opened its first international office in New York City and, through a fit of acquisitions in the 1990s, has become one of the largest financial institutions in the world with a balance sheet of a staggering £1,900 billion. The anticipated catastrophic consequences of failure

of a financial organization of this size led the economist Gary H. Stern (2004) to dub some of them as “too big to fail.”

Someone with extensive professional experience told me that when RBS acquired the Rhode Island-based Citizens Financial Group in 1988, it became very difficult for the employees of Citizens to sustain their ethos, which dates back to the bank’s inception in 1828. He told me that Citizens Bank made a strong name for itself in New England in the 19<sup>th</sup> and 20<sup>th</sup> centuries as a trustworthy institution, and its strong values are exposed by the three Cs of its Credo: customers, colleagues, and community. As my interviewee put it, “These values were ingrained in the culture of Citizens.” However, he said it is getting harder and harder to put the Credo into practice, even though it still exists in word. Interestingly, the reasons he gave for this were not merely that RBS is a “different animal” from Citizens; he said that the sheer size of RBS Group, with all its subsidiaries and a few hundred thousand employees all over the world, prevents the creation and implementation of coherent ethical practices. As he remarked, “When I worked for Fleet Bank, I used to see the CEO in the canteen at lunch every day.” I wondered if he had ever seen the CEO of RBS.

Another interviewee explained a different problem of size. She said that when the activities of banks were restricted to one state or one county, they had a detailed knowledge of the businesses they were lending to. However, as their pools of customers grew towards the end of the 20<sup>th</sup> century, it was more difficult for banks to maintain this intimacy. She told me that at this point in time banks were encouraged by the Office of the Comptroller of the Currency (OCC), the branch of the US government responsible for chartering, regulating, and overseeing all national banks, to avoid lending too much to any one business in order to reduce their exposure to risk. Banks responded by engaging in a practice called “syndicating”, a process by

which, say, 10 banks would split up a \$10 million loan to a business equally by putting in \$1 million each. The idea being that if the loan went sour, the ill-effects would be spread across a large number of organizations.

The advantages of such a scheme are clear but my interviewee said it came with one large disadvantage: each member of the syndicate now had a lower incentive to spend time measuring the risk of the loan accurately. She said these disadvantages were less pronounced when syndicates were small; it is easy to call meetings for a group of 5 to 10 investors in order to make decisions about how a loan should continue to be structured. However, once the syndicate gets to a certain size this became much more difficult. She used the example of a syndicate of 100 investors, saying it was almost impossible under these circumstances to gather investors together to make decisions about the management of a loan. The way in which US mortgage debt was securitized and passed on to large numbers of investors is, of course, an example of a very large syndicate.

## **Ownership**

There was a consensus among these 10 people that public ownership of banks has also drastically altered their responsibilities. Many of the interviewees spoke about the acute pressures that come with the desire of bank CEOs to deliver short-term growth in the value their bank shares. One man in charge of a relatively small bank said he thought it was only shareholders of a particular type that were the source of this anxiety. As he put it, “Old ladies who invest in banks are probably more interested in steady, reliable dividends than an appreciation in the value of their assets. It is not in their interests for the banks they have invested in to take risky business decisions.” In saying this, he is suggesting that large

institutional investors, like insurance companies and pension funds, may have put more of an onus on banks to deliver increases in their quarterly profit margins.

Another ex-banker explained how he thought Goldman Sachs' decision to open part of the company up to public ownership in 1999 was "the beginning of the end." In his view, "when it is not your money that is on the line, you are just going to behave differently." In an attempt to align the interests of employees more closely with those of shareholders, some publicly owned companies have sought to pay their workers with stock options. However, this person said that even when these incentives exist, "there is still this idea that I am going to execute a very risky trade, make a killing on it over two years and then by the time it blows up I will be long gone."

The ownership of small banks is often structured differently to their larger counterparts. Airdrie Savings Bank, based in the West of Scotland, has had a system of mutual governance, which has remained unchanged since the bank's beginning in 1835. Jim Lindsay, its General Manager, says "In essence, the bank is owned by our depositors. We have a board of 12 trustees, who hold the bank accountable, and they are required to act in the depositors' best interests at all times." It is interesting to note that amid all the bank-related difficulties of late 2008, Airdrie Savings Bank saw its deposit base increase by about 10%.

Ken Perine is the President and CEO of the National Bank of Middlebury, founded in Vermont in 1831. His bank is owned by about 350 shareholders but their holding in the bank is not traded in the stock exchange. Instead, every so often the bank initiates a "stock option", where the bank itself tries to match up people who want to sell their stake in the company with others who want to buy it. In addition to this, the total number of shares in his company are distributed across a wide number of people; no one person owns more than 5.2% of the bank. Ken says, "That has allowed the board of directors to operate with a little more freedom, without

a large shareholder pressuring them to run the bank in a certain way. And I think this has been a key to our success.”

All that said, one ex-banker reminded me, while it is imperfect, it is necessary to have the shares of banks publicly traded on the stock exchange. The only alternative to raising the amount of capital large banks need would be to have them owned by the state, and very few people agree this should happen beyond the present difficulties.

### **Competition**

Many of the workers and ex-workers in this sample spoke about increasing competition among banks and its effect on responsibility. As small, regional banks have been swallowed up by large, international ones, it seems that they have to fight harder with one another for business. A retired branch manager who spent his career with the RBS noticed, “an increased emphasis on sales in the bank from the 1990s onwards.” When he first joined the bank straight from high school in the 1960s, he said it was quite normal for his most senior colleagues to have started their careers 30 or 40 years earlier as a junior bank teller. In his view, this created an environment in which the people in charge of banks had a rich and very detailed knowledge of banking. However, about 10 or 15 years ago he began to see the bank, anxious to sell more financial products, recruit people into quite senior positions from the retail and other sales-driven sectors of business.

A few interviewees from the UK expressed concern that in recent years so many senior executives of British banks did not have the credentials needed to lead banks. One person I spoke to reminded me that of the four senior members of RBS and HBOS, quizzed by the UK Parliament about their role in both banks’ collapse in February 2007, none of them had any formal banking qualifications at all. Another retired banker suggested to me that this, along with

RBS's hunger to compete internationally, may have been a factor in their doomed €1 billion takeover of the Dutch bank ABN Amro in 2007.

One American banker said outright that these changing structures of competition within the banking sector had been harmful because they led individual banks to pursue very risky and highly leveraged investments just to stay in business. Another interviewee made the point that in competing with each other for personnel, large banks had got themselves into a position in the run-up to the crises where they were offering some of their employees substantial financial incentives to continue working for them. In this person's opinion, this situation had brought many people into banking who were only motivated by personal gain.

## **Technology**

In addition to these changes in size, ownership, and competition, some of my interviewees highlighted the great transformation technology has brought to the financial world in the past 20 years. Perhaps surprisingly, most of the bankers and ex-bankers who brought up this subject did so in a positive way. Jim Lindsay thought that one of the most robust features of the international banking system is the reliability of the technology used in the transmission of money, a view echoed by Simon Thompson and Ken Perine. Nelia Newell contrasted this with a time, only 30 years ago, when it was not possible for bank customers to deposit or withdraw money outside their home state. These people marveled at the advances technology has facilitated in the financial world.

Nevertheless, this view did not prevail across the whole group. One banker with trading experience explained that the ability banks now have to transfer billions of dollars from one place to another in seconds has profoundly changed the nature of financial investment. He

argued that there is now a way in which this type of technology has made markets less efficient. In his opinion, in large financial centers like London and New York, where investors can move large sums of money quickly, investment behavior is often driven as much by whims and rumor as it is by patient investigation.

Jeff Cheung, President and CEO of OneCalifornia Bank, explained how the process of “automated underwriting” had also influenced lending. Whereas 30 years ago the branch manager of the bank would make a judgment on whether to offer someone a mortgage or not, today’s applicants for these products fill out a form and their credibility for the loan is determined by a computer. Jeff joked that if an applicant for a particular type of loan had a conviction for drink driving, the software previously used to assess the risk of the loan generated an automatic decline. In this age of risk and uncertainty, the one thing he said we need more of is “knowledgeable bankers”: workers who can use financial technology responsibly rather than just to increase the speed of transactions.

### **Summary of Findings**

These conversations demonstrate that changes in the size, ownership, competitiveness, and technological configuration of banks have made it more difficult to perform socially responsible banking over the past 30 years. None of the interviewees reported a deterioration in the quality of banking services during that time—indeed many said it had increased—and there was no evidence it has become a less fulfilling occupation. Therefore, of the three Es of good work, ethics, engagement, and excellence, it seems that ethics have been jeopardized the most. That is why the next section is devoted to it.

## DISCUSSION

*A bank is a place that lends you money, if you can prove you don't need it*

—Bob Hope

According to Gardner, Csikszentmihalyi, and Damon's framework, good work can be said to be present when it is high in quality, meaningful to the doer, and socially responsible. Therefore, good work is distinct from *bad work*, which is unlawful, and *compromised work*, which falls somewhere between the two. Gardner (2005) defines compromised work as, "work that is not, strictly speaking, illegal, but whose quality compromises the ethical core of a profession" (p. 43). The distinction between good work and compromised work then is particularly pertinent to understanding the current banking crisis because, remarkably, very few laws seem to have been broken during it. Moreover, by drawing attention to excellence, engagement, and ethics, the concept of good work is a timely reminder that each of these three elements are as important as each other in the financial world—a point that is overlooked in some public discourse on the subject.

One article in *The New York Times* ("Credit Crisis," 2009) articulated the causes of the crisis in the following way:

Lower interest rates make mortgage payments cheaper, and demand for homes began to rise, sending prices up. In addition, millions of homeowners took advantage of the rate drop to refinance their existing mortgages. As the industry ramped up, the quality of the mortgages went down (p. B1)

By concentrating on the "quality" of mortgages, or the excellence in good work, these few sentences typify many popular articles on the subject. Even in more scholarly sources, the

financial crisis is often explained in purely mechanical terms. For instance, the *National Institute Economic Review* published an article that said, “The crisis has emerged in part because of faults in the policy frameworks put in place in the past ten to fifteen years in Europe and North America” (Barrell, 2008, p. 2).

The problem with this form of analysis is that it confuses the effects of the crises with its causes. The quality of financial products, economic policy, or other technical features of the financial system—the *excellence* of good work—are ultimately manifestations of deeper commitments financial institutions and governments make to certain ideas or people—the *ethics* of good work. For instance, in choosing whether or not to invest in securitized mortgages, banks must perform some mathematical calculations: the likelihood of repayment, the amount of risk the bank can bank tolerate, etc. However, once this information is available, the decision boils down to whom and what banks perceive themselves being responsible to. The banking crises of 2008 did not occur because someone got their sums wrong. It occurred because at some point in the 1980s or 1990s banks chose to forfeit responsibilities they had fulfilled for centuries to their depositors, employees, and communities. Talking about the financial crises in Ireland, the Economist David McWilliams (2009) said, “The banks were behaving like low-level middle-ranking drug dealers, pushing credit onto a junkie nation.”

### **How can good work be restored in banking?**

The writer and lecturer on public leadership Ronald Heifetz (1998) makes an important distinction between two different types of challenge, those he refers to as “technical” and others he refers to as “adaptive.” Technical challenges, while not always easy or unimportant, involve the redeployment of skills and capacities that already exist. Because the knowledge needed to

solve technical challenges is already present, overcoming them does not have to involve any form of psychological growth on behalf of the problem solver. Examples of technical challenges could be landing a helicopter on an oil rig or calculating how much tax someone needs to pay.

However, there are many challenges in the world that are not technical and their solving requires the development of new mental abilities. An example of an adaptive challenge could be a General of a large, conventional Army attempting to combat a small group of terrorists. After talking to these ten bankers and ex-bankers, it is clear that the current financial crisis constitutes an adaptive challenge.

By growing so large some banks have lost their ability to conduct socially responsible work. This size has put great distance between the individual banker and her customer, an effect magnified by certain technologies, and this has removed the incentives bank workers used to have to do good work. Reestablishing good work in banking will take more than resetting policy; large, international banking organizations may only be able to regain the trust and reputation their forbearers once had by cultivating—that is, *adapting*—new abilities and dispositions from within. Lest banks make one of the largest mistakes that is possible: attempting to solve adaptive challenges with technical solutions.

The way in which the three smaller organizations examined in this study—Airdrie Bank, the National Bank of Middlebury, and OneCalifornia Bank—are owned and organized offer a glimpse of how it may be possible to achieve greater alignment among the stakeholders of banks. Jim Lindsay of Airdrie Bank argued that there is no principled reason why the public ownership of banks should not work well for everyone. Yet the way in which the shares of the National Bank of Middlebury are traded appears to be much more conducive to socially responsible banking than the way in which large banks' shares are traded. Ferguson (2008) writes, “In effect,

stock markets hold hourly referendums on the companies whose shares are traded there” (p. 120). These hourly referenda do not give the leaders of banks incentives to act in interests of society or even the long-term health of their organizations. It is now time to question whether the pressures brought to bear on CEOs of banks by stock markets are too strong to maintain good work.

It is tempting to think that banks should be subjected to more governmental regulation as a result of the current crisis. They probably should be but Tyler Hardy stressed the dangers of governments over-correcting for the mistakes that have been made. As he pointed out, there are many sound small and medium-sized businesses who cannot get credit at the moment because of some of the rules and regulations that have been implemented since the beginning of 2009. Simon Thompson of the Chartered Institute of Bankers in the UK says that, “Regulation may be able to change behavior but it is unlikely to change the attitudes of bankers.” In other words, we cannot expect too much from regulation and it is Thompson’s feeling that the banking industry must do much more to educate its workers, not just in the technical aspects of banking but also in cultivating the right type of attitudes and dispositions for socially responsible banking.

Nevertheless, there is very little evidence that banks have the capacity or inclination for this type of change. Perhaps genuine transformations in the way banking is conducted will only come from creative and courageous individuals like the Bangladeshi banker, economist, and joint recipient of the Nobel Peace Prize Muhammad Yunus, who, through his microcredit movement, has demonstrated that banking and social responsibility can co-exist today.

## **LIMITATIONS**

This study has taken a small snapshot of a professional field in flux. The ten people interviewed are a tiny proportion of the total number of employees in the British and American banking sector and so we should be cautious about generalizing their views. Moreover, it would be unreasonable to form a view of the complex and interdependent global financial world based on the perspectives of people from two countries. Interviewing bankers in Scandinavia, for instance, may reveal a different picture. It is also possible that the type of bankers who agree to giving these types of interviews are also the ones who have a greater propensity to do good work and so there are doubtless many salient aspects of our current financial difficulties that this study has not elucidated.

## CONCLUSION

This study has shown that the British and American banking sectors have undergone dizzying change in the past 30 years. Transformations in the size, structure of ownership, intensity of competition, and use of technology have fundamentally changed the relationship between banks and the societies they serve. These changes have impaired the ability of large banks in particular to be socially responsible.

The bankers in this sample depict an industry that is in flux and unsure of itself; an industry that has created ingenious methods of doing business without the comparable sagacity to use these tools ethically. This is an industry where the word “success” has come to mean something trivial and fleeting, and where very few workers seem to be aware of the time when “my word is my bond”. Many of today’s bankers seem to be like frogs boiling to death, in that if you place a frog in boiling water, it will apparently leap out straight away in order to stop itself from dying. But if you place the frog in a pot of cold water and gradually turn up the temperature, it will not notice the incremental change before eventually dying in a foaming broth.

The financial crises of 2008 has put the welfare of billions of people at risk and so good work in banking has never been more important. It is now imperative for the social, political, and economic health of the world that banks conduct their work in a more ethical way. We may still be some way from burning our bankers at the stake but, as one of my interviewees put it, unless good work is reinstated in banking, “we will be right back in this mess in 10 year’s time.”

## **AFTERWORD**

After coming to these conclusions about today's banks, it is important to consider what implications they have in and beyond the world of finance. After all, it is essential that banks continue to exist in one form or another because of the indispensable role they play in our economic, social, and cultural growth. It is argued by Ferguson (2008), for instance, that the invention of credit and debit has been as important as any technological innovation in the rise of civilization.

However, the paradox is this: in a globalized world we need large banks in order to finance large organizations, but large banks do not perceive any incentives to behave ethically. And this is one of the most arresting realizations of the crises of 2008: the market can encourage individuals and companies to act in ways that are very harmful to other individuals and companies. At the same time, it may be getting harder for governments to rein in large, transnational, well-resourced, complicated companies. Therefore, regulation is perhaps a less effective method of managing this paradox than it may once have been.

That is why one of the best ways of preventing another crisis on this scale may be to endow the general public with a greater level of financial knowledge. For instance, it is possible that some people do not understand that it was their pension fund or insurance premiums that, in the way described in the preceding analysis, were used to seduce bank CEOs into very risky investment decisions. Moreover, the impulse that we all have to invest in the most lucrative pension fund or the cheapest insurance policy is, to some extent, responsible for creating the incentives that CEOs respond to. In order to become more intelligent consumers of banking products, citizens of the 21<sup>st</sup> century must understand this financial ecology. Accordingly, I will add a fourth e to the excellence, engagement, and ethics of good work in banking: education.

## **Appendix A—Interview Protocol**

1. What was it that drew you into banking in the first place?
2. In your view, what is the most important role of banks?
3. Who do banks serve?
4. Who are banks responsible to?
5. What is the most important thing you are trying to achieve in your work right now?
6. Do you have a belief (for instance, truth, justice, wealth creation) that contributes to this aim?
7. What types of things make it difficult to achieve these aims?
  - a. In the world
  - b. In this country
  - c. In your particular bank
  - d. In yourself
8. What areas of your work do you like?
9. What areas of your work do you dislike?
10. What does the banking sector do well?
11. What does the banking sector not do well?
12. Can you give me an example of a piece of work you respect?
13. Can you give me an example of a piece of work you disrespect?
14. How well do banks train young workers to have the qualities you think are important?
15. Is there such a thing as ethical banking?
16. Some say ethical standards in banking are lower now than they used to be. Others say they are higher. What has your experience in the change of the ethical standards in banking been?
17. Are the pressures against ethical banking stronger now than they used to be?

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