Ethical Banking: The Key Concepts

Jens van 't Klooster and Marco Meyer

This work has been commissioned by the Centre for Compliance and
Trust at Cambridge Judge Business School, University of Cambridge.

Introduction

Developing a corporate strategy involves setting out the overall goals of the corporation, as well as policies and plans to achieve these goals. Strategic goals commonly include growing profits or market share, expanding the value chain, or entering a new market. Our key contention is that banks need to broaden their strategic thinking to include ethical goals: The corporate strategy of banks needs to be an ethical strategy as well. An ethical strategy formulates the social purpose that a firm aims to serve; minimises harms inflicted and operational risks imposed by the firm on society; and sets out a plan how the activities of the firm contribute to achieving its social purpose.

Academic researchers as well as the wider public have become more critical of the role of banks in society. Economists and scholars of finance have shed doubt on the idea that more finance is better for the economy. Not only do economists increasingly see the banking sector as a whole as posing significant risks to society (Reinhart & Rogoff 2009; Haldane 2010), they also question whether financial deepening is indeed always socially useful, with some suggesting that the UK finance sector is significantly larger than it should be to serve the real economy (Arcand et al. 2012; Cecchetti & Kharroubi 2013; Law & Singh 2014). At the same time, the persistent risk of a new financial crisis draws scarce political resources into the service of legislating and regulating continually evolving financial markets. All these costs are particularly problematic in the absence of a convincing account of the benefits provided by a large and complex financial sector. Indeed, some research suggests that social usefulness might decrease as finance grows in size and sophistication. For example, financial economists have shown that more complex financial products typically have higher profit margins and are bought by less sophisticated customers (Celerier & Vallee 2013; Zingales 2015).

Centre for
**Compliance
& Trust**

UNIVERSITY OF
CAMBRIDGE
Judge Business School

Regulators increasingly share these reservations about the social merits of banking. Global banks have paid more than $160bn in fines and legal settlements with US regulators alone since the financial crisis (Stabe and Stanley 2015). In the last five years, the five largest UK banks have paid more than £40 billion, or 60% of their earnings, for legal costs related to litigation, regulation, and customer redress. These figures are one expression of the fact that all is not well regarding ethics in banking. Polls show that the financial industry is one of the least trusted industries overall (Edelman 2015; YouGov 2013). This has had effects on relations of banks with regulators. As regulators become increasingly distrustful that the industry will adhere to ethical standards, the regulatory grip tightens.

Formulating a corporate strategy that gives pride of place to social purpose is in our view the most important challenge that banks will face in the coming years. Historically, views on the societal benefits of financial markets have shifted a number of times. The previous period of hostility to finance in the 1940s and 1950s only ended once the international financial system had gone through a fundamental reform involving new and tighter regulation. The regulatory changes currently led by the Financial Stability Board suggest that a similarly significant transformation of the industry may be due.

Banks have so far behaved merely reactively to the ethical debate happening around and about them. If ethical issues are discussed at the strategic level at all, they are usually voiced in the language of "legal and conduct risk". Or worse, ethical issues are thought of merely as a source of legal fees, regarded as a cost of doing business. We believe that addressing the ethical challenges banks face requires a shift in the vocabulary banks use to formulate strategy. If banks want to take ethics seriously, they need to address ethical problems in ethical terms.

In this paper, we do not attempt to provide readymade solutions to the ethical problems that bank face. Rather, we provide banks with concepts for developing an ethical strategy. In this sense, the paper is a ground clearing exercise. The concept of social purpose provides an overall moral framework for developing an ethical strategy, but we also aim to provide further guidance by clarifying the often elusive concepts of trust and of an ethical organisational culture. We focus on these latter concepts because of the emerging consensus that internally banks need to build an ethical organisational culture, and externally strong trusting relationships with customers, regulators, and society at large. Despite the popularity of these demands, the terms "culture" and "trust" are often used without a deep understanding of what they might mean in the context of banking, how they relate to one another, and how organisational culture and trusting relationships are linked to ethical outcomes. We show that talk of trust and ethical culture remains empty unless banks face the challenge of spelling out what social purpose they wish to pursue, and shape their activities accordingly. Without such an account of social purpose, there is no way of telling whether a given bank has an ethical organisational culture, or whether it is behaving trustworthily. Accordingly, banks that lack a conception of social purpose will have difficulties shaping the culture of their organisation in a way that pre-empts ethical failures and warrants the trust of customers.

In the first section, we investigate the concept of trust. Our key claim is that rather than focusing on building trust in the abstract, banks should ask themselves what precisely they want to be trusted to do, in what way, and by whom. On the basis of this assessment, banks should attempt to become more trustworthy in the areas identified. Crucially, becoming trustworthy concerns not only the willingness of banks to behave morally, but also their competence to do what they invite people to trust them for.

In section two we discuss what an ethical organisational culture is, and how it relates to ethical conduct. We distinguish three models of organisational culture, which identify culture respectively with implicit assumptions about ways of working, organisational values, and organisational virtues. On all three conceptions of culture, identifying the social purpose of a firm is the first step towards building an ethical culture. In the absence of a social purpose, organisational culture will be deficient in a way that allows for fraud and misselling.

In the third section, we explain what we mean by social purpose. Social purpose concerns how a firm contributes to social value creation, and how it justifies costs and risks imposed on society. Our central result is that reflection on the purpose of finance has not kept up with the developments in the finance system. The overwhelming majority of revenue generating activities banks engage in today do not wear their social purpose on their sleeves. Consequently, banks need to evaluate how it is that their activities can contribute to society and adapt their corporate strategy accordingly. We conclude with a case study on the current boom in credit card debt in the UK that discusses the positive example of RBS and NatWest in giving up the use of teaser rates.

We leave aside a number of issues that are often discussed in connection with ethical banking, such as corporate social responsibility and microfinance, because they do not relate to the core business of most traditional banks. Our focus on ethical strategy also leads us to exclude issues around financial advice, behavioural economics, executive compensation, financial codes of ethics, and financial innovation. These topics deserve sustained treatment, but they would lead us too far into the questions regarding the implementation of an ethical strategy and away from the formulation of such a strategy itself. Conversely, we also largely exclude issues that go beyond the scope of individual firms, such as the complexity of the financial system, adequate capital and liquidity requirements, macroprudential regulation, and other issues pertaining primarily to financial regulation. Many of our examples relate to retail banking in the UK, but we believe that what we have to say about the concepts of trust, organisational culture, and social purpose is also relevant for banks with different business models in other countries.

1. Trust

We begin with a concept that has been ubiquitous in discourse on the global financial crisis: Trust. It is by now a cliché to say that the crisis has undermined trust in banks and financial services, but the figures are striking: In a recent survey conducted in the UK, 73% of respondents describe the reputation of banking as bad, and only 4% believe that banks observe high ethical standards, putting banking on a par with betting and online gambling. (YouGov 2013, p. 6). The same survey shows that only 17% of respondents trust bankers to tell the truth. In recently conducted surveys on trust more generally, finance turns out to be the least trusted industry (Edelman 2015; YouGov Cambridge 2013).

While we agree that the global financial crisis has undermined trust in finance, we think that banks have drawn the wrong lessons from this observation. This is partly because they operate with a poor understanding of the concept of trust. The basic problem is that trust is often treated as a resource that can be built up, and then employed to the bank's advantage where necessary. The part of the bank in charge of generating the resource trust is often thought to be the marketing department. One example is the marketing campaign by Deutsche Bank in 2012 in Germany, which explicitly aimed at restoring trust (Horizont 2012). The campaign focused on the attitude of sales personnel, featuring handwritten statements such as "It is a sign of trust if I can advise my customers regarding important decisions."

In this section, we promote an alternative conception of trust. When banks think about trust in this way, it will become clear that designing advertising campaigns can be expected to do little to restore trust. Banks have a more difficult path to walk. We show this by developing an analysis of trust, and relating trust to trustworthiness. We argue that rather than focusing on restoring trust, banks should strive to become more trustworthy. Trustworthiness requires not just moral motivation, but also competence in carrying out the task at issue.

But what precisely is it that banks should be seeking to become trustworthy for? Even if banks leave this question unaddressed, customers form their own expectations of what their bank will achieve for them. Trust can be a curse rather than a blessing if customer expectations are unrealistic. Therefore, banks should manage what they want to be trusted to do, by whom, and in what way. Reflection on what it means for banks to restore trust shows the need to think about the further sections of this paper: An organisational culture that fosters trustworthiness and a social purpose that explains what customers can legitimately expect from banks.

The Analysis of Trust

Trust is a three-part relation between a trustor, a trustee, and an issue (Hardin 2002: O'Neill 2014; Baier 1986). For example, Mary (trustor) might trust John (trustee) to cook her a nice meal (issue). Equally, distrust should be analysed as a three-part relation. For example, Mary might distrust John regarding watering the plants. Distrusting John in this respect is perfectly compatible with trusting him in all kinds of other respects. Indeed, there are friends you can trust with your life, but not with doing the dishes.

We are interested in trust relationships where the trustee is a bank. That leaves us with the question of the relevant trustors, and the relevant issues.

Trustors. It is evident from our relational conception of trust that trust cannot be built in the abstract, as if it were an all-purpose means to be exploited at will. Rather, since trust is a relation between trusting parties, it is normally tied to the specific counterparty with whom one has built a trusting relationship. Banks deal with a huge number of counterparties and they differ significantly. For a start, banks deal with customers, citizens, other banks, and regulators. Most of these groups are internally very diverse as well: customers, for example, comprise firms, low-income retail customers, and high net-worth individuals. Banks need to differentiate between these groups, because they differ regarding the *issues* they want banks to be trustworthy with, and regarding the *way* they trust, whether critically or uncritically.

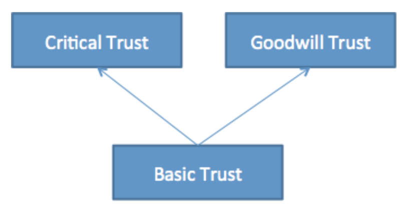
Issue. Different groups will want banks to be trustworthy regarding different issues. For instance, retail customers want to be able to trust that sales personnel advises them competently and fairly. The quality of sales personnel, however, is largely irrelevant for gaining trust by other banks. But there are commonalities between different groups as well. Citizens and regulators are aligned regarding the issues that are most relevant to them, namely that banks do not impose risks on society at large. However, differentiating between citizens and regulators is still important, as they differ regarding the ways they trust, as we will discuss momentarily.

It is noteworthy that the same individual may wear several "hats". As customer, someone may want to trust his bank to boost the value of their pension fund, notwithstanding systemic risks that they might generate. As citizen, the same individual may care little about the returns generated by the fund, but very much about the risks imposed by the bank on society at large.

Ways of trusting. Trusting someone typically involves making oneself vulnerable to be harmed. For example, to trust a financial adviser to recommend a suitable product only makes sense because there is the possibility that the adviser will recommend an unsuitable product. Vulnerability to harm makes it vital to place trust intelligently (O'Neill 2014). To place trust intelligently, individuals need some kind of ground to assess whether the trustee is indeed trustworthy. Trust can be based on different grounds, and these different grounds will give rise to different ways of trusting. In particular, we can differentiate between basic trust, critical trust, and goodwill trust.

Basic trust is grounded in general and commonly available information, or indeed prejudices, about the kind of person or institution one is dealing with (Pettit 1995). For example, it is commonsensical to trust complete strangers to give directions to the best of their ability, but not to trust that nobody will snatch your mobile if you leave it unobserved in a public space. Some of these basic trust attitudes are specific to certain firms or institutions: Levels of basic trust towards the police are generally higher than towards used-car salesmen. When individuals lack specific grounds for trusting or distrusting a particular person or institution, they fall back on these basic trust attitudes. Basic distrust is a crucial precondition for the successful initiation of trusting interactions. If levels of basic trust are sufficiently high, trustors are generally open to interaction and the building of a trusting relationship. Building basic trust is particularly difficult because of the asymmetry between trust and distrust: Whereas trustors acquire more information about the trustee if they start from an attitude of basic trust, and can on this basis either deepen their trusting relationship or pull out, no new information comes becomes available if no interaction is initiated in case basic trust is lacking. Thus, while basic trust can easily turn into basic distrust if trust is disappointed, it is much harder to move from basic distrust to basic trust.

On the basis of basic trust, trustors can enter into trusting relationships either grounded in knowledge about the trustworthiness of the trustee, or grounded in the assumed goodwill of the trustee. Which of these two modes are available to the trustor depends largely on the knowledge they have about the relevant domain.



Critical trust is grounded in justified belief about the competence of trustees, the ability to monitor performance, and to sanction bad performance (Hardin 2002). Critical trust will hence be extended if the trustor appreciates that the trustee is competent in the required domain, and is motivated to act on the trustor's interest. Critical trust is therefore often limited to a relatively narrow domain of issues, where the interests of trustee and trustor align. On the positive side, it does not presuppose goodwill of the trustee towards the trustor. The motivation of the trustee to behave trustworthily can for instance be secured by shared interest, or by the threat to end the relationship in case of betrayal. In the context of retail banking, the role of critical trust is limited by the limited understanding of most retail clients about finance (Lusardi & Mitchell 2014; Armstrong and Vickers 2012). The bottleneck is the ability of retail customers to monitor their banks performance. Many find it difficult to evaluate whether they have been treated fairly by their bank, or whether they were taken advantage of. Without the ability at least to evaluate whether their trust was abused, clients are not in a position to become critical trustors.

Goodwill trust is grounded in the trustee's assumed goodwill towards the trustor (Baier 1986). For example, friends can trust each other on the basis that the other person wishes them well. In good friendships, friends are trustworthy even if their interest are not aligned, or indeed run contrary to each other. Friends also do not need to rely on the ability to punish betrayal to secure good treatment. For retail customers, it would perhaps be best if they could trust their banks on the basis of goodwill. This is because a trustee that has goodwill towards the trustor will behave trustworthily in an open ended way, not just limited to a small domain of issues, as in the case of critical trust.

However, relations between bank and customers are business relations after all, in which banks need to look after the interests of other stakeholders as well as after customers. Inviting the goodwill trust by customers can therefore easily become disingenuous, and predictably leads to feelings of betrayal on the side of customers when the inappropriateness of goodwill trust becomes apparent. Should banks then discourage open-ended goodwill trust? We think that if banks recognise wide-ranging fiduciary duties towards customers, these duties can function as a reasonable basis for the assumed goodwill of banks towards their customers. Recognising such duties requires banks to allow sales personnel to encapsulate the interests of customers within a certain domain, and act in their best interest, rather than the interest of the firm.

	Customers	*Citizens*	*Regulators*
Basic Trust	low	low	low
Critical Trust	rare	rare	**rare**
Goodwill Trust	**common**	**rare**	rare

Table 1 summarises the trust relations discussed so far. Basic trust towards banks is low in the case of customers, citizens, and regulators alike. This judgement is based on the surveys cited above. By failing to state explicitly the issue concerning which respondents trust banks, respondents are invited to report their basic attitude towards banks.

The table also indicates levels of critical trust and goodwill trust in relationships with different trustors. As mentioned above, critical trust is likely too cognitively and informationally demanding for many retail customers regarding most interactions with their bank, given low levels of financial literacy.

We have argued above that inviting goodwill trust from customers is inappropriate unless banks recognise strong fiduciary duties towards customers. However, it appears that goodwill trust is very common between banks and their customers. There is some evidence that customers do have goodwill trust towards their local bank. The same study that found that only 17% of respondents trust bankers to tell the truth also reports that 67% of respondents trust the staff at their local bank to tell the truth, much the same as the proportion that trusts judges (MyGov 2013, p. 6).

Trust and Trustworthiness

Given already high levels of goodwill trust by customers, the key questions for banks is whether they measure up to the trust invested in them. We believe that banks should focus on defining the fiduciary duties they are ready to honour, communicate them clearly, and improve their competence to deliver on these duties. In the case study on credit cards at the end of this paper, we will give an example of how banks might go about this task.

Let us now turn to the appropriate trust relations with citizens and regulators. As mentioned above, citizens and regulators care for similar issues, namely minimising the harms banks impose on third parties. However, the financial literacy of most citizens is as low as the financial literacy of retail consumers, as these groups largely coincide. Hence, it is hardly realistic for banks to hope to develop relationships with citizens based on critical trust.

A potential way out of the problem that critical trust relations with customers as well as citizens are unrealistic is to build critical trust relations with regulators and specialized NGOs. These groups can act as a mediator between customers and citizens on the one hand, and banks on the other, provided they are appropriately competent and critical of the banking industry to merit goodwill trust by citizens and retail customers. In contrast to appearances, then, strong and critical regulatory bodies may well be in the interest of banks insofar as rebuilding trust is concerned.

Trust and social purpose

Public distrust in banks expressed in surveys may threaten not so much demand by retail customers, who have little alternatives to dealing with banks anyway, but rather the licence of banks to operate. Much like with chemical plants, society assumes a certain risk in allowing banks to operate. Granting banks a licence to operate is premised on the assumption that they will meet reasonable expectations. What surveys show most of all is that the public believes that banks currently fail to meet such reasonable expectations. This is also reflected in what respondents think is most important to improve banking (MyGov 2013, p. 14). The top three items are "Capping bankers' bonuses and pay", "Make banks more transparent about what they are up to", and "Force all bankers to be professionally trained and to meet professional standards". These responses indicate that respondents are not convinced that banking currently serves society sufficiently to justify the costs they impose.

The foregoing analysis shows that it is misguided to consider the lack of trust in finance merely as an issue for the marketing department. The key driver of low trust in finance is the string of scandals in finance and the perceived lack of social purpose. In 2006, before the financial crisis, the Edelman Trust Barometer reported banks as one of the *most* trusted industries in the US, alongside Biotech and life sciences, and before consumer packaged goods manufacturers (Edelman 2006, p. 11). In sum, rather than attempting to gain trust, banks should strive to become more trustworthy regarding the issues that they can reasonably be expected to be trustworthy for. These issues, as we will explain in more detail below, should be delineated by a conception of the social purpose of finance.

2. Organisational Culture

Researchers have long argued that organisational characteristics matter a great deal for ethical decision making in business generally (Trevino 1986, Ashkenazy et al. 2006, Kish-Gephart et al. 2010). A recent study by Cohn et al. presents evidence from a randomized experiment that the culture of banks may promote dishonest behaviour (2014). Financial regulators stress the importance of good culture in banking as well. The Financial Stability Board has issued a guidance document on risk culture emphasising the importance of culture for decision making at financial institutions (FSB 2014, p. 1). In a speech on the importance of changing the culture of financial institutions for the better, the President of the New York Fed, William Dudley, argued that firms must take a comprehensive approach to improving their culture (Dudley 2014).

Given these calls for strengthening the ethical culture of banks, one would expect that there is a clear conception of what makes up an organisational culture, and what ethical demands apply to a good organisational culture. But despite appeals to take culture seriously, the term is often employed without a clear sense of what it refers to, and with little explicit appreciation of how organisational culture in financial institutions relates to ethics. Regulators are reluctant to give substantial guidance to financial institutions as to what a good culture for financial institutions would look like (PRA 2014, p. 3). In debates about ethical banking, appeals to culture are often vague. Sometimes culture is little more than an assumed underlying cause of whatever it is that makes banks ethically deficient. This is problematic because participants in the debate superficially seem to agree on what needs to be done, as they all call for a "culture change". Digging deeper, however, it turns out that the common term "culture" masks different theories of what drives behaviour in organisations.

In this section, we distinguish three common conceptions of culture, which we call the intellectualist view, the value view, and the virtue view. These conceptions differ regarding what they identify as the nature of organisational culture, respectively, shared beliefs, shared values, or shared and collective practices and dispositions. Depending on which of these three understandings of culture organisations embrace, different methods are appropriate for assessing an organisational culture and for influencing it. We emphasise the virtue view, because we think that is often particularly useful for thinking about the ethical culture of organisations. However, we argue that on all three views, evaluating organisational culture and defining a target culture presupposes an account of social purpose.

Three conceptions of organisational culture

The intellectualist view. Many sociologists think about organisational culture as a pattern of basic assumptions. Members of an organisation make these assumptions, often unwittingly, because they helped them to cope with challenges the organisation faced in the past (Schein 1984, p. 3., 1995, 1999, cp. Reidenbach 1991, Chen et al. 1997). Once a group has created a culture for itself, it gets passed on to new members and shapes their way to perceive, think, and feel in relation to those problems. On this view, the behaviour of members is ultimately driven by such deep-seated assumptions. As a consequence, organisational values are not thought of as direct influences on behaviour. Rather, they define how the members of an organisation would like to behave, or how they would like to be seen to behave.

Assessments of culture on this view requires self-reflection. In this process, members of the organisation identify incongruences between their professed values and the common behaviour in their organisation. Organisational culture is then described in terms of the assumptions that members must unconsciously make to rationalize their actual behaviour in light of their professed values. This account also suggests an approach to fixing an organisational culture, namely by first making explicit the tacit assumptions that constitute culture, and then changing them.

The value view. It is noteworthy that a rather different model of organisational culture is implicit in most debates about ethical banking. Whereas the intellectualist view looks for culture in the tacit assumptions members of organisations unwittingly make, the value view sees culture as constituted by the professed and privately endorsed values that members of an organisation share (Dempsey forthcoming; Santoro and Strauss 2013; Salz 2013, esp. appendix B). The value view relies on a different picture of what drives organisational behaviour than the intellectualist view. Whereas according to the latter view values are epiphenomenal, with no direct bearing on actual behaviour, the value view sees behaviour as driven primarily by values. Anthony Salz' review of the culture at Barclays is a good example of that. In the report, Salz criticises Barclays for having become "too focused on profits and bonuses rather than the interests of customers" (BBC 2013).

The value view suggests a different account of what goes wrong in unethical cultures from the intellectualist view. According to the intellectualist view, members of an organisation with an unethical culture fall prey to unwitting assumptions they tacitly make. The value view, in contrast, sees the problem in terms of its members striving for the wrong goals, based on a flawed appreciation of what they have reason to value. Accordingly, the fix suggested by the value view is more directly moralizing than the fix suggested by the intellectualist view.

According to the value view, the values members of the organisation pursue need to be scrutinised and improved.

The virtue view. Whereas both the intellectualist view and the value view hold important insights, we want to suggest that a third approach is often even more more useful in thinking about organisational ethics. What we call the virtue view to organisational culture derives from virtue ethics. Virtue ethics was first developed by ancient authors such as Plato and Aristotle, who make cultivating an excellent character central to ethical behaviour. Excellent character traits are called virtues, and they determine how their bearers tend to perceive and conceptualise situations, and how they react to them. People with a virtuous character will give due attention to all morally relevant features even of challenging and new situations and hence are able to act in morally excellent ways.

Familiar virtues are justice, beneficence, and courage. For instance, courage concerns acting well in the face of danger. Once a virtuous agent understands he is in danger, the virtue of courage enables him to react appropriately. But virtue does not only concern actions. Virtues such as humility, empathy, and prudence aim in the first place at thinking and feeling about issues in the right way (Annas 2011). But such virtues are critically important to decision making as well, because excellent action presupposes excellent cognition. The most courageous agents will fail to react appropriately to danger if they do not recognise danger (De Bruin 2015).

According to Aristotle's doctrine of the mean, virtuous character traits can be seen as the mean between two extremes. For example, courage is the mean between cowardice and recklessness. Where exactly this mean lies for individuals depends on their role, which is defined in terms of the function they have in a good society. For example, courage requires of soldiers to risk their life. Risking one's life on a regular basis, however, would be considered reckless in most other lines of work, including finance. But just because financial professionals rarely need to risk their life, that does not mean that the virtue of courage is not applicable to them. Rather, courage might require of a financial professional to speak up to a superior, or to behave responsibly in making a decision some other people have signed off already.

How is Aristotle's idea of a virtuous character related to organisational culture? On the virtue view, an organisation's culture consists of shared practices, hierarchies, rules, and incentivisation schemes that induce members to develop certain habits and dispositions in dealing with organisational problems. These habits and dispositions can support or hinder employees in exercising their virtue (de Bruin 2015; Solomon 1992; 2000). For instance, an organisation that aligns decision making power and accountability may foster diligence and responsibility in their employees.

Kaptein (2008) has conducted empirical studies that demonstrate the usefulness of the virtue view for modelling organisational culture. Kaptein proposes eight organisational virtues to capture the culture of corporations, and a questionnaire to assess whether organisations possess these organisational virtues. Additional research has shown that Kaptein's proposed measure is correlated with ethical outcomes (Kaptein 2011, DeBode et al. 2013). The virtues identified by Kaptein are the organisational virtue of clarity; the virtue of congruency; the virtue of feasibility; the virtue of supportability; the virtue of transparency; the virtue of discussability; and the virtue of sanctionability.

One powerful reason why an ethical organisational culture leads to better ethical outcomes is that environmental factors, rather than just individual character, heavily influence how individuals act in morally significant situations. Recent experiments in social psychology suggest that we should take designing our environment in such a way that it supports virtuous action at least as seriously as training people's character (Doris 1998, p. 515, Homiak 2011, section 5, Isen and Levin 1972). An organisational culture, then, can be seen as ethical or unethical depending on whether it supports or hinders moral decision making by employees. For example, if sales personnel are constantly incentivised to look after the interests of the bank even at the expense of customers, this may ultimately make employees insensitive to the interests of customers.

The virtue view of organisational character contrasts with both the intellectualist and the value view. According to Aristotle, virtues are acquired by engaging in appropriate activity. For example, he suggests dealing with children lacking courage by sending them off to the woods. This emphasis on habit-forming training contrasts with the emphasis on cognitive interventions endorsed by the intellectualist and value views. For Aristotle, the key driver of behaviour is not so much what people tacitly assume or which values they affirm, but rather which character traits, habits, and dispositions they have formed. Thus the value view suggests yet another kind of key intervention. To shape organisational culture, the first step is to identify the habit-forming mechanisms in an organisation, which may include incentivisation schemes, standards for promotion, rules and guidelines, the enculturation rituals during onboarding, and on the job training.

The three views of culture that we have outlined here suggest different ways to shape behaviour in organisations. All three theories bring an important perspective to the table. However, in our view banks that want to assess and shape their culture are well-advised to think along the lines of virtue model. The following table provides an overview of the different perspectives:

	Intellectualist view	*Value view*	*Virtue view*
Nature	Deep-seated, shared assumptions	Shared values	Shared collective practices and dispositions
Assessment method	Self-reflection with the aim of uncovering inconsistencies between practices and values	Capture self-professed values and infer privately endorsed values	Observe how employees react to problems in the context of the organisation
Key Interventions	Change deep-seated assumptions	Endorse new set of values	Changes in organisational structure, incentivisation, habits
Role of Social Purpose	provides standard for correctness of assumptions	provides standard for aptness of values	provides standard for appropriateness of virtues

Culture and social purpose

We think that creating an ethical organisational culture requires a conception of social purpose. The way such a conception informs culture is different for all three models introduced in the previous section.

Consider first the intellectualist view. On this view, an organisational culture shapes the tacit assumptions and thereby the behaviour of members. Such assumptions include ideas about the nature of the work to be done, and how to approach this work; beliefs about people and their motivation; and views about the management process. In a defective culture, sales personnel might assume that they should sell products to customers without a prior risk assessment, because risks will be passed on to others. Management may also believe that sales personnel needs to be incentivised to maximise revenue for the firm to motivate them and that the best way to do this is to provide them with a weekly or even daily list of targets for the number of products they should sell. Such short term targets are relatively simple to implement and monitor. The financial crisis brought many similar examples of defective banking cultures to light. Thinking about how to address such problems and which assumptions should be challenged is a much more difficult enterprise. Getting this right requires an account of the social purpose of the organisation. Consider the nature of the work and how it should be done. Without an idea of what the problems are that banks solve for society, it is impossible to envision which work they should do, and how.

Consider next the value view. On the value view, the organisational culture consists of the professed and privately endorsed values of members of the organisation. Again, it is easy to see what a defective value system looks like. This would be a bank that strives for short-term profits, and neglects risks that it imposes on customers and society at large. Defining a positive list of values that banks should endorse requires, however, a clear understanding of the social purpose of banking. If values are to have a real impact on the behaviour of members of an organisation, they must not remain a short list of highly abstract buzzwords. Rather, organisations need to think through what their values imply for everyday business practice, and what kind of behaviour they are compatible with. As soon as values are supposed to make contact with business practice, however, they need to be picked and concretised with regard to the social purpose the business is supposed to serve.

Consider finally the virtue view. Recall that according to the doctrine of the mean, a virtue can be seen as the mean between two extremes. For instance, the virtue of courage can be seen as a mean between cowardice and recklessness. In the case of individuals, the mean is relative to the role the agent plays in society; courage is something different for soldiers and financial professionals. Similarly, ascertaining where the virtuous mean between vicious excesses lies for a bank therefore requires a conception of what role the bank plays in society. This is exactly what we mean by organisational virtue.

In sum, all three conceptions of organisational culture require a notion of social purpose to mark out what an ethical organisational culture would look like. This should come as no surprise. Regardless of whether one thinks of culture as assumptions, values, or virtues, one needs to introduce an external standard to determine what makes culture ethical. We propose that the right standard is the social purpose that the firm is meant to serve. In the following section, we will investigate what this might mean.

3. Social Purpose

The social purpose of an organisation is that what makes the existence of an organisation desirable from the perspective of society. For many common institutions, there is a shared public understanding about what their purpose is. Hospitals, for example, serve the useful purpose of making patients healthy, and schools serve the purpose of educating people. No such shared understanding exists regarding the social purpose of banks. Indeed, we will show in this section that the central narratives that come closest to providing a global social purpose to finance are mistaken.

We will argue that that banks should engage more with these issues and make social purpose their concern. Part of the reason for this are the costs associated with a large financial sector. Even following conservative estimates of the Bank of England, the lost growth caused by the recent financial crisis for Britain alone amounts to 1.8 trillion (Haldane, 2010). Other costs that we review are those of direct government bailout, cost of regulation, impaired R&D-intensive industries and increased social inequality.

The mere existence of certain costs does not yet establish that financial activity is unjustified. All economic activity involves costs as well as producing benefits. The issue with banking, then, is not that it imposes costs, but that it is less straightforward than in other industries to recognise the offsetting social benefits. Existing accounts of how banks contribute to society lack empirical support. This leads us to believe that the most important challenge for ethical banking in coming years is to inquire about the social value of financial products, and to increase this value where possible.

The outline of this section is as follows: We start with a philosophical investigation of the topic of social purpose. This conceptual ground clearing forms the basis for a more hands-on moral argument. We first review different ways in which a large financial sector imposes costs on society. We then outline and critique the empirical adequacy of existing accounts of the social purpose of finance. This leads us to conclude that society can legitimately expect banks to provide a better social justification of their products. After we establish the need for such a justification, we look at ways in which banks can give social purpose a more prominent place in their corporate strategy. In a case study we focus on the recent boom in credit card lending and point to RBS and NatWest as positive examples.

What is the social purpose of an organisation?

A conception of social purpose of an organisation is an account of what it is that makes the existence of the organisation desirable from the perspective of society (Miller, 2010, 2011). It describes both the benefits of the existence of that organisation and the way in which the organisation contributes to realizing those benefits. Some organisations clearly have social purposes, such as hospitals, improving public health, and schools, providing education. Some organisations lack or even contravene social purposes. In the extreme, we may outlaw such organisations, such as crime syndicates. Yet in other cases, the lack of an essential social purpose is not a problem at all. The example that we will focus on is a bubble gum factory.

Let us start with the idea of a purpose in the widest possible sense. A purpose in the widest sense is that what something is directed at or can be used for. The notion of a purpose applies most naturally to objects. For example, the purpose of a knife is to cut things. The same can be true for services. Consider taxi rides, which allows people to move from place to place. The purpose of a taxi ride is typically transportation. A purpose does not exist by itself, but is always a purpose in relation to the ends of an agent. A taxi ride is of no use if one wants to stay where one is. As already indicated above, organisations can serve purposes as well: Hospitals provide medical services that improve public health. Similarly, schools educate and bakeries provide people with bread. These organisations all serve a purpose by contributing to the realisation of ends that are important to citizens.

The purposes of organisations are often more elusive than the purposes of hospitals or bakeries. Some organisations serve purposes that are more abstract or relate to the ends of agents more indirectly, other organisations are so complex that they serve very different kinds of purposes for different groups of people. In such cases, it is difficult to speak of *the* purpose of an organisation. Finance is a case in point. Banks provide a vast array of services targeted at very different groups of customers. For all these services, one can ask individually what their social purpose is.

The social purpose of these services is in many cases not obvious. As we show in the concluding box "In Depth: The history of finance and social purpose", debates on the history of finance have a long history. Just like many historical thinkers that cast doubt on the social value of financial services, critics of banking today begin to doubt that many banking services have any social value at all. This suspicion shows up in questions like the following: "Why do we really need banks?"; "What would society really lack without a large financial sector?"; "What benefits do financial services provide?" or "Isn't it all just a lot of paper pushing?" A good answer to these questions should explain the social purpose of finance.

Why does finance need a social purpose?

While we think that banks should have a clear account of social purpose, there are reasons to think otherwise. Two kinds of objections might be raised. According to the first objection, it is factually wrong and indeed fanciful to maintain that financial institutions serve social purposes. Rather, decisions in financial institutions are made by financial professionals who try to make money for themselves and shareholders.

Such a view can be traced to Adam Smith's claim that:

> "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest" (1776, 16).

But in fact, Smith's claim is compatible with butchering, brewing, and baking also having social purposes in the sense suggested above. To see this, let us distinguish two meanings of the term "purpose" (Lenman 2009). To say that financial professionals are animated by some motive, say to make money, is to give an *explanation* of why financial professionals do what they do. But we are here concerned with purpose in a different sense of the word, which is given by *justifying* reasons. Justifying reasons explain why what we were doing is worthwhile or at least not morally objectionable. Consider the example of a baker. It is one issue to provide an account of why bakers show up for work. This is to give explanatory reasons for the behaviour of bakers. Such an explanation will likely involve their need to earn a salary. However, these explanatory reasons do not take away from the justificatory reasons for running a bakery in the first place. What justifies running the bakery from a social perspective is that it provides people with breads, cakes and pastries. Similarly, the mere fact that financial professionals have all sorts of mundane reasons that explain why they show up for work does not preclude that finance should have a social purpose.

The second objection acknowledges that banks do or at least might serve a social purpose, but denies that banks *need* to serve any such purpose. According to this objection, financial institutions need not justify their activities by appealing to a social purpose at all. Such an objector may point out that it is rather uncommon for businesses to be asked to justify their existence. Indeed, as we noted above, many firms do not have a particularly pressing social purpose -- recall the example of the bubble gum factory mentioned above. There is presumably nothing of particular importance missing from a society without bubble gum. Yet we do not think that the licence to run bubble gum factories is particularly precarious from a moral perspective. More generally, we are usually content if firms produce something that other people are willing to buy, be there an articulated account of why these products merit existing, or not.

In the past decade, such a laissez faire attitude prevailed in financial policy making and regulation. The intellectual background of these attitudes can be traced to the works of Jeremy Bentham (1748 – 1842):

> "No man of ripe years and of sound mind, acting freely, and with his eyes open, ought to be hindered, with a view to his advantage, from making such bargain, in the way of obtaining money, as he thinks fit: nor, (what is a necessary consequence) anybody hindered from supplying him, upon any terms he thinks proper to accede to." (Bentham, 1818, I.3)

Bentham's point is that decisions whether some product serves a social purpose should typically be left to the individual decisions of individuals. If people "of ripe years and sound mind" do choose to take out a loan, Bentham argues, the loan should be assumed to serve a purpose for these customers. According to this view, the more financial products are sold, the more value is being created. Hence, the larger the financial sector, the better.

This laissez faire attitude is premised on the idea that where people are willing to buy a product, this product must have some value to them. Bubble gum, presumably, has some value for consumers. Moreover, it assumes that the costs of bubble gum factories for society are relatively modest. Imagine that bubble gum factories would impose large societal costs in terms of using highly skilled employees and government subsidies. Certainly, the public would then be right to demand a better account of its social purpose from the bubble gum industry.

In Depth: Social Purpose and Business Ethics

We argue in the main text that firms imposing sizable costs on society should serve a social purpose. Here, we want to investigate how our approach relates to the literature in business ethics, the branch of applied ethics that is concerned with ethical issues arising in business.

There is a standing debate in business ethics over the proper role of the corporation in society. This debate centres around the question how and in whose interest corporations ought to be governed. According to the influential *stakeholder theory*, firms should be managed in the interests of all groups that have a significant interest in the firm, including owners, employers, customers, and possibly the wider community (Freeman 1984). Where the interests of stakeholders are in conflict, the theory requires striking a balance between competing interests.

In this general form, stakeholder theory leaves open who precisely counts as a stakeholder, and how competing interests ought to be weighted if conflicts arise. Depending on how these questions are answered, different versions of stakeholder theory emerge. Our argument that banks need to serve a social purpose is compatible with a wide range of such conceptions. More precisely, stakeholder theorists can endorse our argument if they acknowledge that (i) being subject to significant costs imposed by the company in question makes you a stakeholder of that company; and that (ii) companies should offset significant costs imposed on stakeholders by way of providing commensurate benefits.

According to the competing *shareholder theory*, managers have particularly strong fiduciary duties towards the shareholders of the corporation. However, few shareholder theorists have maintained that fiduciary duties to shareholders are so strong that nothing at all is owed to other stakeholders. Even Milton Friedman, who is sometimes vilified as taking the shareholder theory to the extreme, thought that the duties of firms are limited to "making as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical customs" (1970). The latter qualification opens up the possibility for shareholder theorists to buy into our argument as well. Without a doubt, the principle that no harm should be imposed on third parties without special justification is part of ethical custom, and for good reason. Even from the perspective of shareholder theory, then, it is reasonable to demand at least that negative externalities are compensated for. In order to do this, banks need to serve a social purpose.

In sum, our argument that banks ought to serve a social purpose finds support from the major positions in business ethics on how firms ought to be governed. We hasten to add, however, that this literature merely establishes what banks minimally ought to do in order to justify their societal “licence to operate.” We believe that banks should aim higher than ensuring that they do what is minimally required of them from a moral standpoint. On a more demanding view, banks should aim not only to serve a social purpose as compensation for costs inflicted, but to maximise net social benefits. Such a view can be motivated by arguing that banks are not best understood as part of the private domain, within which liberalism ascribes to individuals a right to do what is in their perceived self-interest. Rather, through their crucial roles in providing the “financial infrastructure” to provide people with access to opportunities and to facilitate complex social undertakings, banks are best understood as part of the public domain (see McMahon (2008) for an extended discussion of this view). On this view, banks create money, provide credit and operate a payment services as quasi-agents of the government. Banks, then, would be subject to more demanding public demands of justification.

The social cost of a large financial sector

Social costs associated with a large banking sector take a number of different forms. Here we focus on (i) banking crises, (ii) costs of regulation, (iii) negative effects on economic growth, and (iv) increasing social inequality. We review these costs to drive home the message that banks are not like bubble gum factories: They need a good account of their social purpose.

Crises. The most widely discussed costs of banking are those associated with the Global Financial Crisis of 2008. The UK Treasury spent £133 billion on the Financial Services Compensation Scheme, support of deposits for insolvent banks and the purchases of RBS and Lloyds. How much of this sum will be recovered at the eventual sale of RBS and Lloyds remains highly uncertain. The Treasury also provided guarantees for a total value of £1,029 billion . The following table gives an overview of direct public costs of the global financial crisis per country as a percentage of GDP (source: IMF 2013).

	Cost of support during crisis	Recovery to date
Belgium	7.4	1.5
Cyprus	10.0	0.0

Germany	12.8	2.0
Greece	19.7	4.3
Ireland	40.5	4.4
Netherlands	14.6	10.0
Spain	7.3	2.9
United Kingdom	6.7	1.5
United States	4.8	4.2

The direct costs of banking crises are dwarfed by the slump in growth accompanying banking crises. As the historical overview of Reinhart and Rogoff (2009) shows, banking crises of a similar sort happened regularly throughout the past centuries and imposed large costs on societies in which they occur. In the three years after a banking crisis, government debt rises on average by 86%, mostly caused by the fiscal costs of a resulting recession (2009, 142). Banking crises often lead to long periods of low economic growth. In 2009, the GDP of the UK was 10% below its expected value in the absence of a crisis. Even assuming that 75% of lost growth is eventually recovered, Bank of England Chief Economist Andrew Haldane estimates the cost of the lost growth for the UK at £1.8 trillion (Haldane, 2010).

Regulation Costs. A second way in which the financial sector imposes costs is through increasingly expansive regulation and supervision. Contrary to frequent talk of deregulation, as late as 1979, the Bank of England employed only 80 people in the supervision of financial firms, or one regulator for every 11,000 financial sector employees. This had increased to one in every 300 employees in 2010 and is set to rise further (Haldane, 2012). This extensive supervision and regulation is also reflected in the prominent role that the future of the financial sector takes up in public deliberation. Without a large and complex financial sector, public policy could be focus on other issues.

Effects on Growth. Every modern economy needs certain financial services in the form of bank accounts and private credit. Accordingly, financial development is an important precondition for growth in developing countries. This effect was captured by empirical studies that found a strong positive relation between financial sector growth and GDP growth (e.g. Rajan & Zingales 1996). But recent research by the BIS and the IMF questions this traditional view. According to these new studies, after the size of the banking sector reaches a certain threshold, it puts a drag on economic growth. This threshold may be reached at private credit levels of 100% (Arcand, Berkes & Pannizza 2012; Bezemer, 2014), or even as low as 90% (Cecchetti & Kharroubi 2013; Law & Singh 2014). This is clearly an issue for banks in Britain, where domestic credit levels were at 141% in 2014, coming down from 192% in 2010 (World Bank 2014).

Comparative studies of industries with different R&D levels suggest that an important driver of this effect is the employment of highly skilled employees. As Cecchetti and Kharroubi describe this effect:

> "The financial industry competes for resources with the rest of the economy. It requires not only physical capital, in the form of buildings, computers and the like, but highly skilled workers as well. Finance literally bids rocket scientists away from the satellite industry" (2012, 1).

Social inequality. The growth of the financial sector is increasingly seen as a driver of social inequality (Piketty 2014). This has not always been true. Indeed, education and wages of financial service professionals were roughly comparable to other industries in the 1980s. Since then the proportion of highly skilled employees have increased steeply. Wages of skilled employees in financial firms are currently well above those of employees with similar profiles in other sectors (Philippon and Reshef 2012; Cournède, Denk & Hoeller 2015). Moreover, expansion of the financial sector goes hand in hand with increased stock market capitalisation. Since wealth in stocks is concentrated at higher income households, associated dividends and capital gains go mostly to top income shares (Denk & Cazenave-Lacroutz 2015). For these reasons, countries with a larger financial sector tend to have a more unequal distribution of income.

Myths on the social purpose of the financial sector

We have argued so far that banking imposes significant costs on society and therefore needs a good account of social purpose. While the costs of a large financial sector are tangible and relatively easy to quantify, its benefits are more elusive. In fact, banks currently lack such an account for many of their activities. What is more, existing accounts of the social purpose of banking that are prominent in public discourse are false. The recent economic literature puts pressure both on certain accounts of what banks do as well as why that benefits society. We therefore label these conceptions "myths". We will now explain and criticise two: The myth of financial intermediation and the myth of lending for investment.

The myth of *financial intermediation* concerns how banks operate. According to this myth, banks perform a socially useful role by collecting money from depositors and making it available to other economic agents. By taking "idle" money from savers and making it "productive" by giving it to borrowers, the banking sector facilitates the efficient use of a scarce resource.

This conception of banking is misleading at best. According to a more accurate account that was recently endorsed by the Bank of England, banks do not need to borrow before granting a loan (McLeay et al. 2014; see also Werner 2014). Rather, banks create money in the process of giving out a loan and destroy that money when the loan is repaid. When banks extend loans, they do so by crediting a customer with a deposit. This deposit can then be used as a means of payment, just like banknotes that are printed by the state. In this sense, banks create money in the process of lending. We will call this view of how banks operate the *credit creation view*.

The credit creation view denies that the volume of savings by depositors puts a strict limit on the banking sector's ability to extend credit. Instead, it comes with an alternative account of constraints that bank face (see McLeay et al. 2014, 17f). Banks face market constraints both regarding their funding costs and the interest rates at which customers are willing to borrow. Moreover, banks need to take into consideration the ability of borrowers to repay the loan. Finally, banks also face regulatory constraints both to protect customers and their own solvency.

By giving banks the power to create money, the state entrusts an important role to them in coordinating the economy. Banks collectively influence how much activity is initiated in the economy by steering the provision of money (Jakab & Kumhof 2015). Recently, it has been argued that the power to create money should be taken away from banks (Jackson & Dyson, 2012; Kumhof & Benes, 2014; Sigurjónsson, 2015) political activist groups such as "Positive Money" in Great-Britain and "Ons Geld" in the Netherlands have successfully put these proposals on the parliamentary agenda. Irrespective of what one thinks of these proposals, the explanation of how a firm contributes societal benefits is as integral to an account of social purpose as the nature of those benefits. The banking community will not be able to justify its role in coordinating the economy without first providing a more accurate account of its own operations.

According to the second myth, the myth of lending for investment, banks are socially useful because they provide loans to firms. Firms use these loans to make investments, which later allow them to repay the loan with interest. These investments make firms more productive and thereby contribute to economic growth. In this way, lending for investment is said to contribute to social welfare.

This focus on lending for investment has something to it when we consider the banking fifty years back. In 1964, lending was indeed the core business of UK banks. Moreover, most of these loans went to businesses, with less than a third of lending going to households. 83% of deposits were provided by British households. Since then, the banking sector has transformed dramatically. Firstly, its size has increased tenfold. Bank operations also became increasingly international and interconnected with other financial firms. This is reflected in a wide diversity of assets and liabilities which no longer directly relate in any way to the final use of credit in the real economy. Strikingly, the provision of credit in the form of lending to firms now constitutes only a relatively modest part of the total operations of banks. According to the Bank of England, British banks are currently lending £252 billion to firms financing business and another £136 billion for financing real estate owned by non-financial firms. The credit provided to firms is dwarfed by total lending to households of £1.4 trillion, out of which £1.2 trillion is due to mortgages. In fact, the majority of large firms are currently net creditors. Rather than borrowing money from banks to invest, such firms use banks to deposit their retained earnings (Pozsar 2012).

Beyond the myths?

As sketched above, the social benefit of lending for investment ultimately consists in consumption and investment goods that would otherwise not have been produced. As proponents of ethical investment have pointed out, the value of additional goods produced does not need to be positive. They question that investments in tobacco companies, fossil industries, nuclear energy, and arms factories are indeed beneficial. But we want to leave this line of criticism to one side. The problem that we want to focus on here is that lending for investment covers only a small part of what banks actually do. Despite its limited relevance today, the myth of lending for investment remains popular. For example, in their brochure *The Benefits of Banking* (2015), the British Banking Association (BBA) gives pride of place to £53 billion lent out to SME's in 2014, while simply ignoring all investment banking activities. We think that this is a bit like a theme park saying that it is in the business of selling peanuts.

The BBA may have chosen to highlight SME lending because for many other activities, the relation to social welfare often requires more explanation than lending for investment. Even for seemingly simple financial services such as household credit, spelling out social purpose is far less straightforward.

Credit products for households such as mortgages, unsecured loans, or student loans, can clearly serve a valuable role in consumption smoothing. They enable a better use of disposable income over the lifespan of customers. Consumption smoothing is not just about consuming the same goods as one would without the help of finance, just in a less bumpy way. Rather, credit can make the difference between whether someone can buy a house or not at all. Given sufficient life-time income, finance can give customers access to goods when they require them.

But not all lending to households is a success story. In 2012, 300,000 UK mortgages were in arrears and 34,000 homes were repossessed. Over 5,000 people became homeless as a result of mortgage or rent debts (CSJ 2013). Even when loans are beneficial to individual customers compared to not taking out a loan, there may be no net benefits compared to nobody taking out a loan. First, the power of banks to create money through lending can have strong pro-cyclical effects by stimulating consumption in a boom and depressing consumption during the bust (Jakab & Kumhof 2015). Second, most private credit is used for mortgages. While mortgage credit as a percentage of GDP has increased fivefold in the past 45 years, the building of new houses has remained roughly stable (Turner et al. 2010). In a market where supply is inelastic, increased mortgage credit leads to raising housing prices, thereby undoing part of the increase in purchasing power for individual customers. The value of lending for real estate financing is therefore less straightforward than explaining the value of corporate lending along the lines of lending for investment.

Even all loans to the real economy together still account only for a part of what banks do. The majority of bank transactions take place within the financial sector and do not involve a non-financial counterparty. Turning to the wide range of products and activities of a universal bank, the academic literature provides little in the way of a developed account of their social purpose (for an overview, see Zingales 2015).

Some financial products may simply lack social purpose altogether. Some such products may even be intentionally designed to dupe unsophisticated customers or uninvolved third parties. Consider the following anecdote from a risk and compliance consultant at a major UK bank:

> "I remember in my first few weeks I sat down one of the structured products guys, to explain to me what it really was they're doing. He was selling so-called PFI-deals, where local authorities buy a very complicated financial instrument to pay for, say, a hospital. It took me a while to figure out how these PFI-deals worked, but when I did, I asked him: where's the benefit for the local authorities in this? He was aghast. 'What are you, a socialist?' he said. For him this was something the bank could make money on and that was it." (Luyendijk 2011)

Celerier and Vallee (2013) substantiate this anecdote by showing that in a sample of 55,000 structured retail products, complex products are associated with higher profit margins for banks and lower returns for investors. Similarly, financial products can be used to exploit and manipulate performance variables for employees and firm. For example, complex finance structures can be used to increase CEO payments through manipulating stock prices or stated earnings (Zingales 2015). The potential complexity of financial products and the high speed at which innovation takes places offers ample opportunity for introducing products that produce little if any benefit to customers.

We certainly do not think that banking activities should light-heartedly be discarded as socially useless. The examples given are anecdotal and research on these questions is scarce. Rather than taking a stand on these issues, we want to bring out that at this point a convincing and accurate account of their social purpose is often lacking. In the absence of an account of social purpose, the view that banks are merely parasitical on societal wealth will continue to gain currency. Or, to put it in more recent economic parlance, banks will be accused of rent-seeking. Rent-seeking refers to any activity of an individual or organisation that is aimed at obtaining economic gains without providing any benefits to society in return. Once this view takes hold, it may be very difficult for banks to counter.

What would a conception of social purpose look like?

The argument so far has focused on larger social topics and public policy debates that may seem far removed from everyday business of banking. Our aim in reviewing these topic is to argue that banks should make social purpose their concern. While we do not attempt here to answer all of the question that we have tried to raise, we want to conclude by giving some idea of how banks can put reflection on social purpose at the centre of bank strategy. For this, we will give a rough sketch of the questions that banks should ask themselves.

First, we want to stress that there is little reason to expect to find one single, overarching purpose for the banking sector. Even if it were possible to argue on a general level that banking is overall socially beneficial, this would not provide banks with a blank cheque for all of their activities. The reason is that the question of justification arises not only for each individual financial institution, but also for each activity within these institutions. Consider a hospital that provides most patients with high quality treatment, but also administers medicine that is at best useless and at worst harmful to patients. In attempting to justify this latter practice, the hospital could not just point to the overall social benefits it provides. Similarly, banks need to justify each of their activities, not just the most clearly beneficial.

Second, providing a good product involves finding out what individual customers need. For this, banks must take into account the financial literacy of a product's projected customers. Some customers will need relatively limited information and can make a good choice when faced with a wide range of options. Other customers will need a more structured sales strategy to get the best benefit from a product. In all cases, customer communication should present the technical details of a financial product in such a way the customer's decision results in the best possible product for them. Informed consent can only result when a customer has sufficient information to make up their minds about the actual costs and benefits of a product.

With these caveats in place, we now want to give a very general sketch of the sort of questions that banks should ask themselves for individual specific products. Consider first three crucial questions regarding the benefits of the products for the individual customer:

(1) Which problem does this product solve for the customer?
(2) How do benefits of the product weigh up to risks and incurred costs in terms of fees?
(3) How much flexibility will the customer have in difficult to foresee circumstances?

The social purpose of a financial product depends not only on benefits for customers, but also on consequences for uninvolved third parties. Much of the complexity and high speed of innovation in financial markets is driven by banks. This puts banks at a crucial advantage to customers and regulators in shaping financial markets. Banks can use this advantage to maximise short term income from sales, but are also well placed to shape the overall structure of the market in a way that maximises social benefits and minimises costs. Doing this will in many cases require collaboration with customers, regulators, and other banks. Consider again three questions that a bank should ask in reviewing established and designing new products:

(4) What effects will this product have on the market in which it is introduced?
(5) How does the product affect contractual obligations between the customer and uninvolved third parties?
(6) How can the bank cooperate with regulators to make this product as effective as possible?

The answers to these questions will be unique to every product and also crucially dependent on the existing markets and projected customers, and hence we do not attempt to answer these questions in the abstract. Instead, we illustrate how social purpose can be integrated into product development with our case study "The current boom in credit card sales".

Case Study: The current boom in credit card sales

To provide the reader with a more concrete example of how social purpose can figure in product development, this case study describes the market for credit cards and the decision of RBS and NatWest to discontinue teaser rates.

Since 1998, outstanding debt on UK credit cards has increased three-fold with 30 million customers currently being £60 billion in debt. This growth reflects different payment habits but also loans that households take longer to pay down. Growth of the latter has been particularly strong since the last quarter of 2014 in response to the regulatory clampdown on payday lending. Thereby, the market for credit cards increasingly caters to the most vulnerable groups of clients.

For these customers, credit cards can have an important function in smoothing expenditures for poor households. Eight million Britons, almost half of poor-income households, have no savings at all. Faced with unexpected and/or irregular costs, borrowing money is often an important means to addressing immediate problems. For example, one in four parents borrow money to pay for their child's school uniform (Citizens Advice 2013). Without access to loans, these parents would have great difficulty supporting a basic condition for participation in the educational system of their children.

This is not so say that any provision of credit to poor households is equally beneficial from a social perspective. First, once debt has been created, households often have great difficulty paying it off. In 2011, almost half of households in the lowest income decile spend a quarter of their income on debt repayments. Over 60% of households using high-cost credit are either insolvent or in arrears, compared to only 15% for other forms of credit (CSJ 2013).
Second, defaults on debts may have far reaching consequences. Over 5,000 people become homeless as a result of mortgages or rent debts (CSJ 2013). Customers who take out credit cards on teaser offers fall disproportionately in such troubled groups.

We think that ethical banking should aim to provide credit cards in such a way as to maximise the benefits of customers from these products and minimize societal costs in the form of bankruptcies and unrepayable debt overhang.

To illustrate how banks can make choices in the way they structure their products, we want to look at the specific issue of teaser offers to attract customers. Such offers provide customers with interest free purchases or lower interest rates on balances for an initial period. After this period, interest rates increase dramatically. These low rates are profitable for banks because around two third of customers do not switch the bank by the time the offer period ends. In particular, less financially literate customers pay high interest rates, whereas more sophisticated customers tend to profit from these offers (following Semeraro (2009), we call this the "reverse Robin Hood cross subsidy effect"). The boom in credit debt of the past years is again increasingly associated with shoddy sales practices. As consumer advocate James Daley reports:

> "Credit card issuers do not always do proper affordability checks — it is a very competitive market with balance transfers at zero per cent for as long as three years, and the bar to get those [deals] is fairly low." (Financial Times 2014)

Recurring controversies around the sales practices associated with these products have prompted an ongoing investigation by the FCA into the following five issues (FCA 2015):

- Credit cards provide a free service for many, but the market may not be working well for certain groups of customers – for example, over-borrowing on credit cards may be a significant problem for some consumers.
- Consumers may not choose or use cards in a way that best meets their needs.
- Consumers paying interest on balances may be paying more than they realise or expected.
- Some consumers tend to use up credit limits quickly, repeatedly making minimum payments and not considering how they will repay their credit card debt.
- A proportion of consumers may be using credit cards unsustainably and taking on too much debt.

Not all banks offer teaser rates. In March 2014, RBS and NatWest announced they would discontinue teaser rates and offer one unitary product to all their customers. Moray McDonald, Interim Head of Products and Marketing explained this step as follows:

> "We're hunting through everything we do across the bank to make sure we are doing the right thing for our customers. The credit cards industry is absolutely dominated by teaser rates, trapping people into a spiral of debt that they never pay down; it's not good for our customers, and it will play no

future part in this bank. Removing these teaser rate debt traps, and launching a new transparent, low rate credit card will be a big step towards earning back our customers trust."

Instead of variable rates offered to different customers in different sales contexts, RBS and NatWest now offer one unitary rate that starts at 6.9% APR.

We think this is an interesting initiative because it invokes the topics of social purpose, organisational culture and trust in a way that is in line with the proposals of this paper.

First, it starts of from the question what sort of products really benefit customers. Although customers presumably take out these kinds of loans because they think it is the most affordable option, RBS points to its own internal figure that show that this is in practice not the case.

"Two thirds don't switch their 0% card before they hit a payment wall and often their rates hike to over 20%. They're also often paying a purchase rate of around 18% or more for the period. This, together, does not help them manage their debt down over time."

Second, RBS sees this policy change as part of larger reorientation of the organisation where customer's benefits rather than sales figures are prioritised. Finally, it puts the emphasis on trustworthiness when it comes to restoring trust. It does not attempt to address the issue by merely changing its PR strategy. Rather, it aims to provide customers with better products.

The approach of RBS and NatWest exemplifies what we have in mind when we talk of an ethical strategy: It places benefits to customers above the question what customers in fact consent to, it considers the effects of teaser rates on the market in which it is introduced and supports regulators by providing an alternative approach. In promoting this agenda, we believe that regulators should be supportive of RBS and NatWest. Indeed, if the FCA indeed clamps down on the credit card market this should put these banks at an advantage to competitors.

Conclusion

Seven years after the last global financial crisis, banks and regulators have made some progress in addressing its immediate causes. The intervening years have shown as well, however, that the ethical issues that banks face run deeper. Some of the largest recent legal costs faced by banks relate to the rigging of foreign exchange markets and the manipulation of the LIBOR, neither of which is directly related to the recent crisis. Rather than patching up problems one by one as they become apparent, banks should integrate ethics into their corporate strategy. We have attempted to clarify the key ethical concepts that banks need to master going forward. For two reasons, building an ethical strategy on the basis of a social purpose will prove as challenging as it is necessary for banks.

First, banks will continue to be closely monitored for misdemeanours. That means that banks need to build an ethical organisational culture that works as a backstop against unethical conduct not just today and tomorrow, while the memory of the crisis is still fresh, but in a lasting way. We have attempted to give some structure to the concept of an ethical culture by distinguishing between three different views of culture. We have argued that the virtue view of culture is particularly helpful when thinking about ethical organisational culture, because it takes into view shared practices of doing and thinking. Our main suggestion concerns however what it is that makes an organisational culture ethical. To define an ethical target culture, we have argued, banks need to appeal to a social purpose they wish their products to serve.

Second, the recent financial crisis has resulted in a lasting crisis of trust in banks. We have developed an analysis of trust that banks can use to plot their way out, but that also shows some of the difficulties that need to be overcome. We suggest to understand trust as a relation between the bank and different groups of stakeholders. We have argued that these groups trust in different ways. Financially unsophisticated stakeholders such as the majority of retail customers need to rely on the perceived goodwill of the bank towards them. As it turns out, trust by these groups is still very common. The task for banks is thus not so much to solicit more trust, but to live up to the duties of care that the trust of their customers gives rise to. Financially sophisticated stakeholders such as regulators are “critical trustors”, as they will be guided by the trustworthiness of banks as perceived by them. To improve relations both with financially sophisticated and unsophisticated stakeholders, banks should again improve their trustworthiness rather than directly solicit trust. We suggest that the key question banks need to ask themselves then going forward is what they want to become trustworthy for regarding which group of stakeholders, and build the competence to be able to deliver on these choices. In parallel to our discussion of culture, we argue that discussions about trustworthiness need to be rooted in a conception of social purpose.

Our key claim in this paper is that any attempt to regain trust and define a target culture is inextricably bound up with the question of the social purpose of banks. We have built a moral argument why banks indeed need to serve a social purpose. As the large costs that banks impose on society become ever more salient, banks need to be able to explain how their activities are adding sufficient value to justify these risks. We have argued that giving such an explanation requires a conception of social purpose. Yet we also show that current accounts of how banks add social value are so inadequate that we label them myths. The myth of lending for investment suggests that banks add value because they enable welfare-creating production. But lending to businesses is only a small fraction of the activity of today's banks. The social purpose of their main activities, including the provision of consumer credit, is in contrast much less straightforward. Our suggestion is that banks should reflect on how their activities are adding social value product-by-product, and service-by-service. To rebuild trust and build an ethical culture, banks need to build their strategy around creating social value.

The transformation that banks will go through in the years to come will in part be an ethical transformation, which needs to be negotiated in ethical terms. In this paper, we have suggested that banks should accept this challenge. We hope that our contribution will banks more conversant in ethical discussion revolving around organisational culture, trust, and social purpose.

We owe a great deal of gratitude to Cambridge Judge Business School and its Centre for Trust and Compliance for providing us with funding for writing this article, and to the people at Cambridge Judge who have provided us with valuable feedback on earlier drafts of this article, including Richard Hill, Peter Hiscocks, Simon Learmount, Michael Pollitt, Danny Ralph, John Rust, Simon Taylor, David Stillwell, but most of all Jon Stern for sustained discussion and spot-on objections. We are fortunate to be part of the research project "Trusting Banks" together with Boudewijn de Bruin, Alex Oliver, Anthony Booth, and Chris Thompson, who have all helped us develop our views on ethical banking. Moreover, we would like to thank David Rodin for discussions around ethics and banking that inspired our views in this article in many ways. Finally, we would like to thank Christine Kinally and Phil Thornton for valuable help with editing and preparation of the final draft.

Centre for
Compliance
& Trust

UNIVERSITY OF
CAMBRIDGE
Judge Business School

In Depth: The history of ethical banking

The following historical overview shows that ethical questions on finance have been controversial for many centuries. Current debates questioning the social purpose of banks should accordingly be seen as part of a long conversation about the role of banking in society. We also bring out that these debates tend to have an impact on how banking is organised. The previous period of hostility to finance in the 1940s and 1950 only ended once the international financial system had gone through a fundamental reform involving new and tighter regulation.

Many ancient philosophical and religious texts contain strong prohibitions of lending money for interest. The old testament contains a number of injunctions that can be interpreted as prohibiting interest. For example, Exodus states: "If you lend money to one of my people among you who is needy, do not treat it like a business deal; charge no interest." (22:25). In the sermon on the plain, Jesus goes beyond this by telling his disciples: "love your enemies, do good to them, and lend to them without expecting to get anything back" (Luke 6:25).

While such biblical prohibition reject interest with reference to the duty to do good, without expecting anything in return, a different line of argument questions the fairness of the economic exchange. In his Politics, Aristotle writes:

> "Usury is most reasonably hated, because its gain comes from money itself and not from that for the sake of which money was invented. For money was brought into existence for the purpose of exchange, but interest increases the amount of the money itself [...]; consequently this form of the business of getting wealth is of all forms the most contrary to nature." (1944, 1258b)

Aristotle rejects lending as usury insofar as it is a way of making money without providing a useful service in return. For Aristotle, an economic transaction is just when the parties in the exchange trade goods of equal value. Usury, in contrast, is an unfair way of making money because the usurer provides no valuable good in exchange. Because Aristotle does not distinguish clearly between usury and other lending, his writing can be interpreted in different ways -- either as attacking all lending for interest, or only lending at usurious interest rates. A particularly vivid prohibition of lending is formulated by Dante, who chastises money lending for being unproductive, having sinned against "nature in herself and in her pupil, art" (XI, 100).

Accordingly Dante places moneylenders in the seventh layer of hell, where they can only sit while gloating at their money pouches. Similarly focusing on the sitting, passive aspect of making money through lending, the Quran tells us that on the Day of judgment "those who consume interest [*riba*] cannot stand except as one stands who is being beaten by Satan into insanity." (2:275). Some Muslims to this day categorically reject any lending for interest as an unnatural way to make money, equating interest and usury in the concept of *riba*.

Theological discussion from the middle ages onwards give rise to more benevolent views on banking (Mews and Abraham 2006). Justifications of finance can be divided in two groups. The *substantial* justification focuses explicitly on questioning the idea that lending is not in itself a valuable service. A prominent example of this justification can be found in John Calvin (1509 – 1564). Calvin makes the point that finance can have economic importance and argues that it should therefore be morally permitted: "men cannot […] transact their business" without finance. Therefore, "the receiver of interest is not to be hastily condemned" (Commentary on Ezekiël, 18:9). Calvin also chaired a commission, which recommended an upper limit of 5% on interest rates (Wiley 2003).

Where Calvin made the permissibility of lending conditional on the usefulness of the service provided, an alternative justification of finance is formulated by Jeremy Bentham (1748 – 1842). Rather than showing that finance has a social purpose, this *liberal* justification aims to show that it is not reasonable to demand that financial transactions are indeed socially beneficial. According to this view, which we criticise in the main text, any deal to which both parties knowingly consent must be permitted:

> "No man of ripe years and of sound mind, acting freely, and with his eyes open, ought to be hindered, with a view to his advantage, from making such bargain, in the way of obtaining money, as he thinks fit: nor, (what is a necessary consequence) any body hindered from supplying him, upon any terms he thinks proper to accede to." (1818, I.3)

These two justifications can be traced to the present day, though they have undergone an important transformation with the rise of secularism and the professionalization of the social sciences. Moral and theological discussions of usury are replaced by a more secular discourse around the contribution of the financial sector to measurable indices of social welfare. This is also the vocabulary that we ourselves use in the main text. Complementing the scientific discourse, the twentieth century also featured lively public debates on the social purpose of finance.

The Belle Époque saw widespread belief in the free movement of capital as a means for societal progress. In this environment, bank employees were highly educated and it was possible for the banking sector to pay 30-50% higher wages than other sectors (Philippon & Reshef 2012). The enthusiasm for banking in this period eroded throughout the financially unstable interbellum. The experience of the Great Depression and the Second World War motivated tight regulation and a smaller banking sector that focused on customer deposits and lending to firms. In the 1980s, wage and skill levels in finance returned to levels comparable to other business sectors (Philippon & Reshef 2012) and finance was again perceived as a means of social progress.

Overall favourable attitudes to the financial sector prevailed in the following decades. Political discourse focused on the importance of equal access to financial services and the liberating role of credit (e.g. Rajan & Zingales, 1996). This environment of societal trust in the self-regulating capacities of the financial sector gave rise to a period of deregulation and laissez faire. With the financial crisis, this generally benevolent atmosphere has again dissipated, reviving public debates on the social purpose of finance.

As we hope to show with this brief overview, the debates of the past decade are neither exceptional nor can banks expect them to be transient: the debate has a long history and once a similar debate flared up in the middle of the 20th century, it only died down after substantial changes to the organisation and composition of the financial sector.

References

Annas, Julia. 2011. *Intelligent Virtue*. Oxford: Oxford University Press.

Arcand, Jean-Louis, Enrico Berkes, and Ugo Panizza. 2012. 'Too Much Finance?' IMF Working Paper 12/161. Washington, D.C.: International Monetary Fund.

Aristotle. 1944. *Politics*. Translated by H. Rackham. Vol. 21. Aristotle in 23 Volumes. Cambridge, MA: Harvard University Press.

Armstrong, Mark, and John Vickers. 2012. 'Consumer Protection and Contingent Charges.' *Journal of Economic Literature* 50 (2): 477–93.

Ashkanasy, Neal M., Carolyn A. Windsor, and Linda K. Treviño. 2006. 'Bad Apples in Bad Barrels Revisited: Cognitive Moral Development, Just World Beliefs, Rewards, and Ethical Decision-Making.' *Business Ethics Quarterly* 16 (4): 449–73.

Baier, Annette. 1986. 'Trust and Antitrust.' *Ethics* 96 (2): 231–60.

Bentham, Jeremy. 1818. *Defence of Usury*. 4th ed. London: Payne and Foss.

Booth, Roger. 2009. 'Does Banking Contribute to the Good of Society?' *The Daily Telegraph (13.10.09)*. http://www.telegraph.co.uk/finance/comment/rogerbootle/6316529/Does-banking-contribute-to-the-good-of-society.html.

British Banking Association. 2015. 'The Benefits of Banking.' https://www.bba.org.uk/news/reports/the-benefits-of-banking/#.VaJD3fnGv84.

De Bruin, Boudewijn. 2015. *Ethics and the Global Financial Crisis*. Cambridge: Cambridge University Press.

Cechetti, Stephen, and Enisse Kharroubi. 2012. 'Reassessing the Impact of Finance on Growth.' BIS Working Papers No. 381. Basel.

———. 2015. 'Why Does Financial Sector Growth Crowd out Real Economic Growth?' BIS Working Papers No. 490. Basel.

Célérier, Claire, and Boris Vallée. 2013. 'What Drives Financial Complexity? A Look into the Retail Market for Structured Products, A Look into the Retail Market for Structured Products.' Paris December 2012 Finance Meeting EUROFIDAI-AFFI.

Centre for Social Justice. 2013. *Maxed Out: Serious Personal Debt in Britain*. London: CSJ.

Chen, Al Y. S., Roby B. Sawyers, and Paul F. Williams. 1997. 'Reinforcing Ethical Decision Making Through Corporate Culture.' *Journal of Business Ethics* 16 (8): 855–65.

Citizens Advice. 2013. 'Parents Borrowing Money to Pay for School Uniforms.' https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/parents-borrowing-money-to-pay-for-school-uniforms/.

Cohn, Alain, Ernst Fehr, and Michel André Maréchal. 2014. 'Business Culture and Dishonesty in the Banking Industry.' *Nature* advance online publication (November). http://www.nature.com/nature/journal/vaop/ncurrent/full/nature13977.html.

Cournède, Boris, Oliver Denk, and Peter Hoeller. 2015. 'Finance and Inclusive Growth.' OECD Economic Policy Papers. Paris: Organisation for Economic Co-operation and Development.

DeBode, Jason D. et al. 'Assessing Ethical Organizational Culture Refinement of a Scale.' *The Journal of Applied Behavioral Science* 49.4 (2013): 460–484.

Denk, Oliver, and Alexandre Cazenave-Lacroutz. 2015. 'Household Finance and Income Inequality in the Euro Area.' OECD Economics Department Working Papers. Paris: Organisation for Economic Co-operation and Development.

Doris, John M. 1998. 'Persons, Situations, and Virtue Ethics.' *Noûs* 32 (4): 504–30.

Dudley, William. 2014. 'Enhancing Financial Stability by Improving Culture in the Financial Services Industry.' http://www.ny.frb.org/newsevents/speeches/2014/dud141020a.html#footnote3.

Edelman. 2006. 'Edelman Trust Barometer 2006.' Edelman. Accessed October 10 2015. https://www.edelman.com/assets/uploads/2014/01/2006-Trust-Barometer-Global-Results.pdf.

———. 2015. 'Edelman Trust Barometer 2015.' Edelman. Accessed October 10 2015. http://www.edelman.com/2015-edelman-trust-barometer/.

Financial Stability Board. 2014. 'Guidance on Supervisory Interaction with Financial Institutions on Risk Culture.' http://www.financialstabilityboard.org/wp-content/uploads/140407.pdf.

Friedman, Milton. 1970. 'The Social Responsibility of Business Is to Increase Its Profits.' *The New York Times Magazine*, September 13.

Freeman, R. Edward. 1984. Strategic Management: A Stakeholder Approach. Boston: Pitman.

Haldane, Andrew. 2014. 'The 100 Billion Dollar Question.' Speech presented at the Institute of Regulation and Risk, North Asia (IRRNA), Hong Kong. Accessed October 10 2015. http://www.bis.org/review/r100406d.pdf.

Hardin, Russell. 2002. *Trust and Trustworthiness*. New York: Russell Sage Foundation.

Homiak, Marcia. 2011. 'Moral Character.' In *The Stanford Encyclopedia of Philosophy*, edited by Edward N. Zalta, Spring 2011. http://plato.stanford.edu/archives/spr2011/entries/moral-character/.

Horizont. 2012. 'Neuer Auftritt: Deutsche Bank wirbt bei Privatkunden um Vertrauen.' *HORIZONT*. July 16. http://www.horizont.net/marketing/nachrichten/-Neuer-Auftritt-Deutsche-Bank-wirbt-bei-Privatkunden-um-Vertrauen-108816.

International Monetary Fund. 2013. Fiscal Monitor April 2013: Fiscal Adjustment in an Uncertain World. Washington, D.C.: International Monetary Fund.

Isen, Alice M., and Paula F. Levin. 1972. 'Effect of Feeling Good on Helping: Cookies and Kindness.' *Journal of Personality and Social Psychology* 21 (3): 384–88.

Jakab, Zoltan, and Michael Kumhof. 2015. 'Banks Are Not Intermediaries of Loanable Funds -and Why This Matters.' Bank of England Working Paper No. 529. London: Bank of England.

Kaptein, Muel. 'Developing and Testing a Measure for the Ethical Culture of Organizations: The Corporate Ethical Virtues Model.' *Journal of Organizational Behavior* 29.7 (2008): 923–947.

Kaptein, Muel. 'Understanding Unethical Behavior by Unraveling Ethical Culture.' *Human Relations* 64.6 (2011): 843–869.

Kish-Gephart, Jennifer J., David A. Harrison, and Linda Klebe Treviño. 2010. 'Bad Apples, Bad Cases, and Bad Barrels: Meta-Analytic Evidence about Sources of Unethical Decisions at Work.' *Journal of Applied Psychology* 95 (1): 1–31.

Kumhof, Michael, and Jaromir Benes. 2014. 'The Chicago Plan Revisited.' IMF Working Paper 12/202. Washington, D.C.: International Monetary Fund.

Law, Siong Hook, and Nirvikar Singh. 2014. 'Does Too Much Finance Harm Economic Growth?' *Journal of Banking & Finance* 41 (April): 36–44.

Lusardi, Annamaria, and Olivia S. Mitchell. 2014. 'The Economic Importance of Financial Literacy: Theory and Evidence.' *Journal of Economic Literature* 52 (1): 5–44.

McLeay, Michael, Amar Radia, and Ryland Thomas. 2014. 'Money Creation in the Modern Economy.' *Quarterly Bulletin* 54 (1): 14–27.

McMahon, Christopher. 2012. *Public Capitalism: The Political Authority of Corporate Executives.* Philadelphia: University of Pennsylvania Press.

Miller, Seumas. 2010. *The Moral Foundations of Organizations*. Cambridge: Cambridge University Press.

Miller, Seumas. 2011. 'Global Financial Institutions, Ethics and Market Fundamentalism', In: Ned Dobos, Christian Barry, Thomas Pogge. *Global Financial Crisis: The Ethical Issues*. London: Palgrave Macmillan.

O'Neill, Onora. 2002. *Autonomy and Trust in Bioethics*. Gifford Lectures 2001. Cambridge; New York: Cambridge University Press.

———. 2014. 'Trust, Trustworthiness, and Accountability.' In *Capital Trust: Rebuilding Trust in Financial Services*, by Nicholas Morris and David Vines, 172–89. Oxford: Oxford University Press.

Pettit, Philip. 1995. 'The Cunning of Trust.' *Philosophy & Public Affairs* 24 (3): 202–25.

Philippon, Thomas, and Ariell Reshef. 2012. 'Wages and Human Capital in the U.S. Finance Industry: 1909-2006.' *The Quarterly Journal of Economics* 127 (4): 1551–1609.

Piketty, Thomas. 2014. *Capital in the Twenty-First Century*. Translated by Arthur Goldhammer. Cambridge Massachusetts: The Belknap Press of Harvard University Press.

Pozsar, Zoltan. 2011. 'Institutional Cash Pools and the Triffin Dilemma of the U.S. Banking System.' IMF Working Paper 11/190. Washington, D.C.: International Monetary Fund.

Prudential Regulation Authority. 2014. 'The Use of PRA Powers to Address Serious Failings in the Culture of Firms.' http://www.bankofengland.co.uk/pra/Documents/publications/policy/2014/powersculture.pdf.

Reidenbach, R. Eric, and Donald P. Robin. 1991. 'A Conceptual Model of Corporate Moral Development.' *Journal of Business Ethics* 10 (4): 273–84.

Reinhart, Carmen M., and Kenneth S. Rogoff. 2009. *This Time Is Different: Eight Centuries of Financial Folly*. Princeton, NJ: Princeton Univ. Press.

Salz, Anthony, Russell Collins, and P. L. C. Barclays. 2013. *Salz Review: An Independent Review of Barclays' Business Practices*. Barclays PLC.

Santoro, Michael A., and Ronald J. Strauss. 2012. *Wall Street Values: Business Ethics and the Global Financial Crisis*. Cambridge ; New York: Cambridge University Press.

Schein, Edgar H. 1984. 'Coming to a New Awareness of Organizational Culture.' *Sloan Management Review* 25 (2): 3–16.

———. 1995. 'The Role of the Founder in Creating Organizational Culture.' *Family Business Review* 8 (3): 221–38.

Solomon, Robert C. 1992. *Ethics And Excellence: Cooperation And Integrity in Business*. New York: Oxford University Press.

———. 2000. 'Business with Virtue: Maybe Next Year?' *Business Ethics Quarterly* 10 (1): 339–41.

———. 2004. 'Aristotle, Ethics and Business Organizations.' *Organization Studies* 25 (6): 1021–43.

Martin Stabe, and Aaron Stanley. 2015. "Bank Fines: Get the Data." *Financial Times*. July 2015. Accessed: 15 Sept. 2015. http://blogs.ft.com/ftdata/2015/07/22/bank-fines-data/

Trevino, Linda Klebe. 1986. 'Ethical Decision Making in Organizations: A Person-Situation Interactionist Model.' *Academy of Management Review* 11 (3): 601–17.

World Bank. 2015. 'World Development Indicators Online (WDI) Domestic Credit to Private Sector (% of GDP).' http://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS.

YouGov Cambridge. 2013. 'Public Trust in Banking.' YouGov Cambridge. http://cdn.yougov.com/cumulus_uploads/document/ylf7gpof19/Public_Trust_in_Banking_Final.pdf.

Zingales, Luigi. 2015. 'Does Finance Benefit Society?' NBER Working Paper No. 20894. Cambridge, MA: National Bureau of Economic Research.