

Culture of Greed

Prepared by Joe Langsam for May 27, 2015 CSRA Panel
Organizational Culture as a Risk Factor

Where Does A Bank take its Largest Risks?

Definitions

- Greed

- Intense and selfish desire for something, especially wealth, power, food.
- A strong desire to continually get more of something, esp. money
- Inordinate or insatiate longing, esp. for wealth; avaricious or covetous desire

Greed

- Would you hire a sales person or trader who did not have an intense desire to be wealthy.
- What is the relation for a financial institution between an intense desire to succeed and an intense desire to be wealthy
- Perhaps: GREED IS NOT BAD
- Perhaps: IT IS HOW GREED IS MANIFESTED THAT IS THE PROBLEM
- It is not about greed, it is about ethical behavior

Defintion

- Culture:

- Culture may be defined as the totality of the mental and physical reactions and activities that characterize the behavior of individuals composing a social group collectively and individually in relations to their natural environment, to other groups, to members of the group itself and of each individual to himself. It also includes the products of these activities and their role in the life of the groups. (Franz Boas)
- What really binds men together is their culture, -- the ideas and the standards they have in common. (Ruth Benedict)
- a way of thinking, behaving, or working that exists in a place or organization (such as a business) (Meriam-Webster)
- the set of shared attitudes, values, goals, and practices that characterizes an institution or organization <a corporate *culture* focused on the bottom line> (Meriam-Webster)

Observations

- A large number of individuals without experience in banking join the bank each year
- Strong desire to “fit in” and strong desire to succeed
- Numerous ways in which bank personnel learn
 - (Espoused) Explicit instructions – lectures by lawyers, HR, management
 - (In Use) Observation of the behavior of “leaders” – Importance of Culture

Example

- Lecture on importance of trading risk management
- Two days later the head of a trading desk, when faced with a trade that would exceed the desk's limits proceeds with the trade and states that it is better to ask forgiveness than permission
- Hear over and over again the importance of proper risk management
- The desk or senior management has final say on certain valuations – use approved model but adjust model parameters

Observations

- Many Cultures in a Bank – conflicting norms
 - Immediate Work Group
 - Business Group
 - Division
- Culture Evolves – New Form of Winner’s Curse
 - All too easy for the bad to drive out the good
- Corporate Structure
 - Partnership
 - Corporation
 - Recruiting
 - Promotion and Pay

Has culture of wall street deteriorated?

- Corporate Structure
 - Partnership to corporation
 - Corporation
 - Recruiting
 - Promotion and Pay

- Answer

RECRUITING