

Do the Right Thing! Developing Ethical Behavior in Financial Institutions

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Received: 10 January 2016 / Accepted: 18 July 2016 / Published online: 25 July 2016
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Abstract Organizational culture and employee conduct in financial institutions are coming under increasing scrutiny by regulators who seek to identify the underlying sources of unethical behavior. The literature on ethics in the workplace has often emphasized the importance of the alignment of systems and processes with organizational values and the role of the leader in creating an ethical culture. Less is known about how individual employees experience the ethical decision-making process, especially in complex and high-risk business environments where there are discrepancies between an organization's formal ethical standards and its informal practices. This article combines ethical decision-making models with key concepts from organization and adult learning theories to develop a deeper and more nuanced view of how individuals in financial institutions deal with ethical issues that arise in their daily work. Eight practical ideas are formulated to help financial institutions narrow the gap between formal ethical standards and actual practices and develop a culture that promotes ethical behavior: challenging authority, creating opportunities for discourse, valuing positive emotion, making time for reflection, rewarding ethical behavior, strengthening escalation processes, eliciting feedback, and establishing a learning culture.

Keywords Adult learning · Experiential learning · Ethical decision making · Ethics · Finance · Informal learning · Organizational culture · Organization theory · Transformative learning

Introduction

This article combines ethical decision-making (EDM) models with key concepts from organization and adult learning theories to develop a deeper and more nuanced understanding of how individuals in financial institutions deal with ethical issues that arise in their daily work. The goal here is to invigorate a discussion about what organizations in the financial sector can do to lay the foundation for a culture that promotes ethical behavior and improves the quality of ethical decision making. The article, which draws on examples and illustrations taken from the general business literature and the author's experience and research in finance, begins with a context-setting description of the challenges financial institutions face in developing ethical behavior, followed by a discussion of theory and research on individual ethical decision making. Classic Kohlbergian moral reasoning models are compared with newer approaches which, unlike their predecessors, suggest that individual moral principles, often developed during childhood, no longer provide a strong enough guide for EDM in complex and dynamic environments (Sonenshein 2007; Thiel et al. 2012). The concept of moral strength, a key decision-making competency, is also discussed. EDM is then examined at the organizational level. A review of organization theory, specifically how discrepancies between official and operative goals evolve, informs a discussion of the tension that employees experience as they go through the EDM process. Insights from organization theory suggest that cultivating adherence to espoused ethical values—such as those outlined in an organization's code of conduct—requires significant commitment and effort.

Two adult learning theories, transformative learning and informal learning, contribute to a more nuanced view of

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employee EDM. Transformative learning is a process of challenging perceptions of how the world works and moving toward a belief system that is “more inclusive, discriminating, self-reflective, and integrative of experience” (Mezirow 1997, p. 5). Informal learning, embedded in everyday life activities (Eraut 2004; Le Clus 2011; Marsick et al. 2009), is a generally unconscious process (Eraut 2007; Marsick 2009; Marsick and Volpe 1999; Marsick et al. 2009) triggered by a non-routine experience that “jolts” an individual to reflect on previous uncritically assimilated assumptions. It is posited that moral or ethical predispositions, as manifestations of an individual’s belief system, can shift as the result of transformative and informal learning processes. The article concludes with eight practical ideas grounded in theory and research that financial institutions can use in developing ethical behavior and help employees cope with tension they experience as they deal with ethical issues at work.

Background

Since the 2008 financial crisis, problems of ethics in financial institutions have garnered considerable news attention on a daily basis. From manipulation of energy markets to mortgage-backed securities fraud, from accusations of money-laundering to rigging the Libor rate and price-fixing foreign currency, financial institutions around the globe are struggling to help their employees “do the right thing.” Although many violations can be traced back to the mortgage crisis, allegations continue to surface regularly that raise into question how motivated financial institutions really are to change. As Boddy (2011) observed in his theory on the role of “corporate psychopaths” in the 2008 financial crisis, executives “who probably caused the crisis by their self-seeking greed and avarice, are now advising governments on how to get out of the crisis” (p. 258).

Organizational culture and employee behavior have increasingly become areas of focus for the financial industry and regulators (e.g., Baxter 2015; Tarullo 2014). As noted by William C. Dudley, President of the Federal Reserve Bank of New York, financial institutions should expend more energy on improving “the apple barrels” and less on the “search for bad apples” (Eavis 2015). A recent report on “Banking Conduct and Culture” (Group of Thirty 2015) emphasized the need for banks “to repair the damage done by failures in culture, values, and behaviors, and... tackle the challenge with renewed vigor and purpose to achieve tangible improvements in outcomes and reputation” (p. 5).

Financial institutions have responded to these calls for action by refreshing their codes of conduct and publishing

comprehensive documents containing information on organizational values and ethics, which inform employee conduct and underpin a culture of “doing the right thing.” For example, in 2014, Barclays produced a 44-page brochure as “a framework for a corporate culture that fosters values-based decision making and challenges any behaviour or action that falls short of expected standards” (Barclays Bank PLC 2014, p. 4). Ethical behavior is an explicit component of Barclays’ value of integrity. Similarly, in a report written at the behest of a shareholder group, JPMorgan Chase stated that it has “taken great care to re-articulate and re-emphasize our cultural values and corporate standards consistently and clearly so they can be internalized by employees and result in the kinds of observable, ethical behaviors that we expect” (JPMorgan Chase 2014, p. 6).

Despite these initiatives, banks have failed to make significant headway (Group of Thirty 2015) due to “systemic weaknesses in embedding these values and codes of conduct” (p. 12). A 2014 Federal Reserve Bank conference titled “Reforming Culture and Behavior in the Financial Services Industry” pointed to a discrepancy between articulated organizational values and ones that are actually supported in practice. According to Federal Reserve Board Governor Daniel K. Tarullo (2014), “one important determinant of behavior is the shared expectation as to which of the stated values and rules of an organization will be supported and reinforced by management action, and which are generally regarded as window dressing” (p. 3). A survey by the University of Notre Dame and Labatan Sucharow (2015) of more than 1200 professionals in the financial industry also highlighted this discrepancy; its most disconcerting finding was identified as a “proliferation of secrecy policies and agreements that attempt to silence reports of wrongdoing and obstruct an individual’s fundamental right to freely engage with her government” (p. 2). Employees are clearly dealing with inconsistencies between their firms’ formal ethical standards and actual practices as they seek to make decisions about ethical issues.

Employees also often face dilemmas at work that require them to make decisions in high-risk situations. In many cases, such as with issues of reputational risk, the law does not provide an adequate decision-making framework. To this point, Governor Tarullo asked, “Do employees understand their job to be maximizing revenues in any way possible so long as they do not do anything illegal, or do they understand their job to be maximizing revenues in a manner consistent with a broader set of considerations?” (p. 5). The Group of Thirty (2015) noted that “adherence to conduct and values principles and standards is a matter of judgment, not a matter of clear-cut legal requirements” (p. 12). What remains unclear is how employees apply

personal judgment as they make decisions in complex and uncertain business environments and how they deal with possible discrepancies between an institution's formal codes of conduct or statements of organizational culture and that institution's actual practices.

Grounded in organization theory, much of the existing literature on ethics in the workplace has emphasized the importance of organizational culture and the role of the leader in creating an ethical environment (e.g., Sims 1992; Sims and Brinkmann 2003; Trevino et al. 1999). The focus is more on identifying the leadership and management competencies required to drive organizational ethics and less on understanding the role of individual employees in decision-making processes. When research has considered the experience of the individual, it has often examined how personal moral values influence decision making (e.g., Bagozzi et al. 2013; Caldwell and Moberg 2007; Sekerka et al. 2009; Trevino 1986; Wegmann 2014). Less emphasis is placed on identifying the interdependencies between individuals and their organizations and exploring how individuals shape their larger context. The literature also appears to favor a cognitive approach to decision making, suggesting that once an individual is aware of an ethical issue, a rational EDM process is followed (Sonenshein 2007). An opportunity exists to learn more about the affective dimension of ethical dilemmas, which are inherently emotional because they bring to light conflicting values (Thiel et al. 2012).

In a complex and fast-changing environment, it is likely to be difficult, if not impossible, for even the most ethical of leaders to achieve alignment between desired and actual behaviors. Employees are often equipped with few tools to handle discrepancies between formal ethical standards and actual practices. Organizational systems and processes are insufficient and flawed parts of the equation. For example, the annual formal code of conduct training may be designed to ensure 100 % completion in order to meet regulatory requirements, but it does not show employees how to apply personal judgment to real dilemmas. Case studies used as training vehicles are often limited to those with less substance and learning potential to avoid exposing institutional weaknesses to regulators. Organizations also frequently rely on an individual's traditional moral values to support the EDM process, although these may no longer suffice in high-risk and uncertain environments (Sonenshein 2007). Moreover, while some EDM models explore the role of context in individual decision making, less is known about how individual employees learn EDM behaviors and what factors they consider in dealing with ethical issues in a dynamic work setting. Context is also likely to impact the effectiveness of formal detection methods such as employee surveillance systems, which employ complex algorithms to predict unethical patterns of

behavior (Son 2015) and pinpoint the “bad apples” (leading right back to the apple barrel problem).

Ethical Decision-Making Theory

Cognitive Moral Development

To understand how employees make decisions about ethical issues, it is important to examine the individual decision-making process. A useful starting point is Kohlberg's (1975) cognitive moral development theory, which “encompasses the notion that our moral selves evolve with time and experience” (Dawson 1994, p. 1) and is foundational to several well-known EDM models. Kohlberg, whose work focused on the concept of moral right (Dawson 1994), expanded on Dewey and Piaget's theories of moral development in children to identify a set of six (later adjusted to five) cognitive stages of qualitative moral reasoning in adults (Kohlberg 1975). Grouped into three levels (preconventional, conventional, and postconventional), the stages are sequential and hierarchically integrated, each stage with its own demonstrated thought organization. For individuals operating at the preconventional level, doing what is right means deferring to authority or acting in self-serving or egocentric ways to avoid punishment (Dawson 1994; Kohlberg 1975). The conventional level is characterized by conformity and unquestioned loyalty resulting from a strong need for approval and acceptance by others. Individuals at the postconventional level develop their own set of moral values, which are independent from their relationships with others and not bound by societal laws. Using individual moral principles as their guide (Trevino 1986), the majority of adults operate at the conventional level; that is, their ethical decisions are oriented toward conformity and interpersonal and social acceptance. In the hierarchical world of banking, this can manifest itself in the form of entry-level employees who hesitate to voice a different opinion out of fear that more senior employees might exclude them from future transactions or projects (Fichter 2016).

Moral Development EDM Models

Based on Kohlberg, Rest's (1986) model for ethical decision making involves four steps: (a) recognize that a moral problem exists, (b) make a judgment of what is “morally right” (p. 3) and decide on the correct course of action, (c) prioritize moral values through moral intent, and (d) behave in a way that applies moral intent to the situation. Implicit in the judgment step is the cognitive moral development stage of an individual (Jones 1991), which determines the complexity of the reasoning, influences

intent, and ultimately affects behavior. The simplicity of Rest's model makes it very popular, even 30 years later, as a classification tool for empirical research (Craft 2013; O'Fallon and Butterfield 2005).

Trevino's (1986) person-situation interactionist model proposed that an individual's cognitive moral development stage determines how that person judges and responds to ethical dilemmas. Notably, Trevino connected moral development and organization theory, proposing that both individual and situational variables affect the decision-making process. Ethical behavior is influenced by three individual moderators (ego strength, field dependence, and locus of control) and two organizational moderators (immediate job context and organizational culture).

Building on Rest and Trevino's work, Jones (1991) added the notion of moral intensity, proposing that ethical decision making depends on the "characteristics of the moral issue itself" (p. 372). Although Jones embraced cognitive reasoning as input into judgment, unlike Kohlberg, he looked to moral philosophy for normative arguments as the foundation for the six components (magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, and concentration of effect) of his issue-contingent model.

Limitations of the Moral Development Theory

Two limitations of moral development theory merit further discussion within the context of EDM in financial institutions. The first is the assumption that EDM is a rational process and that people always respond to ethical issues by "gathering facts, applying moral principles, and making moral judgments" (Jones 1991, p. 384). This rational approach to EDM fails to consider the role of emotion in the decision-making process. Ethical dilemmas are, by their very nature, conflict-ridden (Thiel et al. 2012), and tend to produce emotional rather than rational responses (Sonenshein 2007). In business, decisions made by executives are often based on "affect heuristics, where judgments and decisions are guided directly by feelings of liking and disliking with little deliberation or reasoning" (Kahneman 2011, p. 12). Although moral development emphasizes EDM as a rational process, attending to the emotional aspects of ethical issues is likely to improve the overall decision-making process (Thiel et al. 2012) and positively influence moral stage development. Adult learning theorists such as Dirkx (1997) and Yorks and Kasl (2002) confirmed the importance of emotion and affect in human growth and development; from there, one can extrapolate that unconscious and affective processes also impact EDM.

Emotions might be neglected or even suppressed in financial institutions, which have traditionally operated

under the assumption of the rational market theory (Fox 2009) and understand employees as "rational individual decision-makers who make optimal use of all available information" (De Bondt et al. 2008, p. 7). Rational market finance, according to Fox (2009), is an imposition of "rational, mathematical, statistical decision making upon financial markets" (loc. 153). In an effort to focus on fact-based, analytical decision making, organizations might ignore the emotional aspects of EDM and miss an opportunity to develop a more differentiated view of ethical issues. In her dissertation on Moral Acts of Courage (MAC) before, during, and after the 2008 financial crisis, Wegmann (2014) interviewed 14 whistleblowers whose organizational leaders appeared to avoid highly charged ethical issues in favor of preserving the status quo. Although the majority of Wegmann's whistleblowers immediately and intuitively spoke up about wrongdoing, the frequent negative (and ironically, emotional) reaction by management to the escalation led to the "collection of extensive evidence to support a judgment of misconduct beyond a reasonable doubt" (p. 89) by the whistleblowers. In another example, the absence of positive emotion was noted by Linsley and Slack (2013) in their analysis of 26 press releases by Northern Rock Bank pre- and post-financial crisis. The management team's consistent "narrative of robustness and strength" (p. 289) showed a complete lack of empathy and responsiveness to customers and other stakeholders as the crisis unfolded.

The second limitation of the moral development theory is in how it views EDM as a fundamentally individual and psychologically driven process, although there is clear evidence of "psychological, social, and cultural influences on decision making and human behavior" (World Bank, 2015, p. xi). Several problems related to awareness and judgment (two of Rest's four steps) emerge in a social or workplace setting. First, employees may not be aware of the ethical nature of an issue (e.g., Awasthi 2008; Fichter 2016; Jones 1991; Sonenshein 2007), perceiving it instead as a business problem to be solved "using criteria of expected costs and benefits to personal/organizational goals" (Awasthi 2008, p. 209). Indeed, when prompted to discuss an ethical dilemma as part of the author's research, most bankers asked what that meant within the context of their work (Fichter 2016). Next, the theory's focus on orientation to rules rather than actual moral standards (Sonenshein 2007) assumes that an employee's own moral principles can serve as an effective guide to decision making. As the foundation for judgment, individual moral principles may not suffice in a complex and uncertain environment (Sonenshein 2007; Thiel et al. 2012), such as in the financial sector. Furthermore, research has shown that an organization's moral atmosphere can weaken an employee's own moral identity and strength of moral will

(e.g., Caldwell and Moberg 2007; Carsten and Uhl-Bien 2007; Dawson 1994; Sekerka et al. 2009). Take a situation in which a management decision to revise its customer segmentation strategy forced a banker to exit a long-term client relationship which, although profitable, was not considered lucrative enough in a cost-constrained environment. When that banker's vigorous attempt to help the client by moving the relationship to another part of the bank went unrewarded, he reluctantly accepted that his organization's commitment to the client did not match his own. When confronted with the situation again, he chose not to expend the extra energy to help the client (Fichter 2016).

Alternative Models of EDM

Unlike moral development EDM models, postmodern perspectives (e.g., Rossouw 1994; Werhane 1998) suggest that morality is highly subjective and contextual. Constructivist approaches, such as sensemaking and moral imagination, emphasize the role of situational and environmental factors in decision making and propose that individuals develop a certain perception of the world based on their experiences that influences their decision-making process. Sensemaking, grounded in social psychology, is defined as "the complex cognitive process engaged in when one is faced with complex and high-risk situations" (Thiel et al. 2012, p. 50). Sonenshein's (2007) sensemaking-intuition model (SIM) questions the effectiveness of traditional cognitive moral reasoning for EDM using two organization theory concepts, equivocality and uncertainty, which also act as triggers for the SIM process. Equivocality refers to the existence of multiple and possibly competing interpretations of situations, while uncertainty involves incomplete or flawed information that makes it difficult to identify a plausible explanation. The SIM process has three stages: issue construction, intuitive judgment, and explanation and justification. An individual first constructs an issue based on personal expectations and motivations as well as social pressures. Intuition plays a key role in the second stage of judgment, which comes instantaneously as an affective reaction to an issue. Only after responding to and judging a situation does an individual actually move to the third stage to explain and justify a decision.

Importantly, Sonenshein emphasized that individual issue construction can lead to very different interpretations of a situation, thus complicating ethical decision making in organizations:

An employee who is vying for a promotion needs to close one more sales deal and therefore subsequently promises a potential client something the organization cannot deliver. This employee may view this promise

as slightly exaggerating the capabilities of the organization (with minimal consequences and as consistent with the rules of business), whereas an observer may view such behavior as lying (with serious consequences). (p. 1030, parentheses in original)

Building on Sonenshein's work, Thiel et al. (2012) proposed a series of practically oriented "compensating tactics that promote accurate sensemaking" (p. 50) to improve a leader's ability to make ethical decisions. Ethical guidelines and strong moral character are not sufficient to guide leaders in "complex and high risk situations" (p. 50). Personal, situational, and environmental constraints add to this complexity and can lead to judgment errors, especially when leaders face time pressures and deadlines. Thiel et al. identified emotion regulation, self-reflection, forecasting, and information integration as four sense-making strategies that counteract constraints and help leaders to challenge old mental models (existing perceptions) and form new ones to interpret and address complex ethical issues effectively.

Rooted in Kantian philosophy, Werhane's (1998) moral imagination is "a decision process that considers the moral components of an issue, the perspectives of the parties involved, and that generates unconventional solutions to ethical decisions" (Caldwell and Moberg 2007, p. 201). Moral imagination consists of three stages: reproductive imagination, productive imagination, and creative reflection. Similar to sensemaking, a central theme of moral imagination is developing an awareness of the limitations of one's own belief systems or "conceptual schemes" (Werhane 1998, p. 16) and then revising these systems according to the needs of the specific situation and input from others. The main challenge for individuals lies in bridging the gap between their own moral principles and those of their organization.

Implications and Limitations of Alternative Models

Sensemaking and moral imagination EDM models offer promising ways to think about ethical behavior in financial institutions. For example, the SIM process was evident in Wegmann's (2014) research, in which 64 % of her participants said they responded instantaneously and intuitively to an ethical issue before systematically collecting evidence:

Ludwig made his immediate judgment call to engage in MAC [Moral Acts of Courage] very clear when asked how much time had passed between his noticing the wrongdoing and speaking up to management: "Two minutes." Magnus is another striking example of an immediate decision to engage in MAC: "... I walked up to the top floor [identifying

information modified], I banged on the CEO's office. So... instant. Whatever the time was it took me to do that." (p. 88)

Paralleling Federal Reserve Board Governor Tarullo's discussion of organizational culture and ethical behavior in the financial services industry, sensemaking and moral imagination emphasize revising flawed mental models or conceptual schemes and thus can contribute to helping employees develop a "broader set of considerations" when dealing with ethical issues.

Although further research is needed to understand how these alternative propositions hold up under scrutiny, and more work should be done to develop specific strategies for follower EDM, opportunities clearly exist to strengthen the theoretical base. As already discussed, both approaches have one common core element: the role of belief systems (described as "mental models" in sensemaking and "conceptual schemes" in moral imagination) in decision making. Although Thiel et al. (2012) pointed to the forming and reforming of mental models through reflection on experiences, they emphasized reflection on process, which, according to transformative learning theory, is only one kind of reflection necessary for transformation. Moreover, the authors neglected to consider another important concept in transformative learning—reflective discourse—a dialectical process in which people weigh evidence for and against an argument and critically assess assumptions in order to arrive at a new and improved interpretation (Mezirow 2012). Undoubtedly, individuals will be more apt to alter their existing mental models if they engage in dialogue with others who think differently than they do.

Moral Strength

In addition to examining EDM as a process, research has also pointed to a number of competencies or characteristics that differentiate superior job performance (Boyatzis 1982) and are important for ethical decision making. Although these competencies tend to be managerial, several themes emerge that are also relevant to individuals in non-managerial roles. Most widely discussed is the concept of moral strength, which "is needed to face and resolve ethical challenges and to confront barriers that may inhibit the ability to proceed toward right action" (Sekerka et al. 2009, p. 566). In a mixed method study of 169 military managers in the U.S. Naval Supply Corps, Sekerka et al. identified five dimensions of Professional Moral Courage: moral agency, multiple values, endurance of threats, going beyond compliance, and moral goals. In addition, in her oft-quoted person-situation interactionist model, Trevino (1986) noted the importance of ego strength, which involves standing up for what one believes is right.

Likewise, Wegmann's (2014) definition of MAC referred to moral strength as "endurance and perseverance despite [both] anticipated and unexpected suffering" (p. 30).

Moral strength is implicit in the concept of moral imagination, as highlighted by Caldwell and Moberg (2007), whose exploratory study with 186 first-year MBA students found that moral imagination was greater in individuals with a strong sense of moral being or moral identity. Similarly, in their research on ethical followership, Carsten and Uhl-Bien (2012) concluded that strong coproduction of leadership is critical to ethical decision making in organizations. Defined as "the extent to which an individual believes that followers should partner with leaders to influence and enhance the leadership process" (p. 52) and engage in "constructive resistance" (p. 51), coproduction entails "influencing, voicing, and decision-making" (p. 50). Individuals with weaker coproduction, by contrast, are more likely to commit "crimes of obedience" (p. 53) by following unethical directives without question. This is particularly relevant to financial institutions, which tend to favor consensus as a way of simplifying often complex and unwieldy global matrix structures. Masked behind values of teamwork and partnership, dissenting opinions may be viewed as obstacles to decision making. Take, for example, a product specialist who questions the decision of an international deal team to pitch a structured investment banking product to a client. Later, as part of the year-end performance review process, instead of being praised for her willingness to challenge the group's thinking as a way of improving its decision-making process, she is accused by her peers of not being a team player. The chances are good that she will either no longer speak up or leave the organization (Fichter 2016).

The concept of moral strength, although useful for understanding individual predispositions, is not without its shortcomings. The focus on competencies at the individual level downplays broader social and cultural influences on the decision-making process (World Bank 2015). As already discussed, sensemaking theories argue that individual moral principles provide insufficient guidance in an equivocal and uncertain environment. More broadly, research designs, using convenience sampling, appear to favor hypothetical situations with business school students as participants, while the actual experiences of real employees remain underexplored.

Organization Theory

Official Versus Operative Goals

Key ideas from organization theory (e.g., Argyris and Schön 1995; Perrow 1961; Schein 1990) offer additional

insights into the situational and environmental constraints that influence individual EDM and shed light on sources of tension in the decision-making process. Whether employees are aware of this or not, organizations are constantly shifting to deal with environmental change. Perrow described this organizational dynamic in terms of the tension between *official goals* and *operative goals*. Official goals, similar to Schein's (2004) notion of *espoused values*, serve to clarify an organization's mission and are generally found in official documents and statements. Likewise, Argyris and Schön (1995) used the term *espoused theory* as the explanation or justification of an organization's certain action or patterns of activity. Schein (2004) noted, however, that espoused theories predict what people "will say in a variety of situations but which may be out of line with what they will actually do in situations in which those beliefs and values should, in fact, be operating" (p. 30, italics in original).

Operative goals, by contrast, influence organizational behavior by reflecting how decisions are actually made and how organizational members deal with multiple, and potentially competing, goals. Depending on the type of change the organization is facing, operative goals are shaped by one of three groups: (a) leadership, which seeks to establish and maintain an organization's legitimacy; (b) technical professionals, who keep up with a fast-changing, increasingly technology-oriented environment; or (c) administrative professionals, who are responsible for coordinating rapidly expanding operations. Argyris and Schön (1995) used the term *theories-in-use* to describe the actual outcome of an action, which reflects the organization's values, action strategies, and assumptions and is reinforced by the individual.

The history of an organization also determines its "strength and degree of internal consistency" (Schein 1990, p. 111). Organizations that are the result of multiple mergers and acquisitions might have subcultures, each with one or more leaders modeling a set of ethical standards based on the leaders' personal interests (Perrow 1961; Schein 1990). Similarly, decentralized organizations are likely to encourage independence of individual lines of business, making the alignment of organizational practices to enterprise-wide ethical standards more difficult. Alignment might therefore be achieved in one part of the organization, but not in another. Moreover, even if an entire organization formally embraces a single set of ethical standards, the organization's underlying assumptions might not support it. For example, organizations with a custodial orientation—one of three socialization techniques that Schein (1990) described—are more likely to require conformity to a new set of standards. By contrast, organizations that promote creative individualism—or even rebellion against assumptions—may face much bigger

challenges when trying to produce consistent organizational practices.

Individuals will naturally struggle to make sense of changes in ethical standards, especially in organizations with deeply held assumptions that are no longer questioned or up for discussion (Schein 1990). The challenge for the organization is to understand and close the gap between articulated standards and the underlying assumptions that guide ethical behavior. This process of internal integration, which occurs at the behavioral, cognitive, and emotional levels (Schein 1990), can create confusion for an individual and affect the quality of his or her ethical decision making, at least until integration is complete. In the financial sector, operative goals are often changing very quickly in order to support official goals that are either new as the result of regulation or were previously unenforced. Depending on the degree of discrepancy, the complexity of the issue, and the number of changes occurring simultaneously, traditional forms of communicating official goals may not be sufficient to help employees grasp what is expected of them and change behavior (Belfiore 2004).

A recent *Wall Street Journal* article (Chung and Krouse 2015) helps to elucidate the tension between official and operating goals in the banking industry. Low interest rates and new liquidity coverage rules are driving some banks to cut large cash deposits of longtime clients who, themselves impacted by soft economic conditions, are holding substantial sums of cash in their portfolios. Caught in the middle are individual bankers who are forced to decline these so-called "non-operating" cash deposits or charge fees and, as a result, risk their relationships with clients. They also lose valuable revenue credits that impact their future compensation and promotion opportunities. Management is, however, unlikely to adjust annual revenue targets so the banker must scramble to find ways to fill the gap by, for example, selling a product to a client that might not be a perfect fit (Fichter 2016). The lack of willingness to identify and discuss the underlying problem (i.e., the discrepancy between the official and operative goals) undermines the alignment process.

Potentially more damaging are defensive organizational routines "protected by layers of genuine unawareness" (Argyris et al. 1985, p. 62) which, by their very nature, hinder the integration of espoused theories and theories-in-use. Absent an approach to uncover and address these "undiscussable" (p. 87) problems, the solutions—robust as they might be—are likely to reinforce the status quo. Yet, leaders are often surprised when employees violate rules because they do not fully appreciate that fear and defensiveness are part of the alignment process. Researchers also appear to underestimate the impact of defensive routines on developing ethical behavior. While emphasizing the importance of "achieving consistent behavior and conduct

aligned with firm values, as key to strategic success” (Group of Thirty 2015, p. 46), the Group of Thirty’s report on bank conduct and culture neglected to consider how defensive organizational routines reinforce and perpetuate misalignment in banks. The authors of the report proposed that “banks’ behaviors and conduct should be open to constructive internal challenge” (p. 46), but they did not offer concrete methods for surfacing the deeply held organizational assumptions that inhibit honest and open dialogue. According to Argyris et al. (1985), “when dealing with threatening issues, [people] typically act in ways that inhibit the generation of valid information and that create self-sealing patterns of escalating error” (p. 61). Clearly, alignment of official and operative goals is not a straightforward or easy task to accomplish, particularly when organizations identify solutions that avoid questioning core organizational assumptions and strategies.

Ethical Business Cultures

Often discussed within the context of organization theory (e.g., Sims 1992; Small 2006; Trevino 1986; Weaver et al. 1999), the concept of ethical business culture can also be examined through the lens of official and operative goals (Small 2006). Official ethical goals include the range of available documents that outline expected ethical behavior, such as an organization’s code of conduct or business principles. Marketing, communication, and training are vehicles for the formal distribution of official ethical goals. An organization’s operative ethical goals, by contrast, are the translation of formal ethical standards into actual behaviors.

Research has shown that organizations with strong ethical cultures tend to be values-based (e.g., Small 2006; Weaver et al. 1999) and demonstrate a high degree of internal consistency between espoused and lived values. In a survey of 10,000 employees at all levels in six large American companies from a variety of industries, Weaver et al. (1999) found that effective compliance programs are characterized by “consistency between policies and actions” (p. 131) and that a values-based approach to compliance, which emphasizes self-governance within the context of shared organizational values, works better than an emphasis on detection and punishment of violations. Another key point is that in values-based organizations, employees tend to find their own moral values and ethical aspirations reflected in the values of the broader organization (Small 2006; Weaver et al. 1999). However, critics of this perspective note that it is often difficult for individuals to know their own values, much less apply them in a complex organizational setting (Freeman and Auster 2011). There is no such thing as authentic organizational values; rather, they are negotiated through ongoing

conversation and “processes of self-understanding, connection, and aspiration” (p. 22).

Researchers and theorists have also emphasized the importance of aligning organizational processes to official goals and establishing formal mechanisms to reinforce desired behaviors. Clearly, the consequences of misalignment are vast. If a bank’s official goal to create shareholder value is translated into an operative goal to generate revenue, driven by an underlying “culture of individualism and short-termism” (Group of Thirty 2015, p. 19), the bank might reward individual performance for meeting short-term sales targets—a practice that could potentially have long-term destructive consequences for society. Sims (1992) discussed how incentives influence behavior, noting that violations of ethical standards are often rewarded to achieve financial success. Ghosh (2008) agreed with Sims on the importance of aligning incentives, such as compensation, with ethical standards. In his study of three organizations in Australia, Small (2006) found that systems of rewards and punishments were critical to maintaining an ethical culture. Finally, in their analysis of the Enron situation in which its unethical culture was allowed to flourish, Sims and Brinkmann (2003) noted how allocation of incentives—one of Schein’s primary mechanisms used by leaders to reinforce culture—was also used by Enron’s leaders to reward a culture of “win-at-all-costs” (p. 250).

As an organizational process, escalation is also a critical area of focus. Wegmann’s (2014) research showed that reporting of ethical issues through the formal organizational hierarchy was not effective and, in several cases, participants felt they had no choice but to go outside their organization. Small’s (2006) study identified the need for organizations to establish internal and external mechanisms that allow employees to report wrongdoing. Similarly, Weaver et al.’s (1999) research on ethics and compliance programs found that reporting systems are key, but employees need to care enough about the organization and believe that something will come of their efforts, which are often associated with concern for personal risk or retaliation.

Undoubtedly, in considering how to develop individual EDM, financial institutions can learn much from research on organization theory and ethical business cultures. In terms of how organizational processes align, for example, bankers are typically rewarded for bringing in high-quality, low-risk new clients, but are not likely to reap any benefit from having declined or exited lower-quality, higher-risk clients. Because client pipeline systems rarely capture this type of activity, the ethical behavior remains unrecognized, even when the firm and regulators would benefit from it. Financial institutions should also review their approach to escalation, which often assumes that employees will trust the process and the people involved. Employees are

unlikely to use anonymous compliance hotlines or follow manager-communicated escalation procedures if they are concerned about retaliation or believe that nothing will change (Weaver et al. 1999).

Transformative Learning Theory

Improving the degree of consistency between official and operative goals can help reduce the tension that employees experience as they go through the EDM process, but it is not enough. EDM can be difficult even in organizations with strong alignment, not only in part because of the complexity of the broader environment, but also because of the assumptions people hold about the world that influence their decision making. Those assumptions, often uncritically assimilated (English 2005), are at the core of transformative learning theory. Defined as a “deep structural shift in the premises of one’s thought, feeling, and actions” (Kitchenham 2008, p. 104), transformative learning is rooted in constructivist philosophy, which proposes that meaning exists only as a social construction. Transformative learning involves reviewing, questioning, and revising assumptions in order to develop a more discriminating, informed, and permeable perception of the world.

Three core concepts serve as the foundation for the transformative learning process: experience, critical reflection, and rational discourse (Taylor 2000). Mezirow’s interpretation of experience, as the trigger for transformation, is based on Dewey’s (1997) pragmatist notion that all learning is grounded in experience. Critical reflection involves “attending to the grounds (justifications) for one’s beliefs” (Mezirow 1994, p. 223, parentheses in original), and is often spurred by “a contradiction among one’s thoughts, feelings, and actions” (Taylor 2000, p. 3). There are three types of critical reflection: content (reflecting on a problem or experience), process (reflecting on different problem-solving strategies), and premise (examining the assumptions and beliefs that underlie the problem or experience).

Rational discourse is a form of “communicative learning” in which people engage in a dialogic process to reflect critically on assumptions in order to assess the justification of a revised interpretation and agree on a new tentative best judgment (Taylor 2000). “Discourse becomes the means by which critical reflection can be put into action, where experience is reflected upon and assumptions and beliefs are questioned, and where new or revised interpretations of experience takes place” (p. 3). Rational discourse can lead to greater moral sensitivity by helping people with opposing moral perspectives develop a greater appreciation for the moral positions of others (Rossouw 1994).

Also central to transformative learning theory are the belief systems formed through the meaning-making activity. These belief systems, or “frames of reference,” refer to the set of expectations and assumptions developed over time that filter how people see the world. Two dimensions, habits of mind and points of view, are the manifestations of a frame of reference. A habit of mind is a broad predisposition toward the world and includes moral, philosophical, aesthetic, and epistemic attitudes. Points of view are displayed as beliefs and values. In a transformative learning process, habits of mind and points of view are easier to identify than frames of reference and thus less difficult to reflect on and change.

Implications of Transformative Learning Theory

Although transformative learning theory was not explicitly addressed in most of the EDM literature reviewed for this paper, its underlying constructivist assumptions and key concepts were implicit in several EDM models. An opportunity exists to add to the robustness of those models by making explicit their connection to transformative learning theory. For example, Sonenshein’s (2007) sense-making-intuition model (SIM) proposed that expectations or perceptions formed from past experiences influence issue construction and decision making. Perceptions, however, can be flawed and, according to Thiel et al. (2012), lead to judgment errors. Sensemaking strategies can help leaders challenge mental models, which, similar to Mezirow’s frame of reference, are the result of uncritically assimilated beliefs and perceptions. Through the concepts of points of view and habits of mind, transformative learning makes the discussion of mental models much more tangible by identifying specific manifestations.

Critical reflection is also implicit in EDM models. As a rational process, it can be found in the judgment step of the cognitive moral development theory and as part of developing awareness of an ethical issue. Critical reflection is evident in sensemaking strategies in that only through a reflective process can existing mental models be exposed and questioned. From an organization theory perspective, critical reflection can help surface discrepancies between official and operative goals as a way of jumpstarting the alignment process. It is possible that the application of critical reflection can strengthen ethical decision making. The opportunity to add to the sensemaking models of EDM, however, lies in the use of all three kinds of reflection as part of the EDM process in order to reform mental models. As an example of critical reflection, journaling has been shown to improve problem solving and develop students’ moral maturity (Harris 2008; Hocking 2010).

Perhaps one of the most important contributions of transformative learning theory to ethical decision making is the concept of rational discourse. Much of the EDM literature does not consider the idea of bringing people together to challenge their existing assumptions and incorporate new and different perspectives to improve the decision-making process. Herein lies a tremendous opportunity: it would seem impossible (or, at the very least, extremely difficult) for a person who is bound by her own mental models to transform without learning from the experiences and mental models of others. Indeed, Marsh (2013), in her study of the ethical dilemmas of 28 business executives, showed that ethical leaders actively engage in “questioning and dialog with those who held differing perspectives as a method for challenging their ego-bound assumptions, generating new ideas and approaches as well as honoring individuals” (p. 569). Sonenshein (2007) also suggested that capacity for sensemaking can increase by fostering “discussions about issues that celebrate multiple perspectives in an organization, as opposed to the more common suppression of opposing viewpoints” (p. 1037). Consider a situation in which a junior banker observes a senior banker circumventing a cumbersome due diligence process out of fear of annoying an important client. Without surfacing the issue to management, the junior banker obtains the missing information and proudly “fixes” the potential problem. He is also relieved he did not have to “rat out” his colleague who might have lost his job or retaliated against him (Fichter 2016). However, by not speaking up, the opportunity for organizational dialogue and learning is lost and, along with it, the possibility to “improve the apple barrel.” Not only is there no group discussion about how to deal with difficult clients in a complex regulatory environment (which might have caused the senior banker considerable anxiety), but the junior banker, who has not engaged in critical (premise) reflection, will continue to operate under the assumption that avoiding conflict is a good strategy for success.

Limitations of Mezirow’s Theory

Mezirow’s transformative learning theory has several limitations with implications for its application to EDM. First, as a rational theory, it focuses on the cognitive aspect of transformation and underplays the role of emotions and imagination in human growth and development. A second limitation is the lack of literature on transformative learning in business and, in particular, in the financial industry. With much of the research focused on the higher education and nonprofit sectors, it remains to be seen how components of transformative learning can be applied effectively to a complex global business environment. Moreover, with the historically strong link between psychology and

business, integrative theories of adult learning are less well known and accepted than their organization theory and psychology-based counterparts.

Alternative Transformative Learning Models

Soul Work Theory

Alternative models that emphasize the affective dimensions of transformative learning, such as Dirkx’s (1997) soul work theory and Yorks and Kasl’s (2002) whole person learning, can augment Mezirow’s core theory to inform a discussion of EDM. In particular, sensemaking theories and moral imagination have much to gain from adult learning theories that explore the role of emotion in learning. For Dirkx, meaning making happens through unconscious, imaginative, and extrarational processes and should be thoroughly explored as part of transformation. Unlike traditional transformative learning, which emphasizes the “way of logos, the realm of objectivity and logic” (p. 79), Dirkx focused on mythos as a “dimension of knowing that is manifest in the symbolic, narrative, and mythological” (p. 80). He investigated the concept of soul, or the relationship between an individual’s inner world (i.e., unconscious) and outer world (i.e., conscious), as a way of developing a more fully integrated person who can challenge existing assumptions. Thus, Dirkx’s inquiry into “learning through soul” offers adult learners a “voice in a deep and powerful way to imaginative and poetic expressions of self and the world” (p. 80). Soul is not simply about paying attention to feelings; rather, “our emotions and feelings are a kind of language for helping us learn” (p. 82) about the relationship between our inner and outer worlds.

Learning through soul requires specific attention to the “intellectual, socioemotional, and physical aspects” (p. 84) of the environment so that even the physical meeting space, which “reflects the soul’s affinity for the particular and concrete” (p. 85), can affect the meaning-making process and the development of a fully integrated person. Learning through soul also means challenging traditional instructional methods and content by emphasizing imagination and fantasy.

Whole Person Learning

Similar to Dirkx’s theory, Yorks and Kasl’s (2002) conceptualization of whole person learning is about bringing affective knowing into consciousness so it can be integrated into processes of critical reflection. Experience is not an event to be reflected on, but a process to undergo or simply a “felt encounter with the world” (p. 182). Yorks

and Kasl's work is rooted in Heron and Reason's phenomenological modes of psyche, which, together with their individuating and participatory functions, translate into four ways of knowing that build on each other in an "up hierarchy" (p. 183). Experiential knowing is "feeling the presence of some energy, entity, person, place process or thing" (p. 182). Presentational knowing is the "intuitive grasp of the significance of imaginal patterns" (p. 182). Propositional knowing is characterized by conceptual or intellectual understanding, while practical knowing is knowing how to do something or having a skill. Using a process of "critical subjectivity," individuals learn to navigate the four ways of knowing skillfully and develop a congruence among them. Critical subjectivity leads to "habits of being" (p. 185), as contrasted with Mezirow's habits of *mind*, that embrace a holistic approach to learning.

Learning Through Emotion and Ethical Decision Making

By their very nature, ethical dilemmas are full of conflict and can therefore generate strong emotions. EDM models either assume, however, that decision making is rational or, as in sensemaking, neglect to discuss how individuals make meaning out of the experience of emotion as part of the EDM process. Learning through emotion allows individuals to translate their emotional responses into a deeper understanding of their own frames of reference and develop a more permeable worldview. For the financial industry, which mostly regards the discussion of positive emotion as taboo, the consequences of not learning through emotion are significant. The possibility of a transformed culture is lost amid an unquestioned assumption of economic rationality and the "bad apple barrels" remain, with employees left to fend for themselves and living in fear of acting in a way might identify them as "rogue."

Informal Learning

How employees learn to make ethical decisions and what factors they take into consideration are very important for understanding how to develop ethical behavior. Arguably the most pervasive form of learning in the workplace (e.g., Conlon 2004; Eraut 2004; Marsick and Volpe 1999), informal learning plays a significant role in the EDM process, especially in dynamic environments and when a mismatch exists between official and operative goals. One reason for this is the amount of time it takes for formal training—a translating mechanism—to be developed and implemented. More significant, however, is the widespread recognition that formal training systems are insufficient in

a complex, postmodern world (Marsick 2009). Rejecting a "one size fits all" approach, learning is increasingly contextual; it is driven by the individual learner who pulls knowledge and information from a range of different sources, often on an as-needed basis.

Informal learning is a derivative of experiential learning, which is rooted in Lewin's theory of action research (Kolb 1984) in which behavior is a function of the interaction between a person and her environment. Experiential learning is also based on Dewey's model of learning and Piaget's model of learning and cognitive development. Kolb conceptualized experiential learning as a process (as opposed to a set of behavior outcomes) that emphasizes the role of experience and integrates "experience, perception, cognition and behavior" (p. 21). In contrast to formal experiential learning, informal learning is "implicit, unintended, opportunistic and unstructured" (Eraut 2004, p. 250). It is also "messy" (Marsick et al. 2009, p. 71) and an "amoeba-like process, multi-dimensional in nature" (p. 73). Informal learning is inherently social, embedded in everyday life activities (Eraut 2004; Le Clus 2011; Marsick et al. 2009) and often disguised as family interaction, community engagement, and workplace tasks. As a generally unconscious or tacit process (Eraut 2007; Marsick 2009; Marsick and Volpe 1999; Marsick et al. 2009), informal learning can be triggered by a nonroutine experience that "jolts" an individual to reflect on previously uncritically assimilated assumptions. Marsick et al. (2009) distinguished between informal learning, as an intentional process, and incidental learning, which is an unintended byproduct of any number of tasks or activities.

Theory of Informal and Incidental Learning

Perhaps because of its elusive nature (Marsick 2009), seemingly few research-based conceptualizations of informal learning exist. One of the most well-known, rooted in the work of Dewey, Mezirow, and Argyris and Schön, is an informal and incidental learning model by Marsick and Watkins (cited in Marsick et al. 2009). Explained as an ongoing cycle of action and reflection, individuals progress through eight nonlinear steps to deal with and learn from problems. The process starts with a trigger, or nonroutine problem, framed by the individual within the business context. The individual interprets the problem, examines alternative solutions, and decides on a course of action. Learning strategies are explored to implement the decision and assess the consequences (intended and unintended) against goals; a full review of the experience leads to a reframing of the business context, after which the informal learning cycle begins anew.

Marsick and Watkins reconceptualized their model several times over the past two decades to reflect the

evolution of their own thinking, advances in adult learning theory, and a broader trend toward multidisciplinary academic research. A later version (Marsick et al. 2009) addressed the complex and iterative nature of the informal learning process by incorporating Yorks and Kasl's phenomenological definition of experience as a "verb," as well as Heron's notion of critical subjectivity, in which a learner moves seamlessly back and forth between four ways of knowing. Heron's framework brings to the foreground the affective dimension of informal learning and helps to explain how knowledge assimilation moves from the unconscious to the conscious. Marsick and Watkins also looked to neuroscience and emotional intelligence for clues on how the emotional and rational parts of the brain work together to process experiences.

Of equal importance is the acknowledgment that learning is not an individual process, but is heavily influenced by social interaction. Context, in this sense, refers not only to the broader environment, but is also relevant at the most granular level of personal relationships, revealing the situatedness and complexity of learning. Marsick et al. (2009) looked to Wenger's communities of practice (CoPs) for additional insights into social interaction, particularly his views on engagement, imagination, and alignment. They also considered the role of networks in informal learning, in particular focusing on Poell and Krogt's learner network theory. Four types of learning networks (vertical, horizontal, external, liberal) create "holding environments for different kinds of informal learning needs and patterns" (p. 72).

Enhancing Informal Learning

Paradoxically, organizations can use formal processes to enhance informal learning (Eraut 2007; Marsick et al. 2009), for example, by creating an environment that promotes knowledge sharing as the foundation for a learning culture (Eraut 2007; Marsick 2009). Organization interventions, such as mentoring (Conlon 2004; Eraut 2007), apprenticeship, CoPs (Conlon 2004; Marsick et al. 2009), and action learning (Marsick 2009), provide frameworks for informal learning cycles of action and reflection that foster learning and develop mutually supportive relationships. Informal learning is more influenced by relationships and organizational culture than by "learning methods and processes" (Marsick 2009, p. 269). Indeed, researchers have noted that organizations should avoid the overregulation of informal learning processes (Marsick et al. 2009), which can "extinguish the flame of learning" (p. 73). Similarly, Fenwick (2000) argued that the role of the educator is "not to develop individuals but to help them participate meaningfully in the practices they choose to enter" and "arrange authentic conditions and activities in which the learners practice interacting" (p. 254).

Implications of Informal Learning

Informal learning theory offers insight into EDM processes by exploring how people develop knowledge to solve problems and make decisions in their work context. Because of the complexity and uncertainty of the environment, it is unlikely that organizations can rely on formal channels alone to help employees (see Governor Tarullo's "broader set of considerations"). Moreover, informal and often tacit (Marsick 2009) learning processes can help explain the tension between official and operative organizational goals if they can be codified. Organizations can then align formal mechanisms to support a learning culture with the goal of reducing that tension. Returning to the story of the analyst who fixed the due diligence problem caused by his colleague, the team (and the broader organization) would have greatly benefited from having a formal—and safe—channel to discuss what happened.

It should also be noted how conceptualizations of informal learning and EDM models complement each other. Both Rest's (1986) four-step model (awareness, judgment, intent, and behavior) and Sonenshein's (2007) SIM (issue construction, intuitive judgment, and explanation and justification) demonstrate how people go through experiential learning cycles of action and reflection as part of the decision-making process. Informal learning adds depth to the SIM by, for example, explaining how individuals learn to reframe an issue by reflecting on their overall experience. Although the SIM offers a robust description of the EDM process, it neglects to identify specific strategies for transforming mental models as a way of improving the quality of the sensemaking process (Thiel et al. 2012).

Recommendations

This article explored three distinct theories, each of which helps to understand the challenges employees face as they go through the EDM process. However, the combination of these theories can lead to fresh insights into an age-old topic and offer recommendations to academics and practitioners who are interested in evolving their understanding of what drives the EDM process and, perhaps more importantly, how to improve it. Outlined below are eight practical ideas grounded in theory and research that financial institutions can use as they seek to develop ethical behavior and help employees deal with the tension they experience in managing ethical issues at work. Undoubtedly, these kinds of changes are extremely difficult to implement; strong leadership commitment is necessary and would also be a powerful sign of serious intentions to improve the apple barrels and lay the foundation for a truly ethical culture.

Challenging Authority

Within the context of transformative learning, an organization must be open to critical reflection at all levels, including reflection on the role of authority. The constructivist roots of transformative learning suggest that leadership has no greater access to an objective reality or truth than any other organizational members. Leaders must therefore welcome the opportunity to be challenged and commit to allowing values and integrity to always trump power—even their own. That means encouraging a dialogue with employees on the validity of the organization's formal ethical standards and the willingness to make changes—with the goal of creating a stronger alignment of personal and organizational values. If the starting assumption is that an organization's leadership has all of the answers, it is unlikely that ethical behavior will prevail. As Boddy (2011) noted, while having tremendous influence on the moral climate of an organization, leaders in the financial sector have often advanced their own self-interests at the expense of their organization.

Creating Opportunities for Discourse

At the core of ethical decision making is the ability to recognize the ethical components of an issue and take action in a way that is consistent with or strengthens the formal ethical standards of the organization. Issues are often complex and decision making will benefit from discourse with others, especially with those whose opinions are different. Managers and employees must embrace the idea that seeking out new perspectives and listening to minority voices will lead to better outcomes. The majority should not rule. Ethical leaders actively engage in “questioning and dialog with those who held differing perspectives as a method for challenging their ego-bound assumptions, generating new ideas and approaches as well as honoring individuals” (Marsh 2013, p. 569). Team meetings, town halls, training sessions, and networking or recognition events can offer meaningful opportunities to increase discourse around the ethical standards of the organization by using specific examples of day-to-day ethical dilemmas. However, this can only work if there is honest, two-way communication. Sharing and reflecting on organizational stories—including the good, the bad, and the ugly—can also contribute to a more transparent and open environment. Leadership should not shy away from discussing past mistakes out of concern for discoverability; indeed, sensitive topics can be important cultural game changers. If regulators are truly committed to transforming culture, they must be open to honest efforts. Leaders should also systematically examine their own assumptions about hierarchy as these often impede discourse with junior team

members who can offer fresh perspectives on difficult topics. Finally, discourse can help to improve the quality of formal compliance programs, which are often limited to the one-way transmission of key concepts.

Valuing Positive Emotion

Ethical dilemmas often produce highly charged, emotion-laden responses. Instead of ignoring the emotional aspect of EDM, soul work theory and whole person learning demonstrate ways to value emotion as part of learning and growth. The use of presentational knowing techniques, such as video, drawing, poetry, and role plays, can help to explore and explain tension in the EDM process more deeply and show individuals they are not alone in their experience. Leadership support for and participation in such “soft” interventions legitimizes emotion and helps to celebrate an organization's humanity. Bridging the gap between the unconscious and conscious can also help individuals more effectively articulate the conflicting values that underscore an ethical dilemma and come to a more comprehensive justification for a decision.

Making Time for Reflection

Time for reflection always seems to be lacking in organizations, but researchers have found that critical reflection requires time and effort (e.g., Marsh 2013; Sonenshein 2007). Including time for reflection is “essential to remain vigilant to the constant flow of ideas and action” (Marsh 2013, p. 570) and important to the practice of ethical leadership. Moreover, as Kahneman (2011) pointed out, bias and poor judgment can be the result of thinking too quickly when slow thinking is needed instead. In order to create time for personal reflection, organizations can offer mindfulness (e.g., Goleman 2013) sessions; incorporate the use of journals (Harris 2008; Hocking 2010) and other reflective activities throughout the work day; and encourage conscious reflection on the assumptions and beliefs that underlie a problem as opposed to focusing only on problems related to content and process. The thoughtful implementation of social collaboration technologies and tools can also promote reflection and dialogue across geographies and foster cross-cultural understanding.

Rewarding Ethical Behavior

Organizations often punish unethical behavior but do not reward those who “do the right thing.” Indeed, ethical behavior is assumed as part of the job. Organizations already understand the power of incentives to drive behavior and should consider using tools such as compensation, promotion, and recognition to celebrate actions that support and

strengthen an organization's ethical standards (Group of Thirty 2015). In addition to capturing client pipeline and revenue, client management systems should record deals that are not pursued. This helps financial institutions and regulators alike to understand the effectiveness of client selection policies. A portion of incentive compensation should then be allocated to employees who act with integrity and, for example, choose not to bank a client. Leaders should also reward employees for "through-the-cycle" rather than "point-in-time" actions. For example, as part of a client exit strategy, bankers should be recognized for helping their clients find financing alternatives. This not only demonstrates the importance of long-term client relationships, but also reduces the tension between organizational and personal goals.

Strengthening Escalation Processes

Formal escalation channels are just that—too formal. People need to feel they can trust where the information is going, and merely stating that a channel exists does not make it trustworthy or useful. In designing escalation processes, financial institutions should consider models that allow escalation to occur with a trusted, neutral source outside of the organizational system. Organizations should also explore how to hold people accountable for escalation and find ways to discourage crimes of obedience, e.g., by publicly acknowledging employees who do speak up and communicating the negative consequences of silence to the broader employee population. Often, when an employee in a financial institution is fired for a violation, that person simply disappears from the organization, leaving other employees to wonder what happened. The organization has lost an opportunity to show alignment between official and operative goals. However, instilling fear in the broader employee population is not to be condoned—it is here that Tarullo's "broader set of considerations" can and should be emphasized.

Eliciting Feedback

Organizations should actively and frequently seek out the opinions and insights of employees in order to understand how official goals are being translated into operative goals. Leaders should look to promote discourse through two-way communication and not assume that employees receive information exactly as it is disseminated. Leadership also needs to understand how the ethical aspirations and values of their team members align with and influence the organization's broader ethical values. As already mentioned, it is important for leaders to be willing to re-examine the organization's formal ethical standards based on employee feedback—with the goal of strengthening ethical culture.

Establishing a Learning Culture

Formal training should not be seen as a panacea for developing ethical behavior. As financial institutions grapple with the accelerated pace of change against a backdrop of cost cutting, it is unlikely that traditional training methods will give employees all of the information and skills they need to be successful. Organizations should identify "learning levers" that enable employees to develop a deeper consciousness of their own informal learning processes. Organizational interventions such as mentoring, apprenticeship, CoPs, and action learning can help employees "learn how to learn" and foster a culture that embraces learning.

Conclusion

Future research should take a more integrated approach to studying ethical behavior by incorporating adult learning theories beyond traditional moral development. There is a clear opportunity to connect ethical decision-making models, organization theory, and adult learning theory in order to establish a more differentiated view of how employees deal with discrepancies between formal organizational ethical standards and actual ethical practices. Indeed, adult learning theory can challenge the assumptions promoted by organizational theorists that if the right leaders are in place and systems and processes are aligned, morally strong people will then do the right thing. The reality is that dynamic and risk-fraught business environments may present significant challenges to those with even the strongest of moral principles.

It is also important to study ethical decision making specifically in financial institutions. Although a large amount of research exists on ethics within the context of the higher education as well as healthcare industries and the military, relatively little is available on the financial sector. Moreover, with the focus of regulators increasing, the need to provide greater guidance to financial institutions than is currently available has become an imperative. In particular, the urgent need is to understand how employees shape, and are shaped by, their environment in order to identify ways to improve the apple barrels. Finally, research should examine how banks' cultures are shaped by broader sociocultural norms, such as individualism and capitalism.

Considerable work lies ahead for financial institutions as they seek to improve ethical behavior and strengthen their organizational cultures. Exploring individual ethical decision-making processes within the context of organization theory and adult learning theory can close several gaps in the literature and support financial institutions in gaining fresh insights into the challenges they continually face.

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