Andreas Dombret: Why focus on culture?

Statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Institute of Law and Finance conference “Towards a New Age of Responsibility in Banking and Finance: Getting the Culture and the Ethics Right”, Goethe-University, Frankfurt am Main, 23 November 2015.

* * *

Ladies and gentlemen,

It is a great pleasure for me to be here with you at the ILF conference to discuss responsibility in banking and finance with you. Let’s start with a little thought experiment. If I were to ask you to take out a blank sheet of paper and to write down your company’s values and ethics, would you be able to do it? Would it be easy or difficult?

Let me go a step further: if I were to ask some of your colleagues to do the same – without conferring with each other – would your sheets be similar or different? My bet is that they would be different, at least in some of the details.

However, I am pretty sure that most of you here today have already given some thought to culture and ethics, both privately and professionally. Furthermore, I reckon that a lot of your companies have already adopted a code of conduct, a code of ethics or the like.

Under these assumptions, why do you think I believe no two sheets would look exactly alike? There are two reasons. One is that how corporate values are ranked in terms of priority is, of course, informed by personal values and ethics. The other is that a corporate culture may well exist on paper – and only there.

And this is exactly where the heart of the problem lies: creating a corporate culture and embodying this culture in one’s own behaviour and daily life are two altogether different things.

Banks support the functioning of the economic cycle by term transformation, lot size transformation and risk transformation, to name just a few ways. To do so, they have to act as agents for at least two parties: savers and investors. However, for the bank to be able to act as an agent, both parties have to trust the bank.

Trust – this is one of the most important factors in the banking sector. Without it, banking as we know it would be difficult, if not impossible. Sadly, the financial crisis and its aftermath demolished many people’s confidence and trust in the banking system.

Now it is up to us to regain this trust, re-establish faith in the banking industry and restore the image of bankers as decent, trustworthy and upstanding businessmen. By “us,” I mean banks, other companies in the financial industry, and supervisors. Regulators can create a proper regulatory framework, set the right incentives and encourage good conduct.

However, taking the necessary action – that is, implementing a code of conduct and focusing on ethics and culture in daily corporate life – is the responsibility of each financial company. But how can banks and financial companies achieve this aim?

I already stated earlier that ethics and culture are highly personal. Individual values and ethical norms are informed by individual life experiences, family and cultural background, the generation one belongs to, and many other things.

But nonetheless, it is crucial for companies to find a common basis: a set of values accepted and lived by each individual employee and the company as a whole. This is not a trivial task: In the realm of culture and ethics, there are neither universal “best practices”, nor are there metrics by which success can be quantified.

It is thus very difficult to develop specific criteria that define the culture of a company. To present an example: at the Bundesbank we have introduced six leadership principles, in order
to set a good tone from the top. These principles are: Recognition, Communication skills, Responsibility, Equal opportunities, Judgement and Motivation. Of course, others may choose different leadership principles, but each entity has to make its own choice. However, these principles, although chosen for a different purpose, of course also influence the Bundesbank’s corporate culture.

“Responsibility” is a value I would like to discuss with you. What about actions that are not expressly prohibited? Does that mean they are permitted? As Seneca said: “Shame may restrain what the law does not prohibit”. So, by which standards do we define what is permitted? I think each bank should try to fulfill its corporate social responsibility.

This is a kind of self-regulation by which companies commit to live up to their responsibility towards their stakeholders: their customers, their owners and their staff. Of course this is not legally binding, but if a company it should try to meet these expectations and have its customers’ interests at heart.

This should also be in the banks’ self-interest, because there is a feedback loop between a company and its stakeholders. So if the bank respects its stakeholders, it will generally be rewarded: stakeholders will feel valued, trust will grow, and the bank will acquire more business in the future. In a nutshell: sustainable profitability over the long term is not possible without ethical conduct. I’d like to know what you think of this statement.

To sum up, in a memo to Berkshire Hathaway shareholders in 2006, Warren Buffett wrote that “culture, more than rule books, determines how an organization behaves.” I believe there is a lot of truth in this statement. In the end, corporate culture is defined not by rule books but by the behaviour of each individual employee. After all, a company’s public reputation is essentially the sum of the behaviour of all its individual employees.

Finally, introducing a corporate culture or defining a set of ethics and values is important, applying them to daily routines is even more important. Each and every one of us can begin by reflecting on, and reexamining, our own behaviour.

Thank you.