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If You See Something, You Should Say Something: The Role of the Employee-Supervisor Relationship in Voicing Ethical Concerns in the Financial Services

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Acknowledgments

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Abstract

Through an anonymous and secure online survey of current and former financial services professionals, I sought to assess the receptivity of firms to employees' voicing of ethical concerns. The survey had a low response rate, for which I suggest several possible reasons. I found that the employee-supervisor relationship is key to determining ethical behaviors and to serving as a channel for the communication of ethical concerns. Employees who are willing to express their concerns have high personal identification with and high levels of trust of their managers. Nonetheless, those who expressed their concerns frequently noted that this action apparently had negative consequences. In conclusion, I suggest further research into the role and responsibilities of supervisors in mediating ethical issues or concerns about business practices and in promoting good work in the financial services.

Introduction

In January 2007, as the financial markets began to show signs of distress, an investment banker in New York wrote to his girlfriend, "the real purpose of my job is to make capital markets more efficient and ultimately provide the U.S. consumer with more efficient ways to leverage and finance himself, so there is a humble, noble and ethical reason for my job…amazing how good I am in convincing myself!!!" (Reuters) The writer of this note was Fabrice Tourre, then Vice President at Goldman Sachs. Later, both he and his company would become defendants in an April 2010 complaint filed by the U.S. Securities and Exchange Commission. Charging both with fraud in the structuring and marketing of collateralized debt obligations, or CDOs, to subprime mortgages (SEC)—the much-publicized "Abacus deal"—the SEC complaint cast blame on products such as Abacus for "contribut[ing] to the recent financial crisis by magnifying losses associated with the downturn in the United States housing market" (SEC v. GS&Co, p. 1). In this transaction, Mr. Tourre failed to disclose to investors that a short investor, hedge fund Paulson & Co., also played a significant role in the collateral selection process—a conflict of interest that generated approximately US$1 billion for Paulson but led to over US$1 billion in losses for investors (SEC v. GS&Co).[1]

While the purported legal and ethical transgressions of the Abacus case are troubling, the communications between Mr. Tourre and his girlfriend suggest something perhaps even more disquieting: that he and other colleagues may not have had the awareness, ability, or encouragement otherwise to voice possible ethical concerns or issues related to existing or proposed business practices within the firm itself. In

[1] In July 2010, Goldman Sachs agreed to pay US$550 million to settle the SEC's civil suit (The New York Times).

numerous e-mails released by Goldman, Mr. Tourre is shown to confide his misgivings about the products he developed, marketed, and sold, not to colleagues or superiors, but instead to his romantic partner. To be sure, it is difficult to determine which channels of communication or other recourse were available to Mr. Tourre and his colleagues in relaying ethical concerns or issues, or even whether they would have considered their actions to be ethically compromised in the first place. Still, the voicing of ethical concerns or issues might have obviated the ethical transgressions and massive financial losses incurred in the Abacus deal. This case brings to light the vital importance of having robust channels of communication for employees to voice ethical concerns or issues within financial services firms themselves, thus ensuring that business practices remain ethical, or at minimum, legal.

Much has been written about the organizational and contextual drivers of the fiscal collapse, and such literature has also identified the primary types of ethical issues structurally related to the high-leverage finance capitalism that has caused so much trouble. In fact, Richard Nielsen, the President of the Society for Business Ethics, points out at least five important types of structural ethics issues: (1) harm to others; (2) leverage proportionality and prudence; (3) the moral hazard created by giving incentives for people who behave in ways that undermine their own institutions or the financial system as a whole (for example, giving large retirement packages to senior management under whose watch the subprime collapse occurred); (4) lack of transparency; and (5) not enough social control and regulation of financial institutions (Nielsen, 2010).

Yet comparatively little attention has been paid to the decision-making processes of employees in financial services firms—those individuals directly involved in creating and promoting the financial products and technologies deemed responsible for the fiscal meltdown. I sought to determine to what degree, and in what ways, financial services firms foster a “marketplace of ideas” where employees can freely raise ethical issues and concerns about business practices. I wanted to assess how a firm’s receptivity towards voicing of ethical issues or concerns might contribute to employees’ attitudes towards the quality, purpose, and ethical implications of their work, thus leading to more responsible business practices. In addition, I hoped to determine whether the alignment between the professed ethical values of the company and the personal ethical values of its employees affected employees’ willingness to remain at the company.

Initially I aimed to assess the overall culture of financial services firms in encouraging and responding to employees’ ethical concerns about business practices. Previous literature on business ethics has focused on evaluating the firm’s overall ethical climate, which is defined as the reasoning that provides ethics-related normative guidelines to individuals (Victor & Cullen, 1987, 1988). For example, in their study of ethical climate and risk-taking propensity, Saini & Martin (2009) found that if the ethical climate supports maximizing self-interest, it does not necessarily translate into increased firm risk-taking and less responsible business practices. They attribute this phenomenon to a shift in compensation schemes to overall firm performance rather than individual performance. Certainly, such a system-level approach might provide insights into models of organizations that would promote responsible business practices.

Over the course of the study, however, I shifted to a focus on the actual mechanisms involved in the promotion of such open questioning. I was primarily concerned with the experiences and impacts of individuals within the corporate structure, those who on a daily basis might have observed or even transacted business practices that presented personal ethical dilemmas. Accordingly, it became necessary to understand the concrete ways employees could raise ethical issues or concerns within their companies, and what responses they received. Surveying those "in the trenches" might help elucidate methods of empowering and encouraging employees to voice ethical concerns. Thus, the present analysis concerns itself with the "interpersonal moral-social matrices" (Jackson, 2010) required for business to occur and flourish in a responsible and ethical manner. A useful framework for the consideration of these individual relationships is Graen & Uhl-Bien's (1995) "leader-member exchange" (LMX) theory, which incorporates an operationalization of a relationship-based approach to productive groups. LMX theory posits that leaders and members (or in this case, supervisors and their employees) develop co-productive relationships, and that the quality of such relationships alters group outcomes (Avolio et al., 2009). Recent extensions of this theory (Graen, 2006; Uhl-Bien, 2006) view groups as systems of interdependent dyadic relationships; thus, inquiry is indicated into the interaction of supervisor and employee on personal and social levels. Ultimately, my study raises larger questions regarding the unique set of relationships and responsibilities governing individuals within financial services firms who might wish to, or who should, question the ethics of business practices.

This study both draws from and extends previous GoodWork research in the realms of business and finance. Gardner (2010) defines "good work" as work that is excellent in quality, engaging to the worker, and carried out in an ethical manner. These "three E's" are both required for and result from the communication of ethical issues or concerns by financial services professionals who seek to be good workers and to encourage good work on the part of their associates. In addition, the three E's inform the particular set of responsibilities that all professionals face; Barberich & Gardner (2001) identify a responsible professional as one "who relies on moral and ethical principles to guide [him or] her, feels a sense of obligation to company and community, and contributes to society." Thus, in broad terms, this study examines how good work can be conducted, and responsible professionals supported, in the financial services by allowing for the voicing of ethical issues or concerns regarding business practices.

Methods

Participants. Participants were either current or former employees of financial services firms. They were recruited through various channels, including: i.) The researchers' personal network of contacts, ii.) Postings to online communities, including groups on LinkedIn (a web-based networking service for professionals), iii.) Outreach to business school students and professors at Harvard Business School, and iv.) Outreach to professional and other relevant organizations such as the Securities Industry and Financial Markets Association (SIFMA), the American Bankers Association (ABA), and the MBA Oath.

Design. The "Communication of Values" study was conducted in the form of a 10-15 minute online survey. The survey was created with and hosted by KeySurvey, a Cambridge-based survey design and hosting company utilized by the Harvard Program on Survey Research. The survey used a secure SSL subscription (with an https domain) and was designed so that responses were anonymous; in this manner, any identifying data about the participant and the participant's company would be kept separate from response data. Any personal or company identifying information inadvertently included in survey responses was redacted immediately. The study received IRB approval from Harvard University's Committee on the Use of Human Subjects in Research. In addition, the GoodWork team offered a $250 prize drawing to one randomly selected participant as an incentive to take part in the study. Respondents were given the option to provide personal contact information in connection with the prize drawing or to receive a report of study results; there was no connection between their contact information and their responses, thus rendering responses anonymous.

The survey questions were largely categorized into three types, with the full list of questions and order logic included in Appendix A. "Demographic" questions at the beginning and end of the survey related to the participant's work experience, particular industry, type of company, position in the company, ethnicity or race, and sex. "Workplace Environment" questions related to company ethics training or compliance programs and the participant's own assessment of the alignment between company and personal ethical values. Finally, if a participant indicated having observed any existing or proposed business practice with which he or she was not comfortable from a personal ethics perspective, he or she was directed to a set of "Ethics Event" questions. This last set of questions related to the type of ethical issue or concern; whether the participant sought to voice such issue or concern; the response of various persons and functions in the company to the issue or concern if voiced; and any repercussions related to such action.

Results

Sample population. The survey was distributed to thousands of potential respondents, and ultimately garnered 116 views, 19 incomplete responses, and 25 complete responses. Data from incomplete responses were discarded, as these responses did not provide enough information for analysis.

Demographic data. 19 respondents (76%) identified themselves as employees of publicly traded companies, and 6 (24%) as employees of private companies. Over half of the respondents (56%, or 14 respondents) worked for a company with 10,000 employees or more. The respondents came from various functional or business areas, including Investment Banking, Sales and Trading, Asset Management, and many others. All of the respondents had significant work experience in their field, with 6 respondents (24%) having worked 6-15 years and 19 respondents (76%) having worked 15 years or more. In keeping with this finding, the sample was comprised of predominantly middle and senior management: 13 respondents (52%) identified themselves as middle management, 10 respondents (40%) identified themselves as senior management, and only 2 respondents (8%) identified themselves as staff.

The length of time that respondents had worked for their current (or last) company was fairly equally distributed, ranging from less than one year to over fifteen years. The majority of respondents were geographically based in North America (83.3%, or 20 respondents), with Asia-Pacific being the second largest geographic region represented (37.5%, or 9 respondents). Since respondents were allowed to indicate more than one region, however, it appears that many respondents either worked in or were responsible for multiple geographic regions, a fact that is not surprising given the relative seniority of respondents and the global nature of their work.

Respondents were predominantly male (66.7%, or 16 respondents) and Caucasian (68%, or 17 respondents). One respondent chose not to indicate his or her gender, though all respondents indicated their ethnicities.

Workplace Environment questions. Results indicate that most companies' codes of conduct or HR policies contained statements encouraging the voicing of ethical concerns or issues about business practices, with 19 respondents (76%) identifying that such written affirmation exists. Despite this codification of ethical practices within the firm, respondents were ambivalent about the efficacy of such a written statement. One respondent noted, "mostly those policies are targeted at issues required by the law," another, "what the code of conduct says has little impact on anything," and a third, "don't really know…no one pays attention to codes of conduct or such soft stuff in finance[, as] the real stuff is management and their concerns about risk (or lack of concern)."

21 respondents (84%) indicated that their company's senior management affirmed at some frequency their commitment to ethical conduct, though 4 respondents (16%) indicated that senior management did not affirm any commitment at all to ethical conduct. One respondent recalled a specific event highlighting senior executives' commitment to ethical personal conduct, writing, "before one group trip to Las Vegas, [there was] a quick group meeting saying to keep things appropriate…I thought that was great." Though this anecdote may illustrate that senior executives in this respondent's company were "family men" who did not engage in "objectionable crazy behavior," it does not shed much light on senior management's commitment to ethical conduct in business practices.

The majority of respondents indicated that senior management affirmed a commitment to open questioning of proposed or existing business practices, with 17 respondents (68%) reporting any such commitment, and 8 respondents (32%) reporting no such commitment from their senior management. Despite the majority of responses indicating senior-level affirmation of commitment to ethical conduct, however, only a few respondents viewed such commitment to be sincere. Of these, one wrote, “This commitment was expressed informally by supervisorial personnel…We enjoyed a high standard of ethics in the company”; another wrote, “it started at the top and leadership was extremely supportive in this area”; and a third wrote, “[My company] regularly conducted surveys on how well their values and mission were being passed down to all levels of employees.” One respondent noted good faith but ineffectual efforts made by senior executives, writing, “The COO would conduct private meetings with lower management to discuss their [concerns] and then act on the results. However…it did little to improve the overall morale and trust of the entry level and lower management team members.”

Indeed, most respondents who elaborated on their answers discerned a disjoint between senior management’s professed commitment to ethics and its actions and intentions. One wrote, “They [senior managers] say so but the management decisions…made did not communicate real concern (in later years)…I was there for a long time (and company when [*sic*] through a merger) so the answer to this…changed over time.” Similarly, another respondent wrote, “If by Senior management you mean “C” level executives, yes they give much lip service; but line management…where the real rubber meets the road do nothing to reinforce ethical behavior if it interferes with the fierce drive to generate revenues and earn high bonuses. Transactional revenue is king!"

Of all the respondents, 7 (28%) had never received any ethics or compliance training at their company, while the remaining respondents reported having received such training once (4%, or 1 respondent), annually (32%, or 8 respondents), semiannually (8%, or 2 respondents), quarterly (12%, or 3 respondents), or more often (16%, or 4 respondents). Of those who received such training, 11 (61.1%) indicated that the training adhered generally or in some areas to a standard higher than required by the law, while 7 (38.9%) indicated that training only adhered to technical compliance with the law or with both the letter and spirit of the law. The ethics or compliance training of the majority of the respondents was conducted in a live, interactive manner with case method and hypothetical examples (77.8%, or 14 respondents), though such training was also conducted using mere recitation of the law (33.3%, or 6 respondents) and online training (55.6%, or 10 respondents). It is important to note, however, that such training could have combined a variety of these methods, as respondents were allowed to check as many methods as applied.

Companies used several means to incentivize compliance with codes of ethics or conduct, but such incentives were driven largely by legal or risk considerations. While 8 respondents (32%) reported that their companies did not incentivize compliance at all, of those respondents whose companies did so, 16 out of 17 respondents (94%) reported that their "Company alerts employees to adverse consequences of violating laws or regulations." The second most used means of incentivizing compliance, reported by 9 respondents out of 17 (53%), was coupling incentive compensation with the results from an internal audit of a business unit's practices or performance. In fact, one respondent from a public company with over 10,000 employees reported, "[My company] stated intentions that audit results could impact variable pay." Finally, 7 respondents out of 17 (41%) reported that "Company explains positive consequences of compliance and ethics in terms of improved risk management" and 4 respondents out of 17 (23.5%) reported, "Company highlights positive consequences of compliance and ethics in terms of enhancing personal or company reputation." One respondent from a private company with between 500 and 4,999 employees reported not only that his or her company incentivized compliance in all the ways listed on the survey, but also "gave a prize for particularly ethical behavior."

When asked how willing they were to use formal or informal mechanisms of communication in their companies for raising ethical issues and concerns, respondents gave a wide range of responses. Respondents were, on average, most willing to use periodic business or risk review meetings to voice ethical concerns or issues, with 10 respondents (41.7%) "Very Willing" to use such means. On the other hand, those respondents who identified having town hall meetings in their companies were polarized between "Not At All Willing" and "Very Willing" to use such means, with 6 respondents (25%) in each category. The use of an ombudsman was not prevalent, with 10 respondents (47.6%) reporting that such a channel did not apply, indicating that either their companies had no such function or that the respondents were unaware that such function existed. Of the 15 respondents who identified having an employee ethics hotline in their company, almost half were "Very Willing" to use such a channel. On the other hand, of the 14 respondents who identified having corporate retreats in their company, only 3 respondents (~21.4%) were "Very Willing" to use such a channel. One respondent from a publicly traded company with between 500-4,999 employees noted a dearth of any of the listed mechanisms of communication, commenting, "There is almost no channel to voice ethics concerns [to] my employer. The only one channel is to talk to the CEO, or the boss himself." Similarly, another respondent observed,

> All of these platforms existed, but in many cases they were merely lip service, and nothing was really done to change marginal…behavior. A wide berth was given to behavior if it generated revenue for the company; I personally supervised over 100 registered representatives at two different companies over the course of 25 years; My insistence that one of the "brokers" desist his unethical behavior resulted in my having to leave the company; this practice continues today despite the ever increasing compliance policies written and on the books. You cannot legislate ethics, but you can communicate them; but actions are required to validate the words.

Different sentiments were expressed by a few respondents of firms ranging from large public ones to small private ones. One wrote, "[My company] was very sensitive to ethical behavior in its employees and encouraged all of the above [mechanisms]," while another in a three-person hedge fund noted, "We always focused on the long term and were willing to take short term impacts if we believed it was right for the clients in the long run. We considered this to be rare behaviour, but the right thing to do. Reputations and doing the right thing were prized highly[,] but being a small organization gave us this freedom." Several respondents suggested the use of mechanisms built-in to the firm to handle ethical issues, including "talk[ing] to the Legal Department" and "complet[ing] forms that reported on recent activities pertaining to ethics and report[ing] or list[ing] all personal trades and gifts received annually." One respondent expressed skepticism about the merits of voicing an ethical issue or concern at all, writing, "if one has concerns, they will not be voiced publicly—sorry, but I think that is a foolish avenue. They might get voiced privately, quietly. I suppose the problem area is if you don't trust your boss, then you need a safe communication means outside the lines."

Two questions probed the degree of "alignment" between the ethical values of the respondent and of his or her company. The majority of respondents felt that their companies' ethical standards and behaviors were "Usually Consistent" or "Very Consistent" with their own (68%, or 17 respondents), with one respondent noting, "I was very comfortable [with my company's ethics] and would have strong opinions about leaving if things weren't right." In contrast, 8 respondents (32%) reported feeling that their companies' ethical standards and behaviors were "Very Inconsistent" or "Not Very Consistent" with their own, with one respondent noting, "Some companies were more inconsistent [than] others, and as I matured in my profession and understood the nuances of the sales and management practices, it became increasingly difficult to work in one of these companies…as they merge commercial and private banking/wealth management/investment banking." Not surprisingly, 7 of the 8 respondents who reported feeling that their companies' ethical standards and behaviors were "Very Inconsistent" or "Not Very Consistent" with their own also reported having observed a business practice with which they were not comfortable from a personal ethics perspective.

Interestingly, 18 respondents (72%) indicated that being able to freely voice ethical concerns or issues about their company's business practices was "Important enough that inability to do so could cause [them] to leave their job." In fact, two respondents viewed such ethical misalignment as "an influence in [their] decision to leave [their companies]," and a third respondent exclaimed, "life is to [*sic*] short to do it any other way for me at least." 6 respondents (24%) indicated that such ability was

“Somewhat important,” while only 1 respondent (4%) indicated that such ability was “Unimportant.”

Ethics Event questions. The first question in this category—“Have you ever observed any existing or proposed business practice at your company with which you were not comfortable form a personal ethics perspective?”—determined whether respondents would continue the suite of questions. 10 respondents (40%) selected “Yes” while 15 respondents (60%) selected “No,” with one qualifying that “[There] might have been minor things that [I] did not like.”

Of those respondents who had observed an existing or proposed business practice with which they were not comfortable from a personal ethics perspective, 6 respondents (60%) reported observing “Offering customers financial products or services containing terms or risks that they may not understand fully,” while 5 respondents (50%) each reported observing “Pursuing a short-term financial gain with probable longer-term adverse consequences for the company” and “Continuing with a business model that relies on key assumptions which you think are not valid or have not been adequately tested.” Fewer respondents (2 respondents each, or 20%) observed “Helping or allowing customers to withhold or misrepresent information about themselves that is required for them to obtain financial products or services” and “Acting for a client or class of clients while the company’s interests may be at odds with the client(s)’ interests.”

Several respondents elaborated on their answers to this question, describing practices ranging from short-term profit-seeking behavior to systemic governance issues. Some reported business practices that served customers poorly or presented conflicts of interest between company and client, including “offering [of] products that generate profits for the company but are unlikely to provide value to customers," seeking "to influence customer business decisions impermissibly," "marketing of financial products solely through relationship development instead of the actual value of the products" and "overselling [of] inappropriate products." Others noted problems related to operations and employee relations: one respondent lamented that "the firm was taking debt to buy outdated technology and giving excessive credit to clients for low margin profits" and another cited the pay raise given to a colleague "based on her current living conditions rather than her performance." Governance instability issues were also identified, with one respondent writing, "the decision-making process is always changing and the existing board resolution could not be fully executed as the CEO keeps changing his mind."

In general, there was a feeling that "monetary goals often supercede the ethics values." Short-term profit-seeking behavior was prevalent, with the majority of respondents noting, "Many financial products are basically rip-offs that are unlikely to provide long-term value but are profitable to the companies that offer them." Some respondents reported being dissatisfied with their companies' business practices as a whole, including one who described a litany of bad—unethical and possibly illegal—business practices:

> The distribution practices and hidden fees in manufactured investment and insurance products; the unsuitability of recommendations made to private investors; the lack of monitoring of client portfolios after transactions were effected; back-dating of insurance applications to get a stated rate on an insurance product whose deadline had passed; failure of portfolio managers to rebalance client portfolios; use of expense accounts for personal activities; excessive pay practices; discrimination on the basis of race, ethnicity, age and gender [and] lack of full disclosure to clients.

Surprisingly, 9 out of 10 respondents (90%) who had an ethical issue or concern reported that they had attempted to raise their concerns within their firms. All 9 respondents voiced their issue or concern with their superior(s). Far fewer respondents, however, brought up the issue with their ombudsman (2 respondents, or 22.2%), human resources department (2 respondents, or 22.2%), or legal/compliance division (2 respondents, or 22.2%). In addition, 2 respondents sought out other channels not listed in the survey, namely "fellow financial planners" and "those involved in offering the products [presumably, colleagues]." No respondents reported using their employee ethics hotline, an interesting finding given that 7 respondents were "Very Willing" to use a hotline to report an ethical concern or violation. It is important to note, however, that only 2 out of the 7 respondents (~29%) who identified themselves as most willing to use an employee ethics hotline were individuals who had also observed an ethical issue. This finding may suggest a disjoint between an individual's perceived and actual willingness to use the reporting mechanisms available to them.

Out of the 9 respondents who had contacted their superior(s), 3 respondents (33.3%) reported that their superior was wholly "unreceptive" to their ethical issue or concern, 2 (22.2%) "Mostly unreceptive," 2 (22.2%) "Somewhat receptive," and 2 (22.2%) "Very receptive." Responses to this question can be categorized for the most part into two groups: limited comfort in using reporting mechanisms, and skepticism of the receptivity of these mechanisms to an ethical concern. One respondent noted that his or her company's "authoritarian corporate structure [made it] hard to discuss the potential ethics issues with any departments or persons other than the CEO, as he is the exclusive decision-maker for the company. Whenever I feel uncomfortable or there might be potential ethics issues, the only [thing] I [can] do is to talk to the CEO and try to persuade him." Another viewed the receptivity of the functions contacted with skepticism: "The superior never bothered to listen or understand. The ombudsman did not care but later understood but did not do much about it due to vested interest." Unfortunately, some responses to questions about the receptivity of superiors or co-workers had to be discarded, as the data did not match responses from the previous questions about which persons or functions the respondents had contacted.

Indeed, respondents felt that the functions they contacted were not only unreceptive to or dismissive of their concerns, but also attempted little reasonable or effective action to resolve them. Though all the respondents who raised an ethical issue or concern contacted their superior(s), 5 respondents—over half—reported that their superior(s) took no effective and reasonable action at all to address the issue or concern raised. 2 respondents (22.2%) reported that their superior(s) took some action without complete resolution, 1 respondent (11.1%) reported moderate action without full resolution, and 1 respondent (11.1%) reported effective and reasonable action taken to address the issue or concern raised. The 2 respondents who had contacted their ombudsman reported some action taken without complete resolution, while the 2 respondents who had contacted HR reported no effective action taken.

Of the 9 respondents who voiced an ethical issue or concern, 2 respondents reported no negative consequences as a result of their action. The perceived negative consequences for those who raised an ethical concern were, however, notable and disturbing. These respondents identified a number of negative consequences: worsening of relationship with superior(s) and/or colleagues (4 respondents); negative impact on performance review or rating (4 respondents); questions raised about loyalty to company or functional area (3 respondents); questions raised about adherence to business objectives (3 respondents); criticism of the merit of ethical issue or concern (2 respondents); reduction or loss of upcoming pay raise or incentive compensation (2 respondents); and job loss (2 respondents)—though, with the last, it is important to note that 1 of the 2 respondents voluntarily left his or her position due to disagreement with the ethics of the company's business practices. Some respondents also observed that after raising an ethical issue or concern, their colleagues "started avoiding and ignoring [them]" and might have "excluded [them] from some decision-making because [they were] 'uncooperative.'" One respondent felt that his or her repeated raising of ethical concerns would have made "negative consequence[s]…more and more obvious." Still, several respondents concurred that it would be difficult to assess all the potential negative consequences from voicing an ethical concern or issue, as such effects might not be easy to identify or apparent to the person who had raised a concern.

The single respondent who refrained from voicing his or her ethical concern cited several reasons for his or her reluctance: "Concern regarding your relationship with your superior(s) and/or colleagues," "Concern regarding negative impact on your performance review or rating," "Concern regarding reduction or loss of upcoming pay raise or incentive compensation," and "Concern regarding potential job loss." It is interesting to note that the first two concerns listed were actually realized as negative consequences in over half of the cases of respondents who had voiced their ethical concern or issue, indicating that the respondent's particular fears in voicing an ethical concern or issue might be well-founded.

Discussion

While the original intention of this study was to assess the overall ethical culture of a financial services firm in encouraging the open voicing of ethical concerns, it soon became apparent that the key issue to address was the means by which individual employees could raise ethical concerns and seek resolution. The responses to the Workplace Environment questions indicated that most firms' senior management avowed a commitment to encouraging the voicing of ethical concerns and even provided several resources to support such communication. Nonetheless, most respondents felt these mechanisms to be unreceptive to or ineffective in resolving ethical issues. Thus, this shift in focus led me to consider less the role of structural mechanisms of voicing concerns—e.g. legal departments, ombudsman, ethics hotlines—and to concentrate more on the role of individual relationships in fostering open communication of ethical concerns.

First, I address the main theme emerging from my findings, namely, the centrality of the employee-supervisor relationship in empowering individuals to voice ethical issues or concerns. I then suggest several reasons why employees might prefer to raise ethical concerns with direct supervisors over other established functions, including high personal identification with superiors, privacy, and trust.

The employee-supervisor relationship was the single most important recourse for respondents who raised an ethical issue or concern. All nine respondents who raised an ethical issue or concern approached their superiors, with far fewer discussing their ethical concern with their firms' human resources department, legal or compliance division, or ombudsman. Granted, many financial services firms (e.g. Goldman Sachs; JPMorgan; Merrill Lynch; Morgan Stanley; Wells Fargo) stipulate in their codes of conduct that employees should raise ethical issues or concerns with their immediate supervisor or legal department. Yet my findings show that employees view their superiors not only as the primary mechanism for the voicing of ethical issues or concerns, but also as the direct models and drivers of ethical behaviors in the workplace.

One reason employees might seek out their superiors in the voicing of ethical concerns, seemingly over other personnel or functions established for that very purpose, is suggested by LMX theory—that there might be higher levels of personal identification between employees and their supervisors. In turn, this high degree of personal identification might make employees more comfortable in voicing ethical issues or concerns to their direct supervisors. Research has shown that when followers have higher levels of personal identification with their leaders, they are more willing to engage to support the leader's mission and vision and tend to align their self concepts more closely to what the leader represents and how the leader signals them of his or her approval or disapproval (Quaquebeke et al., 2010; Shamir, House, & Arthur, 1993).

In line with this view, my findings suggest that employees may value more highly the actions and views of their superiors in regards to ethical business practices than codes of conduct or ethics training. Indeed, many respondents viewed the latter two with ambivalence about their efficacy and impact on encouraging communication of ethical concerns and behaviors. This finding supports Painter-Morland’s (2010) argument that codes of ethics lose their ability to catalyze and sustain moral responsiveness because of the typically narrow instrumental purposes that inform their adoption and use. In addition, respondents seemed to prefer discussion with a superior to the use of channels like an ethics hotline, as evidenced by the fact that none of the respondents who raised an ethical issue or concern used this function. The view that employees often look to superiors to set the tone of ethical business conduct is best summed up by one respondent who stated, “no one pays attention to codes of conduct or such soft stuff in finance[, as] the real stuff is management and their concerns about risk (or lack of concern).” At the same time, this high degree of personal identification between employees and superiors can also present pitfalls to the open questioning of ethical issues. If the self-concepts and values of employees and their supervisors are too closely aligned, then employees might develop unquestioned obedience (Howell & Avolio, 1992) and thus lack the ability even to perceive, much less raise, an ethical issue or concern.

Another reason for this predilection might be that the supervisor-employee relationship allows for a more private channel for the raising of ethical issues or concerns, thus minimizing the potential negative consequences of such an act. My data show that respondents were less comfortable with the use of town hall meetings and corporate retreats to voice ethical concerns—the most public forums available for such action—but much more comfortable with using business or risk review meetings, which tend to take place only in one’s group or unit and where personal relationships between supervisors and employees, as well as between colleagues, have already been established. Still, it is worth underscoring that most of those who spoke up to supervisors felt that their overtures yielded negative consequences.

Finally, employees in a hierarchical organization—like almost all corporations—may turn naturally to their superiors over other functions in any difficult situation, unless trust is not present in the employee-supervisor relationship. As one respondent noted, “I suppose the problem area is if you don’t trust your boss, then you need a safe communication means outside the lines.” In an employee-supervisor relationship with trust, however, the employee might be more comfortable voicing ethical concerns to his or her direct supervisor. GoodWork research has identified the rise of “local trustees” (Gardner, 2005) in American society, suggesting that individuals in financial services firms might similarly look to more relatable exemplars, i.e. their superiors, for embodiments of ethical conduct, rather than to more abstract or less-familiar—albeit more ostensibly impartial—functions like ethics hotlines, codes of conduct, legal or compliance departments, or ombudspersons.

I have noted that employees look towards company leadership not only as a mechanism for voicing ethical issues or concerns, but also as the drivers of ethical business conduct. Indeed, a majority of respondents indicated that their company’s management affirmed at some frequency its commitment to ethical conduct and to open questioning of the ethics of business practices. Respondents who identified a high degree of alignment between their ethical values and those of their companies also noted “extremely supportive” managers who encouraged ethical conduct.

Yet the preponderance of respondents also viewed their superiors’ professed commitment to ethics and communication to be less than sincere and not supported in action. Slightly more than half of the respondents who raised an ethical issue or concern reported that their superiors were wholly or mostly unreceptive to their claim, and took no effective or reasonable action to address the concern raised. One respondent observed, “You cannot legislate ethics, but you can communicate them; but actions are required to validate the words.” Thus, these findings point to an unfortunate irony: though financial services professionals look to their superiors to guide ethical conduct and to serve as a primary channel for raising ethical concerns, superiors are mostly unreceptive towards or unable to resolve the ethical issues that arise, despite professed commitment to such aims and actions.

Limitations

It is important to note several limitations of this study. First, the small sample size and relative lack of diversity in the respondents preclude generalization of the results to the entire financial services industry. Second, the respondents who chose to participate in the study might have contributed to a response bias effect, as it is possible—indeed, likely—that those individuals willing to participate were also more interested in considering ethical issues in business practices or more likely to voice such concerns. Third, the sample is missing many of the functional areas—namely consumer mortgage bankers (who marketed subprime mortgages), securitization bankers (who packaged subprime and other residential mortgages into securities), and credit derivatives traders (who bought or sold credit default swaps on securities, such as CDOs)—especially critical to the financial crises. Finally, since all the respondents were relatively senior, the data do not represent the views of younger professionals, who might confront different ethical issues or impediments to voicing ethical concerns than do the respondents in this sample. Also, due to the relatively senior sample, it was not possible to assess how the respondents—themselves likely supervisors—handled ethical issues or concerns raised by those who reported to them.

The methodological considerations of participant recruitment are also worth noting. Despite extensive outreach to potential participants, it proved very difficult to find respondents willing to take the survey. Inquiries into professional and other relevant organizations (such as the aforementioned American Bankers Association, Securities and

Industry and Financial Markets Association, and MBA Oath) were not fruitful, and dissemination of the survey in business schools also did not yield results. It is possible that the survey's length or format turned some potential participants away. Furthermore, the survey's sensitive topics might have discouraged potential respondents who could have been apprehensive about sharing their views.

Conclusion and Future Directions

My study has documented the primacy of the employee-supervisor relationship in voicing ethical concerns and the importance of company leaders in articulating and modeling ethical behaviors in financial services firms. In conclusion, I suggest four questions that might be addressed to the other partner in this co-productive relationship: the supervisors themselves.

(i) What are the qualities inherent to, and conditions important for, managers to be receptive to the communication of ethical concerns? The present analysis provides some glimpses into this investigation, namely that managers must develop strong and trusting relationships with their employees to foster a marketplace of ideas and opinions. Further investigation in this area might assess, for example, the influence of business education curriculums in developing such receptivity to ethical concerns in financial services professionals.

(ii) Are supervisors potential "trustees" within financial services firms, and if so, how does their position of trust influence communication of ethical values and ethical conduct? Fukuyama (1995) has shown that populations possessing a culture of integrity and trust can generate material wealth even in the face of unfavorable conditions. In addition, Stiglitz (2003) goes so far as to argue that CEOs and other executives have taken advantage of their positions of trust to enrich themselves at the expense of those they were supposed to serve.

(iii) How can managers better resolve ethical issues or concerns raised by their employees, and what are their responsibilities to do so? Barberich & Gardner (2001) identify honesty and accountability as key attributes for building a reputable and responsible business. In addition, Gardner (1998) enumerates a set of five responsibilities that every individual must negotiate: responsibility to oneself (i.e. goals, values, and needs), to those around you (e.g. family, friends, and colleagues), to your calling or profession, to the institution with which you identify, and finally, to the wider world. Do managers have a unique set of responsibilities—or particular applications of these responsibilities—in regards to addressing ethical issues or concerns raised by their subordinates?

(iv) Given the importance of the employee-supervisor relationship, it is clear that supervisors have great potential for driving open communication of ethical issues or concerns within their firms. Yet the significant role of the employee-supervisor relationship should not necessarily supercede other functions involved in the resolution of ethical issues as well. Thus, further investigation is required into the reasons why employees will or will not seek out more formal functions to resolve ethical concerns. Will it take a holistic approach to foster an environment receptive to the open questioning of ethics, and if so, should supervisors try to complement the work of ombudsman, ethics hotlines, and other resources to empower employees to speak up about ethical concerns?

In summary, further investigation into the role of managers in mediating ethical issues or concerns is needed for a better understanding of how financial services (and other) firms can promote good work. In light of the financial crises of 2008, such understanding is critical to prevent history from repeating itself, and to suggest methods whereby financial services firms can appropriately address ethical considerations in business practices. Perhaps some degree of tension between money and mores is inevitable in the financial services, where, as one respondent put it, "Transactional revenue is King!" But this tension can only be moderated if we attempt to close the gap between our words and our actions in ethical conduct. We need to empower individual employees to speak up when ethical values may be compromised, spreading the message—to put it colloquially—that "if you see something, you should say something."

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Appendix A: Survey Questions

Demographic questions, part I:

1) Are you a current or former employee of a for-profit company in the financial services sector? Y/N
2) Is your current or former company publicly-held or privately-held? Public/Private
3) How may employees work for your current or former company? <500/500-4,999/5,000-10,000/10,000+
4) What is your functional or business area in your current or former company?

Ethics Event questions

5) Have you ever observed any existing or proposed business practice at your current company with which you were not comfortable from a personal ethics perspective? Or, if you were formerly employed at a financial services firm, did you ever observe any existing or proposed business practice at your company with which you were not comfortable from a personal ethics perspective? Yes/No
6) What existing or proposed business practice(s) have you observed at your company with which you were not comfortable from a personal ethics perspective? Please check all that apply.
7) Pursuing a short-term financial gain with probable longer-term adverse consequences for the company
    - Offering customers financial products or services containing terms or risks that the may not understand fully
    - Helping or allowing customers to withhold or misrepresent information about themselves that is required for them to obtain financial products or services
    - Continuing with a business model that relies on key assumptions which you think are not valid or have not been adequately tested
    - Acting for a client or class of clients while the company's interests may be at odds with the client(s)' interests
    - Other
8) In your job, have you ever attempted to discuss or raise any ethics concerns or issues internally about any of your company's existing or proposed business practices? Y/N
9) With whom did you discuss or raise these ethics concerns or issues? Please check all that apply.
    - Superior(s)
    - Ombudsman
    - HR
    - Legal/Compliance
    - Ethics hotline
    - Other

10) How receptive to considering and discussing your ethics issue or concern was the person or function you contacted? Please rate on a scale of 1-5, with 1 being unreceptive, 3 being somewhat receptive, and 5 being very receptive.
11) How effective was action taken by the person or function you contacted regarding your ethics issue or concern? Please rate on a scale of 1-5, with 1 being no action taken, 3 being some action taken without complete resolution, and 5 being effective and reasonable action taken to address the issue or concern raised. (PLEASE NOTE: Effective action taken does not mean unquestioning acceptance or agreement with any action that you may have proposed; rather, it refers to good faith and reasonable efforts to resolve the issue or concern.)
12) Were there any negative consequences to your raising of ethics issues or concerns? Please check all that apply.
    - Criticism of the merit of your ethics issue or concern
    - Questions raised about your loyalty to the company or the area in which you work
    - Questions raised about your adherence to business objectives (e.g. making the numbers)
    - Worsening of your relationship with your superior(s) and/or colleagues
    - Negative impact on your performance review or rating
    - Reduction or loss of upcoming pay raise or incentive compensation
    - Job loss
    - No negative consequences
    - Other
13) [If "No" to #7; skipped if "Yes" to #7] Why did you choose not to raise your ethics issues or concerns? Please check all that apply.
    - Concern regarding potential criticism of the merit of your ethics issue or concern
    - Concern regarding the raising of questions about your loyalty to your company or the area in which you work
    - Concern regarding the raising of questions about your adherence to business objectives (e.g. making the numbers)
    - Concern regarding your relationship with your superior(s) and/or colleagues
    - Concern regarding negative impact on your performance review or rating
    - Concern regarding reduction or loss of upcoming pay raise or incentive compensation
    - Concern regarding potential job loss
    - Other concerns

Work Environment questions

14) To your knowledge, what does your current company (or what did your former company) do to encourage voicing ethics concerns or issues about proposed or existing business practices? Please check all that apply and rate to what extent would you be willing to use such a mechanism on a scale of 1 to 5, with 1 being not at all willing and 5 being very willing.
    - Employee ethics hotline

- Ombudsman
- Periodic business or risk review meetings
- Town halls
- Corporate retreats
- Other (please specify in comments section below)

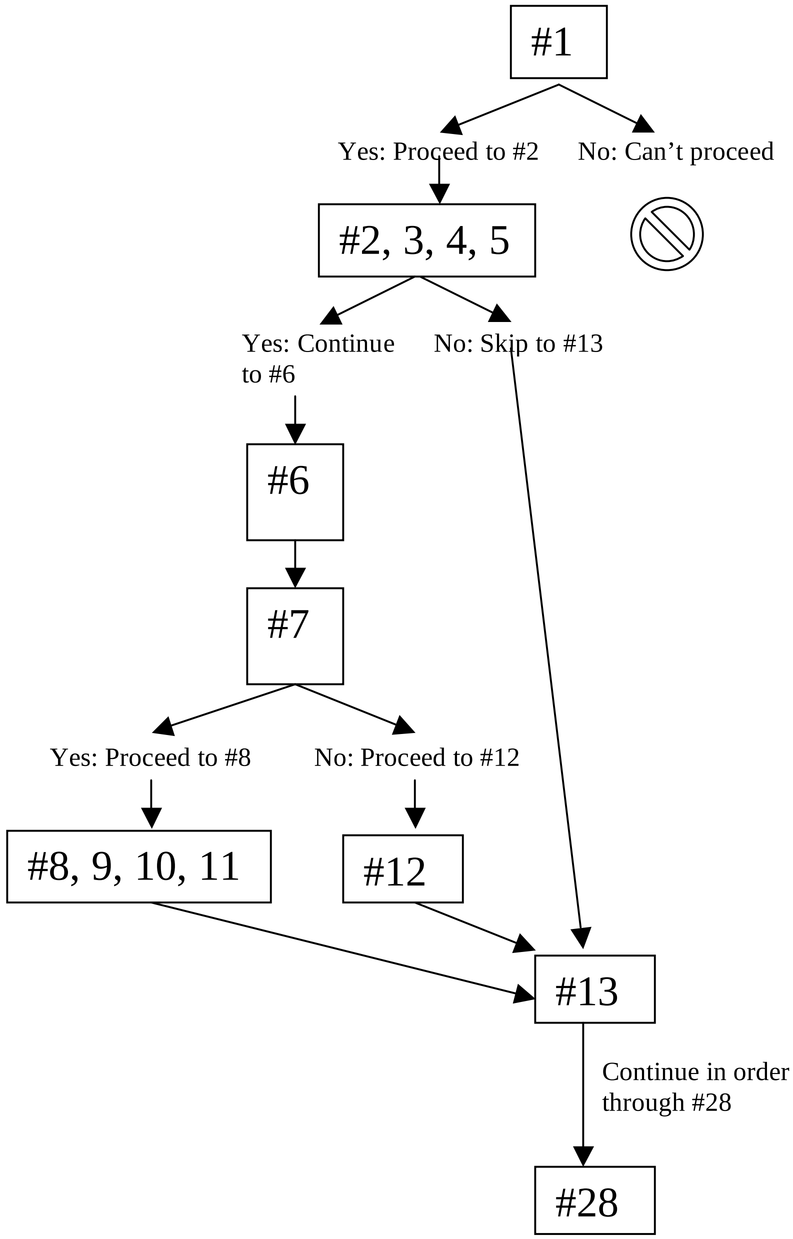
15) Does your current or former company's code of conduct or written HR policies contain statements that encourage voicing of ethics concerns or issues about proposed or existing business practices? Y/N
16) Does your current or former company's senior management communicate any commitment to open questioning of your company's proposed or existing business practices or your company's values? Check all that apply.
    - Does not affirm any commitment
    - Affirms commitment occasionally
    - Affirms commitment often
    - Demonstrates commitment in personal conduct
17) To what extent does your current company's senior management affirm on an ongoing basis its commitment to ethical conduct? Or, if you were formerly employed at a financial services company, to what extent did your company's senior management affirm on an ongoing basis its commitment to ethical conduct? Check one.
    - Does not affirm any commitment
    - Affirms commitment occasionally
    - Affirms commitment often
    - Demonstrates commitment in personal conduct
    - Demonstrates commitment in business practices, such as sacrificing short-term gains in favor of an ethical outcome
18) How much ethics or compliance training have you received at your current or former company?
    - Never
    - Once
    - Annually
    - Semiannually
    - Quarterly
    - More often
19) How would you characterize ethics training at your company? Choose one.
    - Technical compliance with law
    - Compliance with both the letter and the spirit of the law
    - In addition to compliance, adherence in some areas to a standard higher than what is required under law
    - Adherence generally to a standard higher than what is required under law
20) How was your ethics training conducted? Check all that apply.
    - Recitation of the law
    - Online training
    - Live interactive training with case method and hypothetical examples
    - Other

21) How does your current company incentivize compliance? Or, if you were formerly employed at a financial services company, how did your company incentivize compliance? Check all that apply.
    - Company alerts employees to adverse consequences of violating laws or regulations
    - Company explains positive consequences of compliance and ethics in terms of improved risk management
    - Company highlights positive consequences of compliance and ethics in terms of enhancing personal or company reputation
    - Internal audit of business units' compliance influences financial performance scoring and/or incentive compensation of the unit
    - No such incentive applies to your knowledge
    - Other
22) How important is it to you that you can freely voice ethics concerns or issues about your company's business practices? Check one. Unimportant/Somewhat Important /Important enough that inability to do so could cause you to leave your job
23) Do you feel that your company's ethical standards and behaviors are consistent with your own? Or if you were formerly employed at a financial services firm, did you feel that your company's ethical standards and behaviors were consistent with your own? Choose one. Very inconsistent/Not very consistent/Usually consistent/ Very consistent

Demographic questions, part II:

24) How many years have you been working (include all employment in your professional career)? <1 year/1-5 years/6-15 years/15+ years
25) How many years have you been with your current or former company? <1 year/ 1-5 years/6-15 years/15+years
26) What is your position in your company, or what was your position in your former company? Staff/Middle management/Senior management
27) In what geographic region(s) are you working or have you worked? Africa/Asia-Pacific/Europe/Latin America/North America
28) Are you male or female? M/F
29) With which ethnic group do you identify?
    - African-American, African, Black
    - Native American, Alaska Native
    - Asian American
    - Asian, including Indian subcontinent
    - Hispanic, Latino
    - Mexican American, Chicano
    - Puerto Rican
    - Native Hawaiian, Pacific Islander
    - White or Caucasian
    - Other

Appendix B: Schematic of Survey Question Order Logic


#1
Yes: Proceed to #2
No: Can’t proceed
#2, 3, 4, 5
Yes: Continue to #6
No: Skip to #13
#6
#7
Yes: Proceed to #8
No: Proceed to #12
#8, 9, 10, 11
#12
#13
Continue in order through #28
#28