



GOVERNANCE AND CULTURE REFORM

FEDERAL RESERVE BANK *of* NEW YORK

EDUCATION AND INDUSTRY FORUM ON FINANCIAL SERVICES

BACKGROUND

Over the past few years, the New York Fed has encouraged cooperation between business schools and the financial services industry, in an effort to support financial industry culture reform efforts through the education of the next generation of finance leaders. Business schools serve as a major supply source of the talent pool for mid-level management positions in the industry. This relationship makes aligning business education curricula and pedagogy with demands around improving industry culture a mutually beneficial strategy. Initial efforts in 2016 and 2017 focused on how business schools and the industry can achieve greater alignment to effect desired industry practices around culture, behavior and ethics. To that end, the New York Fed held three workshops comprised of senior leaders from business schools and financial services firms. This series of facilitated conversations covered topics including ethics training in business education, the role of culture and behavior in firms' business strategy, and how business schools and industry might strengthen ties to influence ethical culture change. See Appendix A.

DESCRIPTION

The Education and Industry Forum (EIF) on Financial Services Culture is a group of academics and leaders from business schools and financial services committed to promoting the development of an agile, adaptable, and ethical future workforce in the financial services industry. The Forum provides a regular opportunity for senior representatives from both sectors to identify challenges faced by the industry with regard to culture, behavior and ethics, and determine actionable, collaborative solutions to address them. The EIF is a private-sector voluntary membership group sponsored by the Federal Reserve Bank of New York.

MISSION

To improve talent development and effect change in industry-wide and firm-level culture and behavior by:

- Co-creating branded educational products for use in both business education and firm learning and development
- Establishing a communication mechanism by which to discuss matters related to industry culture and ethics in real-time
- Engaging in research that supports the efficacy of the Forum's outcomes



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VISION

An agile, adaptable, and ethical future workforce in the financial services industry capable of making complex, multidimensional business decisions in dynamic business environments

MEMBER RESPONSIBILITIES

Each member, supported by his or her institution, shall:

- Bring appropriate issues to the Forum’s attention and contribute as appropriate to the Forum’s discussion and work;
- Build support for the Forum’s practices and the development of new practices by engaging with her colleagues and, as appropriate, executive management.
- Participate actively in EIF work and provide the resources to support the Group’s projects and general needs;
- Be expected to attend each regularly scheduled Forum meeting in person; and
- Reaffirm adherence to this Charter and to the FRBNY’s Antitrust Guidelines at least annually.

LEVERS OF INFLUENCE

Educational Products

1. Co-write series of case studies that closer reflect business issues experienced by firms
 - Possible challenge in incorporating into curriculum as it has to secure faculty buy-in
2. Run Simulation program focusing on ethics in business decisions
 - Further discussions needed on:
 - i. Design
 - a. Topic focus and team structure: “deal team” model where scenarios focus on decisions made at the junior level vs “leadership team” model where challenge focuses on decisions made at C-Suite level
 - b. Eligibility: business school students only vs students training in multiple disciplines
 - c. Venue: At a bank vs at a school
 - ii. Delivery
 - iii. Funding
3. Develop pre-internship summer program
 - Recognizing that a larger proportion of young professionals entering the industry do



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not have a business background, a broader program that emphasizes management fundamentals should be co-developed and offered to interns before starting their program at the firm

Communication Mechanisms

1. Improve ways to communicate industry's commitment to upholding values as a business priority to incoming young professionals

Research Agenda

1. Measure impact of experiential learning in developing value judgment
2. Contribute to understanding of impact of technological trends (e.g. use of artificial intelligence, increase in hiring of technologists) on the decision-making framework of professionals in the financial services



GOVERNANCE AND CULTURE REFORM
FEDERAL RESERVE BANK *of* NEW YORK

APPENDIX A



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FRBNY Culture and Behavior Initiative 12/7 Workshop with Financial Services and Business School Representatives Discussion Document

Financial Services Representatives Workshop

On October 17, 2017 the FRBNY convened executives from 11 financial institutions. The individuals included senior representatives from Talent and Performance Management, Recruiting, Ethics, and Compliance groups and business areas throughout their institutions. The Business-Higher Education Forum (BHEF) facilitated a conversation around key attributes necessary for an ethical workforce, followed by the proposed role business schools could play in preparing a talent pool who exhibited these characteristics. Below are the key themes resulting from that conversation.

Theme One: Case studies are useful tools for teaching culture and behavior, but business students need greater/ increased exposure to the “gray areas” common in ethical dilemmas, and an understanding of multiple ways to address those dilemmas at various professional levels.

Case studies, while representing an effective means of teaching culture and behavior, need to be nuanced and put students in the “gray zone” in which clear answers to ethical challenges are not always apparent. Nuanced case studies should explore such issues as the impact of a pack mentality on ethical decision-making; how the lack of escalation of a problem can result in major, long-term setbacks for a business unit or company; addressing problems before they rise to the need for a whistleblower. Ethical behavior should be seen as part of being a profitable, healthy, and successful business enterprise.

Theme Two: Having an end-to-end understanding of the financial services sector is a valuable competency to provide business students.

A potentially effective approach to imparting strong cultural and behavioral competencies in business students is to increase their holistic understanding of the financial services ecosystem, which would include customer service, regulatory agencies, and other facets of the overall industry. Students would benefit from an understanding of the operations side of products and sales, the importance of the compliance function, and the financial controls system. The study of culture and behavior would be most effectively taught within all areas of the curriculum, including marketing, operations, and finance.

Theme Three: A focus on culture and behavior in business schools should extend beyond MBA programs to include professional and executive training.

Given that business schools provide some of the professional development for the financial services industry, the schools should examine opportunities to strengthen the focus on culture and behavior in offerings beyond MBA programs. This could include executive and technical training, certification programs, and other such efforts.

In addition, every participant indicated that compensation structures were put in place to recognize the “how” in addition to the “how much” in promotion, bonus, and compensation within their banks. This process was highly variant in maturity and definition based on the financial institution.

Theme Four: Representatives from the financial services industry identified essential, key cultural and behavioral attributes of financial service professionals.

When asked what they considered the “non-negotiable” cultural and behavioral attributes in their industry, financial services representatives named the following: 1) Judgment; 2) Integrity; 3) Teamwork/Collaboration; 4) Transparency/Honesty; and 5) End-to-End/Systems Thinking.

Theme Five: Financial services industry representatives identified areas of research they believe would effectively inform further inquiry into culture and behavior.

The financial services industry would benefit from research into business school deans’ and students’ perceptions of the industry. For example, understanding student attitudes about the financial services industry could be helpful to determine the extent of student disillusionment with the industry, and what factors contribute to that attitude. Also, how is the financial sector covered, if at all, in the business curriculum? How do students learn about the industry, and could the sector contribute to a better understanding of itself in the business curriculum?

Business School Representatives Workshop

On October 30, 2017 the FRBNY convened deans and senior staff from 14 top business school programs. The Business-Higher Education Forum (BHEF) facilitated a conversation around key issues related to MBA programs and the role and interactions students, faculty, and administrators have with the financial services sector. Below are the key themes and proposed actions resulting from that conversation.

Theme One: Greater clarity is needed from financial services firms on their policies and practices around culture and behavior, and how those are prioritized internally.

It is important that financial services firms send a clear message that culture and behavior are priorities within their sector. Strong, sustained leadership from top management, coupled with transparency of practice in hiring, performance review, and other measures, are required to signal to future business leaders that financial institutions prioritize culture and behavior in the workplace. Companies have the opportunity to integrate culture and behavior in their long-term business strategies by emphasizing balance between profit and culture, and increasing a focus on customers, and engage with business schools to align policies and practices to the teaching of culture and behavior.

Theme Two: Business schools also need to place a stronger priority on culture and behavior in their own programs, both within the curriculum and outside it.

Business schools must also examine their own cultures to ensure that students understand the importance of ethical behavior. Business education needs to be viewed as an ecosystem, as only a part of the student experience takes place within the classroom. Culture and behavior should be embedded throughout the curriculum, and also through clubs, orientation, experiential learning (e.g., internships), special events, and other activities. Moreover, decisions around faculty hiring, advancement, and tenure could have a

stronger focus on ethics in teaching, research, and service. A holistic approach to culture and behavior in business schools will have a much stronger impact on how students are prepared for the workforce than within the curriculum alone.

Theme Three: Admissions policies and practices are additional mechanisms by which business schools signal the importance they place on culture and behavior.

The kinds of students business schools select for admission—and how they choose them—are important symbols of the importance the schools place on culture and behavior. For example, how essential are GMAT scores as determinants of admission? Could business schools develop other criteria for admission that emphasize ethical behavior, and possibly work with the financial services sector in developing those criteria? There is a growing sense that technology and consulting are seen by business students as more attractive career paths than financial services; if so, can business schools and the financial services sector work together to better understand the extent to which culture plays a role in that trend and how the sector needs to change? In addition, is there a role for accrediting bodies in taking a stronger position on culture in business schools?

Theme Four: Students who are interested in culture and behavior, and pursue deeper studies in it, may not be the students who need exposure to those topics the most, nor are they entering into financial services.

There is an implicit self-selection of business students who opt for studies in culture and behavior, i.e., those who pursue studies in it beyond required curricula are more likely to be aware of ethical behavior than their counterparts who do not. As such, coverage of culture and behavior in elective courses alone could further reinforce the sense in students that those topics are of marginal importance. It is important to contextualize the teaching of culture and behavior within discrete fields, such as finance, so that students can better understand and appreciate the essential importance of ethics in whatever field or sector they pursue.

Theme Five: More research is needed to help business schools and the financial services sector better understand today's business students and the current environment around culture and behavior.

Research is needed into the motivation of today's millennial business students, their desire to contribute to the betterment of the world, and what that means regarding their interest in financial services. Working closely with the financial services sector, business schools could survey their students to understand the extent to which culture plays a role in their career choices and conduct a bi-lateral review of the alignment (or lack thereof) of admission requirements to employee recruitment standards. If millennials are, in fact, more open to culture and behavior as key elements of their career paths, this may represent an opportunity to increase the profile of ethics in the financial services industry and attract dedicated, diverse, and talented students to the sector.

Potential Action Steps from the Workshops

1. Develop common language and a competency map that defines cultural and behavioral attributes necessary for all professionals in the financial services industry.
2. Develop a research agenda that could include surveys on business students' attitudes about culture and behavior and their importance to career satisfaction, and perceptions of the financial services industry and its approach to culture and behavior.
3. Identify extracurricular opportunities for financial institutions and business schools to engage students around culture and behavior through increased work-based learning experiences highlighting ethical practice; participation by financial institutions in business school club events, guest seminars and speaking engagements; orientation activities.
4. Conduct bi-lateral workshops between business schools and financial institutions to align admissions policies and practices with employee recruitment standards, and co-develop curriculum, course modules, case studies, and other resources on culture and behavior.
5. Identify ongoing opportunities between financial institutions and business schools to strengthen learning and training in culture and behavior through increased exchanges of faculty members and financial services professionals, adjunct teaching opportunities, business faculty training of financial services employees, and other activities.

FRBNY Culture and Behavior Initiative 12/7 Workshop with Banking Executives and Business School Deans

Summary and Actions

Workshop Overview. On December 7, 2017 the FRBNY convened senior executives from financial institutions and deans of business schools, many of whom had participated in previous workshops on culture and behavior hosted by the FRBNY. The Business-Higher Education Forum (BHEF) facilitated a discussion around issues that arose in those previous workshops focused on how the financial industry and business schools could work together to prepare students who exhibit ethical behavior. Specifically, participants sought a better understanding of business schools' and financial institutions' efforts related to culture and behavior within the financial services sector. They also explored how an ecosystem of business schools and financial institutions could be built on culture and behavior.

In addition, the meeting provided an opportunity for Kevin Stiroh, FRBNY's Executive Vice President, Supervision, to share his perspectives on how supervisors can help mitigate misconduct risk and make the financial industry stronger by drawing from the growing literature about the root causes of misconduct and the supporting attributes of a healthy culture in financial firms.

In preparation for this meeting, participants were provided a summary of the previous discussions of corporate representatives and business school deans that established a context for their joint convening. (See Appendix A.) Key themes emerged from those conversations addressing the need for change around culture and behavior within both business schools and financial institutions. In addition, participants put forward potential next steps for engaging the business and academic sectors to effect sustainable change and provide students with the skills and habits of mind to effectively navigate cultural and behavioral issues throughout their careers.

Principal Recommendations. At the December meeting, there was considerable consensus among the workshop participants on priorities, areas for collaboration, and actionable next steps. Among the key recommendations directly emerging from the workshop discussion include the following:

Recommendation One: Develop peer-to-peer collaborations. Greater opportunities are needed to reach across business schools and financial institutions to develop relationships focused on culture and behavior. Expanded professional connections between business school administrators and faculty members with corporate executives and subject matter experts have the potential to catalyze learning opportunities for students.

Recommendation Two: Align business school admissions standards with corporate talent development strategies. Both business schools and financial institutions have identified strengthening culture and behavior as key parts of their missions, but stronger

alignment is needed between business school admission standards and financial institution hiring and promotion policies and practices in this area. By coordinating the development of business school admissions requirements with corporate talent development strategies focusing on culture and behavior, the opportunity exists to establish clear, strong signaling to students and employees on the importance of culture and behavior.

Recommendation Three: Co-develop case studies in culture and behavior. Real-world case studies can make a significant contribution to students' understanding of culture and behavior in the workplace, and opportunities should be fostered for business schools and financial institutions to co-develop turn-key case studies, possibly facilitated by a third party to foster scale. Of particular need are case studies based on actual events and put students into "gray zones" of decision-making for which there may be no clear solutions.

Recommendation Four: Integrate culture and behavior across the business curriculum. Culture and behavior are frequently taught in the business school curriculum as stand-alone courses or electives that do not directly relate to specific technical areas, such as finance. These topics need to be better integrated into the teaching of technical areas, and faculty should be supported in these efforts.

Recommendation Five: Understand millennials' attitudes toward the financial industry. Millennials are known to be interested in public service and contributing to society, and financial institutions need a better understanding of millennial perceptions of the industry to provide data to enable the sector to position itself as addressing societal needs and linking the sector to the broader societal good. Without a strategy to attract talent from this demographic, the industry is in jeopardy of losing some of the best and brightest from the emerging generation to the technology, health care, and other sectors that are seen to be addressing human needs.

Recommendation Six: Engage early and often. Connections between business schools and the financial sector need to begin early in students' business school experience when they are considering academic options and possible career directions, and continue as students progress in their studies. Business schools can engage with companies on culture and behavior by creating on-ramps for partnerships such as participation in student orientation and clubs; co-design of curriculum; alignment of business school admission and industry hiring policies and practices; and guest speakers and adjunct faculty appointments.

Recommendation Seven: Manage relationships effectively. While stronger partnerships around culture and behavior between business schools and the financial industry are important, attention must be paid to whom from each sector is forging the relationship with the other; what is the level of leadership; and which units are engaged to ensure active, productive, and sustainable partnerships. Culture and behavior must be deeply integrated into the missions and practices of both business schools and the financial sector, and activities to foster ethical behavior must be aligned both vertically and horizontally in business schools and companies.

Recommendation Eight: Convey the importance of culture and behavior in hiring and promotion. Many financial institutions integrate culture and behavior into their recruitment, performance review, and compensation structures, but this is frequently not the perception

outside the industry, particularly among business students. The industry should strive for greater transparency around culture and behavior in talent development strategies, and efforts should be made to better communicate these practices to business schools and the public at large.

Recommendation Nine: Communicate how the financial sector contributes to society.

There was broad consensus among deans and corporate executives that the topic of culture and behavior should be a priority in business schools and the financial industry, and there is a compelling need to change perceptions regarding the industry’s role in contributing to society.

Areas for Ongoing Action. Participants in the workshop identified concrete next steps that both sectors could undertake together to advance these recommendations and forge mutually beneficial partnerships focused on culture and behavior. Two of these activities—competency mapping on culture and behavior and attitudinal research on millennials—were seen to help provide financial institutions and business schools with a base of knowledge and common framework on which to build more effective policies, practices, and programming in culture and behavior. The learning from these activities could be widely disseminated throughout the industry and business schools, and stimulate deeper explorations into the role of culture and behavior across sectors.

In addition, participants expressed a desire to co-develop pilot partnerships on culture and behavior between the industry and business schools that could serve as national and global models. These action-oriented pilots would balance the research/knowledge development agenda, and serve as “test beds” for best practices in the culture and behavior arena.

- 1. Competency Mapping in Culture and Behavior.** Competency mapping is the process of identifying the skills, knowledge, abilities, and behaviors required to operate effectively in a specific field or profession. Competency maps have been developed for various sectors and technical jobs, and are a key part of the Department of Labor’s work in defining occupational pathways and credentialing requirements for areas such as manufacturing. With strong industry input, BHEF has developed a competency map in the area of data science and analytics for the “data-enabled” professional (see Appendix B), and is planning to create a comparable map around artificial intelligence/digital skills.

During the workshops for financial services executives and business school deans, respectively, participants identified broad competencies in the area of culture and behavior. Judgment, integrity, and ability to work collaboratively were among the general attributes put forward as essential for professionals in the financial services sector. Participants also discussed behavioral and cultural traits relevant to entry-level employees, middle management, and higher-level executive positions.

Participants noted that a competency map on cultural and behavioral attributes co-developed by business school deans and financial services executives would be a valuable contribution to the field, and represent a potentially important framework for approaching the topic in the MBA curriculum and in corporate hiring and performance review processes. They expressed support for the notion of continuing to hold workshops

as a group with the goal of building a competency map around culture and behavior, solidifying a community of effective practice, and building consensus among financial institutions on desired attributes in culture and behavior.

- 2. Attitudinal Research on Millennials.** Workshop participants came to strong consensus that business schools and financial institutions would benefit from a better understanding of the millennial generation and its attitudes about the financial services industry. There was a sense that many millennials seek careers that enable them to contribute to society, and that the financial services sector is perceived by millennials as one focused primarily on profit-making rather than advancing societal goals. However, participants also acknowledged that such assumptions about millennials are largely based on anecdotal observations, and research is needed to come to a deeper understanding of millennials' perceptions about the sector and financial services a career track.

The group recommended that a combination of rigorously designed surveys, focus groups, and other methods could be employed to provide insights on millennials' motivations and attitudes about the financial services industry, and aspirations on the use and value of an MBA. This information could be used by both business schools and financial services institutions to develop strategies to position MBA programs and the industry to be more attractive to millennials.

- 3. Holistic Engagement Opportunities.** In addition to their recommendations to expand the knowledge/research base around culture and behavior, participants saw great potential in building point-to-point engagement opportunities between corporations and business schools that start early in students' MBA programs and provide multiple, ongoing, and meaningful on-ramps for the sector to be involved in student development around culture and behavior. They supported the idea of on-the-ground pilots based at selected business schools that establish a firm structure for financial services professionals to engage with business school administrators, faculty members, and students.

These pilots could be built on existing collaborations between business schools and companies, and offer additional opportunities for engagement culture and behavior. As noted, such partnerships could entail corporate participation in student orientation and clubs; co-design of case studies and curriculum; alignment of business school admission and industry hiring policies and practices; and guest speakers and adjunct faculty appointments. Collaborative activities could extend beyond business schools and into the companies, and offer fresh opportunities for financial institutions to review policies and processes related to culture and behavior across the range of business units. The learning generated by these initiatives could be broadly disseminated across the MBA and financial services communities through reports, social media, regional workshops, national convenings, and other vehicles.