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THE SUBPRIME MORTGAGE CRISIS FROM THE PERSPECTIVE OF THE DECADE: CONTRIBUTION TO THE ANALYSIS OF THE ROLE OF ORGANIZATIONAL CULTURE AND ETHICAL STANDARDS IN THE FINANCIAL INSTITUTIONS MANAGEMENT

Abstract

Background: From the perspective of the one decade anniversary, it seems worth looking at the 2007–2010 crisis from an axiological perspective and analysing the impact of the culture of an organization and ethics of its employees on the functioning of financial institutions in the situation of crisis.
Research purpose: The purpose of the study is to determine if the axiological crisis of financial institutions can be thought as a one of the most important origins of the subprime mortgage crisis.
Methods: The author conducted a conceptual analysis of the literature on the subject and interdependence analysis of the factors (organizational culture and ethical standards) in the context of the processes of liberalization and incomplete globalization as systemic causes of the crisis.
Conclusions: The 2007–2010 crisis was a crisis of trust in the financial system itself, caused by its common lack of ethics and the shock caused by the level of abuse gradually being revealed. It is possible to indicate the following factors connected with the role of ethics in managing financial institutions: 1) Organization culture: The dysfunctionality of many financial institutions seems to be conditioned by the dominating type of culture of the organization – an extreme form of the market culture, whose aim is to maximize profit in the short run and achieving stock exchange indicators satisfying the shareholders; 2) Ethics and morality of the people involved in finance: A special responsibility is placed on middle and upper-level managers, employees implementing the worked out solutions as well as on investors, who actively cocreate the strategy of functioning of those institutions.
Progressive deregulation and liberalization of financial markets without providing the institutional basis for the creation and enforcement of global regulations and imposing boundary conditions that would provide protection against actions taken by dysfunctional institutions and their not always ethical employees can be the cause of the 2007–2010 crisis and subsequent ones.

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In addition to rebuilding the financial system in the spirit of *Ordnungsethik*, in order to create appropriate boundary conditions for the functioning of financial institutions, it also seems necessary to change the business ethics paradigm. The business ethics should promote specific patterns of activity and axiological assessment of the actions taken, their effects, as well as the leadership, the culture of the organization and its nature.

Keywords: globalization, ethic, cognitive moral development, *Ordnungsethik*, world economic crisis of 2007–2010.

Classification JEL: G01, G15, M12

1. Introduction[1]

The crisis of 2007–2010 was an impulse to start discussions about the stability and safety of the finance sector. Irregularities in the functioning of banks and financial institutions, such as brokerage houses, pension funds and investment funds have contributed to the loss of trust for the financial markets by ordinary people as well as entities active on the market. In many academic and scientific publications, attempts have been made to indicate the genesis of the crisis and conditions for making extremely risky investment decisions by the participants on the market. On the 10th anniversary of the 2007–2010 crisis it seems worthwhile to perform such an analysis especially as regarding the impact of the culture of an organization and ethics of the employees on the functioning of financial institutions in the situation of crisis. The purpose of the study is to determine if the axiological crisis of financial institutions can be thought as a one of the most important origins of the subprime mortgage crisis.

2. The World economic crisis of 2007–2010 as an axiological crisis – the background

The crisis, which began in 2007 in the US financial market and spread very quickly to the world market, subsequently penetrating the real sphere and public finance, has a systemic character[2]. Bearing this in mind, it is necessary to go beyond the pure financial aspect of the analysis and take social and economic factors into account. The fundamental reason for the crisis seems to be

1 This work was supported by the National Science Centre Poland under Grant UMO-2015/17/B/HS4/02708. The article based on a speech given at the conference “9th International Scientific Conference Faculty of Management Cracow University of Economics”.

2 **G. Kołodko**, *Neoliberalizm i światowy kryzys gospodarczy*, Ekonomista 2010/1, pp. 117–118.

the separation of the financial sphere from its original, ancillary function to the real sphere of the economy. This is due to the fact that finances constitute all the phenomena related to human economic and social activity through which the allocation of resources occurs in the economy, which creates conditions for economic processes to occur, as a result of which social needs are satisfied.

The reasons for the increasing dysfunctionality of the economic sphere and the outbreak of the financial crisis are primarily an incomplete process of globalization and liberalization of the financial market, as well as the existence of dysfunctional institutional structures. The genesis of these processes seems to be the ever deepening ethical and axiological crisis of the entities in the area of finance, including financial holdings and international organizations as well as individual employees.

2.1. The process of incomplete globalization and liberalization of financial markets

Globalization is defined as all the processes leading to bigger and bigger interdependence and integration of counties, societies, cultures and economies, whose effect is the creation of "one world" and world society[3], constituting a more and more unified culture, in which traditional norms and beliefs of societies are being replaced by values of a typically consumptionist character. As these processes play the role of criteria shaping choice for general, social aims, the globalization seems to be one of the reasons for the outbreak of the crisis and its dramatic course.

Additionally, at its current stage, globalization seems to be incomplete due to uneven globalization of particular markets, which can be distinguished based on what is being circulated[4]. The financial market is regarded as the most globalized, in contrast to the labour market for example[5]. In the case of the financial market, due to continual processes of liberalization and deregulation, a free flow of capital has been achieved globally[6], in a situation in which the institutional bases for the creation and execution of world regulations, as well as implementing boundary conditions and standards have not occurred.

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3 **M. Kempny**, *Encyklopedia socjologii*, Oficyna Naukowa, Warszawa 1998, p. 124.

4 **D. Rodrik**, **A. Subramanian**, *Why Did Financial Globalization Disappoint?*, IMF STAFF PAP 2009/56, pp. 112–114.

5 **J. Rymarczyk**, *Internacjonalizacja i globalizacja giełd papierów wartościowych*, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu 2013/315 (2), p. 182.

6 **V. Sundarajan**, **T.J.T. Balino**, *Banking Crises: Cases and Issues*, International Monetary Fund, Washington 1998, pp. 121–123.

It seems that a mistake was made, consisting in not recognizing the possibility of contradiction between the rationality of the subject and rationality on the scale of the entire economy[7], despite the lack of reliable evidence for the existence of the mechanism of the invisible hand. Moreover, according to the ordoliberal thesis, the lack of regulation on the global market may lead to its degeneration due to the degeneration of competition.

Actions taken since the 1970s to deregulate and liberalize the financial markets were supported by the developing neoliberal ideology. The basis for neoliberalism in economics was most of the theses of the representatives of classical school of economics, monetarism, and the supply-side economics[8]. Neoliberalism seems to be the *zeitgeist*, i.e. the intellectual and cultural climate of the period, in which globalization occurs, including the financial markets and an increase of the significance of international, financial institutions[9].

However, the declared return to the basic assumptions of classical economics seems to be to a large extent selective. The belief in the absolute primacy of the market mechanisms, not limited by any regulations has become an axiom. The main arguments for neoliberal economic policy were the negation of the role of demand in the economy as well as the deregulation of the market economy accompanied by minimal taxes and the limited role of the state, whose primary aim should be ensuring budget balance and limiting inflation even at the cost of an increase in the unemployment rate or undermining the stability of economic growth. In the period of the 2007–2010 crisis, these assumptions have not prevented those supporting the neoliberal doctrine from expecting help from the weak and previously attacked state for the entities existing on the financial markets that were abusing their freedom earlier.

The result of neoliberal economic policy has been the continued process of gradual delegation of power from the state to the capital managed by market-oriented institutions[10], caused by the dependence of states on capital flows. Competition among the states, whose subject was capital and investments, by offering subsidies as well as tax reliefs and exemptions, often not available for

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7 **J.M. Keynes**, *The General Theory of Employment, Interest and Money*, Palgrave Macmillan, London 1936, pp. 136–200.

8 **J. Żyżyński**, *Neoliberalizm – ślepa uliczka globalizacji*, in: **A. Goryńska** (ed.), *Globalizacja, kryzys i co dalej?*, POLTEXT, Warszawa 2010, pp. 21–30.

9 **P. Podolski**, *Samotność tradera: algo trading i globalizacja rynków finansowych*, in: **J. Zimny** (ed.), *Samotność: wybór czy konieczność*, Katolicki Uniwersytet Lubelski JPII w Lublinie, Stalowa Wola 2014, pp. 681–685.

10 **M. Wolf**, *Fixing global Finance*, Johns Hopkins University Press, Baltimore 2008, pp. 34–41.

domestic SMEs, among others leads to the monopolization of the economy on the national and international level, resulting in the concentration of economic power in the hands of a limited number of international corporations[11]. N. Chomski goes as far as developing the concept of a virtual parliament of inventors and moneylenders, with a growing influence on the decisions made by the government[12]. This influence, caused to a significant extent by realizing particular interests and gaining short term profits, seems to be quite far from the declared ethical norms and negative for the majority of the society, and in the long run for the functioning of the economy.

2.2. Dysfunctionality of institutional structures

The structures of financial institutions existing at the time of the outbreak of the crisis seem to have been dysfunctional, i.e. not adapted to performing their functions on the financial market, as well as providing financial services for the entities in the real sphere of economy. In the period preceding the economic crisis, the problems were mainly an underestimation of the risk related to newly issued assets, the lack of transparent presentation of derivative financial instruments in the balance sheets of financial institutions, strong domestic and international correlations of the financial institutions and high leveraging in the financial system[13].

As regards the crisis of 2007–2010, one of the most important factors indicating the dysfunctionality of some financial institutions was the development of the a new banking model – arms-length financing, with the lack of control of credit risk of the moneylender by the bank at its basis. The banks and other financial institutions transferred the risk to other participants of the market instead of managing it[14].

After selling a particular number of loans, including high-risk loans, an institution issued securities backed by the income of the specified pool of underlying assets, as a result of which the risk was not presented in the balance sheet and transferred onto the investor, who bought such securities[15]. In most cases,

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11 **D. Barney**, *Społeczeństwo sieci*, Wydawnictwo Sic!, Warszawa 2008, pp. 87–93.

12 **J. Żakowski**, *Anty-Tina – rozmowy o lepszym świecie, myśleniu i życiu*, Wydawnictwo Sic!, Warszawa 2005, pp. 35–52.

13 **O. Blanchard**, *The Crisis: Basic Mechanisms, and Appropriate Policies*, IMF Working Paper 2009/WP/09/80, pp. 5–9.

14 **J.E. Stiglitz**, *Globalization and Its Discontents*, Penguin, New York 2003, pp. 26–40.

15 **K. Rybiński**, *Globalny bank centralny*, in: **A. Szablewski** (ed.), *Migracja kapitału w globalnej gospodarce*, Wydawnictwo Difin, Warszawa 2009, pp. 75–90.

neither the investors nor the market regulators were aware of the scale of the risk related to those financial instruments based on the securitization of assets. The issued securities included asset bundles with differentiated risk levels created using advanced mathematical models in order to achieve a very low risk level for the whole block. It was assumed, wrongly as it later proved, that risk mitigation was not possible through differentiation. This was due to the fact that moral hazard premises appeared in the functioning of the "loan chain" – entities engaged in granting loans, theoretically safe from risk, involved in selling more and more risky loans than in a situation where they were exposed to risk themselves.

The real crisis began when, after a rise of interest rates by the Fed at the end of 2006, it turned out that financial instruments related to subprime loans can be worthless in most cases. D.M. Smick[16] seems to be right in claiming that the direct cause of the market crash was not the lack of financial solvency of subprime loan-takers, but the crisis of trust in the financial system itself, caused by its common lack of transparency and a shock caused by the level of abuse gradually coming out.

3. The role of ethics in managing financial institutions

It is important to ask the question of why abuse happened and still happens on the financial market. Within the 10 years since the crisis, a smaller or bigger catalogue of causes related to organizational and legal factors has been presented in many works[17]. It seems necessary to transfer the analysis to a more general level and to answer the question about the proper relation of ethics and management style, the organizational culture of financial institutions, as well as moral values of people employed in such institutions.

3.1. The role of organization culture in managing financial institutions

The culture of an organization constitutes a system of thinking and behavioural patterns as well the norms shared among the employees, which have been strengthened in the social environment of the organization and which influence

[16] **D.M. Smick**, *The World Is Curved. Hildden Dangers to the Global Economy*, Penguin, New York 2009, pp. 50–51.

[17] **R. Bootle**, *The Trouble with Markets. Saving Capitalism from Itself*, Nicholas Brealey Publishing, London 2009; **W. Szymański**, *Kryzys globalny. Pierwsze przybliżenie*, Wydawnictwo Difin, Warszawa 2009, pp. 13–45; **J.E. Stiglitz**, *Freefall: America, Free Markets, and the Sinking of the World Economy*, Norton, New York 2010.

the setting and realization of its formal goals[18]. The culture of an organization not only increases its stability and coherence but reflects the dominating beliefs and is a source of not fully conscious and often not coded acting principles applied at the place of work[19]. Except cultural dimensions[20], in shaping the behaviours of employees, such elements of the culture of an organization as its basic norms and values play a special role[21]. The basic assumptions, including the ideological bases and ways of perceiving various situations, seem to influence behaviours indirectly. The norms and values have a more direct influence, but not the declared ones (ethical codes and codes of conduct), but the real ones. In cases of many financial institutions there has been a conflict between these categories[22].

The dysfunctionality of many financial institutions seems to be conditioned by the dominating culture of these organization to a large extent – an extreme form of the market culture[23], whose aim is to maximize profit in the short run and achieving stock exchange indicators satisfying the shareholders. All the elements of the organization are oriented toward realizing these aims. In a market culture organization, the environment is perceived as requiring continuous competition and the institution itself functions like a micro market, based on the competition among the employees and money exchange[24].

The dysfunctionality caused by organization culture and ill management led to failures in corporate governance[25] which were manifested especially in risk management – "key personnel in virtually all major financial institutions [...] taking excessive risks"[26] and motivation systems. The moral hazard that has

[18] **E. Schein**, *Organisational culture and leadership*, Jossey-Bass, San Francisco 2010, pp. 17–18.

[19] **K.L. Cameron**, **R.E. Quinn**, *Diagnosing and Changing Organizational Culture. Based on the Competing Values Framework*, John Wiley & Sons, San Francisco 2006, pp. 4–23.

[20] **G. Hofstede**, *Cultures and Organizations: Software of the Mind*, McGraw-Hill, New York 1991, p. 20.

[21] **E. Schein**, *op. cit.*, pp. 20–34.

[22] **K. Świeszczak**, **M. Świeszczak**, *Ethical issues in the context of banks as public trust organizations*, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu 2013/316, pp. 172–177; **B. Parmar**, *Ethical Issues in Accounting & Finance*, Paripex – Indian Journal of Research 2015/4 (5), pp. 309–310.

[23] **K.L. Cameron**, **R.E. Quinn**, *op. cit*., pp. 39–40.

[24] **M.J. Gelfand**, **K. Keller**, **L.M. Leslie**, **C. de Dreu**, *Conflict Cultures in Organizations: How Leaders Shape Conflict Culture and Their Organizational-Level Consequences*, Journal of Applied Psychology 2012/97 (6), pp. 1131–1135.

[25] **G. Kickpatrick**, *The corporate governance lessons from the financial crisis*, OECD Journal: Financial Market Trends 2009/2009 (1), pp. 66–75.

[26] **J. Crotty**, **G. Epstein**, *Proposals for effectively regulating the U.S. financial system to avoid yet another meltdown*, Economics Department Working Paper Series 2008/15, p. 4.

become a permanent element of management in some institutions can be considered as one of the factors accelerating the crisis. An important problem is also the detachment of ownership and management[27] as well as the crisis of corporate supervision that is especially visible in areas such as risk management, the remuneration system, the functioning of the board of directors and the influence of shareholders on shaping the strategy of a company[28]. The absence of managers' financial liability seems to facilitate taking unethical actions. People in the boards of directors are evaluated in accordance with value-based management[29], which contributes to the acceptance of excessive risk[30] and the domination of short-term goals[31].

The negative impact of this situation is visible, among others, in the case of Citigroup, where the CEO, Ch. Price, received USD 138 million for a short period of good results, despite the fact that in the long term his risky investment policy led to a fall in share price from USD 47 in 2003 to USD 0.72 in 2007. Similarly, in the case of the Merrill Lynch, CEO, S. O'Neal despite leading to a loss of USD 19 billion in 2007, received a total of over USD 321 million for the period 2002–2007, in which he held his office[32].

The role of investments and organizational changes seems to be underestimated, these can be costly in the short run, but enable achieving a competitive advantage as well as a stable, long-term growth of a company. An example of a wrongly accomplished policy would be the situation of Goldman Sachs, where short-term profits from the sale of CDO contributed to long-term image losses and court cases[33].

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27 **W.M. Orłowski**, *Dziesięć przyczyn kryzysu i ich analiza*, in: **J. Szambelańczyk** (ed.), *Globalny kryzys finansowy i jego konsekwencje w opiniach polskich ekonomistów*, Wydawnictwo Banków Polskich i Ernst & Young, Warszawa 2009, pp. 8–12.

28 **A. Samborski**, *Kryzys finansowy a nadzór korporacyjny*, Problemy Zarządzania 2011/9, pp. 236–247.

29 **S. Wyciślak**, *Globalny kryzys finansowy 2008. Przyczyny – zarażanie – skutki*, Biuletyn Międzynarodowy Instytutu Nauk Politycznych i Stosunków Międzynarodowych Uniwersytetu Jagiellońskiego 2008/24, pp. 2–4.

30 **T. Nieborak**, *Globalny kryzys finansowy – istota, przyczyny, konsekwencje*, Ruch Prawniczy, Ekonomiczny i Socjologiczny 2010/72, pp. 98–102.

31 **T. Clarke**, *Corporate Governance Causes of the Global Financial Crisis. International Perspectives*, Cambridge University Press, Cambridge 2011, pp. 28–49.

32 **J.C. Bogle**, *Enough: True Measures of Money, Business, and Life*, Wiley & Sons, Hoboken 2009, pp. 38–39.

33 **G. Szulczewski**, *Etyka przywództwa korporacyjnego w kontekście doświadczeń związanych z kryzysem 2008+*, Prakseologia 2011/151, p. 144.

The emergence of financial innovations should be considered as a factor that additionally facilitates the impact of these adverse phenomena on the functioning of financial markets. The widespread use of derivatives and the growing importance of international institutional investors with enormous financial resources, as well as development in the field of IT and telecommunications, have allowed the development of trading, including algorithmic trading and high frequency trading[34].

Algorithmic trading was based on employees called *quants* who were preparing automatic trading systems for an institution. Until 2007, institutions employing *quants* enabled them, in order to maximize profits, to make very risky assumptions in the created forecasting models. *Quants* had also the opportunity to set favourable (for them) assumptions to allow the possibility of increasing their profit, this increased the number of risks to the company. Such actions should be considered unethical from the point of view of being a professional financier and manager.

The managers of financial institutions taking up excessive risk may also be facilitated by the centralization of risk management. Due to a large number, diversification and dynamics of the changes of the situation on the markets, the centralization may make the proper risk assessment in particular market segments difficult. The level of risk, set correctly for all the financial institutions, may prove not to be appropriate for particular local markets, which may lead to local imbalance. Moreover, a cumulation of different kinds of risk may not always be taken into account in the analyses, e.g. the risk of granted loans and sold insurances for the same customer by various companies belonging to one holding[35].

3.2. Ethics and morality of the people involved in finance in the light of the Kohlberg theory

In the ethics of risk, the concept of ethical risk has been introduced, whose analysis includes: disclosure, moral assessment, formulation of moral judgments for and against taking risks, and moral assessment of the risk assumed. According to business ethics, risk mitigation cannot be limited to mathematical risk

[34] High frequency trading involves opening and closing positions in seconds or even milliseconds. Due to the very short investment period, the time of making decisions and reaching the buy/sell order to the exchange server may be crucial for the obtained rate of return.

[35] **S. Łobejko**, *Globalizacja a współczesny kryzys finansowy*, Europejska Wyższa Szkoła Informatyczno-Ekonomiczna w Warszawie, Warszawa 2012, pp. 6–9.

calculation[36] and making decisions based only on its results – first of all, the axiological and ethical dimension must be taken into account.

The functioning of financial institutions in an ethical way is conditioned by the perception of particular social norms by the people involved in these institutions. A special responsibility is placed on middle and upper-level managers as well as on investors who actively cocreate the strategy of functioning of those institutions[37]. An important role, however, is also played by the ways that acting of employees implement the worked-out solutions and represent financial institutions in direct contact with the customer.

Given that this study intends to contribute to the analysis of the role of the morality of people employed in such organizations, it was proposed to use the cognitive moral development theory (CMD) proposed by L. Kohlberg[38]. Despite the criticism of using CMD in business ethics[39], in particular in the context of the possibility of prediction of the ethical behaviour in a business organization[40], it has been demonstrated that using CMD allows explanation[41], prediction and facilitation[42] of employees' ethical behaviour. According to J.R. Goolsby and S.D. Hunt[43] there are "strong empirical foundations" for using CMD as a "key construct" in future business ethics research.

It is necessary to distinguish between ethics and morality. Ethical principles are general, philosophical assertions arising from a specific worldview. On their basis it is possible to create specific moral rules that determine the actions taken.

An important subject of the L. Kohlberg theory is the structure of moral judgement, related to the characteristic for each of the three distinguished levels of

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[36] **G. Szulczewski**, *Etyka przywództwa korporacyjnego*..., pp. 138–141.

[37] **D. Mminele**, *Ethics in finance and financial markets*, BIS central bankers' speeches, Johannesburg, 28 October 2014, pp. 1–3.

[38] **L. Kohlberg**, *Stage and Sequence: The Cognitive Developmental Approach to Socialization*, in: **D. Goslin** (ed.), *Handbook of Socialization Theory and Research*, Rand McNally, Chicago 1969; **L. Kohlberg**, *The Philosophy of Moral Development: Moral Stages and the Idea of Justice*, Harper & Row, San Francisco 1981.

[39] **J. Fraedrich**, **D.M. Thorne**, **O.C. Ferrell**, *Assessing the Application of Cognitive Moral Development Theory to Business Ethics*, Journal of Business Ethics 1994/13 (10), pp. 833–836.

[40] **J. Fraedrich**, **O.C. Ferrell**, *Cognitive Consistency of Marketing Managers in Ethical Situations*, Journal of the Academy of Marketing Science 1992/20, pp. 246–247.

[41] **L.K. Trevino**, *Moral Reasoning and Business Ethics: Implications for Research, Education and Management*, Journal of Business Ethic 1992/11 (5), pp. 447–451.

[42] **D.R. Nelson**, **T.E. Obremski**, *Promoting Moral Growth Through Intra-Group Participation*, Journal of Business Ethics 1990/9 (9), pp. 733–736.

[43] **J.R. Goolsby**, **S.D. Hunt**, *Cognitive Moral Development and Marketing*, Journal of Marketing 1992/56, p. 66.

moral development social-moral perspective, which constitutes the characteristic viewpoint for approaching moral problems and forming moral judgements[44]. The social-moral perspective regards the relations of human and social-cultural rules and norms as well as other people's requirements and expectations.

According to L. Kohlberg morality is complex and polymorphous. Three levels of moral development are distinguished, the preconventional, conventional, and postconventional morality. For those representing preconventional morality, an egocentric and individual perspective is characteristic, in the case of which social rules and norms are not internalized and are external to a person. Due to a very limited understanding of the role of social norms as well as limited sensitivity to the expectations of other people, the behaviours are mainly subject to external control. Conventional morality is a result of the internalization of social rules and norms of the environment in which a person lives and with which they enter into mutual interactions. In the case of postconventional morality, the subject understands and accepts the social rules and norms, but the dominating role in the interactions with the environment is played by following general, absolutely binding moral rules, such as justice, equality or respect for life and dignity of the human person.

Moral development is dependent on the cognitive developmental level and the existence of proper environmental influences. According to L. Kohlberg, the influences of the environment need to be regarded in the categories of adopting roles and the circumstances suitable for their adoption, i.e. situations in which an individual has a chance to adopt attitudes of other people engaged in a particular process and incorporating it into the mechanism of his or her own conduct[45].

3.3. *Homo pecuniosus*

The concept of *homo pecuniosus*, meaning "money man", has been proposed by J. Filek[46] first of all in relation to people responsible for the creation of the sphere of finance – the middle and upper-level management of financial institutions and investors.

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44 **D. Czyżowska**, *Środowiskowe uwarunkowania społeczno-moralnego rozwoju w koncepcji L. Kohlberga*, Zeszyty Naukowe UJ Prace Psychologiczne 1993/8, pp. 31–35.

45 **N. Brady**, **D. Hart**, *An Exploration into the Developmental Psychology of Ethical Theory with Implications for Business Practice and Pedagogy*, Journal of Business Ethics 2007/76 (4), pp. 399–409.

46 **J. Filek**, *Czy finansista jest człowiekiem (moralnym)?*, Prakseologia 2010/150, pp. 71–72.

The money man is focused on calculating. Their relentless tendency to calculate the value of everything and everyone is conditioned by the unlimited striving for ownership and power. According to J. Filek[47], the money man is totally unfree, because his/her need to possess makes orientation on others, treating them as subjects rather than objects or behaviour in line with the socially accepted norms impossible. They are indifferent towards ethical values, which seems to be a result of treating a human and the whole society like an object, as well as the lack of ethical reflection caused by the lack of empathy and adopting the roles of other people.

In line with the above it seems that the money man represents the preconventional level of moral development, for which an egocentric and individual perspective is characteristic, related to the primacy of satisfying individual needs and concentrating on individual interests as well as moral heteronomy depicted by following the rules only because of substantial sanctions in the cases of not following them, which became apparent during the 2007–2010 crisis. It is also justified to state that one of the most important causes of the crisis was the lack of proper market regulation, tailored to the limitations of financial institutions and the level of ethics and the morality of the people employed in them.

4. Conclusions

The Subprime Mortgage Crisis can be seen as one of the manifestations of the increasing dysfunctionality of the global financial system over the years. The process of incomplete globalization combined with deregulation and liberalization of financial markets, implemented in the spirit of the assumptions of the rationality of financiers, contributed to the situation in which some of the entities involved in trading of financial instruments (e.g. SPV) were completely outside control, and some due to taking off-balance sheet investments had prudential capital requirements inadequate to the taken risk.

The crisis exposed all the weaknesses of that financial market, whose shape should be treated as the result of the interaction of the pre-crisis state and society. The rebuilding the architecture of the post-crisis financial system should be based on the idea of order ethics (*Ordnungsethik*) by K. Homann, also called institutional ethics, which has been developed within the ordoliberal tradition.

Order ethics is a vision of a society based on cooperation, in order to achieve mutual benefits, in which the free market is guaranteed by state by cre-

[47] *Ibidem*, pp. 73–79.

ating proper legal order. This order should be based on norms that make the ethical acting profitable for the individual and such behavior is rewarded with a competitive advantage[48].

In this respect, it should be agreed with A. Greenspan that the 2007–2010 crisis was a failure of the regulators more than of the free market itself[49]. In the US, an example would be a departure from the Taylor's rule after 2000 or too wide-scale interventionism first in relation to the mortgage market (Freddie Mac, Fannie Mae) and after that in the bail-out policy. These kind of regulations are in conflict with order ethics, as they indirectly introduce norms according to which unethical acting can be also profitable. These kind of regulations also lead to the gradual transformation of the free market into a "network of the strongest"[50].

In this context, attempts to introduce new financial market regulations which have been taken for over 10 years should be assessed positively. The European Union has implemented a *"single rulebook"* that includes, among others: Capital Requirements Directive (CRD)[51] and Capital Requirements Regulation (CRR)[52], Single Supervisory Mechanism Regulation (SSMR)[53] and Single Resolution Mechanism Regulation (SRMR)[54], Bank Recovery and Resolution Directive (BRRD)[55], Deposit Guarantee Schemes Directive (DGSD)[56], Markets in Financial Instruments Directive II (MiFID II)[57] and a regulation (MiFIR)[58], European Market Infrastructure Regulation (EMIR)[59], The Prospectus Regulation[60], Solvency II Directive[61] or Payment Services Directive 2 (PSD 2)[62]. In the United States, the Dodd-Frank Wall Street Reform and Consumer Protec-

48 **C. Lütge**, *Fundamentals of order ethics: law, business ethics and the financial crisis*, in: **T. Bustamante**, **O. Onazi** (eds.), *Global Harmony and the Rule of Law*, Franz Steiner Verlag, Stuttgart 2012, p. 12.

49 **J. Sójka**, *Etyka biznesu po kryzysie*, Prakseologia 2015/157 (2), p. 22.

50 **G. Szulczewski**, *Rozważania o miejscu etyki i moralności w teorii i praktyce gospodarczej*, Oficyna Wydawnicza SGH, Warszawa 2013, p. 123.

51 Official Journal of the European Union, L 176, 27 June 2013, p. 338.

52 *Ibidem*, p. 1.

53 Official Journal of the European Union, L 287, 29 October 2013, p. 63.

54 Official Journal of the European Union, L 225, 30 July 2014, p. 1.

55 Official Journal of the European Union, L 173, 12 June 2014, p. 190.

56 *Ibidem*.

57 *Ibidem*, p. 349.

58 *Ibidem*, p. 84.

59 Official Journal of the European Union, L 201, 27 July 2012, p. 1.

60 *Ibidem*.

61 Official Journal of the European Union, L 335, 17 December 2009, p. 1.

62 Official Journal of the European Union, L 337, 23 December 2015, p 35.

tion Act (Dodd-Frank Act) was adopted in 2010, the regulation arrangements of which were partly eased in 2018 by the Economic Growth, Regulatory Relief and Consumer Protection Act. In response to the crisis, the Basel Committee on Banking Supervision has developed new standards in the so-called *Basel III*[63], followed by *Basel IV*[64].

Opinions on the role of these regulations in shaping the post-crisis boundary conditions for the functioning of financial institutions are divided. Some researchers indicate that the role is significant[65] or even postulate to ease restrictions[66]. Some indicate that there was a small qualitative change[67] and the "business model of mainstream banks has not really changed"[68].

The 2007–2010 crisis was a crisis of trust in the financial institutions and their regulators, caused by the dysfunctionality of institutional structures and common lack of ethics of employees employed in these institutions. The incorrect functioning of financial institutions seems to be conditioned by the often unethical and unworthy actions of people who were responsible for not only these institutions but also for the authority of the financial market.

In addition to rebuilding the financial system in the spirit of *Ordnungsethik*, in order to create appropriate boundary conditions for the functioning of financial institutions, it also seems necessary to change the business ethics paradigm.

On the one hand, the mission of business ethics should be to promote specific patterns of activity and reflection on moral norms in relation to economic activity should be minimalist and realistic[69] – limited to formulating rules of fair exchange, devoid of the aspiration to shape people and transform the whole world.

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63 **Basel Committee on Banking Supervision**, *Basel III: A global regulatory framework for more resilient banks and banking systems*, Bank for International Settlements, Basel 2010.

64 **Basel Committee on Banking Supervision**, *Basel III: Finalising post-crisis reforms*, Bank for International Settlements, Basel 2017.

65 **A. Schafer**, **I. Schnabel**, **B.W. di Mauro**, *Financial Sector Reform after the Subprime Crisis: Has Anything Happened?*, Review of Finance 2016/20 (1), p. 123.

66 **P.G. Mahoney**, *Deregulation and the Subprime Crisis*, Virginia Law Review 2018/104 (2), p. 239.

67 **H. Kołodziejczyk**, *Geneza kryzysu hipotecznego w USA z perspektywy dekady*, Ruch Prawniczy, Ekonomiczny i Socjologiczny 2016/78 (4), p. 225.

68 **E. Paulet**, **M. Parnaudeau**, **F. Relano**, *Banking with Ethics: Strategic Moves and Structural Changes of the Banking Industry in the Aftermath of the Subprime Mortgage Crisis*, Journal of Business Ethics 2015/131 (1), p. 199.

69 **J. Sójka**, *op. cit*., pp. 25–27.

On the other hand, axiological assessment of the actions taken, their effects, as well as the leadership[70], the culture of the organization and the organization as a whole is necessary. The idea can be confirmed by F. von Hayek's assertion that free society requires that people in their actions must be guided by a sense of responsibility that goes beyond legal regulations and that individuals are responsible for both the successes and failures of their ventures[71]. An example of a comprehensive approach can be the corporate ethical management model proposed by D. Lennick and F. Kiel[72].

The 2007–2010 crisis should be a premise for both reconstruction of the financial system in the spirit of properly understood regulations and for undertaking the mentioned activities within business ethics in order to prepare for making difficult decisions during crises that will certainly come.

Economic crises are unavoidable, but their scale and course can be significantly different if truly ethical people, institutions, and authorities are responsible for the stability and rule of law of the economic system.

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70 **N. Hartman**, *Ethik*, Walter & Co., Berlin 1962, p. 396.

71 **F. von Hayek**, *The Constitution of Liberty*, The University of Chicago Press, Chicago 1978, p. 85.

72 **D. Lennick**, **F. Kiel**, *Inteligencja moralna*, Purana, Wrocław 2007, pp. 37–50.

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KRYZYS 2007–2010 Z PERSPEKTYWY DEKADY: PRZYCZYNEK DO ANALIZY ROLI KULTURY ORGANIZACJI I STANDARDÓW ETYCZNYCH W ZARZĄDZANIU INSTYTUCJAMI FINANSOWYMI

Abstrakt

Przedmiot badań: Z perspektywy dekady wydaje się, że warto spojrzeć na kryzys 2007–2010 z innej niż zwykle perspektywy – z perspektywy aksjologicznej. Uzasadnione wydaje się przeprowadzenie analizy wpływu kultury organizacji i etyki pracowników na funkcjonowanie instytucji finansowych w sytuacji kryzysowej.
Cel badawczy: Celem artykułu jest ustalenie, czy kryzys aksjologiczny instytucji finansowych można uznać za jedno z najważniejszych źródeł kryzysu kredytów hipotecznych subprime.
Metoda badawcza: Przeprowadzono konceptualną analizę literatury przedmiotu oraz analizę współzależności czynników (kultury organizacyjnej i standardów etycznych) w kontekście procesów liberalizacji i niepełnej globalizacji jako systemowych przyczyn kryzysu.
Wyniki: Polityka liberalizacji i deregulacji rynków finansowych doprowadziła do zwiększenia wpływu instytucji finansowych na wzrost gospodarczy i stabilność systemu finansowego. Załamanie gospodarcze w 2007 r. ujawniło słabość systemu finansowego spowodowaną istnieniem dysfunkcyjnej kultury organizacyjnej i struktur zarządzania.
Kryzys z lat 2007–2010 był kryzysem zaufania do samego systemu finansowego spowodowanym powszechnym brakiem etyki i skalą ujawnionych nadużyć. Można wskazać następujące czynniki związane z rolą etyki w zarządzaniu instytucjami finansowymi: 1) Kultura organizacji: dysfunkcjonalność części instytucji finansowych wydaje się być w dużej mierze uwarunkowana dominującym typem kultury organizacji – skrajną formą kultury rynkowej, której celem jest maksymalizacja zysku w krótkim okresie i osiągnięcie poziomu wskaźników giełdowych satysfakcjonującego akcjonariuszy; 2) Etyka i moralność osób zajmujących się finansami: szczególna odpowiedzialność spoczywa na menedżerach średniego i wyższego szczebla, pracownikach wdrażających wypracowane rozwiązania, a także inwestorach, którzy aktywnie współtworzą strategię funkcjonowania tych instytucji.
Kryzys 2007–2010 może stanowić przesłankę do przebudowy systemu finansowego w duchu *Ordnungsethik*, jak i zmiany paradygmatu etyki biznesu, która powinna promować określone wzorce działania i aksjologiczną ocenę podjętych działań, ich efektów, a także przywództwa, kultury organizacji i całej organizacji. Takie działania pozwolą przygotować globalny system finansowy do kryzysów, które z pewnością nadejdą.

Słowa kluczowe: globalizacja, etyka, teoria rozwoju rozumowania moralnego, *Ordnungsethik*, kryzys 2007–2010.