Federal Reserve Bank of New York

Lessons on Culture: A Year in Review

Toni Dechario

March 2022

The views expressed in this paper do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System. Thanks to Stephanie Chaly, Jim Hennessy, Brian Manning, Tom Noone and Esra Ozer for their helpful insights and comments on earlier versions.

The year 2021 was a busy one for the New York Fed's Culture Initiative. My colleagues and I produced six webinars and nine episodes of a podcast series on banking culture reform (see links to all events below). We heard from psychologists, bankers, regulators, a neuroscientist, a NASA flight director, a tech industry executive, and a former engineer, among others. These experts provided a variety of perspectives about organizational culture, and there were common themes among their contributions. Here, we will collect some of those themes to build upon these lessons for the future.

By way of background, the New York Fed launched its Culture Initiative in 2014 as a cross-organizational effort designed to shine a spotlight on culture in the financial services industry. We hoped to learn, alongside market participants and our fellow regulators, how culture influences conduct and misconduct, what can be done to influence culture, and, ultimately, how to restore public trust in financial services. The initiative kicked off against the backdrop of the financial crisis and subsequent scandals involving rate-rigging, mis-selling, rogue trading, fake accounts, and so on. There were patterns of behavior behind these incidents, many of which occurred across firms. We wanted to encourage the financial services industry to examine these behavioral patterns and address their underlying causes, including the role of cultural norms.

One lesson was clear from the start: there isn't a simple fix in controls or hiring practices that can address cultural problems. As our colleague Kevin Stiroh pointed out in 2018,[1] culture is a "complex problem" that should be considered from multiple angles. An organization's culture is born out of many dynamic factors that interact with one another and with the external environment, and these contributing factors evolve and change over time. Therefore, to effectively address culture, organizations need to understand the unique combination of factors and norms that constitute their own cultures at any given time. In the years since launching the New York Fed's Culture Initiative, we've endeavored to explore how that process might most effectively work, and we have learned a great deal along the way. Last year was no different.

---

[1] Kevin J. Stiroh, The Complexity of Culture Reform in Finance, remarks at the 4th Annual Culture and Conduct Forum for the Financial Services Industry, October 4, 2018

Below are five key lessons that emerged in 2021, along with potential applications of these lessons in practice. To be sure, this is not a comprehensive review of all that we've explored about culture over the years or even in 2021 alone, and there are other fulsome examinations of organizational culture out there (several of which are featured on our website).[2]

Lesson 1: Context is everything.

Culture is often referred to as the collection of shared norms within a group that influence the group's behaviors. To quote our New York Fed colleagues Michael Held and Tom Noone, "Culture must be shared. Culture concerns groups, not individuals." Yet individual identity is critical to understanding group culture, because we make choices as individuals, and these choices are shaped by the perceptions we have of ourselves. And our identities – how we see ourselves – often depend on context.

Several speakers in our webinars and podcasts last year described how we all have multiple identities that we move between regularly. The identity that we assume at any given moment is based on cues in our environment. For instance, you might receive a phone call from your child while at work and seamlessly shift identities from "manager" to "parent." This is important because each identity has a unique set of norms and behaviors associated with it, so we may act differently depending upon which identity is salient to us at a given time. Furthermore, as Betsy Levy Paluck describes in Episode 7 of the podcast series, many of our identities are also *shared* ones, jointly created and associated with particular shared norms and values. It would follow, then, that our choices can be heavily influenced by those who share whatever identity has been most recently activated for us by our immediate environment, or even by our most recent interaction.[3]

---

[2] https://www.newyorkfed.org/governance-and-culture-reform

[3] A much-discussed but somewhat controversial example is a 2014 study indicating that otherwise "honest" employees of a large international bank behave less honestly when their professional identity as bankers is made salient. The suggestion is that the shared identity of "banker" may bring with it a set of norms that prizes – or excuses – dishonesty. See Cohn, A., Fehr, E. & Maréchal, M. [Business culture and dishonesty in the banking industry](). Nature 516, 86–89 (2014).

Shared norms are certainly shaped by those who share identities with us, but they may also be based on the views and expectations of those who do *not* share our identities. One well-known study of this phenomenon is Robert Rosenthal and Kermit Fode's 1963 experiment on how researchers' biases about the relative intelligence of rats – based on "smart" and "dumb" signs placed on the rats' cages – led to inferior performance among those rats that were labelled "dumb" and superior performance among those labelled "smart." The signs had been placed randomly, but the researchers working with the rats didn't know this. Their attitudes toward the rats actually impacted those rats' performance.[4] Carol Dweck has shown similar effects of the power of expectations on human behaviors and self-regard.

It may follow, then, that the weight of external expectations about a given shared identity could shape the behaviors of individuals that associate themselves with that identity and therefore affect their shared norms. In Episode 9 of the podcast series, Mikael Down discussed the potential for bankers who start off wanting to serve a noble and useful purpose to become worn down by persistent criticism—using talk of "greedy bankers" as an example, especially in the wake of the global financial crisis. This can leave them demoralized, vulnerable to making bad choices, and ultimately behaving just as the world expects them to. We are susceptible to others' views of us – positive and negative, from within our group and from outside – and we may rise or fall according to their expectations.

David Grosse provides us with one great illustration of the power of shared identity in Episode 6 of the podcast series, describing his own orderly behavior at rugby matches versus his more raucous behavior at soccer matches. He describes "David, Rugby Fan" and "David, Soccer Fan" – two entirely different identities with entirely different sets of behaviors based on the norms he sees, expects, and ultimately embodies in different settings.

In Episode 2 of the podcast series, Taya Cohen presents another example of how shared identity influences behavior: in this case, it's the identity of competitors in a game, in what she

[4] Rosenthal, R. and Fode, K.L. (1963), The effect of experimenter bias on the performance of the albino rat. Syst. Res., 8: 183-189.

refers to as "game framing."[5] This occurs when an employee applies a "game" mindset to their work. That is, they are making decisions in the context of a particular set of (adversarial) rules that are considered appropriate within the context of the game, but which would never be considered appropriate in "real life" (and indeed might be considered ethically questionable). A competitor in a game can justify otherwise unscrupulous behavior in terms of the parameters set out by the game's rules. After all, they're "just playing the game," and they didn't make the rules. This mindset allows "competitors" to absolve themselves from taking personal responsibility for their actions, achieving what Cohen refers to as "moral distancing."

A timely question to consider in the context of this lesson is whether remote work activates different identities than in-person office environments. For instance, might a home office induce more ethical behavior in a parent because their identity as a role model for their children is more salient when working from home? Or might the saliency of familial identity create distance from workplace identities, privileging personal ambitions over a commitment to a shared professional purpose? What might the answers to these questions imply for an eventual return to the office?

Applying the lesson

If individual behaviors can be even partially attributed to a salient shared identity, then it would reasonably follow that influencing shared identities – both the norms associated with a given identity and which identities are made most salient – can help to influence culture.

1. *Shape the norms: Identify small groups with shared identities, then tackle one group or identity at a time.* In our webinar on Diversity, Equity & Inclusion and Culture, Betsy Levy Paluck described a study in which she performed an analysis of middle school networks to identify existing subgroups or cliques. She then worked directly with the most influential members of each group – those who garnered the most attention from others – to adjust their behaviors. Because these were the most "watched" individuals in

[5] Cohen describes the concept of game framing in her paper: Cohen, T.R., Helzer, E.g., & Creo, R. A. (2022) Honesty among lawyers: Moral character, game framing, and honest disclosures in negotiations. *Negotiation Journal*

each clique, a change in their individual behavior effectively shifted the norms associated with the whole group.[6]

Practically speaking, it is a big job to break down an entire organization into its component networks of shared identities and address each group individually. What can work, according to Alexandra Chesterfield, is to begin by targeting the groups that are most prone to behavioral issues – for instance, those with the most concerning survey results or high levels of compliance breaches.[7]

2. *Activate ethical identities: Increase the saliency of identities associated with the norms you want to see.* If particular norms and behaviors are associated with particular identities, and individuals can "inhabit" multiple identities throughout the day, then it may be useful for organizations looking to impact behaviors to do so by making a particular identity especially salient to members of staff. There may be symbols or reminders that can activate identities associated with positive or ethical behaviors. For instance, in episode 2 of our podcast series, Taya Cohen suggests that something as simple as a well-placed mirror (actual or symbolic) could remind us that we are personally responsible for our actions – potentially combatting bad behaviors that could be temporarily excused by a "game frame."

Lesson 2: We don't always recognize our own behaviors.

Several experts we heard from in 2021 emphasized our inability to objectively judge our own behavior. They described multiple studies illustrating how we can neither effectively predict our behavior ex-ante nor objectively evaluate our decisions ex-post. When reflecting on our past

---

[6]Paluck describes this approach in a clip called "How Engaging Certain Individuals Can Change Culture for Everyone," featured at [New York Fed Web Series on Culture: Diversity, Equity & Inclusion](). The study she references can be found [here]().
[7] [New York Fed Web Series on Culture: Culture Diagnosis and Behavior Change—Learnings from the Field]() (September 27, 2021)

behaviors, we rationalize and justify. When asked to forecast future behavior, we expect to behave more ethically than we actually will. In other words, we all think we will do the right thing. In practice, however, our actions don't always align with our expectations.

As Elizabeth Johnson described in Episode 5 of the podcast series, we cannot consciously access our own neuroprocessing, so our descriptions of what's going on in our minds can often be quite different from our brain's actual observable activity. We regularly tell ourselves stories to justify our choices and frame our own behavior in the most flattering light. We're especially prone to rationalizing our behavior when we can distance ourselves from outcomes and when circumstances redefine behaviors for us (such as in the previously cited example of game framing).

Applying the lesson: Increase self-awareness.

1. *Expand people's range of vision:* As noted above, it can be easy to rationalize or lose sight of the implications of your actions when you are removed from outcomes. It's more difficult to make harmful choices if you must survey the damage you've caused. Therefore, any interventions that can expand our range of vision and shorten distances between inputs and outcomes may help to stimulate more reflective and clear-eyed decision-making. This will become even more important in the future since increased digitization is likely to only increase those distances.

2. *Cognitive dissonance can be a useful tool:* According to *Psychology Today*, cognitive dissonance is "the state of discomfort felt when two or more modes of thought contradict each other. The clashing cognitions may include ideas, beliefs, or the knowledge that one has behaved in a certain way."[8] We will generally adapt our behavior to resolve cognitive dissonance, if we can. But if we don't recognize our actions for what they are, then we probably won't recognize instances where our actions are inconsistent with our views of ourselves – in other words, we won't experience cognitive dissonance. By

[8] See Cognitive Dissonance, Psychology Today

establishing expectations about employee conduct – such as the "banker's oath" that David Grosse suggests in Episode 6 of the podcast – and then reflecting people's actual behaviors back to them, organizations may increase the potential for self-correction in cases where the two are not aligned. The creation of clear expectations can also help to counteract other expectations that might be driving behaviors (such as in the case of the lab rats described above).

Lesson 3: Normalize challenge. Acknowledge mistakes. Learn from each other. Repeat.

Many executives understand the benefits of creating a climate in which people feel safe to speak up, challenge, or dissent – and they see the dangers of cultures that discourage these behaviors. But building such an environment can be a challenge. The pressures to stay quiet can be strong. According to the Financial Services Culture Board, people fail to speak up for two main reasons: (i) fear, and (ii) futility.[9]

Fear can manifest in multiple ways. As Preet Bharara put it at our 2016 Culture Conference, it can represent "a human tendency to look the other way. A human tendency not to want to rock the boat. A human tendency to conform, to get along, to be a team player…to avoid ostracism that comes from speaking out. The desire to avoid being branded a troublemaker, or worse, a traitor."[10]

A sense of futility among employees can be just as toxic as fear – and just as difficult to combat. If staff believe that management won't listen or care, they won't bother raising issues when they see them; there is no point in taking the risk. This has the same effect as fear. Either way, a culture of silence will limit information-sharing and, at best, lead to multiple unforced errors.

---

[9] See Rick Borges, Are you listening?, Financial Services Culture Board, July 31, 2019
[10] See Preet Bharara, Criminal Accountability and Culture, remarks at Reforming Culture and Behavior in the Financial Services Industry: Expanding the Dialogue, October 20, 2016

Changing a culture of silence requires a sustained effort on the part of management to model the behaviors that they want to see. Managers need to normalize the practices that they want to see, and they need to recognize efforts among staff to bring issues to their attention.

Applying the lesson: Formality can provide both cover and certainty.

1. *Combat fear by normalizing challenge and acknowledging mistakes*: Whether the fear is about retribution or about appearing confrontational, organizations can help to "normalize" challenge behaviors by creating more formal, "named" challenge practices. These provide opportunities for staff to practice constructive dissent. Through repeat experiences in a safe, dedicated environment, staff will become more familiar with what it feels and sounds like to raise issues and to hear others do so. They may then feel more comfortable doing so when it really matters. It is in this spirit that Betsy Levy Paluck suggests[11] that firms dedicate explicit space and time for purposeful and deliberate challenge, such as red teaming[12] or assigning "devil's advocates."

   By implementing regular "lessons learned" discussions, organizations can also routinize the process of acknowledging and exploring mistakes. Conversations that celebrate curiosity about failure can spur creativity and growth. In Episode 4 of the podcast series, Holly Ridings shared how NASA's introduction of regular "lessons learned" exercises has built a healthy habit among staff, who now find themselves almost compulsively mining their experiences for lessons learned in all aspects of their lives. In Episode 8, Mark Roe suggested that regular leader-led discussions of their own lessons learned can help pave the way for staff to acknowledge mistakes and value the insight that they provide. Real-life examples of leaders reaping the rewards of reflection can encourage employees to emulate the modeled behaviors.

---

[11] See Episode 7 of the New York Fed's Banking Culture Reform podcast.

[12] "Red Teams" are independent groups charged with identifying weaknesses in a team's strategy. The concept originated in the military and is often deployed as a cybersecurity tool. See the National Institute of Standards and Technology definition.

2. *Combat futility through repeatable processes that generate a climate of mutual respect:* Formal structures and practices can help to dispel the idea that there is no point in speaking up since nobody will listen or nothing will change. If an employee offers feedback that management fails to acknowledge, she may feel snubbed, as if her views aren't respected. The employee may not offer her feedback the next time around, even if that new piece of feedback would be of great value to the organization, because she feels resentful about the earlier rebuff. If executives want employees to raise the alarm when something is wrong, it is essential that they take *all* employee feedback seriously, whether they ultimately act on it or not. A regular practice of listening and acknowledgement is critical to creating a climate in which people are willing to raise issues when they see them. In Episode 3 of the podcast series, Mark Mortensen exhorts executives to have a process in place for taking in and responding to concerns, so that people know what to expect, and so that some form of response or acknowledgement is guaranteed.

   In addition to putting all the right acknowledgement structures in place, executives need to listen if they want to create a culture in which people are willing to raise issues and challenge. And listening isn't necessarily easy, especially for executives. In Episode 5 of the podcast series, Elizabeth Johnson cited research[13] indicating that senior managers tend to have lower levels of social cognition and empathy than those lower in the hierarchy. If this is the case, then it makes sense that leaders don't make the best listeners. But there is hope. Johnson also suggests that through practice, we can grow our capacity for empathy. She recommends a perspective-taking exercise[14] that can help leaders acquire the practice they need to increase empathy and listening skills. Indeed, she suggests that groups that have engaged in these exercises benefit from more effective teamwork, higher levels of trust, and more psychological safety – and the effect is shown

[13] For discussion of research on this topic, see Lou Solomon, Becoming Powerful Makes You Less Empathetic, Harvard Business Review, April 21, 2015

[14] Michael Platt, Vera Ludwig, Elizabeth Johnson and Per Hugander, Perspective Taking: A Brain Hack That Can Help You Make Better Decisions, Knowledge@Wharton, March 22, 2021

to last for some time.

The key to all these practices is their normalization. Some of them may feel awkward or unnatural at first. With practice, they become familiar and habitual. As with anything, our "speak up" muscles get stronger with repeated use.

Lesson 4: Harness the innate motivation to succeed, and direct it toward the behaviors you want to see.

Another common theme from discussions this past year was the idea that everybody wants to excel at their job. Similar to our need to see ourselves as better than our actions might imply and our need for validation and acknowledgement, most of us simply want to succeed. Importantly, we also want others to see us as successful.

Notions of what constitutes success are an integral part of an organization's culture. In most organizations – and certainly in financial services – success can be defined by who is compensated the most, as well as who is promoted or achieves other forms of status such as large spans of control or plum assignments. These markers of success are mainly conferred by the organization's management.

We look to successful people in our organizations to see how they behave, since their behaviors got them to where they are today. It is logical to assume that the behaviors that were rewarded in the past – through promotion and other benefits – are those that are most valued within a culture, and that these behaviors will bring the greatest future success.

In Episode 7 of the podcast series, Betsy Levy Paluck described research by Jennifer Dannals and Dale Miller that suggests it is the most junior members of an organization to whom we should look to understand the local culture. These are the people that are most likely to be tracking and emulating the norms they see around them, particularly when they're just starting out and often most attuned to others (see above for a discussion of the inverse relationship between empathy and seniority).[15]

Applying the lesson: Reframe the "right thing to do" as the winning thing to do.

1. *Reward the right behaviors:* If people want to succeed, and if they will seek success by taking on the behaviors of those who have succeeded in the past, then it rationally follows that organizations can shape their future cultures through the choices they make about which behaviors to reward with markers of success. This is a very simple and powerful lesson. So, it seems that the questions to consider are these: What are the markers of success in my organization? What are the behaviors that management would like to encourage in the organization? Who exhibits these behaviors, and how can they be publicly endowed with markers of success so that others will emulate them?

2. *Appeal to people's self-interest:* In our webinar on Diversity, Equity & Inclusion and Culture,[16] Lasana Harris encouraged the audience to appeal to employees' self-interest. If you want people to change their behaviors, he suggested, you need to show them that they themselves will benefit from the behavioral change. He provided the example of marketers who were convinced to behave more inclusively not because it was the right thing to do, but because it would make them more effective. The targeted marketers were told that their competitors all rely on old, tired stereotypes to market their products – and they were further told that they could be better at their jobs and more successful if they took an approach inspired by more diverse perspectives. The argument for self-interest – not for altruism – was what ultimately changed their behaviors.

   Harris also offered up the example of requiring academics to submit diversity statements as part of their application for a job or an award. In these statements, academics have to

[15] Dannals, Jennifer & Reit, Emily & Miller, Dale. (2020). From whom do we learn group norms? Low-ranking group members are perceived as the best sources. Organizational Behavior and Human Decision Processes. 161. 213-227.
[16] See New York Fed Web Series on Culture: Diversity, Equity & Inclusion, March 1, 2021

describe what they're doing to promote diversity. This simple requirement forces them to consider the question not only from a moral or altruistic perspective, but also from a place of self-interest. It becomes part of their incentive structure.

While the focus of the webinar was on diversity, equity, and inclusion, the lesson can be applied broadly. To change behavior and mindsets, appeal to people's self-interest. Frame the right behaviors not as ethical, but as successful. And then reward people accordingly.

Conclusion

As noted in the introduction to this paper, the lessons shared here represent just a sampling of what we learned from the culture conversations we had in 2021. We would be interested in hearing from others about what they have learned and how they've applied those lessons. What has been most helpful? What are your lessons learned from applying different approaches? We can be reached at NY.FRB.Culture.Events@ny.frb.org. We look forward to continuing the conversation.

Related resources:

2021 Podcast Series

Culture Webinar Series:

1. October 2020: Partnerships in Building Ethical Norms
2. December 2020: Trust & Decision-Making
3. March 2021: Diversity, Equity & Inclusion and Culture
4. May 2021: Purpose and the Employee as Stakeholder
5. July 2021: Culture in a Post-Pandemic Workplace
6. September 2021: Culture Diagnosis and Behavior Change