

ON PRUDENCE IN A BANK: A MATTER OF SUBSTANCE AND CONSISTENCE

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Abstract

In this paper, we take the case of the introduction of an ethics chart in a French bank at the same time when its CEO is confronted to a Senate special commission to defend himself against a charge of perjury in relation to tax evasion by clients. We describe this case in relation to the notion of prudence, once defined by Aristotle and also present in banking regulation through the reference to prudential norms and standards. We try to determine the implicit style of philosophy involved in actors' view of prudence and to assess if it can be used consistently in reference to practical reasoning in situation.

Keywords

Prudence, banking, ethics chart, prudential norms and standards, ratio risk/profit (ROCE)

Introduction

In this paper, we look at the case of a bank and refer its choices to the notion of prudence, one banks and financial institutions have traditionally been associated to. Banks are expected to be prudent, this is why most clients entrust them with their assets and fiduciary properties. As such, directly or via trustees, they abide by prudential norms and regulations so as to maintain the stability of the global financial system. Because this system has recently been hit by a series of crises in relation to systemic risk in markets, questions may be asked as to the meaning of prudence as a reference. The contradiction between the common-sense, everyday life, notion of prudence and the future-oriented speculations of the finance world can be illustrated by the deteriorating image and reputation of the SG bank in the public eye. Because this bank is both engaged in financial activities and retail activities, and because it is one of the largest national bank with a State participation, its reputation has been challenged by various stakeholders, in particular its clients and the State, representing the public interest. We identify this reputational crisis with the suspicion of a lack of prudence in its everyday deals

and operations. Moreover, this bank seems to have been released of most charges not because it was declared innocent after trial, but because, it would appear, it just had the misfortune of attracting more attention than others.

More generally, in the turbulent last ten-years period (since the 2008 subprime crisis), bankers have often been charged with making bad choices with disastrous consequences, and getting away with it due to a very permissive self-regulatory system where bankers' responsibility was seldom engaged. However, although bankers have seldom been sentenced for fraud, their public reputation as a profession has suffered, and this may bear detrimental consequences on their activities. Namely, banks are no longer deemed capable of preventing the systemic risk characterizing financial crises. The existence of a tradition of prudential norms and the additional introduction of CSR standards at macro and meso-level (global and local) have often been complemented by micro-regulations such as ethics codes designed and implemented at the sole initiative of banks board-members. We note that, although these multiple dimensions of the bank regulation have often been described and interpreted, their articulation in a single picture has been missing for lack of a common term. This missing picture of the whole activity as a consistent regime of regulation would, however, be useful for the non-specialists because they would be in a position to assess the choices made by banks in general, and their bank in particular. It would provide a ground for rebuilding a form of trust-based relationship which has been wanting if the regulatory regime happens to be satisfactory. If it is not, it would be argument to motion for a change in regulation in an effort to make it (more) reliable.

In the banking tradition since its origins, a recurrent reference has been the notion of « prudence ». We use prudence as a pivot in a single picture of banking as a prudential service guided by a professional ethos. We first define this notion in reference to the field of banking as part of a system defined by political economy (1). After describing our case-based method

(2), we provide a picture of our case – the SG bank- in context (3) and we describe three emblematic scenes inside this bank where prudence is at stake (4). Finally, we provide an interpretation of the prudential regime of that bank (5). Because this is based on only one case-study, this can only be a preliminary study. Yet, in reference to our initial claim that prudence would be the building-block of the banking system to assess actors' choices and their responsibility, our interpretation may pave the way for future research in reference to political economy and regimes of regulation. More specifically, we attempt to determine whether (a) actors' views on their ethical standards are consistent with an existing regime, and (b) if this standard of action is based on a formal or substantive notion of prudence.

Part I. The notion of Prudence

Prudence can be defined in various ways, depending on its role in different approaches to the field of political economy in particular and practical reason (*phronésis*) in general. We limit our analysis to two distinct traditions: realism in the Aristotelian tradition (1) and constructionist meta-ethics in the utilitarian tradition (2). We then look at their implications (3) regarding the specific case of banking regulation and the use of ethics charts as tools for self-regulation.

I.1. The Realist View. The role of Prudence in Aristotle's realm of sublunary reality

A realist approach to the notion of prudence involves a metaphysical (ontological) view of the real world in relation to ideas and opinions, representations by social actors as they make use of their practical reason. For instance, Aristotle (*Nichomachean Ethics*, chapter 6):

« Practical wisdom [phronesis] ... is concerned with things human and things about which it is possible to deliberate. ... No one deliberates about things invariable, nor about things which have not an end.

Nor is practical wisdom concerned with universals only-it must also recognize the particulars; for it is practical, and practice is concerned with particulars. This is why some who do not know, and especially those who have experience, are more practical than others who know; for if a man knew that light meats are digestible and wholesome, but did not know which sorts of meat are light, he would not produce health, but the man who knows that chicken is wholesome is more likely to produce health.

... What has been said is confirmed by the fact that while young men become geometricians and mathematicians and wise in matters like these, it is thought that a young man of practical wisdom cannot be found. The cause is that such wisdom is concerned not only with universals but with particulars, which become familiar from experience, but a young man has no experience, for it is length of time that gives experience. ...

All the virtues are forms of practical wisdom. [For example, instead of being naturally fearless, to have the true human virtue of courage is to exercise phronesis] ... It is clear, then, from what has been said, that it is not possible to be good in the strict sense without practical wisdom, nor practically wise without moral virtue. »

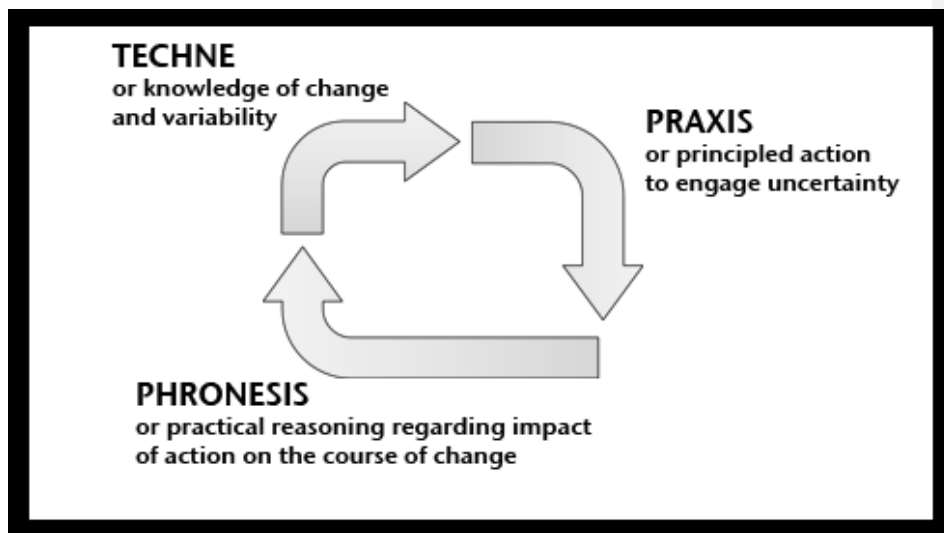
Prudence cannot be reached via science (as mathematics) or by practical skills (such as crafts and techniques). Because prudence is to be referred to wisdom and practical reason, it can be assessed only by a case by case method: *“We may grasp the nature of prudence [phronesis] if we consider what sort of people we call prudent. Well, it is thought to be the mark of a prudent man to be able to deliberate rightly about what is good and advantageous...But nobody deliberates about things that are invariable...So...prudence cannot be science or art; not science [episteme] because what can be done is a variable (it may be done in*

different ways, or not done at all), and not an art [techne] because action and production are generically different. For production aims at an end other than itself; but this is impossible in the case of action, because the end is merely doing well. What remains, then is that it is a true state, reasoned, and capable of action with regard to things that are good or bad for man. We consider that this quality belongs to those who understand the management of households or states". [N.E. 1140a24-1140b12].

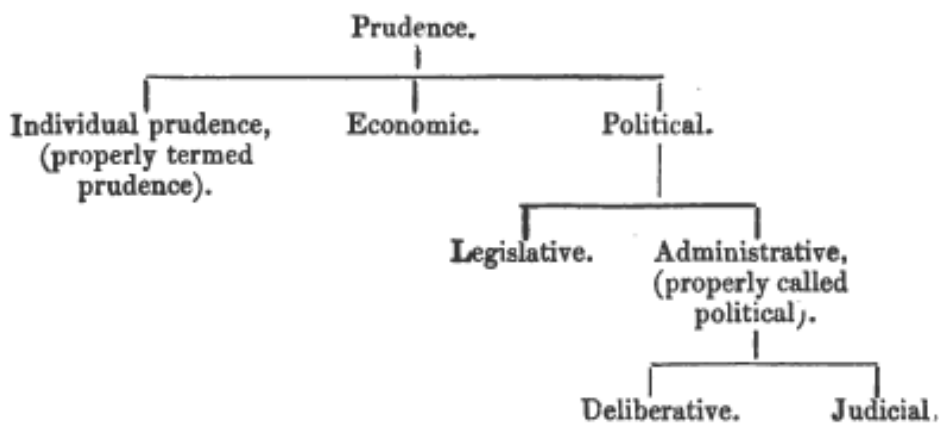
As Aubenque (1963) points out, prudence is mostly the virtue of the ones who truly engage in the deliberative process to make a choice. More specifically, prudence should not be confused with “wisdom” since it is concerned with the aims of an action, whereas prudence mainly deals with its means (Aubenque, 1965: 49).¹

Although it is a knowledge pertaining to particulars (Barnes, 1984), prudence is distinct from practice-based knowledge and technique-based skills. The way it interferes with them consists in a relation of complementarity, it endows them with a future orientation such as a purpose, in Aristotle happiness in relation to the notion of good life as an ideal. Whereas practices and techniques are based on ongoing activities referred to knowledge (past traditions), prudence provides the future prospects of a present choice:

¹ “Ἡ μὲν γὰρ ἀρετὴ τὸν σκοπὸν ποιεῖ ὀρθόν, ἡ δὲ φρόνησις τὰ πρὸς τοῦτον « La vertu morale assure la rectitude du but, la prudence celle des moyens » (13, 1144 a 8-9) (1). Certes, on peut rendre droits les moyens en ayant les yeux fixés sur la bonté de la fin (2). Mais, si l'interprétation du P. Gauthier était exacte, ce serait ici le cas ou jamais pour Aristote de dire que la prudence est la saisie intellectuelle de la rectitude de la fin (rectitude assurée par la vertu), alors qu'il ne se préoccupe, une fois de plus, que de la rectitude des moyens. Et si l'on rappelle ici qu'Aristote cite comme exemple de φρόνιμος le personnage de Périclès (1140 b 8), il faudra bien admettre que, si la φρόνησις n'exclut pas la rectitude de la visée, le mot évoque beaucoup plus irrésistiblement pour Aristote — conformément d'ailleurs à l'usage populaire — le moment « politique » du discernement des moyens, Aristote se contentant d'infléchir le sens banal du mot dans le sens de l'adéquation des moyens à une fin morale. » (Aubenque, 1965 : 49).



Finally, in Aristotle's system of action, because prudence is referred to wisdom as a virtue, with the purpose of happiness, prudence is to be considered at three different levels where deliberation is the method to achieve prudent choices of action given the constant interplay of individual and collective stakes in the City (Polis):



from Brown (1889)

To summarize, in an Aristotelian tradition, prudence is part of a normative system of action with interconnected (Nef et Livet, 2009) levels and scales corresponding to the sphere of

political economy where individual and collective choice meet on issues framed by a broad scope (from home choices to citizenship and universal rights). Although prudence deals with particulars, and it can be gained by experiencing situations, both anchors in good life and the real world can be transposed from one cultural sphere to another, as structures and frames for social connexions. For instance, in the Chinese culture, a view of “prudence” can be identified as a reference for a wise action (Billeter, 2014) and it seems to act in a system which is more or less equivalent to the Aristotelian moral of virtues.

This attention to social norms in reference to a common-sense moral of virtues contrasts with the view of those we call “meta-ethics constructionists”, and in particular those who view of prudence is influenced by their analysis of human behaviour in reference to the utility principle. As Elster (1989: 99) points out: *“One of the most persistent cleavages in the social sciences is the opposition between two lines of thought conveniently associated with Adam Smith and Emilie Durkheim, between homo economicus and homo sociologicus. Of these, the former is supposed to be guided by instrumental rationality, while the behavior of the latter is dictated by social norms. The former is "pulled" by the prospect of future rewards, whereas the latter is "pushed" from behind by quasi-inertial forces (Gambetta, 1987). The former adapts to changing circumstances, always on the lookout for improvements. The latter is insensitive to circumstances, sticking to the prescribed behavior even if new and apparently better options become available. The former is easily caricatured as a self-contained, asocial atom, and the latter as the mindless plaything of social forces. (...) I characterize this contrast more fully, and discuss attempts by economists to reduce norm-oriented action to some type of optimizing behavior. »* This utilitarian constructionism is a form of meta-ethics in the sense that it does not require social norms and an ethic to define a prudent attitude most actors would agree upon, the reference for all behaviours being different depending on interests and preferences, but always consistent with the intention to maximize one’s utility function.

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Commentaire [1]: Transposed, translated, transferred, displaced, transformed ?

I.2. The MetaEthic Constructionism View. Markets and Banking Systems as Specific Social Constructions

Although there may be different varieties of metaethic constructionism, we adopt the one consistent with utilitarianism (plato@stanford.edu, “constructivism in metaethics”, 2011), because it seems to be often mentioned in issues pertaining to the fields of economy and management.

In this approach, according to Hausman, McPherson and Salz (2017: 53) « *rational is often used a synonym for prudence* » and morality is often identified with rationality in the actors' of the economic field approach of morality. What would be seen as a confusion in a realist take is a hint at the nature of the constructionist view of prudence. It is a context-based one, with a formal view of the content of the expected results of a prudent choice. There is no objective permanent view of prudence outside of actors' representation of their situation. More specifically: « *Constructivism in ethics is the view that insofar as there are normative truths, for example, truths about what we ought to do, they are in some sense determined by an idealized process of rational deliberation, choice, or agreement. As a “first-order moral account”—an account of which moral principles are correct—constructivism is the view that the moral principles we ought to accept or follow are the ones that agents would agree to or endorse were they to engage in a hypothetical or idealized process of rational deliberation. As a “metaethical account”—an account of whether there are any normative truths and, if so, what they are like—constructivism holds that there are normative truths. These truths are not fixed by facts that are independent of the practical standpoint, however characterized; rather, they are constituted by what agents would agree to under some specified conditions of choice.* » (plato@stanford.edu, 2011).

For instance, Adam Smith insists on the influence of actors' present position on their representation of the situation, challenging the theory of a universal view of prudence in common sense judgement due to the logic of private interests in reference to the present context as opposed to a temporally neutral view of a desirable future: « *[I]n his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time, the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator, and of the representative of the impartial spectator, the man within the breast. The impartial spectator does not feel himself worn out the labour of those whose conduct he nor by present surveys; does he feel himself solicited by the importunate calls of their present appetites. To him their present, and what is likely to be their future situation, are very nearly the same: he sees them nearly at the same distance, and is affected by them very nearly in the same manner. He knows, however, that to the persons principally concerned, they are very different from being the same, and that they naturally affect him in a very different manner. He cannot therefore but approve, and even applaud, that proper exertion of self-command which enables them to act as if their present and their future situation affected them nearly in the same manner in which they affect him.* » (Smith, 1976: 6-1-11).

The utilitarian constructivist approach, in the Smithian tradition, considers that a universal objective view of a prudent behaviour is not possible due to quintessential differences in perspectives. Whereas Aristotle described prudence via prudent deeds and prudent men in reference to experience, wisdom, and the goal of leading a good life, the utilitarian tradition insists on the different representations of a prudent choice, and they make it a central dimension for freedom of choice. They clearly oppose the normative nature of the morals of virtues as being too rigid to encompass real-life situations. Consequently, if prudence no longer needs to be consistent in everyone's eye, and if it can be filled in by various contents –

as it is insubstantial due to the variability of goal-orientation- contracts and market tools can prove good ways to find a (temporary) common ground so as to coordinate actions. In specific industries, such tools can become more specific. For instance, as we shall presently see, in the case of banking and finance, where risk-taking is central, it may involve ethics charts and prudential norms. Besides, the expertise of bankers and traders in the area of risk may allow them to influence other social spheres by sharing their knowledge and skills.

I.3. The Two Views of Prudence in shaping Standards and Regulations

In a realist approach, views oriented in the Aristotelian tradition of prudence can be referred to a situationist ontology (Riot and Nef, 2007), because prudence is associated with social norms and values in general. A specific problem arises since, although prudence characterizes particular situations, and although, because of its future orientation, it can only be fully associated with a deed a-posteriori, it is a substance all may agree on, in relation to the assessment of social facts. If one decides to maintain a unique external reality as a reference point beyond individual and collective representations, one needs to allow for both vagueness and uncertainty, referring to the multiplicity of possible worlds (Riot and Livet, 2009). In computing what action corresponds to the one called “prudent”, one needs to be taking into account various combinations in relation to the connexions between events. The moral issues prudence is dealing with in terms of choices must pay attention to existing techniques and practices, however, the understanding of social situations cannot be based on such representations, informed by the past, which have been neglecting whole parts of the issue. For instance, when banks use financial tools, they routinize the risk/profit ratio as a tangible reference of the acceptable choice, one that allows for a benchmark of all investments, and their inclusion in a more general economic scheme, for example, (economic) growth measured by GDP. This measurement is only one possible take on the situation, but it cannot

be generalized to all other possible worlds, which have different representations of prudence, for instance, in some social worlds, prudence is mostly understood within the moral of virtues (in reference to the Holy Fathers). Such representation involves quite divergent representations of a choice in situation, and there is no a priori reason to say that the prudential regulations of bankers today should overwhelm and comprehend all other representations of prudence. Transferring the finance view of prudence to other activities can be seen as a reductionist view of the world, where only one possibility is retained and presented as real. For realists, finding a common definition of prudence would involve a much more open deliberation at different levels (home, market, society), based on a consistent political economy view of the future and implying substantial collective and collective choices, realities which financial standards and tools of expertise can hardly help us shape.

In a constructionist approach of prudence, the Aristotelian tradition may be maintained as well, allowing for a consequentialist view of actions, in reference to specific realms of action and representations. For instance, firms and banks will evaluate situations in reference to their existing techniques and practices at a given time, and these choices may partly be understood by non-insiders via a process of translation. They may partly communicate information to clients and the State due to privacy and complexity issues, and also because the actors may all have a limited visibility of futures. So prudence consists in using finance tools expressly designed for such speculative approaches, and referred to the present contract law and market regulations. For instance, since the central banks are in charge of controlling inflation, their directions to private banks will correspond to an alignment of investments and retail activities to that broader economic goal, via their common market rationale (the principle of utility and the logic of interests). In that piecemeal view of prudence, there are many different views of prudence competing in the field, and the dominant representation is the one of the dominant

actor in terms of balance of power. That corresponds to a logic of interests and trades. The substance of prudence may therefore easily vary depending on the circumstances, and the dominant interpretation of facts and future action.

The two views of prudence we have just presented provide very different pictures of the bank in relation to prudence; we may observe the differences in existing research about prudential norms and standards and about ethics charts. Both are instruments presently used in the banking profession and beyond by actors to set on the same standards of action. They are often presented as conventions meant to provide a common ground between the profession and the outside world, that of regulators, States and the general public.

Prudential norms in reference to market transactions were introduced as guidance for the banking profession as part of global trade agreements. In a sense, they may be considered as constitutive standards: they are (at least partly) descriptive of the activities that they have to assess. They are based on practical reason. However, as Korsgaard (2009: 46) points out, a constructivist view would admit that, despite the fact that, because no perfect agent exists, many may fail to apply the constitutive standards properly. In economic terms, that logic may translate as a form of variability of interests (Hausman et al., 2017): depending on the circumstances, one may adopt a strategic relation to the standards, balancing them with possible gains in the market. For instance, in his analysis of the prisoner's dilemma, Parfit (1978) claims that prudence is moral, but self-defeating, and he broadens his demonstration to common-sense morality in general (Parfit, 1979), in an implicit criticism of the Christian doctrine where prudence is presented as the mother of all virtues. It would therefore make-sense to adopt another approach to morality than what common sense would impose, as long as one's strategy does not interfere with the law.

	Realist view	Constructionist view
Consistency (in reference to scope: levels and scales)	Geertz (1978) both the pasar and the bazaar are markets embedded in social ties; de la Pradelle (1995), Lallement (2010) describe markets as embedded in	Adaptable to situations (contract-based) Berle and Means (1932), Tirole (2006; 1985); Holstrom and Tirole (2001)

	the city life; Ho (2009) describes Wall Street as a place; Weber (2002; 2000) recalls Mauss and the role of giving in markets	
Substance (in reference to claimed values)	Pryke and du Gay (2007) describe the materiality of working in finance; how moral standards interfere in markets, for instance morally repugnant markets for life, children, blood (Zelizer, 1978; 1979; 1994); Van Maanen (199&), Kunda (2006), Weeks (1998) describe how people “perform” in organizations such as banks; Knorr-Cetina (2007) and Sassen (2013) define a sociology of finance based on actors’ networks	Excellence depends on performance (Peters and Waterman, 1982)

Another major debate between the two views (realist or constructivist) deals with the role of ethics charts in banking activities. The emergence of such documents corresponds to the 1970s era of deregulation of banking activities. Private banks were encouraged to pass on their own documents so as to set their own standards in relation to their professional standards and organizational culture (Peters and Waterman, 1982), the concern being that cues from (local) external regulators would damage their business by improper demands, and challenge their (global) competitiveness. The expectation was that, just like CSR norms, all banks and financial firms would finally reach a point where there would be a consensus to rule in a certain way. However, although ethic charts used to be rather similar in terms of what they imposed, analysts regretted that this happy consensus was only caused by the rhetorical nature of the ethics charts. This critique was more heard after the Lehmann Brothers’ collapse, since that financial institution had kept putting forwards its ethic charts as a sure sign of prudence and as even experts in the field had had nothing to object at the time. This caused for concern because the reference to prudence kept changing depending on the level of risk incurred, investments were judged safe as long as the profit ratio was in proportion. If investors thought their interest was to gamble insanely, they could do it as long the risk/profit ratio was respected.

	Realist view	Constructionist view
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Consistency (in reference to scope: levels and scales)	Baud et al. (2015); Callon and Muniesa (2005); Chiapello and Walter (2016); Muniesa (2005); Power (1997) allude to norms of control in reference to actual State administrative norms and regulations	Adaptable to situations (contract-based) Erwin (2011; Hosmer, 2002)
Substance (in reference to claimed values)	Hamilton and Parker (2016) point at the moral standards of the Bank of England in the 18 th century; Stevens (2009) points out the limits of ethic charts after the Lehman Brothers' scandal; Jackall (1988) alluded to the instrumental use of regulatory tools and mandatory controls	Formal (interest, utility function, preferences) Benson (1989) insists ethics charts must not be constraining otherwise they impinge competitiveness and they are not implemented by managers

The use of ethic charts in relation to prudential norms and regulations is interesting to point out, since ethics charts can be understood as reinforcing prudence by broadening its scope (in relation to the social responsibility of firms beyond their duties to shareholders' benefits) or as officially defining prudence as a rhetorical problem in relation to impression management and public image. Namely, prudence is not measurable, whereas performance is, so accounts must be given in terms of performance, and prudence can be inferred from a good performance. This fits the utilitarian approach of prudence as merely a means, not an aim, but for realists, prudence remains a problem unsolved by such means as prudential norms and regulations and self-edited ethics charts for, as Robert Jackall pointed out, if one is not neutral about the means and the goals, there are clear limits to instrumental views of means of action towards a goal: *«Those who do succeed, those who find their way out of the crowded, twisting corridors, and into the back room where the real action is, where the big games take place, and where everyone present is a player, shape, in a decisive way, the moral rules in use that filter down through their organizations. The ethos that they fashion turns principles into guidelines, ethics into etiquette, values into tastes, personal responsibility into an adroitness at public relations and notions of truth into credibility»* (Jackall, 1988: 204). Namely, prudence taken from a realist standpoint, corresponds to the specific actions of specific actors.

Whereas multiple views can be contrasted on the issue of how good and bad the choices made are, deliberations should conclude in a preferable course of action in line with common sense. In that approach, a prefigurationist point of view makes it impossible to adopt an instrumental view of the future (for instance, profit expectations based on present sacrifices or wrongdoing); Contrarily, in a constructionist approach, prudence can be used as a reference, providing a future orientation to management tools, including tools and practices. The principle of utility acts as a standard that allows for a high degree of neutrality in terms of ethical choices in reference to a wide range of possible positions. Adopting a common-sense view of prudence would tend to be over-simplifying in the face of complex situations only experts could evaluate. In that last approach, the future orientation of prudence could justify a bargaining plea for more time before passing a judgement on the prudence of choices. Our initial assumption is that the banking world may be torn between the realist stand illustrated by its retail activities and its constructivist stand in its merchant bank activities, a dilemma partially dealt with legally.²

Part II. The Case-Study: Data and Method

We first describe how we collected and treated our data (1), and then we explain what were our reasons to choose a case-study approach (2).

II.1. Data Collection

In the fall 2015, the authors were contacted by members of the top management team of the SG Bank, more specifically, the head of Human Resources who had acted as the initiator and main sponsor of the “ethic chart” in the organization. She had recently gained the support of the CEO and the board and she had the means to accompany the project.

² The SOX (the Sarbanes Oxley Act) was passed in 2002 and an equivalent of that law exists in most developed countries, in France the law on financial security.

After exchanging with the HR team, the authors accepted to conduct a series of participant observation and in-depth interviews in the group, mostly top managers and middle managers in subsidiaries combining a good performance and a good reputation in terms of work ethics according to the HR assessment.

It was the initial plan that a series of one day-long visits would be organized together with group meetings, followed by individual open-ended interviews ensued in subsidiaries located in France and abroad. Such fieldwork never took place because HRM never contacted us again. We blame this change of mind on the turbulent context the Bank was being faced with. The authors triangulated their participant observations and interviews with archival data, mostly internal documents obtained through the HR team and managerial teams in an effort to elicit their implicit values and routines as part of their specific social frame. The authors also gathered contemporary media accounts of events related to banks, the financial system and ethical issues via the Factiva data basis so as to assess the overall public interest in banking ethics.

Consistent with the grounded theory method, we triangulated our various sources of data using primary and secondary coding techniques (Glaser and Strauss, 1967) to elicit the main associations (words and images) related to ethics and moral in relation to organizational culture and the research for cogent solutions for the future of the bank.

II.2. Method

Both realist and constructionist view of prudence attach it to practical reason, and the knowledge of particulars. Accordingly, our method is consistent with case-study research (Flyvbjerg, 2001) as referred to *phronésis*, namely, engaged in an effort to provide answers as to actions and activities pertaining to the realm of practical reason: “*Social scientists and*

social science professionals [be] analysts who provide food for thought for the ongoing process of public deliberation, participation, and decision-making.” (Ibidem, 87).

In this approach, research consists in describing facts and situations and assessing existing choices in reference to their interpretation as far as public interest is involved. To Flyvbjerg (2016) since there is not such a thing as “the invisible hand” or the Hirschmanian intervention of a “benevolent hiding hand” supplementary for our “beneficial ignorance” in making choices in the field of political economy, *phronésis* should refer prudence to the present balance of power between actors, a dimension which was missing, in his view, in the Aristotelian view of reasoning. With that in mind, referring firms’ strategies to a political agenda so as to provide an assessment corresponds to asking the following “phronetic” questions:

- (1) Where are we going?
- (2) Who gains and who loses, and by which mechanisms of power?
- (3) Is this development desirable?
- (4) What, if anything, should we do about it? (Ibidem, 103).

This approach is, in our view, close to the issue of prudence and compatible with both realism and constructivism since it allows for a situational view of choices in terms of actions and expectations. *“Distancing themselves from foundationalism does not leave phronetic social scientists normless...” . They find their point of departure in their attitude to the situation being studied. They seek to ensure that such an attitude is not based on idiosyncratic morality or personal preferences, but on a common view among a specific reference group to which they refer. or phronetic social scientists, the socially and historically conditioned context – and not the elusive universal grounding that is desired by certain scholars – constitutes the most effective bulwark against relativism and nihilism. Phronetic social scientists realise that*

as researchers, their sociality and history is the only solid ground under their feet; and that this socio-historical foundation is fully adequate for their work.” (Flyvbjerg, 2001: 203).

However, because this approach aims at identifying underlying values in actors’ actions and dominant representations, it requires a recontextualization of actors’ choices and strategies, especially when their norms and standards are presented as axiologically neutral.

Part III. Contextualisation

To make our case easier to grasp, we first describe the SG bank (1), then the supervisory system of regulation in financial markets (2) and finally (3) the three dimensions generally mentioned in relation to prudential norms and regulations in the banking sector.

III.1. The SG Bank at present

The SG bank is registered in France although it has a global present. It is the most important French bank in terms of assets and activities. It was created more than one century ago, was made public at one period and time and privatized in the end of the 1980s in a wave of privatizations. At State level, this choice was justified by the good results of the bank, which had proven it was capable of self-regulating and achieving good results. Since the years 1990s, it developed its merchant bank activities in complement to its traditional retail activities. This resulted in major growth in terms of benefits due to its trading activities, and also in a series of unprecedented scandals, in particular the subprime crisis, a mad-trader crisis (2008), and the Panama paper scandal (tax havens-related) in 2016. Now counting about 150 000 in about 76 countries, the Bank strategy has been challenged by the financial crisis and increased regulation on trading activities (lesser revenues in the merchant bank activities) paralleling the increasing competition of online banks in its retail activities. In 2016, it

announced an unprecedented plan of lay-offs in relation to the closing of its physical agencies so as to maintain its performance standards³.

III.2. Prudential norms and standards within the Existing Institutions of Law and Regulation

Financial regulation is orchestrated at global level by the G20, the Basel III treaty and the stability forum.

Regulation involves reglementation and supervision, it depends of the ministry of economy and finance (Bercy) via two independent agencies: the ACPR (autorité du contrôle prudentiel et de la régulation depending on the governor of the Banque de France) and the AMF (autorité des marchés financiers- the market regulator). In addition to that, the macro-prudential policy now depends on a new operator instituted in 2014: the HCSF (Haut conseil de la stabilité financière), headed by Bercy. It also involves two independent agencies ruling on competition (direction de la concurrence, de la consommation et de la répression des fraudes) and on information technologies (commission nationale de l'informatique et des libertés). It is often mentioned that new agencies and regulatory bodies appear to solve discordances among

³ About the most recent scandal, the Panama papers.

il y aurait près de 1000 sociétés offshores liées à Mosseck Fonseca au Panama.

Enquête de la commission sénatoriale en 2008 : 57 filiales soit 17 % du nombre de sociétés du groupe (sur le site de la Royal Bank of Scotland) d'où la condamnation de la FED en 2009 ; 2016 les panama papers.

About the Mad Trader scandal.

L'affaire Kerviel éclate le 24 janvier 2008. Ce dernier est déclaré coupable par le tribunal correctionnel de Paris le 5 octobre 2010 et condamné aux dépens, la commission bancaire attribue un blâme et une amende de 4 millions d'euros à la SG.

There were also other scandals at the same period of time.

En février 2008 a lieu le procès du Sentier II. S&P and Moody's /Fitch déprécient la SG en 2009 puis elle reçoit le remboursement de 12 milliards d'AIG et un prêt de 1,7 milliard de l'Etat. En 2009, la distribution de stock options à 4800 collaborateurs cause des émois. Par ailleurs, cette même année, la banque est condamnée par l'autorité de la concurrence, comme 11 autres banques.

Le 27 avril 2009, la SGAM-AI (filiale de la gestion d'actifs) fait une perte de 5 milliards d'euros

La suite du procès Kerveil en 2010 n'empêchait pas la banque de se redresser quand elle est victime de diffamation propagée par le Daily mail : elle serait au bord de la faillite.

En 2012, la banque supprime 1200 postes dans la banque financière dans le cadre d'un plan de sauvegarde de l'emploi, dont 880 en France.

En août 2013, la banque est condamnée par l'AMF pour 500 000 euros à cause de l'audit mené en 2010 et elle reçoit de l'UE une sanction record de 446 millions d'euros pour manipulation des taux interbancaires (entente et abus de position dominante).

Le 4 avril 2016 éclate l'affaire des Panama Papers (avec une perquisition menée par le parquet financier).

actors, representing different interests and different levels of responsibility. This pluralist field is complemented by a no-less pluralist field at supra-national level.

The ERSB (European system risk board) is headed by the president of the ECB (European Central Bank) and reports before the European parliament once a year. Its board is composed of the 27 heads of national central banks and the heads of the three European surveillance authorities (the ABE, the AEPP and the AEVM) as well as members of the parliament and the EU consultative scientific committee.

The Basel I rules setting the prudential ratios for the banks were agreed on in 1988, soon to be changed by Basel II (transposed in European laws in 2008, five years after the treaty was signed). Basel III rules should be transposed in 2018. This system is criticized because it involves too many different instances of control, involving both a lack of coordination and of transparency.

As opposed to this system, the US regulation is influential on Basel because of its simplicity and centrality, which is possibly the reason why the US did not sign the Basel agreement (so as to retain a better control). A reform of their regulation was initiated by the Obama presidency in 2009 (right after the subprime crisis) so as to better deal with systemic risks of failure by banks and credit organisms. For now, their regulation still depends of the SEC (Secretary of Treasury) and the FED (the US central bank). The plan was deemed too weak, so inefficient to change the risk-orientation of finance and in particular financial banks, by both Paul Krugman and Edmund Phelps as soon as it was announced. If this second system is not deemed too complex, it may be considered too lenient, for instance it does not rule on the revenues of the heads of private banks, which are extremely high, and represent a clear incentive (at individual level) to take risks (assumed at a collective level). To conclude, there is decidedly a view that prudence is important for the banking profession in relation to financial market activities and the market in general. However, the deliberations are not based

on a common-sense view of prudence solely, it is also defined in relation to firms' competitive strategy, in reference to the doctrine of free trade. As a result, both the European and US systems rely on the self-regulation of bankers as part of the banking market of financial services and, although external regulations exist, there seems to be no way to enforce them on bankers if they disagree with them in substance.

III. 3. Three dimensions of prudence in the self-regulatory system of banking

The self-regulation of banks is partially influenced by external actors, since they enforce new laws and regulations in reference to prudential norms and regulations (prudence). However, the self-regulation of banks is mostly done in reference to competitive market rules. Consequently, their first mission is to satisfy their shareholders and their clients in reference to performance standards (performance). In this system, prudence limits performance but, if we assume a hierarchy of preferences, performance comes first as long as minimal prudential standards are met. However, banks are especially interesting in that regard because, just like insurance companies, they are both regulators of deals and corporations. This is why it is difficult to decide whether actors view their codes and standards as constitutive or not. It seems that, to some degree, they impose constitutive norms on some partners, and sometimes not.

Consistent with the role of large banks as pivot actors of the market system in a liberal regime, their organization is supposed to be aligned with their competitive strategy. Namely, banks are both pivot actors in the market and actors engaged in a competition for market shares and clients where only the most performant actors may survive in a global free-trade environment. Their focus on competitiveness and performance in financial services is the reason why bankers prefer to define their own standards of prudence. They claim most of

their norms and standards are impossible to understand by outside regulators, a reason which explains why a consensus exists between stakeholders to promote self-regulation based on three embedded forms of control : techniques (tekne), practices (praxis) and routines (mimesis).

	Tekne	Praxis	Mimesis
Complying with standards of the profession	Financial products and bids are computer-designed	Decisions correspond to an official risk-profit ratio	The beauty contest in investment (described by Keynes)
Non-complying	Human mistake (in the use of online computations); creation of smaller markets with frictions (art)	Hedge-funds strategy (take higher risk in the hope of reaching a higher level of profits when selling stocks)	Insiders' trading (use asymmetry of information to bid against the crowd)

In a utilitarian perspective, this complex set shapes both a stable frame and flexible system, capable of adapting to a changing external environment with no fixed rules outside the requisites of the situation. It does not need to be unified, and that would be a very difficult goal to achieve consensus since many contractual arrangements keep being invented.

In a realist approach, all these present standards of action should be unified by being referred to a future-oriented regulation so as to frame some desirable future subsuming individual preferences. The obstacle to that realist view is the difficulty in organizing a deliberation involving all stakeholders on such complex matters, making banks and bankers accountable for all their choices as they operate in a highly competitive environment. The limit of the utilitarian view is that as soon as prudential norms are agreed upon among incumbent actors, alternative instruments such as shadow banking and outsourced financial services (in tax-havens) can be designed as mere alternatives to the existing system, and it is quite impossible to rule them out if there is no instance beyond the market rule and the logic of interests and preferences⁴. The following description of three situations in the SG bank should help us better understand the prudence dilemma.

⁴ For instance « After an examination of the interaction between prudential regulation and financial innovation, (Delimatsis, 2012 :1) critically reviews the new prudential standards adopted within the BCBS known as 'Basel III', in particular those relating to regulatory capital and liquidity. One of the essential lessons of the crisis is that such requirements can no longer be limited to banks, in view of the contribution of the shadow banking

Part IV. Description

In the following lines, we describe three scenes in relation to the exercise of prudence in the bank. The three scenes illustrate three levels of interactions where prudence and prudential norms and standards apply: inside teams (at team level), in deliberations inside the organization (at group level), in public debates and auditions before State representatives (at public level). In the three scenes we present, although legal issues frame actors' choices, the focus is on the sphere of action situated outside the law, where freedom of choice is exerted and corresponds to ethics norms and standards. We look at these choices in an effort to determine (a) whether these choices at different levels of the same organization are consistent with an ethic regime of action (b) whether this ethic regime of action (or the various systems regulating action) is/are formal or substantive.

IV. 1. In the Human Resources Department, Stories are called-for as illustrations of the ethics chart.

In this scene, five researchers meet seven top managers in Human Resources, they designed and tested an ethics chart, and now they want to be in a position to make it known among all managers so it can be implemented. A growing awareness of values outside sheer financial performance is expected to transform the culture of the group, and more specifically, to find a common ground between two sub-groups, retail and merchant banking.

system to the crisis. Furthermore, relevant national initiatives in the EU and the US are discussed and potential conflicts with the Basel III framework are pinpointed. In addition, the relevance of the prudential carve-out within the General Agreement on Trade in Services (GATS) is examined. As rule creation outside the GATS grows, rule outsourcing in the area of financial services becomes well-established, thereby increasingly pointing to the limited role of the GATS in this area. »

We soon understand that our mission would consist in collecting success stories so a story-telling phase of action could help popularize an ethics chart devised by HRM with the support of the new CEO and the board. We ask why the stories illustrating a “more prudent approach” of management (balancing financial performances with ethical choices) would need to be illustrated only by happy stories. The reason given by the head of HRM is that balancing mistakes and achievements (as in real life) would not fit in the pre-existing evaluation tools which the ethics chart would tend to mitigate (offering complementary targets).

« L5: « SO 360°, does that ring a bell to you all? *(to the researchers in the board room)*. It is an evaluation, (the SG bank CEO) wants it to be appropriated by top managers (his closest together with the ethics chart, rapidly, because we need to evaluate this population by the end of the year. » (Nov 5, 2015, SG HRM HQ, La Défense) (meanwhile, copies of the ethics chart are passed around).

This is what the ethics chart looks like. It is a 40 pages’ booklet with five messages on its cover pages: its title in capital letters “Leadership model” followed by a subtitle in smaller characters: “Competences guide”; the logo of the SG bank and its colours; the mention “internal document; the mention of its origin (the Head of Human Resources); the following motto “Let’s develop a team spirit together”.

In the booklet, three key audiences with specific ethical goals are identified: collaborators, managers and leaders. Five axes are defined with four corresponding competences each: clients; team spirit; innovation; responsibility and commitment. For instance, “responsibility” involves, for a leader the following competences: courage, embracing responsibility, risk awareness and performance. Some “observable behaviours” are offered to provide more tangible guidelines. For instance, “I have the courage to speak out while listening to my colleagues’ with attention.” illustrates what it means to have a responsible observable behaviour when one is a leader in the SG Bank. This booklet has been widely distributed

within the group, yet it is only one part of the program, since, as mentioned at the back of the brochure, “to know more, (one should) go to HR online” or “browse (one’s) assessment toolkit”.

HRM associates it with the 360° assessment tools for managers: their evaluation depends on people they interact with rather than just their direct superior authority. This choice is consistent with a prudent behaviour, involving the whole social sphere, not just one individual, the leader. However, the rules of conduct are more aligned with the principles of good performance than on social norms. Namely, the code of ethic has been integrated in all managers’ evaluation and it will have an influence on their career development but there is no knowing what form that will take, and what view of prudence will be adopted by managers, since, admittedly, they all have their styles and values and it is consistent with the logic of excellence (Peters and Waterman, 1982) that they would be entrusted to act independently as leaders.

What managers tell us about their expectations, when they introduce the ethics code and want stories about good practices to illustrate, points at an inner contradiction. In a sense, SG HRM managers are aware that they are in a post-crisis period, when all bank managers are in doubt because the bank is every day in the front page, accused of being fraud. This points at the need to reaffirm social norms with a substance, consistent with a common-sense view of ethics. However, at the same time, the elements constitutive of the code of ethics and the stories we are to collect all refer to the principle of utility function. It displays a form of concern about the misalignment of stakeholders’ interests, and provides a form of guidance consistence with the agency theory: people are encouraged to compete and control is exerted by the stronger on the weaker via the competition of interests. Finally, possibly because HRM managers are aware the ethics code does not do much in terms of reorienting the logic of action towards more sustainable goals (more prudence, less competition) they insist managers

are not to feel threatened by this addendum to the general doctrine of action. In particular, they should not know why the ethics code was defined in the first place, to control top managers in the trading activities who were hitting such scores with their high-risk behaviour that no one dared challenge them in terms of actual choices. Namely, when the prudence rule is actually associated with a substance and constitutive norms and regulations, managers prefer to hide the fact that this may interfere with intense competition because it is still officially promoted.

IV.2. A Nice Story to Tell at the Occasion of the last General Assembly

The other anecdote may even be considered as the official starting point of the ethics chart priority implementation in the Bank. top management's efforts to reflect managers' adoption of the principles contained in the ethic chart are highly influential. An anecdote about the CEO's sharp exchange with a middle manager who complained about the efforts she had to ask of her team during a General assembly, the following reaction of his right-hand man (« Why, she is only following the ethic chart, just listen to her! ») and the audience this woman got touring the organization after the event, was mentioned as a clear sign of transformation. The HR team read the event as the adoption of a culture of dialogue, one that had been missing so far, due to the pressure of hierarchy and competition between managers. Yet the anecdote can be read in a different way: the manager was only sharing a managerial problem (lay-offs in teams due to major cost reduction discourage existing teams) that the recent announcement of a new cost-cutting program in December 2015 will only make more general. Top management listening to middle managers' blues will not change in the least the situation. What's more, if, as mentioned from the beginning, the goal is not to punish but to encourage, managers may argue the ethic chart is only pointing at routinized practices.

« H1: To go back to the question of voice, in March, at the occasion of our annual Barnum, a lady stood up and asked a question about cost reductions and the difficulties she had to make her team understand that choice; she got a direct hit back by the CEO she was addressing, but just at that moment, a board member thought about our ethics chart and told him: « but this lady is in line with our chart », so the girl got an invitation, she was able to say what she had to say, she felt she was being supported, this was the event everybody was talking about (apart from Johnny Wilkinson), she dared to speak before 1000 people, and during this day, this day is meant for everybody to say how pretty we all are, essentially. » (Wednesday 5, 2015, 11 pm)

In the HRM team, as they listen to this “perfect story” once again, we can feel a real enthusiasm spreading. This is their lead for us to go look for good stories. Yet, when we asked how the story actually ended (the lady made her point, she was not sanctioned for speaking out her mind although she came from retail banking, but then what happened), we more or less understand that this is beside the point. The point of the story is that top managers, whose habit was to discourage the exercise of voice in a process of collective deliberation by humiliating those who dared speak out, had changed their habit as they abided by the ethics code. However, so that it would not be considered as having a direct impact on the decision-making process, the HRM team insists that what matters is that people are aware they are allowed to speak out, that does not imply that their voice has to exert an influence on choice.

In this story again, we meet with the same contradictory logic in terms of defining the consistency and the substance of the norm of conduct in reference to prudence. If this is a perfect story to show that the Bank changed its ethos, some facts may be missing. If the ethics chart introduces reforms so as more collective deliberation is formally consistent with the standards of a prudent choice (according to the Aristotelian tradition and common sense), the

substance of the debate is missing, because it would contradict the pure logic of individual interests.

IV.3. The CEO before the Senate Special Commission

On April 2012, the CEO of the SG bank was heard before a senatorial special commission about tax evasion, and he swore, on record, that his bank had “closed all units in tax havens (...) also in Panama” and that it no longer had activities in “offshore financial service centres.” After the Mossec Fonseca papers were out in the media, a “Panama affair” ensued, causing the CEO of the SG bank to be auditioned again before another senatorial commission on April 5, 2016, so as to understand if he was guilty of perjury during the 2012 audition. This is what the CEO declared on this occasion:

“Mn 15” (as a conclusion to a speech where it appears that in fact): “*(The SG bank manages) only 9 societies for one client with Mossack-Fonseca*”. This can be viewed as really minor activities, aimed at satisfying clients’ demands. Consequently, the SG bank CEO insists: « *I understand the emotion of public opinion caused by the complexity of the matter, what we do is legal yet we have now procedures; and in 2016, the automatic transfer of information by 55 countries will be available; as a private bank, we provide perfect privacy to our clients yet we respect perfect transparency to the public authorities and regulators, and we shall actively accompany the fight against tax evasion.* »

A series of questions ensue, which more or less deal with the following: Why (the CEO) would think legitimate to create an offshore company and what would be the SG Bank role as an adviser in Panama? The answers are quite straightforward. The SG bank would offer the same private services as its competitors, and it would include dealing with confidentiality for successions, security (international clients, terrorism) and firm strategies in general, which are the reasons why clients use tax-havens. The SG bank CEO thinks he is not guilty of perjury,

because he abides by the same regulation than his competitors. After the end of the auditions, the senate commission releases him from all charges, somehow admitting that rules should be changed by external regulation authorities, not by the efforts of one actor, who would be sacrificing its business interests.

This was precisely the point the CEO made during both his auditions: bankers implement prudential standards, which are designed by external regulators. However, a little more than two months later, the same SG bank CEO, who happens to be a very influential member of the regulatory working-group for Basel norms, vents out his anger at external regulators, ECOFIN and central banks in particular. He argues if the EU enforces higher liquidity ratio via new prudential norms as it plans to via Basel IV, European banks will not be competitive. He insists only banks can know what ratio are good, in reference to competition. Then, when the head of the French central bank answers this change for EU banks would only involve actually applying Basel III norms⁵, we can see that not only bankers attempt to stop new prudential norms and regulations, they also fail to apply them when they are already collectively agreed upon. This means that bankers have their own view of what prudence should be, substantially, and when they believe they have not shaped the standards so they prove compatible with their performance standards and private interests (for instance if they need to provide more securities), they chose to follow their private interests first. This shows

⁵ « PARIS, 14 juin (Reuters) - Le directeur général de Société générale, qui préside la Fédération bancaire européenne, interpelle la future présidence slovaque de l'[Union européenne](#) pour lui demander d'examiner les nouvelles règles prudentielles envisagées par le comité de Bâle et redoutées par le secteur bancaire.

"De nouvelles augmentations dans les niveaux de capitaux requis ne peuvent qu'obérer la capacité des banques à financer l'économie", écrit Frédéric Oudéa au ministre slovaque des Finances [Peter Kazimir](#), dans un courrier vu par Reuters. Les besoins en argent frais des banques pourraient s'élever à "des centaines de milliards d'euros", ajoute-t-il. » Ces banques estiment avoir déjà fait les efforts nécessaires induits par le cycle de [Bâle III](#) décidé par la communauté internationale après l'éclatement de la crise financière de 2007-2008.

"Nous vous exhortons de profiter du premier [Ecofin](#) (réunion des ministres des Finances) en juillet pour vous pencher avec vos collègues sur les conséquences de ces changements de règles pour l'Europe", plaide Frédéric Oudéa. » Le régulateur français fait valoir que les discussions en cours ne visent qu'à finaliser les normes de Bâle III sans provoquer un accroissement significatif des exigences de fonds propres pour les banques européennes.

"Il s'agit bien de lancer Bâle III, pas de lancer un Bâle IV qui n'existe pas", avait déclaré en mars le gouverneur de la [Banque de France François Villeroy de Galhau](#), lors d'une audition au Sénat. » ⁵

that in the present balance of power, bankers maintain their influence, only external regulators are delegitimized because they are not in a position to enforce their rules on bankers. The market is presently ruled by the logic of conflicting interests, and actors' choices are mimetic. Merchant banks and traders prove every day that speculation has little to do with prudence, but prudence is a constraint in a realm of action where risk-taking is the best way to defend one's interests.

By taking stock of the three situations and explicit actors' choices, we may be in a position to provide preliminary answers to our set of questions regarding the nature of choice in relation to prudence.

Part V. Interpretation

In interpreting the three situations we described, we will focus on the reference to the notion of prudence and its role. Our initial questions dealt with consistency (1) and its substance (2). If actors' fail to come up with a consistent view of prudence, then it may be argued that prudential norms and ethics charts probably need to be better explained, and possibly good stories illustrating how they operate as part of an operation of impression management would be useful for all actors to adopt a more consistent and substantial norm of prudence. However, we have a different impression. Taking stock of the present situation, in reference to the three situations we described at three different levels, we believe actors have a consistent view of prudence as consistent and substantial but contradictory with the logic of private interests. Consequently, we refer to an ontology where this contradiction could be understood and dealt with.

V.1. A Consistent Ethical Regime of Action

The SG bank case illustrates the fact that banking organizations act as both regulatory bodies and private businesses. The SG bank is also present in two different forms of activities, retail banking and merchant banking, one used by the general public, the other used by special-purpose entities.

In so doing, the SG bank is quite emblematic of a system combining with great difficulties divergent interests and representations. As a result, most of its efforts to deal with the issue of “prudence” consists in some piecemeal applications of local techniques and practices, with arbitrages made secret so as to avoid blatant contradictions. However, with the event of crises, contradictions tend to appear in the public eye, and the secrecy surrounding private deals is being put to question by external actors. Their reference to a common-sense notion of prudence (one consistent with the practical reason referred to by Flyvbjerg (2001)) is deemed illegitimate by insiders because of their focus on the complexity of the technical rules involved in their everyday operations. However, in denying that a common-sense regulation could be adapted to their operations, actors in the finance world live in a world of turbulence and instability, where only performance measurements based on the risk/profit ratio is the norm, and all innovation, including junk-bonds, shadow banking and outsourcing of financial activities to tax-havens are not clearly outside prudential norms, they innovate with them.

Implicit in this utilitarian constructivism, is the view that individual interests are the ultimate norm, yet that individual interests tend to be conflicting, creating a situation of constant competition (Riot, 2007). The existing vagueness in terms of priorities of interests is ruled out by power, in organizations, by the hierarchical order, deciding in an authoritarian way cloaked by secrecy, for fear that the arbitrariness of the decision-making processes would become an object of public deliberation (Flyvbjerg, 2001) challenging the dominant order of control.

This is because, in that regime of prudence, Parfit’s claim that prudence (1978) and common sense (1979) are clearly verified. However, as Elster objected, were rational choices to be

referred to common sense instead of a strictly individual definition of interests (as is the case in constructivist utilitarianism), prudence would regain its central place as a compass for future-oriented choices.

V.2. A Formal Definition of Prudence

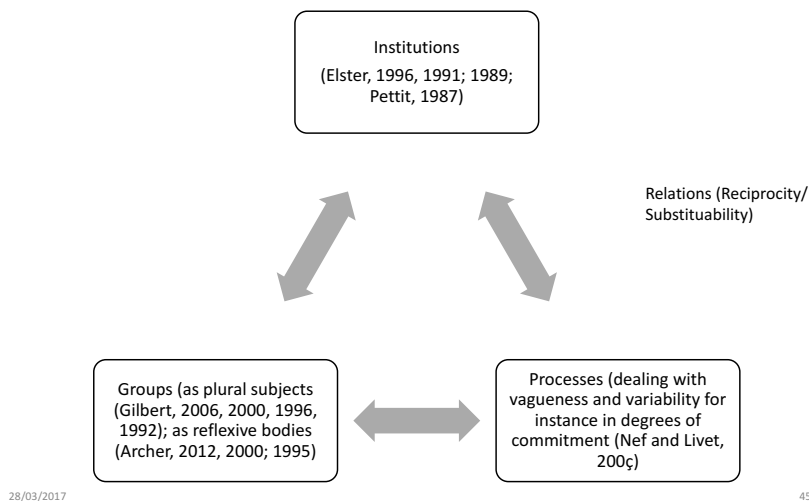
In the case of the SG bank, the reference to prudence is present in financial norms and regulations as well as the self-regulation imposed by the ethics chart. At multiple occasions, key actors refer prudence to a set of rules and regulations with implicit standards. Many dimensions are not made explicit, because they are deemed too complex to understand for non-experts and also for confidentiality reasons (to protect the privacy of private business, in reference to legal norms but also actors' competition in the field⁶. As pointed out by realist critiques to the utilitarian constructionist approaches in terms of rules and regulations, the need to protect choices via secrecy points at the arbitrariness of social constructs, which seem to be self-imposed yet at the same time quite independent of actors' deliberate choices. The contingency applying to prudential norms and standards and the fleeting qualities of financial objects seem quite incompatible with the stability and trust inherent to prudent actors and their actions. In the SG bank, the finance world involves a form of prudence that only the happy few may possibly grasp.

V.3. Prefiguration of a Possible Alternative to the present constructivist utilitarian approach of prudence in banking

⁶ In France, this refers to the law on secrecy (loi sur le secret des affaires) in reference to the European directive (April 14, 2016) <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0131+0+DOC+XML+V0//FR>

A realist approach of the issue of prudence in banking as pivot institutions of finance activities and the economy in general would attempt to endow prudence with both consistency and substance. This would also involve considering prudence not only in reference to truth-value norms and standards but also adopting an ontological view of prudence as a specific type of entity (1) with specific modes of existence (2). This modern-style ontology would not involve going back to the rigidities of classical ontology (as is present in Aristotle, for instance) by assigning properties (or qualities) to an essence (such as prudence in the moral of virtues). It would rather insist on relations and processes, which correspond to the dynamics of the social world.

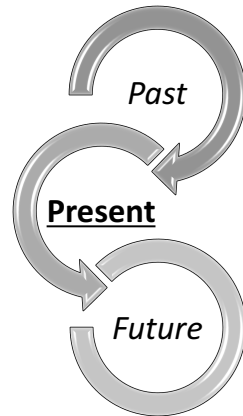
Firstly, following Nef and Livet (2009), we would assign a specific role to banks as pivot institutions in a field where prudence acts as a regulation so as to encompass its specific type of entity and to map out the relations in the network it entails.



Secondly, in the same inspiration of ontological realism, we would specify the modes of existence of prudence as an entity, going back on the interaction of past, present and future as it operates as a mode of regulation. Going back to Aristotle, he insisted that prudence a dimension of all responsible action, grounded in the specific type of reason (phronésis) built

through past experience, with a future-oriented intention. In that regard, transparent deliberations are mandatory concerning prudent choices, since counterfactuals need to be examined and compared.

Actual and virtual loops & actual and *virtual* worlds



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In the case of prudence, such future-oriented sorting process involves a long-lasting and collective process combining, through memories, verifications, reactualizations, transmission, renewal of actors and projects, both possible worlds and the real world. The present speed of financial flows may not allow time for it, but this speed may also be identified as an overwhelming constraint for informed, prudent decision-making, as is to be expected from banking institutions.

Conclusion

This research is only in its preliminary phase. It attempts to identify the relationship between the common-sense notion of prudence and the prudential norms and standards often mentioned when mentioning the regulations of finance and banking.

The analysis of one case study in context allows us to identify a broad gap between the two notions, one that is also perceived by actors in the field of banking and the general public, causing its mistrust of banking institutions. Most bankers seem to be torn between a common-sense prudence and a professional view of prudential norms and standards consistent with competitive performance and risk-taking, so they are torn both as individuals and as a group, depending on how they situate their role in society.

Consequently, it would appear that neither the Aristotelian common-sense moral of virtues nor the constructivist view of prudence, that allows for different regimes of regulation, and specific views of prudence depending on actors' preferences (in reference to their utility function and the market as an efficient instance of coordination) are fully satisfactory. One reason for this is the form of tautological system created in this way, allowing for a constant reinvention and creation of prudence norms, based on techniques and practices. It is incapable of finding a common frame, for instance one that would be compatible with common sense. It is also incapable of going beyond individual preferences and the existing balance of power to set a hierarchy, with a substantial goal other than "performance".

In arguing in favour of a realist ontology, capable of confronting different situations and representations, and determining a role of prudence compatible with common sense, we are aware that a vast research program lies ahead of us. Some preliminary steps would probably consist in finding an equivalent to the utilitarian constructivism implicit in most actors' present view of the banking system and its regulation. Other steps would involve a more precise mapping of the actors and the institutions, as a network framing decision-making processes. Finally, the notion of prudence, which is, as we have seen, future oriented, should be more specifically referred to anchors in time and space. In so doing, we believe that real cases may help us go between the general and the particular so as to identify common patterns, features and structures instead of the present chaotic fragmentation that one faces

when confronted with the event of a systemic crisis. Although the financial system is clearly perceived as a whole, its transformation is nevertheless described as an endless schismogenesis, with no common ground for a common-sense interpretation, whereas finance, as part of the market, plays the role of a regulatory body for the economy. Consistent with the phronetic role of social sciences, we believe that the use of case-studies, dealing with particular situations, may help us deal with the limits inherent to modern ontology, namely the risk of replacing a deliberately opaque system (dealing with contradictory positions) by a no-less opaque system, caused by the complexity of a conceptual apparatus aimed at solving those contradictions.

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