

## **PIIGS Bankers -The Real Big Bad Wolves**

How the bankers huffed and puffed and blew their own economy down

D Q G K R Z W R E X L O G W K H <sup>3</sup> K R X V H P L O G W

As children, we all read the classic fairy tale of *The Three Little Pigs*. In this story, each pig built a house made out of different materials (straw, sticks, and bricks) to protect itself from

reports of bankers from the PIIGS economies that made bad decisions that led to the economic crisis. How do we explain these poor decisions and this behavior by PIIGS bankers? An analysis of whether PIIGS bankers made decisions based on the theory of the Rational Economic Man, cultural differences, and the absence of community (responsibility) was conducted in order to find the main reasons why bankers made these high risk decisions.

The ) L Q D Q F L D O & U L V L V G L G Q ¶ W M X V W K D Y H D Q H J D W country of the United States. An analysis was conducted to compare how bankers from the United States and Europe played a role in the economic crisis and indicates whether or not all bankers are the same or different. Another analysis comparing the American Sarbanes Oxley Act, the European 8th Company Directive Law, known as EuroSox, and Basel III is performed to determine if any or all of these acts are the solution to preventing any future economic crises as severe as the one in 2008.

### **Rational Economic Person Rationale**

The irresponsible decisions by the PIIGS bankers have come into question since the demise of the national banks as well as the economies they operate in. The motivation of these bankers to make irresponsibly risky decisions is investigated. Several possible motivators are examined.

John Stuart Mill, an economist and philosopher, G H Y H O R S H G W K H W K H R U \ R I V ( F R Q R P L F 3 H U V L R Q W L R Q G D H I U D W L R I O E S O a t H y w i c h R e m a y S H U V R Q <sup>3</sup> obtain the greatest amount of necessities, conveniences, and luxuries with the smallest quantity

executives of the Anglo Irish Bank provides solid evidence that they fit the criteria of being rational economic men. As mentioned in the article, the figure of seven billion euros to save the

EDQN ZDV QRW FDOFXODWHG EXW ZDV <sup>3</sup>SXOOHG RXW RI WK  
calculating this amount. With little effort put in computing that amount, and being concerned only with their job security and the nationalization of the Anglo Irish Bank, and by their  
H[FKDQJH RI MRNHV DQG ODXJKWHU WKH\|UHWSTHUIHFW H[D  
DVWRQLVKLQJ WR PH WKDW WKHVH PHQ DUH FRQVLGHUHG V  
the world when the Celtic Tiger, the nickname for the Irish economy for its economic prosperity, would roar for the last time. The community expects that bankers will handle their money responsibly without major loss and that will help benefit both parties as opposed to just the bankers. The banking profession has no room for those who are solely looking to act in their own self- LQWHUHVW E\ PDLQJ SRRU KLJK ULVN GHFLVLRQV ZL

We now turn our attention to the Iberian Peninsula ~~the~~ home of beautiful landscapes, some of the most visited European cities by tourists, friendly people, high number of protests from the people, and corrupt politics and bankers. This all makes up the two countries of Spain and Portugal where everyone wants to visit. What everyone may not be aware of is the economic disputes, high unemployment rates, and poor living conditions WKH\|YH EHHQ H[SHULHQF  
the start of the cri VLV LQ , Wntz Rix Gt Gt W S F h  
contributing to the cause of economic disaster in Spain would be convicted for their horrendous actions. An article from *The Irish Times* reports on the sentencing of a managing director and his colleagues from the Spanish bank RI & DL[D 3 H Q H G y Ricard Pagès, a former managing director of Catalan savings bank Caixa Penedès, was handed a two-year jail sentence for embezzling funds from the lender, while three of his former colleagues were given one-year

sentences. TKH GHIHQGDQWV¶ MDLO WHUPV ZHUH FXW DIWHU WKH  
EDFN ¼ PLOOLRQ ZKLFK WKH\ KDG (See [The Irish Times](#)). An interesting aspect of this article shows how these bankers also acted under the theory  
RI WKH ³5DWLRQDO (FRQFOLWV EOHUHQFH EHLHUHQFH DQG DIW  
funds reveals how they acted under the theory before they were sentenced. After they were  
sentenced, despite not working in the bank anymore, they acted under the theory by admitting to  
guilt and sentenced to shorter jail time. A rational person would give in to their guilt since it  
ZRXOG UHVXOW LQ D SXQWVPHQW WKDW VHOHFWV VHOHFW VHY  
counterpart of Portugal is also taking on rough waters with their banks. As conditions of the  
country deteriorate, political and economic corruption continues to grow. ³According to the  
Constitutional Court report, the financial needs of the banks contributed to the more expenses for  
WKH JRYHUQHFW WKHVH H[SHQVHV JUHZ WR ¼ EQ LQ  
ailing banks needed to be nationalised, and BPN, which is actually a very small private  
3RUWXJXHVV EDQN ZDV WHFKQLFDOO\ LQ GHIDXOW %31¶V  
have ties to the government and even Portuguese President Aníbal Cavaco Silva. In a result BPN  
EDQN DEVRUEHG SHU FHQW (Follow [The Irish Times](#))  
the description of the Rational Economic Man because of his close links to the Portuguese  
SUHVLGHQW :LWK WKH 3RUWXJXHVV SUHVLGHQW RQ WKH  
nationalized, prevent collapse, and continue to operate. A rational person would keep their  
relationships with powerful people close as those people could assist in finding another job, write  
a letter of recommendation, or make the decision to nationalize a bank that ultimately saves it  
from economic crisis. 2XU QH[W VWRS RQ RXU WRXU RI WKH 3, , \*6 HFR  
of Europe, where its citizens hope that their bankers w LOO JHWW 7KRU%WRH KLJK ULVN

decisions they made. : L O O W K H \ J H W <sup>3</sup> 7 K H % R R W ' I R U W K H L U S R R U G H

one of the banks in Greece that has impacted both the Greek economy and neighboring island country of Cyprus. The Marfin Investment Group was reported to have been notorious for







These scores and rankings indicate that Ireland, Italy, and Spain follow individualist values, whereas Portugal and Greece follow collectivist values. The majority of the PIIGS are individualistic decisions or performing everyday tasks as a whole. The bank executives in Ireland are a perfect example because as the state of the economy was deteriorating, they were only concerned with keeping their jobs and assurance that their bank will be bailed out by the government. MIG in Greece is considered to follow collectivist values because they handed out high risk loans to those that were close to the bank. The high conflict of interest reveals how closely the bank works as that particular group of people that they invest in.

And the actions of the bankers, cultural values did not fully explain why PIIGS bankers made high risk decisions. There are two instances where either individualistic or collectivist values led to poor decision making, but the scores in Uncertainty Avoidance contradicts the actions by PIIGS bankers.

PIIGS bankers making. *Essentials of Organizational Behavior* 3 « (Sims and Page, 77). It can be concluded that the banking profession values outweigh the cultural differences generally attributed to countries and cultures.

These differences may be attributed to the difference in the purpose of the tasks. IBM is in the Technology industry and its primary functions involve developing different types of technology to millions of companies around the world, researching ways for their clients to be able to fully understand the primary purpose of their products, and fulfill the purpose of the

company, which is to build a smarter planet. The banking industry involves the handling of money at any amount in any currency, which will benefit both the banks and their clients. In the FDVH RI WKH 3,,\*6 EDQNHUV WKH\ ILQG ZD\V WR KDQGOH W themselves rather than both parties. 7KH DQDO\VLV Cultural Values Within IBM ¶ V indicates that IBM has more commitment to the community and draws the conclusion that occupations outweigh cultural differences.

### **Absence of Community**

The community should be an important part of the bank because the community puts trust into these banks to handle their money properly. How did the absence of the community lead to the high risk decisions and investments made by PIIGS bankers?

Research and analysis has shown that PIIGS bankers made high risk financial decisions based on self-interest and cultural values different from that of their home countries and more in line with their occupation. In addition to these applied factors in the PIIGS bankers decision making, there was another important aspect that influenced the decisions made by the PIIGS bankers. :KHQ WKH 3,,\*6 EDQNHUV PDGH KLJK ULVN ILQDQFLDO this would impact the community, but only



the duties of handling the money of their respected business partners and they failed as a result of having more concern for their own well-being instead of those they did business with.

As our tour of the PIIGS comes to a close we can conclude that PIIGS bankers are rational economic people whose occupational values outweigh their cultural values. They also have little to no concern of the impact of their high risk decisions on the community. Is this a fair and accurate description of all bankers in the "H Z R U O G" / HW ¶ V WXUQ RXU DWWH

Referring to the theory of the Rational Economic Man, one can agree that this group of bankers who were involved in utilizing this method fit the criteria of the rational economic man.

Their method links to the defin L W L R Q R I W K H W K H R U \ D V W K H \ V R O G W K H I

Country	Score	Ranking
Portugal	30	33-35
Ireland	70	12
Italy	76	7
Greece	35	30
Spain	51	20
United States	91	1

This score indicates that Americans possess very strong individualist values that they apply this factor to different decisions they make. The United States is ranked higher than the PIIGS economies in this category. An example of how American bankers demonstrated individualist values involves the method used to handle the securitization of mortgages and how it would benefit the individual banker as a whole. According to *Managing Business Ethics: Straight Talk about How to Do it Right*,

36 R P X F K P R Q H \ S R X U H G L Q W R W K H V \ demand for those mortgage-backed security products was so great, that bankers demanded more D Q G P R U H P R U W J D J H V I U R (P r e v i n e a n d N e l s o n , 8 ) . R u n d u l l o a D t W R U V would want to continue implementing this method until they are fully satisfied with the amount of return they receive that will benefit them. The actions of the American bankers are in line Z L W K + R I V W H G H ¶ V & X O W X U D O 9 D O X H R I , Q G L Y L G X D O L V P Y V be reached in the analysis of the category of Uncertainty Avoidance?

The following chart compares the PIIGS economies and the United States in the category of Uncertainty Avoidance where the data was collected from *Essentials of Organizational Behavior* (Robbins and Judge, 76-77):

<b>Country</b>	<b>Score</b>	<b>Ranking</b>
Portugal	104	2
Ireland	35	47-48
Italy	75	23



economies, the American cultural values are aligned with the occupational values. Why were the results of this analysis of the United States and Uncertainty Avoidance different from that of the PIIGS?

7 KH 8 QLWHG 6WDWHV¶ VFRUH LQ WKH DUHD RI 8QFHUW are tolerant of risk. The reason for this conclusion is based on an excerpt from the book *Business Ethics: A Critical Approach: Integrating Ethics Across the Business World* T3 be even more SUHFLVH WKH EDQN KDV WXUQH G DZD\ IURP WKH ULVN UH focus on the risk generated by its own activity, mainly in the stock market. For a long time, the EDQNHU¶V HWKLF ZDV QRW TXHVWLRQH G %DQNHUV DVVXP UHVSQRVLELOLWLHV WKH VHFWRU¶V PRUDOV ZHUH QHLWKI appeared to be legitimate in both their functions and their positions. 2¶6XOOLYDQ 6PLWK Esposito, 131). The excerpt from this book relates to the conclusion that Americans are tolerant of risk in that the American bankers can get away with making any high risk financial decision without being questioned by their client or government regulations. Based on this analysis of American bankers, it can be concluded that WZR RI +RIVWHGH¶V &XOWXUDO 9DO \$PHULFDQ EDQNHUV¶ KLJK ULVN ILQDQFLDO GHFLVLRQV WK

**Absence of Community and American Bankers**

It has been indicated by research and analysis that American bankers are influenced by the theory of the Ration DO (FRQRPLF 0DQ DQG +RIVWHGH¶V &XOWXUDO Collectivism and Uncertainty Avoidance. This was determined by the different reports of decisions American bankers made that led to the 2008 financial crisis in the United States. The

same method is applied to this factor and in the end it will ultimately determine if all bankers behave the same based on all three factors.

The PIIGS are known for not involving the community they worked with when making their clients because they put their self-interests before the interests of their clients. Is this also the case with the American bankers?

*Managing Business Ethics: Straight Talk about How to Do it Right* showed how banking CEOs only cared about what they were being paid instead of the risky decisions the bankers walked off with multimillion was foolish and completely irresponsible in the long run. The bonus had already been paid. Consequently, a short-board of directors (Trevino and Nelson, 8). These kinds of practices community in any way and the actions contradict a theory that all businesses should follow: The Social Contract. The Social Contract in the area of business is defined by *The Houston Chronicle* the obligations that businesses of all sizes owe to the communities in which they operate and to the world as a whole. This involves corporate philanthropy, corporate social responsibility and corporate governance (Bradley, *The Houston Chronicle*). Conducting the types of business practices that were listed in *Managing Business Ethics* are unacceptable based on The Social Contract Theory. A business must put aside their self-interests to serve the needs of the community as its expected in this theory.

If anyone wants to pursue a career in banking he or she must





companies in any field of industry must follow. *Regulation and Sarbanes Oxley*

activities; managing  
risk concentrations;  
providing incentives for  
banks to better manage  
risk and returns over  
the long term; sound  
compensation practices;  
valuation practices;  
stress testing; accounting  
standards for f.47 fenage

capital and their  
reconciliation to the  
reported accounts will be  
required, including a  
comprehensive  
explanation of how a bank  
calculates its regulatory  
FDSLWDO UDWI





## **EuroSox**

EuroSox was put into effect following the enfor

## Basel III

The European Union regulators are tired of running from the PIIGS bankers and they are now down to their last regulation. Basel III, according to *Investopedia* is a comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector. The Basel Committee on Banking Supervision published the first version of Basel III in late 2009, giving banks approximately three years to satisfy all requirements. Largely in response to the credit crisis, banks are required to maintain proper leverage ratios and meet certain capital requirements. (*Investopedia*). Basel III was established following the financial crisis and its purpose is to strengthen banking regulations which can prevent any future financial crises as severe as the 2008 crisis.

Prior to the enforcement of Basel III, the PIIGS banks found ways to make high risk bankers from doing what they did. Poor risk management by European bankers caused the crash of the PIIGS economies. Basel III addresses its stance on how risk management is expected to be handled moving forward from the financial crisis. Basel III calls for strict corporate governance and cooperation by the banks.







economic recovery plan and is currently in recession. (Ewing and Pianigiani, *The New York Times*). \* U H H F H ¶ V H F R Q R P \ F R Q W L Q X H V W R E H D Q D E V R O X W H P

enraged by the lack of progress going forward that a group of Greek anarchists escalated measures and planted a bomb in the Greek Central Bank. (Sanati, *Fortune*). Spain is progressively recovering from scandals that rocked the economy and surprisingly enough the most current scandal in Spain is related to the most influential family in the country: The Spanish 5 R \ D O ) D E V E N O The arrival of a new king has not stemmed the flood of scandals engulfing 6 S D L Q ¶ V L Q V W L W X W L R Q V W K H O D W H V W E H L Q J W K H F K D U J L laundering and tax fraud. For Mr Rajoy, recovery in all senses still has some way to go. (*The Economist*). The PIIGS do have a ways to go to achieve full economic recovery and it should all start with reforming the banking system.

There is no happy ending to this tale yet because there are still problems within the banking industry that requires time and cooperation from the PIIGS bankers, their respected financial institutions and home countries to learn how to make decisions that will not just benefit them, but the community as well. The Banking Industry is no W S H U I H F W E X W L W G R H V O actions that led to the 2008 Financial Crisis. Reforming an industry that has a strong influence in W K H Z R U O G G R H V Q ¶ W K D S S H Q R Y H U Q L J K W L Q I D F W W K H U financial practices as a whole. A regulatory act can win the battle, but not the war against high risk financial crisis.

In closing, if I were to describe what the status of the banking industry is in one phrase, it would be: IN DEEP TROUBLE. As the Banking industry continues to face the struggles of recovering from the worst financial crisis in history, bankers and institutions must learn from the crimes of the guilty bankers and move forward from the crisis. It all starts with reforming the

system and it may take years to reform the banking industry, but the pursuit to preventing another severe financial crisis is imperative.





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