Banking on team ethics : a team climate perspective on root causes of misconduct in financial services
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Part II
Banking and supervisory practices

Chapter 4
Introduction Studies 1 and 2: research questions and data sources

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In this chapter I introduce two studies that I have conducted with the aim to examine current banking and supervisory practices. Below I introduce the research questions central to these two studies and the data sources that I have used to answer them.

1. Team climates add a valuable perspective

As I elaborated in Chapter 3, current banking and supervisory approaches to prevent misconduct seem to approach behaviour and culture mainly at individual and at organizational levels. Examples of the individual level approach to prevent misconduct are to increase controls of individuals when entering an organization (such as additional checks of antecedents during on-boarding procedures); to increase scrutiny of individual behaviours during their employment (such as controls of communications through email or chat); and to discipline individuals after inappropriate behaviours have occurred (such as to end their employment, fire them, apply clawbacks or other disciplinary measures), also as a deterrence to communicate to other employees that unethical behaviour does not stay without negative consequences. Some organizations 'select individuals at the entry gate' and invest in additional personality and trait assessments, e.g. integrity tests, during recruitment and selection procedure to prevent "rotten apples" to enter their organizations (Laurijssen & Sanders, 2016; Vries, de, 2016; Wisse *et al*., 2016). Examples of the organizational level approach to prevent misconduct are specifying corporate values, communicating ethical behavioural codes, modifying the tone at the top - using for instance fit and proper tests for exco and board members including integrity as an important aspect, introducing culture change and leadership programs, adapting performance management systems and expanding targets to include ethical behaviours. Attempts to change organizational culture, with integrity often as one of the key values, are made by adapting communications, rules and incentives.

These individual and organizational level approaches are valid. Some misconduct cases are clearly 'bad apple' cases, where there is for instance an intentional preconceived plan of a trader who seeks employment to commit fraud by dealing with a known third party that is in on this criminal plan. In these 'bad apple' cases discipline is needed and selection processes to prevent such occurrences are clearly useful. Indeed, to mitigate the risk of misconduct by bad apples, measures at individual level could be effective. Examples are the improvement of HR recruitment including personality and ethics testing, incentive systems and disciplinary measures. Also, recent contributions of organizational sciences show that measures at organizational level can be effective in changing organizational culture. Examples are extensive research on ethical culture (Treviño, *et al*., 2014; Kaptein, 2008), and research how to analyse risk culture at organizational level effectively (Sheedy e*t al., in press*).

However, there are two main reasons why assessment of the team climate represents a perspective that can add substantially in the prevention of misconduct, next to individual and organizational level approaches. First, as elaborated in Part I, individual behaviour is strongly

influenced by the direct social context an individual feels part of or identifies with: the team(s) he or she belongs to (more so than the organization he or she belongs to). Collective norms in the team can overrule individual moral compasses. To understand why an individual behaved unethically, analysis of the team climate that formed the direct social and professional context of this individual is essential. Second, since team climate can facilitate unethical behaviour it is a value-adding perspective in preventing future unethical behaviour to impact and alter team climate. Who are the people that an individual wants to be included with and valued by? Who are the people that an individual depends on for day-to-day work activities and social relations? What are their norms and practices that can impact, reinforce, change, condone or correct individual behavioural preferences? Analyses at team level could identify underlying day to day processes on different levels of the organization: resulting in concrete levers to impact team climate and thereby mitigate misconduct risk.

My main message is that team level approach offers an additional valuable but often neglected perspective that can help prevent unethical behaviour. In Studies 1 and 2, reported in Chapters 5 and 6, I will examine to what extent analyses of behaviour or root causes of misconduct at team level are currently included in banking and supervisory practices. Besides individual and organizational level approaches in preventing misconduct, I argue that approaches at team level should be part of these practices to prevent misconduct effectively.

2. Research questions Studies 1 and 2

Because I focus on team climate as a value-adding perspective in preventing misconduct, Studies 1 and 2 focus on four research questions that assess the extent to which team climates are included in current banking and supervisory practices in preventing misconduct.

The first two research questions, addressed in Study 1, refer to the way banks deal with their own misconduct: are banks conducting and reporting team level analyses when exploring their own misconduct cases? Do they demonstrate in their own analyses that they are aware of root causes within teams of the unethical behaviours that their employees have shown? These research questions are addressed in Study 1, reported in Chapter 5.

Research questions Study 1, Chapter 5

1. *To what extent do banks consider team climate in their own reporting of misconduct cases?*
2. *To what extent do banks consider team climate in their analysis of a misconduct case?*

As a next step, external supervision can specifically ask of a bank to report on team level behaviours and culture patterns that led up to, explain or potentially caused their misconduct cases. Study 2 examines the way banks assess their own team climates, when explicitly requested to do so by financial supervision. These research questions are addressed in Chapter 6.

Research questions Study 2, Chapter 6

3. *To what extent are banks able to (re-)produce behavioural data, as indicators of team climate of teams with high misconduct risk, when requested to do so by supervision?*
4. *To what extent are banks able to conduct a root cause analysis of own misconduct cases with a team climate perspective, when requested to do so by supervision?*

3. Data sources Studies 1 and 2.

To examine the research questions in Study 1 and 2, four sources of supervisory data are used, see Table 4.1. These data sources have been gathered within the context of DNB's behaviour and culture supervision. The data presented reflect real practices that have been documented in the context of this supervision. The identity of the individuals and organizations involved remain anonymous and irretraceable in line with the confidential nature of supervisory information, and in accordance with DNB compliance regulations.

Table 4.1. *Studies 1 and 2: four research questions, and used data sources*

		Data sources			
		Study 1		Study 2	
Research questions		1. An annual litigation report	2. An internal investigation of a misconduct case	3. Behavioural data, delivered upon request	4. A root cause analysis, delivered upon request
1	To what extent do banks consider team climate in their own reporting of misconduct cases?	Ch. 5, § 5.1			
2	To what extent do banks consider team climate in their analysis of a misconduct case?		Ch. 5, § 5.2		
3	To what extent are banks able to (re-)produce behavioural data, as an indicator of team climate of teams with high misconduct risk, when requested to do so by supervision?			Ch. 6, § 6.1	
4	To what extent are banks able to conduct a root cause analysis of own misconduct cases with a team climate perspective, when requested to do so by supervision?				Ch. 6, § 6.2

The fact that the data is gathered in a supervisory context, and therefore are to remain anonymous and irretraceable, brings forth two main challenges. The first challenge is to show that the two banks from where the supervisory data was gathered are relevant and representative for the banking sector, without revealing their identity. The supervisory data presented in Studies 1 and 2 were gathered at two large banks: here referred to as banks A and B (the same banks A and B as referred to in Table 2.1, next to banks C and D). Both these banks are large significant, or 'too-big-too-fail' banks, with a total equity of more than 15 billion USD and more than 50.000 employees worldwide. Failure of a too-big-too-fail bank brings forth collateral damage to the financial system and the economy (Finel-Honigman & Sotelino, 2015). Governments therefore bail them out when necessary. They receive the highest supervisory intensity in European banking supervision. Both banks offer retail and wholesale services i.e. investment banking and trading

businesses. They serve international markets and have a global spread. Table 4.2 shows for each supervisory data source the bank it relates to.

Table 4.2. Data sources for Studies 1 and 2, gathered in the context of DNB's supervision of behaviour and culture

Research questions		Data sources			
		Study 1		Study 2	
		1. An annual litigation report	2. An internal investigation of a misconduct case	3. Behavioural data, delivered upon request	4. A root cause analysis, delivered upon request
1	Bank A	Ch. 5, § 5.1	Ch. 5, § 5.2		Ch. 6, § 6.2
2	Bank B			Ch. 6, § 6.1	

The second challenge of working with supervisory and therefore confidential data, is to archive the original data in a way that is accessible to the author and others who need to access the original data for verification purposes. While writing up this analysis, I left my role as a supervisor of behaviour and culture at the DNB and took up the role of Head of Audit Behavioural Risk within Group Internal Audit of RBS (United Kingdom, London based). Before leaving DNB at the first of November 2016, the original – non-anonymised – data were stored on the server of DNB in a separate protected folder. These data are not publicly accessible, although I and others who need to access the data for valid (scientific) reasons can do so after signing a confidentiality agreement.