



Universiteit
Leiden
The Netherlands

Banking on team ethics : a team climate perspective on root causes of misconduct in financial services

Scholten, W.W.

Citation

Scholten, W. W. (2018, March 29). *Banking on team ethics : a team climate perspective on root causes of misconduct in financial services*. *Dissertatiereeks, Kurt Lewin Institute*. Retrieved from <https://hdl.handle.net/1887/61392>

Version: Not Applicable (or Unknown)

License: [Licence agreement concerning inclusion of doctoral thesis in the Institutional Repository of the University of Leiden](#)

Downloaded from: <https://hdl.handle.net/1887/61392>

Note: To cite this publication please use the final published version (if applicable).

Cover Page



Universiteit Leiden



The handle <http://hdl.handle.net/1887/61392> holds various files of this Leiden University dissertation

Author: Scholten, Wieke

Title: Banking on team ethics : a team climate perspective on root causes of misconduct in financial services

Date: 2018-03-29

A grayscale image of a petri dish containing a petri dish with a dark, fuzzy mold growing on a surface. The mold is dense and covers most of the dish's area. The petri dish is circular and has a dark rim. The background is white.

Part III
**Social psychological root
causes of misconduct**

Chapter 9
**Identifying corrupting barrels:
assessing team level root causes
of misconduct**

Chapter 9

Study 3. Identifying corrupting barrels: assessing team level root causes of misconduct

1. Deep dive assessment of two trading teams

Bank B is an internationally operating, significant (too big to fail) bank with, investment banking and trading activities as part of its business model. Within those trading activities, financial supervision assessed a business line that faced high integrity risk. This high integrity risk was based on the large transactions and the clients from high corruption countries this business line was dealing with. The high integrity risk for this business line was identified by the financial supervisor as well as the bank itself. Financial supervision conducted a structured behaviour and culture assessment on two trading teams (desk A and B) within that risky business line (that consisted of five desks in total at the time) with the objective to identify behavioural patterns and their drivers within these teams that might facilitate current or future unethical behaviour.

135

1.1. Research question

The investigation of these teams is used to address the following research question:

Research question

5. *Is it possible to identify the climate of a team and to characterize and compare teams in the same organization, based on key aspects of a dysfunctional team climate that can facilitate unethical behaviour?*

1.2. Approach

Team Climate was assessed by applying a supervisory framework in a supervisory deep dive assessment. This Corrupting Barrels framework and assessment is summarized in a two-pager that is included in Appendix A. This two-pager describes the scope, objective, deliverables, underlying model and method of this supervisory assessment. The method combines desk research with team observations and interviews. Finally, a survey is part of the assessment method. I describe the survey and its results in paragraph 9.3.

First, I analysed seven documents requested by the supervisors through desk research, as listed in Table 9.1. Appendix B lists the documents that the bank was asked for by financial supervision. The documents analysed contained all written information that could be found on the demographics of the teams of focus (desks A and B), the behavioural guidelines for the teams, and any information on the past or current climates within the teams.

Table 9.1. Documents analysed through desk research

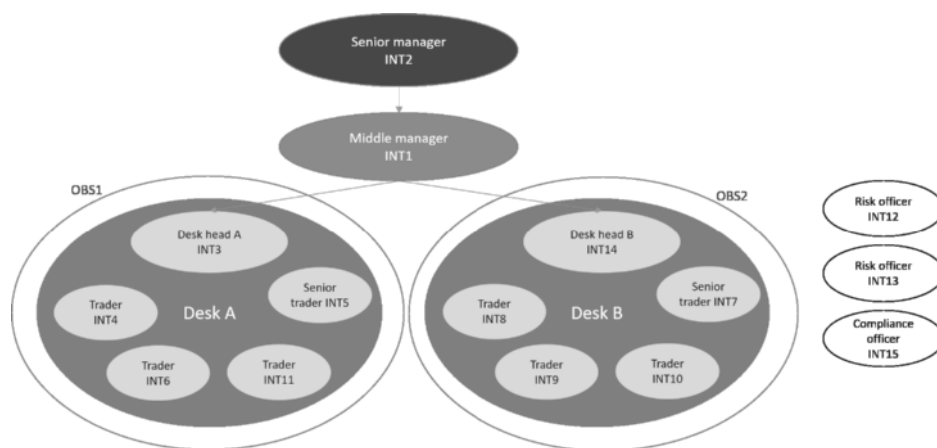
Category	Documents	
Demographics	1	Overview of employees, date of birth, gender and tenure, desks A and B, Aug 2016
	2	Compensation per employee of desks A and B, Aug 2016
Behavioural guidelines	3	Code of conduct, 'Our core values and business principles in practice' – at bank level
Data (indirectly) indicating team climates	4	Sick-leave desk A, Aug 2016
	5	Sick-leave desk B, Aug 2016
	6	New hires overview, desks A and B, Aug 2016
	7	Leavers overview, desks A and B, Aug 2016

Second, I conducted two team observations: one observation per desk. These team observations were announced by the supervisors of behaviour and culture and planned together with the desk heads of desks A and B. Two supervisory observers conducted the team observations, sitting with the teams while they carried on with their daily work. I was, as the assessment leader, one of the observers for both observations. The other observer was for each observation a different supervisory expert of behaviour and culture, who was not involved in the assessment (therefore having a fresh and unbiased view). The duration of the team observations was 60 minutes per observation (i.e., per desk).

The observers used an observation format as included in Appendix D. The observation format was structured into three main categories, corresponding with the levels of the 'Corrupting Barrels' model: task (e.g. error approach), relationships (e.g. outcome inequality) and climate (e.g. moral climate). Observations that could be related to or indicate something about team climate (such as interactions between desk members, with the desk head, with clients, comments by team members, personalised gadgets on desks), were regarded as relevant and noted.

Next to desk research examining nine documents and two team observations, fifteen interviews were conducted with all members of the two trading teams, the desk heads, middle and senior management and with risk and compliance functions. Figure 9.1 gives an overview of the fifteen interviews (abbreviated as 'INT') and two observations (abbreviated as 'OBS'). The duration of each interview was 60 to 90 minutes. The interviews were semi structured: a set question format was used, and is included in Appendix C. Just as the observation format, the interview format is structured into three main categories, corresponding with the levels of the 'Corrupting Barrels' model: task (e.g. error approach), relationships (e.g. outcome inequality) and climate (e.g. moral climate). I conducted each interview, together with another senior supervisor. The bank was asked not to accompany the interviewees (with for instance a compliance or audit officer), to allow interviewees to speak freely and to ensure confidentiality.

Figure 9.1. Fifteen interviews and two team observations



The local leadership of the trading team by the deskhead is of influence on the team climates at the desks. How the leader responds to errors, how he or she manages the outcome inequality and discusses the moral aspects at the desk impacts the error approach, outcome inequality and moral climate (I explain the impact of leadership in greater detail in paragraph 10.2.1 Leadership is key). In the interview format and observation format leadership was therefore added as a fourth category, because of the impact of leadership on the three categories mentioned.

1.3. Results

Results desk research

The code of conduct lists the business values and behavioural principles that employees throughout the bank are expected to follow or comply with. These principles relate to for instance customer service, risk taking and sustainability or long term thinking. The code's aim is to serve as a guidance for professional decisions and all actions in the bank. As a consequence, the code is not business or team specific. To what extent the code of conduct is of influence on the decisions at team level is not assessed here.

Desks A and B can be differentiated in terms of demographics, based on the information that was provided by bank B through the desk research documents. This information showed relevant differences in gender, tenure and turnover and compensation or income between the two assessed teams. As Table 9.2 shows, while the teams are comparable in age of traders including desk heads (of 32 and 35 years of age), the teams differ in *gender* distribution. Desk A registers seven employees, including one female trader and six male traders. However, the female trader was at the time of the assessment absent due to long-term illness. Desk B also registers seven employees, with five female traders and two male traders. Also at this desk, one female trader was absent at the time of the assessment due to long-term illness. In sum, desk A has mostly male traders (87% of all desk A traders) and desk B has mostly female traders (71% of all desk B traders).

Table 9.2. Demographics per desk

Demographics desks A and B			
		Desk A	Desk B
Gender	Female	1 of 7 (14%)	5 of 7 (71%)
	Male	6 of 7 (86%)	2 of 7 (29%)
Age	Range	27 – 37 yrs	27 – 36 yrs
	Average	32 yrs	32 yrs
Tenure	Months	53	41
	Years	4.4	3.5
Turnover	Left in '15/'16	0 employees	3 employees
	Hired in '15/'16	1 employee	3 employees

Desks A and B differ slightly in *tenure*. The traders of desk A (53 months, 4,4 years) have worked on average a year longer at bank B than the traders of desk B (41 months, 3,5 years). The *turnover* of desks A and B differs more clearly. During 2015 and 2016, three employees left desk B due to 'voluntary termination' and three new employees were hired permanently. In the same period, only one new employee was hired permanently to work at desk A, while no employees left desk A. In sum, at desk A the traders have been working at bank B (a bit) longer than the traders at desk B. Also, desk A has seen less turnover of employees than desk B.

The *inequality in income within* desks A and B – expressed by the difference between the highest and lowest incomes within a team – does not differ. Within desk A, the highest income (€190.127, fixed plus variable salary) is three times the lowest income (€62.187, fixed plus variable salary). Also within desk B, the highest income (€178.475, fixed plus variable salary) is three times the lowest income (€52.360, fixed plus variable salary). However, the way fixed and variable income are set differs distinctively *between* desks A and B. Table 9.3 shows that the traders of desk A get paid more than the traders of desk B. The average fixed salary per trader is 7,2% higher for desk A (€93.825) than for desk B (€87.525). Also, the traders of desk A receive more variable income than desk B traders. The average variable salary per trader for desk A (€15.375) is almost three times the average variable salary for desk B (€4.000). The total 'bonus-pool' for desk A (€92.250) is over three times the total 'bonus-pool' for desk B (€28.000). Furthermore, for desk A 14% of the total income per trader is variable, while for desk B 4% of the total income is variable. This shows that the way fixed and variable income per trader is balanced differs per desk – irrespective of the financial performance of each desk. Finally, more traders at desk A receive variable income (83% of all traders at desk A) than at desk B (43% of all traders at desk B). Considering that desks A and B worked with the same kind of transactions in the same product group (although a different 'client' area), with the same number of traders, of about the same age and just a slight difference in tenure, with the same senior management, from the same building – the difference in fixed and variable pay balance is striking.

Table 9.3 Fixed and variable income

Fixed and variable salary – in euros (€)					
	Total fixed salary	Average fixed salary per trader	Total variable salary	Average variable salary per trader	% variable total from fixed total
Desk A (6 people)	562,947	93,825	92,250	15,375	14%
Desk B (7 people)	612,675	87,525	28,000	4,000	4%

Unfortunately, it remains unknown on what grounds this variable income is allocated. Information on targets or KPI's is missing from the desk research documentation – although the supervisor had requested this information from bank B. It is therefore impossible to analyse to what extent behavioural targets are included (or what these targets are) in the performance assessments.

In sum, the information on gender, age, tenure, turnover and income distribution adds to the profiling of teams. Although the team climates of desks A and B and the risks of these team climates can not be defined based on this information alone, it offers a first characterization of desks A and B as summarized in Table 9.4.

Table 9.4. First team profile based on desk information

First team profile based on desk information	
Desk A	Desk B
Mostly male	Mostly female
Longer tenure	Shorter tenure
Less turnover	More turnover
Higher fixed and variable pay	Lower fixed and variable pay
Higher percentage of total income is variable	Lower percentage of total income is variable
More traders receive variable income, irrespective of performance	Less traders receive variable income, irrespective of performance

Results observations

The team observations of desks A and B resulted in observations of their physical situation, the items on their desks and their interactions with each other. First, traders of desk A were sitting at two rows of working desks, facing each other. These rows of desks were situated on an open office floor, with many more rows of desks (other trading teams). On the other side of that same floor, traders of desk B were also sitting at two rows of desks. The traders of desk B were not facing each other, but sitting in one aisle with their backs towards each other. So, the desk A traders could look at each other by looking past their computer monitors, while the desk B traders had to turn around on their chair to see each other. All working desks were equipped with a personal computer, monitors (two to four monitors for each trader) and a desktop phone. Apart from this standard equipment, professional and personal items were visible on the working desks of the

two teams. Professional items were: pens, notebooks, forms, staplers, calculators, mobile phones and headsets / earphones. On the walls near the working desks of both desk A and B, whiteboards were placed that were used to note updates and progress of work. While the number and sorts of professional items were the same for both desks, the personal items differed per desk or team. At desk A there were more personal items, and different personal items than at desk B. The personal items at desks A and B are listed in Table 9.5

Table 9.5. *Personal items on and around the desks*

Personal items on and around desks	
Desk A	Desk B
<ul style="list-style-type: none"> - Poker chips - Bottle opener - Ibuprofen (pain killer) - Some change / money - Gadget of a club - A self-made drawing of a skull - Picture of two beautiful women - Poster of Mohammed Ali, standing over his opponent whom he had just knocked out - Poster of B.A. ('bad attitude') of the A-team 	<ul style="list-style-type: none"> - Fruit - Gum - Water - Picture of the team going out

Regarding the interactions between desk members that were observed during the team observations: both teams demonstrated interactions amongst the team members and with clients during the team observations. The interactions at desk A were characterized by loud laughter and a lot of talking at the desks and on their phones. One trader asked a more senior trader about the use of some sort of form. A joke was made about a trip abroad for work, followed by laughter. The observers interpreted these interactions as friend-like and lively. At desk B the interactions were less frequent than at desk A. At some point during the observation, the desk head of desk B had a telephone call with another department within the bank to talk about how a meeting went. A trainee started talking to one of the observers about how he likes the work he does. Later this trainee asked the desk head "Do you have a moment to discuss this model with me?". Another trader laughs while she is on the phone. It is more quiet than at desk A. Traders at desk B even tell the observers that they hear the laughter of the desk A team across the floor. The observers interpreted the atmosphere at desk B as less outspoken than at desk A. A quote from one of the observers is that she experienced the desk B team as "colourless and not very personal", and "as if the traders do not know each other really". While desk A was observed as showing more camaraderie and cohesiveness.

Results interviews

The minutes of fifteen interview were analysed by identifying and counting quotes indicating the team climate aspects or characteristics that could facilitate unethical behaviour according to the Corrupting Barrels model: ineffective error approach, outcome inequality and dysfunctional moral climate.

The analysis of the fifteen interview minutes show that the two teams - desk A and desk B – can be characterized by two ineffective team climate characteristics that facilitate unethical behaviour, according to the Corrupting Barrels model:

- a. Ineffective error approaches (task level). This concerns the way desks A and B deal with errors.
- b. Dysfunctional moral climates (climate level). This concerns the way desks A and B typically deals with the moral dimension of work.

The interviews revealed no observation that seemed related to outcome inequality or its emotional consequences, as the third aspect of a Corrupting Barrels team climate. Table 9.6 provides an overview of the two ineffective team climate characteristics found, and lists the number of quotes and interviews that indicate these characteristics. Next to these ineffective team climate characteristics the interviews revealed some indicators of a dysfunctional leadership style. This concerns patterns in leadership of the desk head at desk A. Table 9.7 presents the number of quotes and interviews on this theme.

Table 9.6. Number of quotes and interviews indicating team climate aspects that facilitate unethical behaviour

Ineffective patterns - indicating a team climate that facilitates unethical behaviour (Corrupting Barrels team characteristics)						
Theme	Ineffective pattern		Desk	No of quotes	No of interviews	
Error approach	'Blame & punish' error approach		Desk A	10	8	
	'Denial of errors' error approach		Desk A	5	4	
	'Empathy' error approach		Desk B	4	4	
Moral climate	'Moral neglect'		Desks A & B	7	5	
	Strong collective norms	Cohesiveness	Friend-like interactions	Desk A	6	5
			Low turnover	Desk A	3	3
		Masculine	Masculine atmosphere	Desk A	4	4
			Laugh & win	Desk A	8	6
		No serious or soft talk	Desk A	7	4	

Table 9.7. Number of quotes and interviews on dysfunctional leadership

Dysfunctional leadership					
Theme	Ineffective pattern		Desk	No of quotes	No of interviews
Leadership	'Authoritarian'	Authoritarian style	Desk A	13	9
		High demandingness	Desk A	7	5
		Low responsiveness	Desk A	7	5

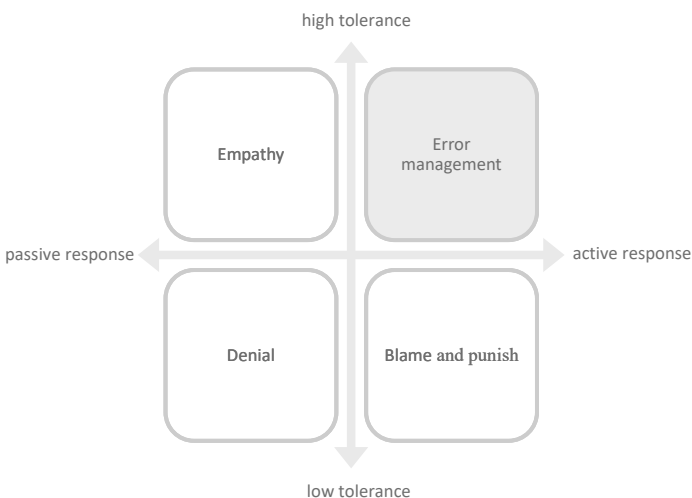
Below I will explain these patterns in more detail, and indicate how they differ per desk.

a. Ineffective error approaches - task level

The interviews indicate for both desks an error approach, that could facilitate unethical behaviour of individual traders. For desk A the interviews suggested a 'blame and punish' error approach – characterized by a low acceptance of and active response to errors, see Figure 9.1. This blame and punish error approach within a team can elicit cover-up behaviour and denial of errors. These effects facilitate unethical behaviour of team members. The blame and punish approach is generally considered to be ineffective, just as the 'empathy' and 'denial' error approaches. Chapter 8 offers a more in-depth explanation of these ineffective error approaches and their relation with unethical behaviours, and refers to underlying theory.

Seven quotes from five interviews with desk A members, indicate a blame and punish error approach at desk A. Another three quotes pointing in that direction came from interviews with risk and senior management on the error approach at desk A. Examples of the ten quotes in total (see Table 9.6) that evidence a blame and punish approach are the desk head explaining that "he would like to see that employees thank him and bow their head when he points out that they made an error", and that "he does not like it when employees talk back defensively". Another quote of an interviewee is that "errors are sure to be called out, directly, aimed at the person who did it. Some sort of tell-off, with everyone there to hear it. It is not comfortable." The consequence of a blame and punish error approach can be that employees simply start to deny that error do and could occur. Six quotes from three interviews with desk A members and one interview with a non-desk A member, indicate his denial of errors at desk A. Examples of these six quotes are "There are no problems" and "They thought openness on errors would turn against them".

Figure 9.2. Four error approaches, of which the error management approach represents the most effective way to deal with errors



At desk B another ineffective error approach is indicated by the interviewees. Four quotes from four different interviews with desk B members suggest an 'empathy' error approach. This approach is characterized by a high acceptance of but passive responses to errors, see Figure 9.2, and risk a passive attitude of desk members towards errors, preventing that they learn from mistakes. Both effects could facilitate future unethical behaviour. Examples of the quotes that suggest the 'empathy' error approach are "*Everyone makes mistakes*" and "*Things go wrong regularly*". The interviews do not demonstrate an active response to errors: there are no signs of structured and organized learning from errors at desk B. For both desks the Employee engagement survey that was studied as part of the desk research analysis, reports "where I work we regularly discuss how we can improve the way we do things" as one of three main areas of improvement

b. Dysfunctional moral climates - climate level

The interviews indicate a climate of 'moral neglect' at desks A and B. A climate of moral neglect refers to a lack of awareness of the moral content of decisions, or the moral consequences of one's actions, independent of the extent to which team members are aware of the rules they ought to follow. This team climate can be characterized for instance by shared norms that focus on the business or legal implications of work decisions alone. This allows team members to remain unaware of the moral implications of the choices they make or other morally relevant consequences of their actions. This moral neglect could create blind spots and inhibit careful considerations, both enhancing possible unethical behaviours. Chapter 8 explains ineffective moral climates and their relation to unethical behaviour in more detail and refers to the underlying theory.

The lack of quotes on perceived moral aspects of work, derived from the fifteen interviews, are suggestive of a climate of 'moral neglect'. Although questions were asked by the interviewees on this moral dimension, the interviewees were not talking about it. However, seven quotes indicate a low moral awareness, such as "*I do not like to blow things out of proportion*" and a lack of dialogue on moral aspects within the teams, such as "*We do not talk about soft things*". Next to this climate of 'moral neglect' for both desks, the interviews suggest strong collective norms within the team of desk A that might contribute to a climate of moral neglect. These strong collective norms concern cohesiveness and masculinity – both strengthening the social norm within the team not to discuss moral aspects. In the interviews, cohesiveness is indicated by six quotes on friend-like interactions at desk A from five different interviews. The cohesiveness is further illustrated by three interviewees with three quotes on the low turnover at desk A. Examples of the quotes that suggest a strong collective norm regarding cohesiveness are "*This is sort of a friend team*", "*We are close as a team*" and "*They do a lot after work hours with each other*". Masculinity is evidenced by four quotes from four different interviews, such as "*It is like a football team, all guys*" and "*A lady would have a hard time in this team*". This masculinity is further illustrated by eight quotes from six interviews, on the importance of laughing and winning. Examples are "*Laughing and having a good time is important*" and "*I call him the CEO: Chief Entertainment Officer*". Seven quotes out of four interviews express a reluctance for 'too soft or serious talk'. Examples of these quotes are "*It is*

not common to talk about soft things in this team", "I am impatient, that is why I chose this work" and "Now we do weekly starting meetings, where we talk about private stuff too, although that is not easy in this team. Here it is more about making money".

c. Leadership level: dysfunctional leadership style

The interviews suggest a dysfunctional leadership style of the desk head of desk A. His dysfunctional leadership style is characterized by demanding a lot from employees and showing little responsiveness to their needs. This authoritarian or autocratic leadership style (Chan et al, 2012; Schuh & Zhang, 2013) can strengthen a team climate that facilitates unethical behaviour. For instance, high demandingness may strengthen an ineffective error approach by inhibiting learning from mistakes and eliciting cover-up behaviour, and thereby facilitate future unethical behaviour. Low responsiveness may enhance a lack of dialogue within the team on moral dilemmas, contributing to a climate of moral neglect that facilitates unethical behaviours. The authoritarian leadership style of the head of desk A is evidenced by thirteen quotes from nine interviews. Examples are "He is too direct and authoritarian". "Desk head is very direct. This can be shocking to people" and "He is very hierarchical". His high demandingness, including impatience and results-driven behaviour is illustrated by seven quotes from five different interviews, including an interview with himself. Examples are "I (the desk head) am allergic to lazy or stupid colleagues. I like quick thinkers. I like to put energy in smart and quick people. I find it more difficult to give time to people with a lower tempo" and "He is impatient". His low responsiveness is illustrated by seven other quotes of five interviews, such as "If I (the desk head) can choose between HR things like development of people and making a deal, I want to make a deal", "He could do a better job in listening" and "He can be a little too strict or directive. If I would be manager of that team, I would give more room to people. I would do more about team development".

In sum, the interviews indicate ineffective error approaches and dysfunctional moral climates within desks A and B. Table 9.8 provides an overview of the team climate patterns that were found in the fifteen interviews, and sums up their possible effects that facilitate unethical behaviour of team members. Next to these two team climate characteristics that may facilitate misconduct, the interviews indicate an authoritarian leadership style at desk A that strengthens the two ineffective team climate characteristics. The detrimental impact of this leadership style on team climate is summarized in Table 9.9.

Table 9.8. Assessed team climate aspects, and how they facilitate unethical behaviour

Category	Team climate aspect	Possible effects that facilitate unethical behaviour
Error approach	'Blame & Punish' – desk A	- Denial of errors - Cover up behaviour
	'Empathy' – desk B	- Passive attitudes - Lack of learning from mistakes
Moral climate	Moral neglect – desks A and B	- Disregard of moral dimension of decisions, enhances blind spots - Inhibits careful consideration
	Strong collective norms – desk A	- Inhibits independency and countervailing power: this increases the chance of taking excessive risks or compliance failures.

Table 9.9. Assessed leadership style, and its effect on team climate

Category	Pattern	Possible effects that facilitate unethical behaviour
Leadership	Authoritarian style – desk A	<ul style="list-style-type: none"> - Strengthens dysfunctional moral climate: this leadership style inhibits careful considerations, indepeny and countervailing power. - Strengthens ineffective error approach: this leadership style enhances cover-up behaviour and inhibits learning from mistakes.

The interviews with middle and senior management – the management layers above the desks, see Figure 9.1 – and with risk management, also show concern about the behaviours within the desk A team. In these interviews, previous unethical behaviour of desk A members was discussed explicitly. These behaviours came to light through excessive expenses by desk A members and the desk head (e.g. spending too much money on dinners and champagne, with or without clients). An example of a quote on this subject is *“Large checks: this team is very commercial and has known the days of large expenses. I have collected these checks and expense tickets, and have discussed them in the management team, making clear that this was unacceptable behaviour and that I draw the line”*.

Even though senior management has been clear about expense behaviour, there are lingering concerns about the ethical behaviour at desk A. This is evidenced by two actions. First, senior and risk management still check the expenses for desk A, including the deak head, with great attention. *“The expenses of the desk head I check every six months myself, and I will keep doing that, because he tends to cross the line”*. Second, senior and risk management have placed a senior trader at desk A, as a ‘right hand’ of the desk head, that they know and trust. Their quote on his influence is that he is *“the conscience of the desk”*.

1.4. Conclusions

The team climate assessment reported here defined team climate and identified differences in team climate characteristics facilitating unethical behaviour, that characterize teams in the same organization. By combining desk research, team observations, and interviews, it is possible to effectively define team climates and identify these differences in team climate aspects.

The results of the desk research, team observations and interviews suggest distinct team climates that differ per team. These differences in team climate of desks A and B suggest that the team climate of desk A has more ‘corrupting’ patterns and characteristics, than the team climate of desk B. Yet, the assessment also shows an ineffective error approach at desk B, the ‘empathy’ approach, and signs of moral neglect. However, the assessment reveals more risk factors at team climate level for desk A as it shows:

1. A ‘blame and punish’ error approach, that already shows some signs of denial of errors (low acceptance that errors are part of professional life). The results of the interviews indicate this ineffective error approach tends to be used in this team.

2. A climate of moral neglect, discouraging awareness and dialogue on the moral dimension of the work. This moral neglect is possibly reinforced by social collective norms at desk A on cohesiveness and masculinity, that were not found at desk B. Next to the large number of interview quotes backing this up, the desk research and team observations resulted in some evidence for cohesiveness (e.g. desk A showed a lower turnover than desk B, the team at desk A was physically facing each other on the working floor, while desk B was sitting with their backs facing each other, and friend- like interactions were observed at desk A that were not observed at desk B) and in some evidence for masculinity ((a) all men, while desk B has mostly women, (b) masculine personalised items on and around their working desks, while desk B lacked these items, and (c) higher variable income connected to performance than desk B) as well.
3. A dysfunctional leadership style at desk A, that was not indicated for desk B. This authoritarian leadership style was evidenced by the interview results.

Next to the three indicators reported here – desk research, team observations and interviews – a fourth indicator for a corrupting team climate at desk A (in contrary to desk B) revealed itself during the interviews. Management information at senior management and risk management level indicated inappropriate behaviours at desk A (in the form of excessive expenses). Their information was differentiated per team, which enabled them to assess behaviours per desk.

Taken together, this information suggests that it is possible and sensible to assess team climates when analysing and preventing unethical behaviour. Teams are distinct units or groups that show distinctive patterns indicating team climates, that can be identified and assessed with the indicators provided by the Corrupting Barrels model.

2. Corrupting Barrels survey

Conducting a team climate assessment – using desk research, team observations and interviews – as reported in paragraph 10.1 requires dedicated time from behavioural experts. It can be more appropriate and realistic to use a survey as a quick scan to assess team climate, for instance when a larger part of a banking organization needs to be assessed simultaneously and pockets of risk ought to be identified. This paragraph reports on the first use of a tailor- made survey, using the three team climate characteristics of the Corrupting Barrels model (see Figure 3.2 in Chapter 3), to assess team climate indicators that facilitating unethical behaviour.

2.1 Research question

This paragraph addresses the method that was used to examine the following research question:

Research question

- 6 *Is it possible to capture key aspects of a dysfunctional team climate that can facilitate unethical behaviour with a survey instrument?*

2.2 Approach

Based on existing validated scales, the 'Corrupting Barrels' survey was developed to assess team climates facilitating unethical behaviours. The survey contains twenty-seven statements that can be answered by desk members on a nine-point Likert scale (from 1 = strongly disagree to 9 = strongly agree). The survey is included in Appendix E, which showed how the items that were used relate to the underlying theory and original items from the existing scales. *Error approach* was measured with three items, adapted from the Error Aversion Culture dimension by Van Dyck *et al.* (2005): "In this team people feel stressed when making mistakes", "In general people in this team feel embarrassed after making a mistake" and "People within my team prefer to keep errors to themselves".

Nine items measured perceived justice, as a result of *outcome inequality*, adapted from the scale developed by Colquitt (2001). Three items measured distributive justice: "The reward that I receive (compensation, promotions e.g.) reflect the effort I have put into my work", "The rewards that I receive (compensation, promotion e.g.) are appropriate for the work I have completed" and "The rewards that I receive (compensation, promotion e.g.) reflect what I have contributed to the company". Interpersonal justice was measured by "My team manager treats me in a polite manner", "My team manager treats me with dignity" and "My team manager treats me with respect". Procedural justice was measured by "I am able to express my views and feelings about certain issues in this team", "I have influence over the outcome arrived at by promotion procedures in this team" and "My opinions are respected and valued within this team".

Finally, (*moral*) *climate* was measured with fifteen items adapted from the scale developed by Stachowicz-Stanusch & Simha (2013), which contains different sub-scales. Nine of these fifteen items indicate a principle based climate, categorized in 'independence', 'rules' and 'law and code' principle based. Independence principle based climate was measured by: "In this team, people are expected to follow their own personal and moral beliefs", "In this team, people are guided by their own personal ethics" and "Each person in this team decides for themselves what is right and wrong". Rules principle based climate was measured by: "Successful people in this team go by the book", "Successful people in this team strictly obey the company policies" and "It is very important to follow strictly the company rules and procedures here". Law and code principle based climate was measured by: "In this team, the law or ethical code of our profession is the major consideration", "In this team, people are expected to strictly follow legal or professional standards" and "People

in this team are expected to comply with the law and professional standards over and above other considerations". Instrumental climate was measured by three items: "People in this team are expected to do anything to further the company's interests", "There is no room for one's own personal morals or ethics in this team" and "In this team, people protect their own interest above other considerations". Caring climate was measured by three items as well: "In this team, our major concern is always what is best for the other person", "Our major consideration is what is best for everyone in this team" and "The most important concern is the good of all the people in the team".

The survey was sent to forty-three employees of a trading division within bank B. This trading division consists of six trading desks: desks A, B, C, D, E and F. The deep dive (using desk research, interviews and observations) focused on desks A and B as part of this division. All six desks trade in the same kind of products. Desks A and B are however in the same physical location or building. The other four desks are located in different cities and countries.

All employees of the six desks were asked by their middle manager (the manager of their desk heads) by email to complete the survey within two weeks. It was made clear to the employees that their answers would not be accessible by management or anyone else within bank B, and that they would be sent directly to DNB ensuring confidentiality.

2.3 Results

The survey was sent to forty-three recipients of whom thirty-two employees responded. This represents a total response rate of 72%. Employees of desks A and B - the desks that the supervisory deep dive focused on were also represented in this sample. The response rate was 86% (six out of seven desk members) for desk A and 71% (five out of seven desk members) for desk B.

Scale development

To facilitate the interpretation of composite scores, I ensured that for all items low scores indicate an unfavourable climate containing risk factors. To achieve this, six of the twenty-seven items were recoded to make sure that lower scores always indicate a less effective error approach, greater perceptions of outcome inequality, and a more dysfunctional moral climate. Of the six recoded items three items measure the error approach and three items measure instrumental climate. Appendix E provides an overview of all items as they were originally worded.

A factor analysis indicated that the individual items fell into four separate clusters representing meaningful constructs that relate to the three aspects of the Corrupting Barrels model. I conducted reliability analysis on these four clusters of items to see whether they could be represented as composite scales. The reliability of these four scales is indicated in Table 9.10.

Table 9.10. The items and reliability indicators of four scales to assess relevant team climate indicators

Corresponding team climate aspect - Corrupting Barrels model	Scales	Items	Cronbach's alpha
Error approach	Functional error approach	1 In this team, people feel stressed when making mistakes.*	.84
		2 In general, people in this team feel embarrassed after making a mistake.*	
Outcome equality	Just leadership	1 My team manager treats me in a polite manner.	.89
		2 My team manager treats me with dignity.	
		3 My team manager treats me with respect.	
		4 I am able to express my views and feelings about certain issues in this team.	
		5 I have influence over the outcome arrived at by promotion procedures in this team.	
		6 My opinions are respected and valued within this team.	
	Fair rewards	1 The reward that I receive (compensation, promotions e.g.) reflect the effort I have put into my work.	.98
		2 The rewards that I receive (compensation, promotion e.g.) are appropriate for the work I have completed.	
		3 The rewards that I receive (compensation, promotion e.g.) reflect what I have contributed to the company.	
Moral climate	Rule awareness	1 Successful people in this team go by the book.	.88
		2 Successful people in this team strictly obey the company policies.	
		3 It is very important to follow strictly the company rules and procedures here.	
		4 In this team, the law or ethical code of our profession is the major consideration.	
		5 In this team, people are expected to strictly follow legal or professional standards.	
		6 People in this team are expected to comply with the law and professional standards over and above other considerations.	

* = reverse coded

The first scale 'Functional error approach' I used to assess the functionality of the error approach (corresponding with the Corrupting Barrels model). This scale, Cronbach's alpha = .84, consists of two items. As indicated above, these were recoded to make sure that higher scores indicate a more favorable error climate and lower scores always indicate a less favorable team climate ('In this team, people feel stressed when making mistakes' and 'In general, people in this team feel embarrassed after making a mistake'; both recoded) that correlated highly with each other, $r = .73, p < .001$. I originally intended to include a third item in this scale, (see Appendix B), but item 3 ('People within my team prefer to keep errors to themselves') was removed because it did not cluster well with the other two items.

The second and third scale correspond to the team climate aspect of outcome inequality in the Corrupting Barrels model. Perceived inequality, as I explain in Chapter 8, may facilitate unethical behaviour. In line with theory (see Chapter 8) on distributive justice (Greenberg, 2007) and interactional justice (Bies & Moag, 1986; Vecchio, 2000), unfair distribution of rewards and unfair leadership can drive perceived inequality. I created a second scale 'Just leadership' and a third scale 'Fair rewards' that assess their drivers of perceived inequality. 'Just leadership', Cronbach's alpha = .89, consists of the six interpersonal and procedural justice items which clustered together in the factor analysis: "My team manager treats me in a polite manner", "My team manager treats me with dignity", "My team manager treats me with respect", "I am able to express my views and feelings about certain issues in this team", "I have influence over the outcome arrived at by promotion procedures in this team" and "My opinions are respected and valued within this team". In 'Fair rewards', Cronbach's alpha = .98. I included three distributive justice items: "The reward that I receive (compensation, promotions e.g.) reflect the effort I have put into my work", "The rewards that I receive (compensation, promotion e.g.) are appropriate for the work I have completed" and "The rewards that I receive (compensation, promotion e.g.) reflect what I have contributed to the company".

Finally, I created a fourth scale 'Rule awareness' that indicates the extent to which the team climate is oriented on rules and codes, to indicate the risk of moral neglect in the team. This scale, Cronbach's alpha = .88, consists of the six 'rules and law and code principle based' climate items: "Successful people in this team go by the book", "Successful people in this team strictly obey the company policies", "It is very important to follow strictly the company rules and procedures here", "In this team, the law or ethical code of our profession is the major consideration", "In this team, people are expected to strictly follow legal or professional standards" and "People in this team are expected to comply with the law and professional standards over and above other considerations".

Of the twenty-seven survey items, ten did not fall into one of the four clusters as discussed so far. To explore the results for these ten separate items, I calculated the means of the separate items for each of the six desks and report these in Appendix F.

Profiles per team

To define team climate, I made team climate profiles by calculating the means of the four team climate scales for each desk. Table 9.11 lists these scale means per desk. The number of observations relative to the number of comparisons made is too small to test for statistical significance of mean differences. Figure 9.3 visualises the four scale-means plotted per desk.

Table 9.11. Means of four scale scores per desk

Corresponding team climate aspect – Corrupting Barrels model	Scales	Desk A	Desk B	Desk C	Desk D	Desk E	Desk F
Error approach	1 Functional error approach	6.1	6	6.3	5.8	6.6	4.5
Outcome equality	2 Just leadership	7.4	8	8.7	6.4	6.7	7.7
	3 Fair rewards	5.9	6.5	3.3	2.6	2.9	4.9
Moral climate	4 Rule awareness	8.4	7.3	8.8	7.3	7.3	7.8

The scale-means indicate specific team profiles that differ between the six teams. All teams show relatively high scores on rule awareness. Yet, each team has a distinct pattern of score ranges and means on the different team climate indicators. This reveals that there is no single team that shows evidence of an overall positive or negative team climate on all indicators. Instead, the scale means suggests that the teams differ from each other on specific team climate aspects. The most evidence of such differences is observed in team members' impressions of the error approach, and the fairness of the way rewards are distributed and of leaders. Here mean scores seem to be quite different per desk – despite the fact that all desks are part of the same organization and are subjected to the same formal guidelines and informal organizational culture. The Corrupting Barrels survey makes it possible to reveal these differences at team level, answering the sixth research question of this book affirmatively.

Lower scores indicate more risk, as they refer to a less effective error approach, greater perceived injustice in leadership and rewards, and a lesser extent to which the team is aware rules and codes. Lower scores lead to a smaller diamond-shape in the visualization (Figure 9.3).

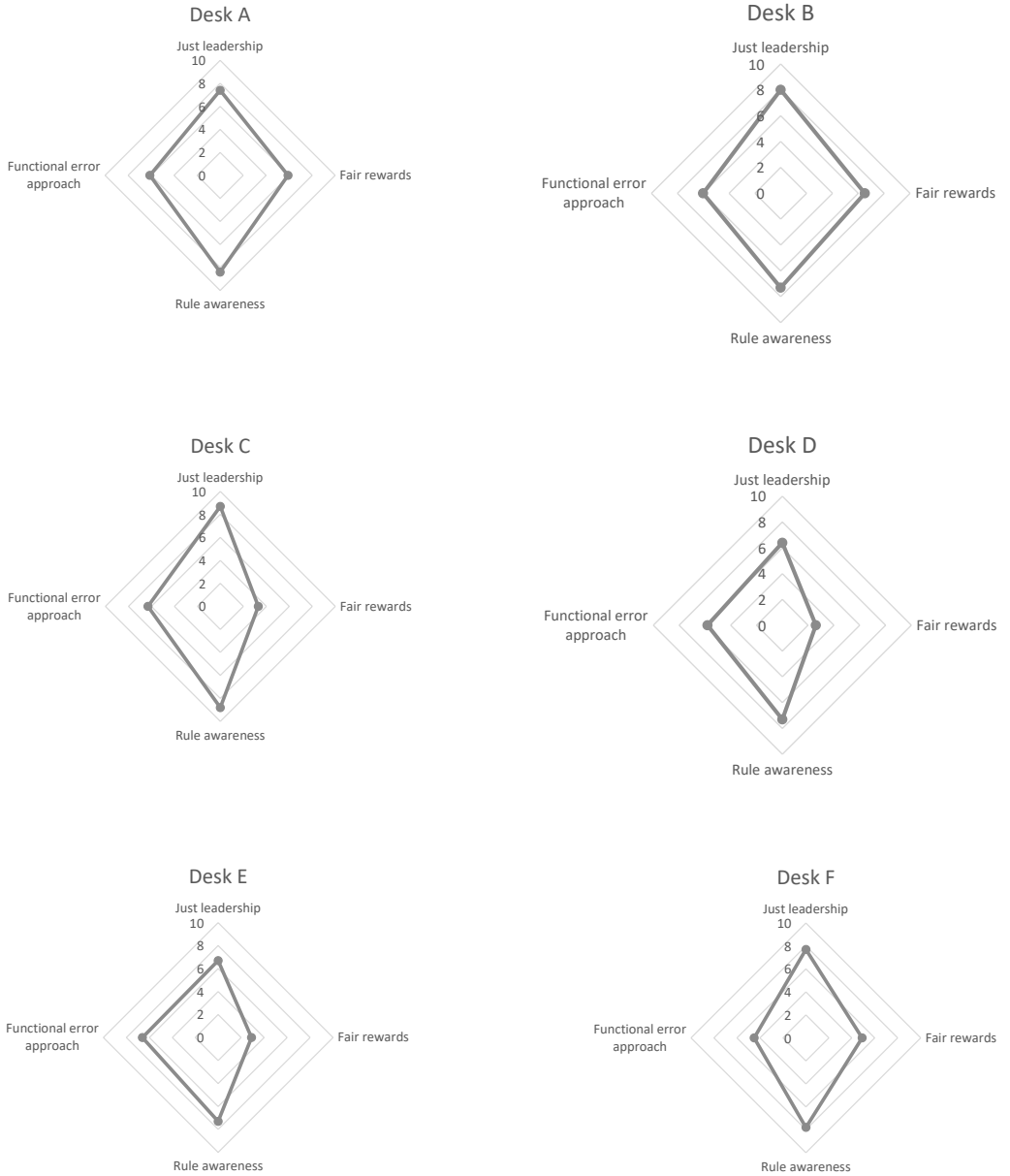
Of course, based on these self-reported team climate aspects alone, the occurrence of unethical behaviour cannot be predicted. However, plotting the scale-means creates specific team profiles that add value in the assessment of misconduct risk per team, because these profiles show differences on the team climate characteristics that have been shown to facilitate unethical behaviour in other contexts. For instance, Desks D and E show relatively low means on the 'Fair rewards' scale ($M = 2.6$ for desk D and $M = 2.9$ for desk E). This indicates a higher risk of frustration and envy at these desks, which have been documented as precursors for employee discontent and organizational misbehaviour. In Chapter 11, I elaborate on the value of the deep dive and survey results in identifying such team-level risk factors, and also consider the limitations of this analysis.

Profiles facilitating misconduct

The deep dive - carried out using desk research, observations and interviews – resulted in a characterization of team climates for desk A and desk B, with an estimated higher risk for unethical behaviour at desk A than at desk B. In this paragraph, I explore to what extent the team profiles for desks A and B, based on the survey results (which offer a quick and dirty diagnostic tool), are in line with the risk assessment resulting from the deep dive that is more labor intensive and less feasible for overall screening purposes. Does the team profile of desk A – based on the survey results - show a greater presence of team climate aspects facilitating unethical behaviour? First, the means of the scale measuring rule awareness show that there is a strong overall emphasis on rules and codes, which seems to be even higher at desk A, ($M = 8.4, SD = .46$), than at desk B, ($M = 7.3, SD = .89$). So, compared to desk B, it seems that at desk A has a slightly stricter emphasis on rules, although desk B is well aware of them as well. Furthermore, the team climate at desk A shows a higher perceived injustice than at desk B. The 'Fair rewards' scale, measuring fairness of rewards, also shows a lower mean for desk A ($M = 5.9, SD = 1.80$) than for desk B ($M = 6.5, SD = 1.04$). The 'Just leadership' scale, measuring fairness of leadership, shows a lower mean for desk A ($M = 7.4, SD = .54$) than for desk B ($M = 8.0, SD = .49$). This resonates with results from the deep dive, which showed a dysfunctional authoritarian leadership style at desk A – a highly demanding and controlling desk manager. A high expectation to strictly obey rules combined with unfair leadership, indicate a team profile of desk A that is to a greater extent facilitating unethical behaviour (for instance breaking rules to retaliate against unfair treatment by the deskhead), than the team profile of desk B.

All six desks have high means for rule awareness. Despite the strong rule awareness at all six desks, the survey results indicate at several desks dissatisfaction about the way rewards are distributed and fear to make mistakes. These climate aspects can risk unethical behaviour. These survey results would therefore justify a deep dive review at the other desks as well (next to desks A and B).

Figure 9.3. Team climate profiles for desks A, B, C, D, E and F



2.4 Conclusions

The 'Corrupting Barrels' survey can be used to define team climates and characterize different teams in the same organization. The six desks included in this analysis showed team profiles that differed on the three team climate characteristics that can facilitate unethical behaviour (measured by four scales: one on error approach, two on outcome equality / perceived fairness and one on moral climate). The Corrupting Barrels survey provides a first impression of potentially problematic characteristics of team climates. Using this survey to form a first impression of different team climates can be valuable for banks and financial supervision, for instance as an indicator for where to take a closer look to assess misconduct risk using a deep dive review.

The survey shows that even when emphasizing the importance of rules and guidelines may prevent moral neglect and make people think more about the implications of their behaviors, this does not preclude the occurrence of negative emotions that result from perceived unfairness and a dysfunctional error climate. Yet these aspects of team climate form relevant risk factors for the occurrence of unethical behavior. So, a bank can focus on clarifying and stressing the rules and codes to increase rule awareness and influence the moral climate (as the outer ring of the Corrupting Barrels model, see Figure 3.2, Chapter 3) without curing all ills. At the task and relationship level of team climates (the inner rings of the Corrupting Barrels model) there can be a fear of making mistakes caused by the way errors are responded to, or jealousy between team members caused by how team members treat each other. Simha and Cullen (2012) explain that high rule and codes orientated climates can have positive effects on ethical behaviour, but that other aspects such as organizational context and the degree of competitiveness and volatility in the relevant markets can diminish this. In sum, making sure all know the rules is not enough to prevent unethical behaviour.

Based on these survey results alone it is hard to identify which team profiles actually predict future misconduct. This can only be established by following these teams over time to determine how different team climate aspects co-vary with observations of unethical behavior. Nevertheless, based on the theoretical basis and results of prior studies – that I reviewed in Chapter 8 - it seems safe to maintain that the risk of unethical behaviour within a team increases when the team climate profiles is characterized by lower scale means resulting in smaller diamond shape graphs (see Figure 9.3). Comparing the team climate profiles of desks A and B provides a first indication for this. When comparing the team climate profiles of desks A and B, differences between these team climate profiles suggest a greater presence of risk at desk A than at desk B – as there is more perceived injustice of leadership and rewards at desk A. This is in line with the observations made with the deep dive assessment I presented in paragraph 9.1.

No one indicator of culture or climate can be seen as an absolute identifying standard for misconduct risk. Indeed, the extent to which employees are aware of the importance of rules and codes seems very high across the board, and does not clearly distinguish between the six teams and their climates. The scale used to assess rules orientation shows the highest average mean over all six desks of all other scales and items (*Maverage* = 7.8 on the 9-point Likert scale).

So, every employee at the six desks included in the analysis is aware and can indicate that he or she has to comply to the rules and codes. This team climate aspect does not distinguish the six team profiles from each other. Apparently, the bank has made sure these rules and codes are known to everyone as an organizational level provision – which is to be praised. However, since the team profiles vary on other characteristics that facilitate unethical behaviour, it is fair to say that awareness of rules and codes is a necessary condition but does not by definition prevent all dysfunctional climate aspects that can contribute to unethical behavior.

