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

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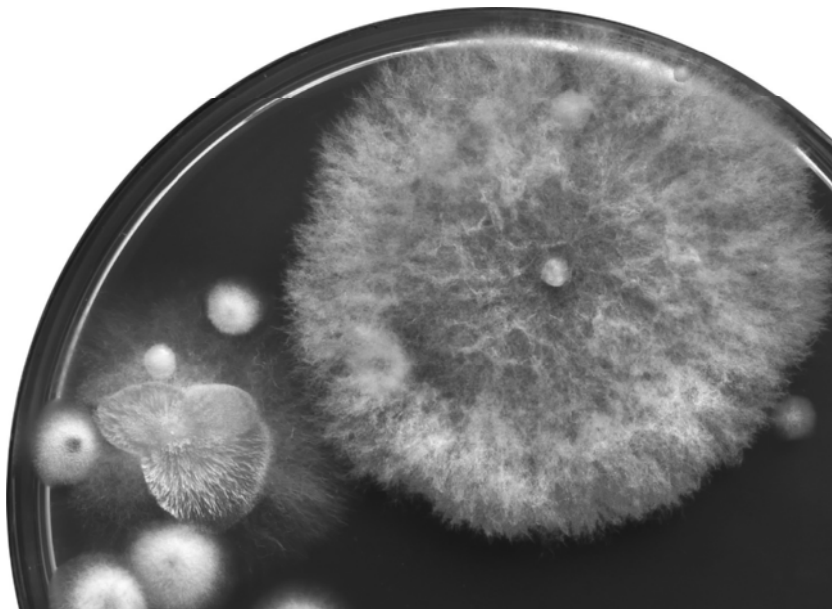
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Part IV
**Conclusions and practical
implications for bank and
financial supervisors**

Chapter 11
Limitations and future research



Chapter 11

Limitations and future research

Before elaborating on the limitations of my analysis, and the opportunities I see for future research, I first sum up the strengths of the analysis reported here. Both strengths and limitations are listed in Table 11.1.

Table 11.1. Strengths and limitations

Strengths	Limitations
<ol style="list-style-type: none"> 1. Offering an applicable 'Corrupting barrels' model and framework at team level, that adds value in preventing future misconduct as evidenced here. 2. This model and framework is based on theoretical analyses using current research from organizational and social psychology, 3. and empirical analyses using supervisory, thus publicly inaccessible, data gathered at 'too-big-to-fail' banks including interviews at CEO level. 4. Suggesting a concrete and practical two-step approach at team level to prevent future misconduct. 	<ol style="list-style-type: none"> 1. My analysis did not provide conclusive evidence of the predictive value of the 'Corrupting barrels' model and framework for the actual occurrence of misconduct in certain teams. 2. My analysis did not intend to evidence the extent to which use of the assessment framework offered actually prevents future misconduct in teams. 3. The model addresses three team climate characteristics at task, relationship and climate level: there might be other team level root causes of misconduct. 4. Limited survey sample size that limited possibilities for statistical analysis.

1. Strengths of this analysis

Offering an applicable model and framework

My analysis started with a careful consideration of the continuous problem of misconduct in the banking industry, and the current response from banks and financial supervisors that is insufficiently effective in preventing future misconduct. I introduced the Corrupting Barrels model to offer a framework for analysing social psychological root causes of misconduct within teams, and suggested a two-step approach of first analysing team climate on these root causes and second improve team climate to prevent misconduct. This two-step approach is further described in Chapter 10, paragraph 10.1 (define team climate) and 10.2 (improve team climate).

Based on theoretical and empirical analysis on unique supervisory data

Next I conducted a theoretical and empirical analysis. The theoretical analysis focused on the three social psychological root causes of unethical behaviour that the Corrupting Barrels model refers to: ineffective error approach, outcome inequality and dysfunctional moral climate. I have analysed the current theoretical psychological research on these mechanisms, resulting in a definition (the 'what') and an elaboration on the way ('the how') these mechanisms can facilitate unethical behaviours. The empirical analysis, on data acquired through supervisory assessments, combined qualitative and quantitative methods. The data used is gathered in a supervisory context and therefore unique and not publicly available. It is gathered at significant 'too-big-to-fail' banks

and includes for instance confidential litigation reports, internal investigations of a misconduct case and illustrative examples of supervisory interviews with CEO's, senior and middle managers of trading businesses and traders. In three separate empirical studies I was able to show that team level root causes of misconduct are currently a blind spot for banks and supervisors (Chapter 5), that asking banks to analyse team climate root causes of misconduct is insufficiently effective (Chapter 6), and that the framework offered adds value in identifying team level risk factors that can help prevent future misconduct (Chapter 9). The assessment framework presented is able to characterize team climates that differ in terms of their risk of facilitating unethical behaviour. In Chapter 10 I discuss the conclusions of this empirical analysis.

Suggesting a concrete two-step approach at team level to prevent misconduct

My analysis is a first illustration of how banks and financial supervisors can define and assess team climates, in order to identify and improve aspects that facilitate unethical behaviour. It demonstrates what the added value is of analysing and improving team climates to prevent future misconduct, in addition to the current preventive approaches that primarily address individual (i.e. KPI's and disciplinary measures) and organizational (i.e. behavioural codes and corporate values) levels. In Chapter 10 I provide concrete suggestions for a two- step preventive approach of defining and improving team climates. With my analysis, I want to highlight that this team perspective, that is currently missing in current banking and supervisory practices, is a perspective that banks and financial supervisors can use in their approach to mitigate misconduct risk. The analysis of team climate results in valuable information that can clarify which teams within the same organizational context (and for instance showing the same rule-awareness) represent organizational units with increased misconduct risk.

2. Limitations of this analysis

Predictive and preventive value

Predicting in which team misconduct will occur, would be worth gold in the banking industry. If it were possible to reliably predict where unethical behaviour would occur, banks and financial supervisors would be able to target these places specifically and prevent misconduct effectively. The Corrupting Barrels model and assessment framework used in my analysis, need to be developed and tested further to validate its actual predictive value.

My analysis not only targets team climate as an additional factor in the emergence of misconduct, it also results in a suggested preventive approach of identifying and targeting root causes of misconduct. The current analysis constitute a first attempt to apply insights from social psychology to define and assess team climate aspects that increase the risk of misconduct. To what extent this two-step approach will actually allow supervisors and managers to impact team climate in a way that the misconduct risk is mitigated was beyond the scope of my current investigation. The long term impact of a preventive approach along the lines suggested here, to actually prevent unethical behaviour from occurring, needs to be further documented in future work.

Focus on three team climate characteristics

The Corrupting Barrels model addresses three specific team climate characteristics that facilitate misconduct: an ineffective error approach, outcome inequality (and its emotional consequences) and dysfunctional moral climate. I have chosen to focus the model on three aspects of team climate, that represent three layers of relevant considerations for team members: relating to the task achievement of the team members, to relationships between the team members and to the team's moral climate. Although these three team climate aspects are chosen based on current and solid social psychological theory, I argue in paragraph 10.2.1 that leadership is key in preventing future unethical behaviour. Team leadership impacts team climate to a great extent, underlining the argument to include leadership as an explicit factor in the Corrupting Barrels model and assessment framework.

Furthermore, my analysis and suggested preventive approach of defining and impacting team climates focuses on team characteristics that may drive unethical behaviour of team members. My focus on team level social psychological mechanisms implicates that the influence of organizational level and formal mechanisms in the organizational context such as performance management, controls, codes and quality of procedures is not targeted in my analysis. Mechanisms in the 'formal context' influence behaviour of employees or even team climates. Examples that I touched upon earlier are conflicting performance and compliance goals, behavioural codes (i.e. Banker's Oath) and bonus caps. My assumption is that team-level realities are likely to differ despite these organizational-level procedures and control mechanisms. My decision to focus on the psychological root causes of misconduct is deliberate: my initial analysis of current banking and supervisory practices revealed that psychology and team climates are often neglected so far. Yet, essential theoretical and empirical insights in social psychological root causes suggest that team climates merit explicit attention and require a specific diagnosis. My analysis and presented two-step approach provide the tools to do this.

Limited survey sample size

The survey, as part of the assessment framework, was tested on 32 respondents, at a single point in time. This sample is too small and the time frame examined is too limited to conclusively validate the predictive value of this survey. With the deep dive – combining desk research, observations, interviews and survey methods - I was able to assess the distinct team climates of desks A and B. On the basis of this characterization of team climates, desk A showed more evidence of aspects that facilitate misconduct, than the team climate of desk B. This was also evident from the survey, where members of desk A indicated higher perceived injustice about the way rewards were distributed and a higher unjust leadership. This is not to say that team members of desk A will certainly behave unethically in the future. Yet, management information indicates that already more unethical behaviour is shown by traders at desk A than at desk B. The relevant team climate aspects I examined indicate an increased risk of misconduct at desk A, compared to desk B, based on theoretical expectations and empirical studies of the general impact of these team climate aspects.

3. Opportunities for future research

Longitudinal analysis

A first opportunity for future research is to document behaviours over time, within teams that have been assessed using the Corrupting Barrels framework. This will help establish the predictive value of an assessment along the lines suggested. My analysis yields a model and framework that can be used to assess the risk of future misconduct. To test whether the assessed risk results in actual unethical behaviour of team members is something to be established in future work. In Chapter 5 I have shown evidence for the lack of ability for banks to present data at team level of (unethical) behaviours. Aligned with this conclusion, bank B did not provide data on (unethical) behaviour at the two trading desks that were assessed as reported in Chapter 6. This lack of relevant team-level data prevented me from examining whether the team profiles of desks A and B, theoretically indicating a higher risk of unethical behaviour at desk A on theoretical grounds, also was visible in a larger amount of behavioural signals or incidents at desk A than at desk B. So, team climates characterized by using the framework presented here, still have to be paired with existing behavioural data to make a next step in establishing the added value of my framework. Eventually, a follow up study on these team climate assessments with longitudinal documentation of unethical behaviours is needed to draw more final conclusions about the predictive value of the assessment results.

A second opportunity that can only be met by conducting longitudinal analysis is to explore the effects of improving team climates. The preventive approach that I suggest is a two-step approach aiming first to identify team climate aspects that facilitate unethical behaviours and second to improve team climates accordingly. That second step, targeting possible root causes of misconduct by improving team climate aspects, should lead to a mitigation of misconduct risk. In Chapter 10 I elaborate on the nature of these improvements. With the use of longitudinal analyses the actual impact of these mitigating team climate improvements can be empirically established.

Survey development

The current version of the Corrupting Barrels survey can be further developed in the future. Using it on a larger variety of samples and including the number of respondents who complete this survey (increase the N) can help improve the list and more clearly distinguish relevant subscales. I suggest two areas of improvement. The first concerns the three items used to measure error approach, 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". In the results of my survey, these three items loaded on two different factors. As a result, I used the perceived stress of reporting errors as the only indicator of a dysfunctional error climate. Nevertheless, other items from the questionnaire developed by Van Dyck would seem relevant too, for instance as they inquire how and when people talk about errors to learn from them. For future development of the Corrupting Barrels survey it is worthwhile to see whether the survey can be expand with these items of the original questionnaire to more fully assess different aspects of a (dys-)functional error climate.

A second area of improvement concerns the items that I used to measure moral climates of the teams examined. Six of the original fifteen items used to measure climate -the ones measuring rules and law and code principle based climate- clustered into a single reliable scale. However, the nine remaining items are also relevant, as these measure caring climates and instrumental climates. Again, caring climates and instrumental climates have been established in prior research as climates that can counter the adherence to moral principles, and can invite organizational misbehavior, even among workers who are aware of organizational rules and guidelines. Hence, it would seem of value to further explore and test whether these team climate aspects can also be assessed reliably. In my sample and analyses these items did not cluster as expected on the basis of Stachowicz-Stanusch and Simha's original questionnaire and analysis (2013). In future research, this should be explored further, for instance by repeating the survey with a larger sample of professional traders.

Explore other contexts

A final opportunity for future research is to use the assessment framework (deep dive assessment and survey) in contexts other than the trading business or the banking industry. Although I developed the Corrupting Barrels model during my work as a financial supervisor in the banking sector, the model is based on theory that is not specific for the financial industry. The social psychological root causes of unethical behaviour in principle apply to any team in a professional context. It would be of interest to explore in what way the root causes of misconduct in team climates evolve in industries that have different histories in misconduct than the banking industry has. Although unethical behaviour and neglect of team level root causes is possible in any professional context, the societal consequences and public indignation as a reaction to misconduct might be less severe. The strong rule and code based team climates that the survey results showed are not surprising in an industry that faces political and regulatory pressure and public mistrust. And although a strong rule awareness has added value in preventing misconduct, it may also unintentionally lead to a low moral awareness (i.e. the focus on rules may drive a climate of moral neglect as discussed in paragraph 8.3) In industries with a different legacy, i.e. less misconduct, this assessment framework might reveal team profiles that characterized by other commonalities than strong rule awareness.

In sum, my analysis is a first illustration of how banks and financial supervisors can define and assess team climates in order to prevent future unethical behaviour. It is fair to say that this preventive approach has its limitations and that it provides opportunities for future research as I articulated in this chapter. Nevertheless, there is much to win by addressing dysfunctional team practices, as a way to prevent future misconduct. Adjusting the conditions under which trading teams do their work, can help direct and change the behaviour of individual team members. There is by now broad consensus that cultural and behavioural changes are needed in the trading business, in order to prevent future misconduct. Applying social psychological insights about conditions that invite unethical behaviour at work, can help understand and improve current work practices in the banking sector.

