Banking on team ethics : a team climate perspective on root causes of misconduct in financial services
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Appendix A. Two-pager on the assessment framework as used in this analysis

The Corrupting Barrels framework focuses on behavioural patterns and culture aspects within team climate, that increase the risk of misconduct of a single or multiple team members. Misconduct is illegal by law and/or unethical by violating widely accepted (societal) moral norms. It includes imputable acts (such as fraud and manipulation of interest rates) and imputable omissions (such as failing to act or perform duties). The impact is damage to the bank itself and to customers, investors, other stakeholders and society at large.

Scope

The focus of a Corrupting Barrels assessment (CBA) is on a specific team with high misconduct risk.

Objective

The supervisory objective of the CBA is to identify root causes within team climate of misconduct risk and mitigate this risk, by: (a) identifying and assessing the behavioural patterns and culture a within team climate that pose a risk for misconduct of one or more team members; (b) requiring (senior) leadership to change these risky patterns.

Besides these supervisory objectives, the supervisory team will benefit from this investigation because: CBA will create an in depth view of the behavioural root causes of other ethical or intergrity issues at the bank; and CBA adds value in the ongoing dialogue between financial supervision and the bank.

Deliverables

1. Identified behavioural patterns of and drivers within team climate, that pose a risk for misconduct of one or more team members.
- Presentation / slides with identified and assessed behavioural risks.
2. Requirements of (senior) leadership to mitigate risky behavioural patterns and drivers.
- (Non-binding) Letter to the management board, with slides (under 1) attached.
3. Specific points for the supervisory team to address in supervision on the bank.
- Session with supervisory team to debrief on conclusions and requirements.

Corrupting Barrels Model

Behavioural patterns and culture aspects relate to ineffective error management, outcome inequality and dysfunctional moral climates. Organizational facilitators such as strong growth, pressure on revenue and performance management are considered as context variables. For these behavioural categories and its drivers, there are key indicators and expectations defined that are used to identify and assess risks.

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Figure A. The Corrupting Barrels model: social psychological root causes of misconduct at team level
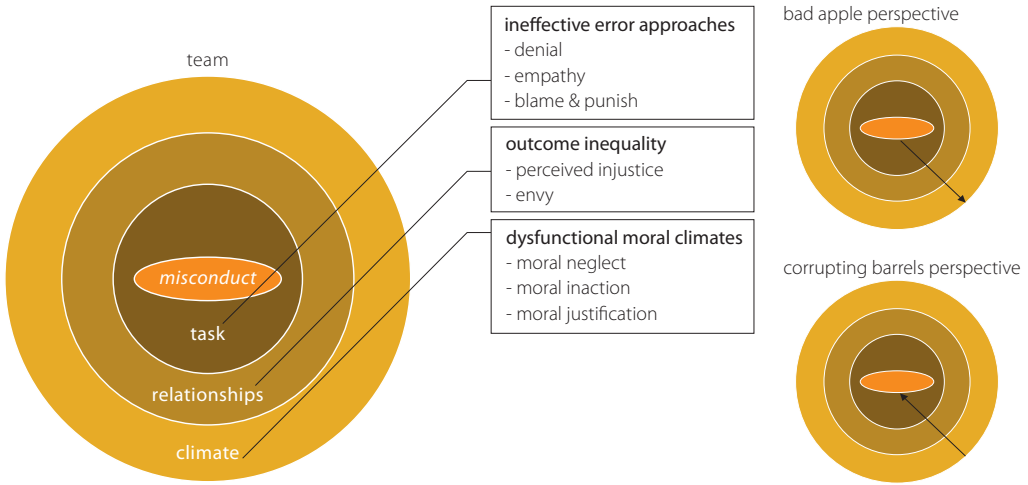
Method

In about 3 months the CBA is conducted in the following steps:

1. intakewithMBtointroduceCBA,theapproachandtheselectedscope(theteam(s)tobe assessed).
2. Root Cause analysis of misconduct cases: an analysis of 5 misconduct cases that have been documented and/or investigated by the bank in two steps: analysis of the banks internal investigation reports, and a session with involved financial supervisors. This step was not taken in the analysis as described in chapter 10, due to the absence of misconduct cases (the bank did not provide information on former incidents, see chapter 9).
3. Desk research on business strategy, performance management / incentives, ethical codes, etc. Objective: context analysis and organizational facilitators of misconduct.
4. Survey: to all team members. Questionnaire by e-mail on error approach, outcome inequality and morality.
5. Self-assessment: to all team members, on error approach, outcome inequality and morality.
6. Interviews: team members, team managers, senior leaders, second (risk management, compliance, HR, legal) and third (audit) line of defense. 90 minutes per interview.
7. Observation: of the team(s) - to 'give colour' to interview results. No conclusions based on this observation alone.
8. Challenging dialogue with the (senior) leadership (and if possible with middle/team management): using slides that give an overview of identified risks, per behavioural category, discussing with the leadership these assessed risks, and concluding with our requirements for mitigation of these risks.
9. Letter with recommendations to the management board (with a copy to the board of directors / supervisory board): letter with an overview of the identified and assessed risks, and our expectations / requirements of the senior leadership to mitigate these risks - the slides of the challenging dialogue as appendix.

Appendix B. Requested documents for desk research

Team
- Demographics per team: how many people, ages, gender, nationality. - Roles within the team. - Tenure per team member.

Misconduct
- I Codes of conduct / behavioural rules. - Risk appetite statement. - Cases, near misses, legal matters. - Compliance investigations to conduct / communication / breaches of risk limits. - Internal investigation (legal, audit, compliance) documents or reports. - Personal consequences / disciplinary measures per incident.

Task
- Strategic documents: to get a sense of the strategy of the bank, strategy of the division, organisational goals. - Business developments: information on the trading product, defining product groups, developments. - Information on legacy: growth of the business.

Relationships
- Information on compensation per team member: variable and fixed income. - Policy on incentive compensation. - Policy on promotion. - Targets + development of targets last 5 years.

Climate
- Employee satisfaction survey results. - Absence rates (ziekteverzuim) - Mobility information (verloop)

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Appendix C. Interview format

Introduction
1. Introduce ourselves and the supervisory assessment. Deep dive on work climate, as part of a risk appetite assessment (thematic review). We will talk about your work, the relationships within your team, your perception of leadership of this team etc.   2. Why this desk, who we will interview   3. What will be done with the results   4. Explain link to survey: were you able to fill in? If not: hard copy, take 5 minutes.   5. Anonymity guaranteed

Task
1. Can you introduce yourself? What is your role/function? How long have you been here?   2. How would you describe what you do? What is the core of your job?   3. What skills and experience does that require / are important? What characterises a good trader?   4. Is that something that is changing? Is the work changing?   5. Please describe a situation in your work here in this team, that you look back on with great pride.   6. Please describe a situation in your work here in this team, that you look back on with regret / disappointment.   7. What do you enjoy the most in your work? What do you detest the most in your work?   8. If you look back in the last moths: can you describe an error or mistake that you have made in your work? How did you detect this error? What caused this error? How did you react? How did your teammates and deskmanager react? (zoom in on dialogue on error, learning from error).

Relationships
1. How do you interact with your colleagues? Subject of interaction: what about? Form of interaction: face to face, phone, email. Colour of interaction?   2. Are there friendships? What subgroups are there?   3. There are always differences within a team, between people. Can you talk about these differences?   4. Do you perceive big differences in pay between you and your colleagues?   5. On income/compensation procedures: do you think things are done fairly here?   6. What about promotion chances: how does that work within your team? What do you have to do to get promoted? How do you perceive your targets?   7. Does everyone have equal chances to get promoted?   8. All and all: are things being done fairly around here in your perception?   9. Can you describe a situation within this team that included some kind of unfairness?

Climate

1. Can you compare working in this team with other working experiences that you have? What strikes you if you make this comparison?
2. What is typical of this team? What is typical in the way people relate to each other?
3. If I would characterise your team: what would be the best characterisation, and what would be the worst characterisation?
4. What is the best story you could tell to another person (outside the bank) about this team? And what is the worst story?

5. What is important here?
6. What makes you successful in this team? Who is regarded as most successful in your team, why?

7. What are unwritten rules in this team? If I started to work here tomorrow: what would you explain to me? How would it be visible that I am new?

8. Can you talk about a situation, during your time in this team, what made you feel out of place?
9. What, if you are to move on some day, would you not miss about working in this team?
10. The people who have left this team: what have been reasons for that do you think?

11. If you were managing this team: what would you improve or change? What would you keep?

Leadership

1. How do you perceive the quality of leadership? Senior management, direct management (desk manager)? Differences?
2. If you compare this with leadership a few years ago? What kind of developments?
3. Desk manager: what is his/her leadership style? How would you describe that?
4. What is his/her best quality? What is the biggest improvement that he/she can make?
5. What is the best story that goes around about him/her? What is the worst story?
6. What is his/her style of communicating?
7. What does he/she value? What does he/she wants to see? What are his/her allergies? Examples.
8. To what extent is he/she fair to people within your team? Best / worst example?
9. How does he/she respond to human mistakes? Can you give an example? Use figure:

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Appendix D. Observation format

This format was used during the observation of desks A and B. Duration about 1 hour. Sitting between the traders at the desk, observing the team during their regular work.

Task
– Task itself
– Focus on task / concentration on task
– Occurrence of an error / stressful situation: how detected, response to situation (self, team mates, desk manager), level of and coping with stress.

Relationships
– Frequency of interaction between traders
– Subject of interaction: what about?
– Form of interaction: face to face, phone, email..
– Colour of interaction: tone of voice
– Subgroups / friendships

Climate
– What is important here?
– Who is successful, who gets the most attention? Why? What gets attention?
– Lunch: how are breaks taken? Together, separate?
– Desks: what is on desks? Tokens, trophies, gadgets.
– Clothes: what do people wear? Uniformity?

Leadership
– Where is the desk manager situated? On the desk, separate room?
– Interaction of desk manager with others: frequency, who, why, colour
– How do traders respond to him?
– What does he express? Information, guidance, corrections…

Appendix E. Survey

	Demographic questions	A
a	At what desk do you work?	Desks A / B / C / D / E / F
b	What is the title of your function (your position or role in the team?)	Open
c	How long have you filled in this function (position, role) in this team?	Open
d	What is your gender?	Male / Female
e	What age are you?	< 25 / 25-35 / 35-45 / 45-55 / >55
f	What is your nationality?	Open

All 27 survey items were answered on a 9-point scale from 1 = strongly disagree to 9 = strongly agree.

	Survey item	Original item
ERROR		
−	Van Dyck, C., Baer, M., Frese, M. and Sonnentag, S. (2005). Organizational error management culture and its impact on performance: A two-study replication. Journal of Applied Psychology, 90, 228–1240. − Van Dyck uses the Error Orientation Questionnaire—(EOQ) – from Rybowiak, Garst, Frese, & Batinic (1999). The EOQ measures error management culture versus error averse climate. Here, three items are used from Van Dyck's 'Error Aversion Culture'- dimension (coefficient alphas was .88 for the 11-item error aversion measure).	
1	In this team, people feel stressed when making mistakes (R).	In this organization, people feel stressed when making mistakes. (0.65)
2	In general, people in this team feel embarrassed after making a mistake (R).	In general, people in this organization feel embarrassed after making a mistake. (0.64)
3	People within my team prefer to keep errors to themselves.	People prefer to keep errors to themselves. (0.64)
JUSTICE		
−	Colquitt, J.A. (2001). On the dimensionality of organizational justice: a construct validation of a measure. Journal of Applied Psychology, 86 (3), 386-400. Here, nine items are used from the Coquitt justice measure.	
Distributive justice		
4	The rewards that I receive (compensation, promotion e.g.) reflect the effort I have put into my work.	Does your (outcome) reflect the effort you have put into your work? (.86)
5	The rewards that I receive (compensation, promotion e.g.) are appropriate for the work I have completed	Is your (outcome) appropriate for the work you have completed? (.90)
6	The rewards that I receive (compensation, promotion e.g.) reflect what I have contributed to the company.	Does your (outcome) reflect what you have contributed to the organization? (.84)

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	Interpersonal justice	
		Colquitt: 'he/she' refers to the authority figure who enacted the procedure.
7	My team manager treats me in a polite manner.	Has he/she treated you in a polite manner? (.89)
8	My team manager treats me with dignity.	Has he/she treated you with dignity? (.85)
9	My team manager treats me with respect.	Has he/she treated you with respect? (.81)
	Procedural justice	
		Colquitt: 'those procedures' refer to the procedures used to arrive at your (outcome).
10	I am able to express my views and feelings about certain issues in this team.	Have you been able to express your views and feelings during those procedures? (.67)
11	I have influence over the outcome arrived at by promotion procedures in this team.	Have you had influence over the outcome arrived at by those procedures? (.73)
12	My opinions are respected and valued within this team.	Have those procedures been applied consistently? (.72)
CLIMATE		
Stachowicz-Stanusch, A. & Simha, A. (2013). An empirical investigation of the effects of ethical climates on organizational corruption, Journal of Business Economics and Management, 14 (1), S433-S446. They selected items from the ethical climate scale of Victor & Cullen (1987, 1988).		
	Principle: independence	
13	In this team, people are expected to follow their own personal and moral beliefs.	In this company, people are expected to follow their own personal and moral beliefs (0.74)
14	In this team, people are guided by their own personal ethics	In this company, people are guided by their own personal ethics (0.596)
15	Each person in this team decides for themselves what is right and wrong	Each person in this company decides for themselves what is right and wrong (0.688)
	Principle: rules	
16	Successful people in this team go by the book	Successful people in this company go by the book (0.628)
17	Successful people in this team strictly obey the company policies	Successful people in this company strictly obey the company policies (0.802)
18	It is very important to follow strictly the company rules and procedures here	It is very important to follow strictly the company rules and procedures here (0.655)

Principle: law & code		
19	In this team, the law or ethical code of our profession is the major consideration	In this hospital, the law or ethical code of our profession is the major consideration (0.626)
20	In this team, people are expected to strictly follow legal or professional standards	In this hospital, people are expected to strictly follow legal or professional standards (0.859)
21	People in this team are expected to comply with the law and professional standards over and above other considerations.	People are expected to comply with the law and professional standards over and above other considerations (0.757)
Instrumental		
22	People in this team are expected to do anything to further the company's interests.	People are expected to do anything to further the hospitals interests (0.892)
23	There is no room for one's own personal morals or ethics in this team.	There is no room for one's own personal morals or ethics in this company (0.814)
24	In this team, people protect their own interest above other considerations.	In this company, people protect their own interest above other considerations (0.703)
Caring		
25	In this team, our major concern is always what is best for the other person.	In this company, our major concern is always what is best for the other person (0.627)
26	Our major consideration is what is best for everyone in this team.	Our major consideration is what is best for everyone in this company (0.751)
27	The most important concern is the good of all the people in the team.	The most important concern is the good of all the people in the company (0.632)

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Appendix F. Separate survey items

Of the twenty-seven survey items, ten did not fall into the four clusters as discussed in Chapter 9, paragraph 9.2. To explore the results for these ten separate items, I calculated the means of the separate items for each of the six desks. These means are listed in Table 25. Concerning all items, low scores indicate a higher risk.

Table 25. *Means of the ten separate items per desk*

Items		Desks					
		A	B	C	D	E	F
1	People within my team do not prefer to keep errors to themselves (E3rc)	8.3	8.8	8.5	5.5	7.5	7.6
2	In this team, people are expected to follow their own personal and moral beliefs (PI1)	5	4.6	8	4.6	4.3	5
3	In this team, people are guided by their own personal ethics (PI2)	5.5	5.2	8	5.5	4.5	6.4
4	Each person in this team decides for themselves what is right and wrong (PI3)	3.2	2.2	6.5	4.3	4	2.9
5	In this team, our major concern is always what is best for the other person (C1)	5.2	4.8	6	5	4	6
6	Our major consideration is what is best for everyone in this team (C2)	7	5.4	9	5.3	5	6.6
7	The most important concern is the good of all the people in the team (C3)	5.8	6.6	4	4.5	4.5	6.6
8	People in this team are not expected to do anything to further the company's interests (IN1rc)	5.5	3.2	7.5	4	5.3	3.7
9	There is room for one's own personal morals or ethics in this team (IN2rc)	6.5	7.4	9	6.8	6.8	6.3
10	In this team, people do not protect their own interest above other considerations (IN3rc)	7.5	6.6	8	6.4	6.5	7

The means of the ten separate items per desk show variation. In other words, the six trading teams differ on these ten items. So, although the ten items do not connect to the clusters identified, they offer extra information on the differences per team. This implies that in the further development of the Corrupting Barrels survey, it is valuable to explore inclusion of these ten items. I would suggest to attend to the large differences between the lowest and highest mean per item in further scale development. Examples are the difference between the lowest and highest means of the items "Each person in this team decides for themselves what is right and wrong" and "People in this team are not expected to do anything to further the company's interests". This difference between means is 4,3 on a 9-point Likert scale. Another example is the difference between the lowest and highest mean for "Our major consideration is what is best for everyone in this team", of 4 on a 9-point Likert scale. These three items stem from climate scales: principle independent climate, instrumental climate and caring climate. These scales need to be further developed.

Next, I correlated the four constructed scales with the ten separate items. The correlations are summarized in Table F.2.

Table F.2. Correlations between ten separate items and four scales.

	SC1	SC2	SC3	SC4	E3RC	PI1	PI2	PI3	C1	C2	C3	IN1 RC	IN2RC	IN3RC
ERRORNSTR (SC1)														
LEADSHJ (SC2)	-.02													
FAIRRWRDS (SC3)	.24	.56**												
RULES&CDS (SC4)	-.15	.52**	.25											
E3RC	.14	.32	.17	.30										
PI1	-.27	.10	.15	.16	.17									
PI2	-.23	-.06	-.20	-.06	.07	.66**								
PI3	-.04	-.24	-.49**	-.17	-.24	.25	.34							
C1	-.13	.12	.03	.07	.12	.51**	.52**	.20						
C2	-.14	.34	.17	.41	.22	.63**	.44*	.19	-64**					
C3	-.21	.42	.37	.06	.34	.02	.03	-.32	.41	.38*				
IN1RC	-18	-.04	.08	.25	-.11	.04	-.06	.24	-.36*	-.13	-.69**			
IN2RC	.26	.17	.31	.06	.10	-.13	-.16	.03	-.11	-.03	.01	.08		
IN3RC	.16	.28	.22	.36	.10	.15	-.23	-.29	.11	.46**	.20	.02	-.08	

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

The scale measuring stress related to errors (SC1) correlates negatively with the item "In this team, people are expected to follow their own personal and moral beliefs" (PI1), r = - .27, p = .140, and shows a minor but negative correlation with the scale measuring focus on rules and codes (SC4), *r* = -.15, *p* = .426. Also, "Each person in this team decides for themselves what is right and wrong" (PI3) correlates negatively with "People within my team do not prefer to keep errors to themselves" (E3rc), *r* = -.24, *p* = .194. These correlations suggest that when employees use their own moral compass or personal ethics in their decision making, or when rules and codes are stressed, they might experience more stress when they make a mistake. Stress about errors can lead to cover up behaviour or impede speaking up when anything concerning is observed, and thereby facilitate unethical behaviour (see Chapter 8 on error approach).

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"Each person in this team decides for themselves what is right and wrong" (PI3) correlates negatively with the scale measuring the perceived fairness of rewards (SC3), $r = -.49$, $p < .005$, the perceived fairness of leadership scale (SC2), $r = -.24$, $p = .194$, and – in lesser extent – with the scale measuring the focus on rules and codes (SC4), $r = -.17$, $p = .361$. This suggests that employees feel that their reliance on their personal ethics or morality in decision making, is not rewarded by their professional environment or may even lead to a decrease in respect from and fair treatment by their team management. It may indicate that when rules and codes are stressed, team members could feel that they can rely less on their own moral compass when they decide independently. When employees feel that their reliance on their personal ethics or morality in decision making is restricted, they might not use their own moral compass when situations are ambiguous and a professional judgement call is needed (see paragraph 8.3 on moral climate). A punitive leadership response to using own moral judgement or a dogmatic focus on rules and codes can 'clip the moral wings' of a bank employee, which is risky in itself since rules do not always apply to or give guidance for time pressured and complex decisions.

On the other hand, the correlations suggest that relying on individual moral compasses could have downsides. For instance, the item "Each person in this team decides for themselves what is right and wrong" (PI3) shows negative correlations with "The most important concern is the good of all the people in the team" (C3), $r = -.32$, $p < .076$. Could it be that the good of all the people in the team is associated with (financial) performance of the team, while increasing that performance might go against personal ethics? Furthermore, "In this team, people do not protect their own interest above other considerations" (IN3rc) correlates negatively with "Each person in this team decides for themselves what is right and wrong" (PI3), $r = -.29$, $p = .105$, and with "In this team, people are guided by their own personal ethics" (PI2), $r = -.23$, $p = .211$. This suggests that when employees follow their own morality or personal ethics, they feel they are protecting their own interests above other considerations. One explanation of this relation is that employees really are 'homo economicus', who merely seek to maximise their own interest and see protecting their own interest as being the 'right' decision. Alternatively, there might be little understanding of what personal ethics are, and how these may influence decision making. For instance, in a climate of moral neglect (see chapter 6) personal morality might not be understood or discussed. Both explanations are possibly facilitating future unethical behaviour.
In sum, some items correlate negatively with other scales and items. In the above instances, I can form hypothetical explanations for these negative relations. For the following negative correlations the explanation is less evident. "People in this team are not expected to do anything to further the company's interests" (IN1rc) correlates negatively with "The most important concern is the good of all the people in the team" (C3), $r = -.69$, $p < .001$, and with

"In this team, our major concern is always what is best for the other person" (C1), $r = -.36$, $p < .05$. So, if employees would do anything to further the company's interests, they would thereby be concerned with the good of all in the team, and what is best for others. To do anything to further company's interests, could lead to excessive risk taking – hence not being good for the team or others – unless taking excessive risks is seen as going against company's interests. Further development of the scales and items used in the Corrupting Barrels survey is needed to acquire more insight in the relationships between the different constructs.

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