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The misdirection of bankers' moral compass in the organizational field of banking

Irene van Staveren*

This article presents the results of a survey on banking culture in the Netherlands. It shows that despite behavioural regulation by the state, bankers continue to be driven by the underlying rationalization in the banking field which is characterized by utility maximization. Moreover, the downsizing of the sector has turned the incentives of targets from positive to negative, while distrust and lack of moral leadership further constrain bankers' use of their moral compass. An increase in state regulation leads to extensive compliance procedures but does not act as a support for ethical guidance in addressing client interests in a complex and uncertain environment. Bankers feel squeezed between increased legal constraints and ever more detailed rationalization in the banking field, which reduces the space to use their moral compass. This study argues that a change in banking culture should therefore address the field's rationalization itself, rather than adding more behavioural regulation.

Key words: Banking culture, Organizational field, Performance targets, Regulation, the Netherlands
JEL classifications: G21, G28, J33

1. Introduction: strong regulation but failing trust[1]

In 2008, the Dutch population was shocked when one of its major banks, ABN Amro, was saved with taxpayers' money to the tune of more than 30 billion euro. Just before this happened, the bank had been taken over by three foreign banks (RBS, Fortis and Santander) in what appeared to be a reckless deal. Fortis was unable to finance its part of the acquisition, and needed to be saved by the state, leaving ABN Amro—until then a solid bank—heading for bankruptcy. Two other Dutch banks were also in trouble: a smaller bank, DSB, went bankrupt, while ING needed 10 billion euro in state support

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[1] I am very grateful to the two referees of this journal who have helped me to improve this paper. In particular, I am very thankful for the suggestion of the theory of organizational fields, which has enabled me to make the analysis and policy message stronger. Any remaining mistakes are entirely my own responsibility.

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to survive. Five years later, in 2013, the number four bank of the country, SNS Reaal, was nationalized due to accumulating losses on foreign real estate investment projects.

The Dutch population lost its trust in banks—not only because of the enormous diversion of public expenditures away from education and health care towards saving banks and the jobs of bankers, but also because of a stream of scandals, from billions of euros of expensive derivative contracts sold to municipalities and social housing associations, to the manipulation of the Libor rate. There was also disillusionment with endowment-assurance policies that promised to pay out good returns at maturity but which generated hardly any returns due to high charges and share prices remaining much lower than forecast. Moreover, the Dutch population was outraged at the bonuses that top bankers continued to allocate to themselves after the crisis. And when the Finance Minister decided to cap bankers' bonuses at 20% of annual salary, clients and politicians were appalled by the high fixed salary increases that the banks' leadership awarded themselves while the Dutch economy had still not recovered from the global financial crisis. This also rankled with ordinary bank employees who, by 2014, had not experienced a salary increase for five consecutive years.

Since the 2007/2008 financial crisis governments have regulated the banking sector through finance ministries, central banks, and other supervisory bodies, both in terms of macro-prudential regulation and in terms of detailed micro regulation (Harnay and Scialom, 2016). As of 2017, the European Central Bank (ECB) requires all Eurozone banks to have a minimum of 8% own funds (pillar 1) with additional requirements based on the profiles of individual banks, which can add another 1–2% (pillar 2). The Dutch central bank (DNB) has added up to a further 3% in capital requirements due to the systemic risk for the large Dutch banks.[2]

Dutch banking regulation includes a legal duty of care, requiring bankers to act in clients' best interests. This is a mandatory requirement for all financial institutions. Clients can take banks to court when they feel their interests have not been sufficiently taken into account. Recently, an obligatory banker's oath was introduced for every bank employee in the country. Furthermore, DNB has expanded its supervision team with psychologists and other social scientists to include supervision of the board culture of banks. The Financial Market Authority (AFM) has developed a dashboard through which it monitors how banks fulfil their obligation to take clients' interests into account. This is a mandatory supervisory instrument for banks to use. Finally, the Dutch Banking Association (NVB) has offered a social contract with a set of behavioural rules and disciplinary measures for bankers aimed at preventing and punishing misdemeanours. This social contract may be seen as an attempt by the banking industry to regain legitimacy through a promise to eliminate rotten apples from the sector.

But all this mandatory regulation has done little to win back society's trust in banks and bankers. A 2016 survey by the banking association itself reveals that 55% of the clients of Dutch banks report that they do not trust banks (NVB, 2016). The increase in regulation but decrease in trust seems to indicate that the strong utility-maximization focus, with its short-term earnings orientation, that characterized banks before the crisis, has not been sufficiently moderated by laws defending client interests and mandatory state regulation constraining bankers' opportunistic behaviour. Or, to put it differently, the banking culture appears not to have changed significantly, *despite* both

[2] https://www.dnb.nl/en/news/news-and-archive/persberichten-2014/dnb306991.jsp

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external and internal regulation. This raises a number of questions. Is the strengthening of behavioural regulation enough to change banking culture in a strong organizational field? Can it curb the status-seeking behaviour of the leadership of banks and ordinary bank employees that is so institutionalized in banks' performance management? Or is something else needed to fundamentally change the culture of banks, beyond intensified state regulation?

In order to find answers to these questions, I conducted a survey among bankers in the Netherlands, most of them employed by the three biggest banks, ABN Amro, ING and Rabobank.[3] The purpose of the survey was to generate an understanding of the banking culture six years after the financial crisis hit the Netherlands, from the perspective of retail bankers themselves—the people we talk to or email as clients, the employees taking care of our day-to-day financial transactions such as payments, savings, mortgages and loans.

2. The organizational field of banking

I will start with a brief look at some of the relevant literature. This review is somewhat eclectic because it touches upon different theoretical approaches towards organizational culture, stemming from different disciplines. Drawing on the seminal work by Paul DiMaggio and Walter Powell (1983), I will use the concept of organizational field as an organizing principle for this section. An organizational field is defined as the aggregate of organizations that constitute a recognized area of institutional life, with suppliers, consumers and regulatory agencies (ibid., p. 148). An interesting feature of such a field is that, although it often concerns profit-driven business in a competitive market, it is not necessarily concerned with efficiency. DiMaggio and Powell argue that 'bureaucratization and other forms of organizational change occur as the result of processes that make organizations more similar without necessarily making them more efficient' (ibid., p. 147). An organizational field also affects its employees. DiMaggio and Powell add that key staff are 'filtered on a common set of attributes' and therefore 'they will tend to view problems in a similar fashion, see the same policies, procedures and structures as normatively sanctioned and legitimated, and approach decisions in much the same way' (ibid., p. 153). As a consequence, the authors argue, an organizational field 'creates a pool of almost interchangeable individuals' (ibid., p. 152).

This seems an appropriate description of the banking sector, as banking tends to be institutionalized in a rather homogeneous way. In an empirical study of US banks, Vit (2007, p. 217) characterizes banking as a 'highly institutionalized organizational field' with strong pressures toward conformity. That the large and internationally operating Dutch banking sector is no exception to this is illustrated by three of its features. First, it is one of the largest banking sectors in the world relative to GDP. Second, it is a highly concentrated sector, with the top three banks making an amount equivalent to three times Dutch GDP. Third, the top banks share many similarities, despite different having governance structures: employees regularly change jobs between them, clients rate them very similarly on trust, and they all rely on an influential system of key performance indicators.

[3] I developed and implemented the survey in cooperation with the Dutch think tank Sustainable Finance Lab of which I am member, and in particular with the valuable help of Rens van Tilburg. I am also grateful for the input by representatives of the three labour unions CNV, FNV and De Unie.

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Taking an organizational field perspective, banking culture is then understood as transcending the level of individual banks so that the culture becomes a homogenizing field characteristic. As a consequence, organizational culture in the banking field may be defined as the collection of values and norms that are shared by bankers across individual banks, which control the way they interact with each other and with stakeholders in the banking field (adapted from Hill and Jones, 2001). Ellickson (1998) has argued that organizational cultures are more strongly affected by internal social norms than by laws. This is precisely what DiMaggio and Powell see in organizational fields, which follow a collective rationality and become relatively homogeneous through their own rationalization and bureaucratization, not because of laws or state regulation. The two internal driving forces of an organizational field are, according to DiMaggio and Powell, status seeking and the pursuit of legitimacy. These seem to be strong in the banking field: the first occurs between bankers themselves while the second is directed outwards, towards society, as was clearly visible in the aftermath of the financial crisis.

According to Ellickson, the social norms operating in organizational cultures function in two ways: internally enforced, through socialization, and externally enforced, through social sanctions and social status. He adds that externally enforced social norms 'are far more important than law in many contexts' (Ellickson, 1998, p. 540). This observation seems particularly true for the banking field, which underwent three decades of deregulation up to the 2007/2008 financial crisis. Since the 1980s, bankers have increasingly relied on finance-driven social status. The incentive systems and promotion procedures used in banks function as social sanctions, following the logic of the principal–agent theory by aligning the interests of bankers with the interests of shareholders through an extensive performance measurement and reward system. This is key to homogenization in the banking field. So in banks, as in other organizational fields, 'individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate, to homogeneity in structure, culture and output' (DiMaggio and Powell, 1983, p. 147).

Since the crisis, the tide of deregulation has turned and banking laws and regulation by supervisory agencies have increased in number and detail. Some of the legal measures target banks as institutions, with increased capital requirements and other risk management rules. Other laws aim to influence bankers' behaviour. In the Netherlands, a new law limits bonuses to 20% of the salary, which is much stricter than the EU norm of 100%. As already explained in the Introduction, Dutch law enforces a legal duty of care and requires bankers to take an oath. These measures, along with the cap on bonuses, aim to regulate bankers' behaviour away from high-risk taking, opportunism and short-termism, instead referencing principles of fairness, transparency and financial stability. In other words, the mandatory behavioural regulation can be seen as an attempt to constrain the principal–agent theory-based performance management practices in banks, which are aimed at maximizing shareholder value.

Today, more than 10 years after the crisis broke, behavioural regulation is widely implemented in the banking industry in the Eurozone and in the USA. Bankers now spend more time than ever before on following procedures, checking client information, filling in compliance forms, communicating with the compliance department and explaining their individual ratings on online client satisfaction surveys. Some of these activities have now been quantified into individual performance indicators and added to bank employees' individual performance targets. It could be argued that behavioural

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regulation by the state, as well as rules added by the banking field itself, has been transformed from a constraint on utility-maximizing behaviour into another feature of field rationalization, contributing to utility maximization. This is not necessarily economically rational in the long run for banks, clients and society. As Vit (2007, p. 220) has found for US investment banks: 'Under conditions of uncertainty and complexity, conformist investment banks will select norms of rationality […] that will result in reliance on common sociologics and ideologics that override economic logic, sometimes with dramatic negative consequences'.

The dominance of a dysfunctional, rationalized set of utilitarian institutions is precisely what seems to have happened in banking: an increase in behavioural regulation appears not to have succeeded in changing the banking culture, improving client services and regaining society's trust. In the Netherlands, the committee that was set up to monitor the banking code of conduct concluded in its final report (MCCB, 2017) that despite full implementation of the code, the prioritizing of client interest is still not fully embedded in Dutch banks. The committee advised that more attention should be paid to behavioural change through the training of bankers. In the supervisory board of the ECB, too, there is doubt about the dominant legalistic approach. Ignazio Angeloni, an ECB supervisor, has suggested that 'better rules are necessary but not sufficient to restore trust; something deeper needs to happen: *the underlying ethical behaviour in the financial sector has to improve as well*'.[4] And *Financial Times* columnist Martin Wolf has rightly pointed a finger at the strong incentives that still dominate banking culture: as early as 2009, he warned that more regulation would not work unless the incentives in banks were changed.[5]

3. Rationalization in the banking field

This section will deepen the discussion of banking as an organizational field by zooming in on the empirical literature analysing how rationalization has affected banking. Since the 1980s—when deregulation took off—banks have drawn heavily on the principal–agent theory in shaping their organizational culture. Governance structures, human resources policies, operating procedures and rewards have increasingly been adapted to fit the theory by aligning the interests of managers and employees with the interests of banks' shareholders. That is precisely why the incentive structure, with its well-defined quantitative performance targets, has become so central in banking culture. By the time management scholars began to realize that the principal–agent theory was too narrowly focussing on shareholder value and not reflecting either the breadth of worker motivation or the range of stakeholder relationships of firms, incentive-based management practices were already firmly in place, 'destroying good management practices' in the words of management scholar Sumantra Ghoshal (2005, p. 75).

Key in the theory and its implementation in management practices are incentives related to performance targets. This raises a number of issues. First, targets are often formulated directly or indirectly in money terms: sales targets, more financial products per client targets or local branch profitability targets. But there is no evidence that such monetary targets serve clients' interests. For example, Vohs et al. (2006)

[4] https://www.bankingsupervision.europa.eu/press/speeches/date/2014/html/se140926.en.html (italics in original).

[5] https://www.ft.com/content/095722f6-6028-11de-a09b-00144feabdc0

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show that in experimental settings related to helping behaviour, when subjects were simply reminded of money, this reminder reduced their helpfulness to others. A second problem with targets is that they are not only implemented in a positive-sum game, where they tend to function as positive incentives, but also in a zero-sum game or negative-sum game environment, where they operate as negative incentives. Such a shift from carrot to stick is not without consequences for organizational culture. Falk and Kosfeld (2006) have demonstrated with a series of experiments that in the context of a zero-sum game, targets tend to be experienced as a control mechanism, creating distrust among employees and reducing workers' autonomy. Hence, there is not only low societal trust in banks but also low trust among bankers themselves, which affects motivation. Indeed, Ryan and Deci (2000, p. 70) have explained that 'threats, deadlines, directives, pressured evaluations, and imposed goals diminish intrinsic motivation'. Since the crisis, banks have downsized so that the work environment has shifted from a growth-orientation to an environment with continuous job losses, in which targets may generate the negative side effects just discussed, undermining intrinsic motivation. An empirical study of pay and motivation in a Norwegian bank has shown that higher pay is perceived by bankers as a form of justice but not related to bankers' motivation and feeling of autonomy (Olafsen et al., 2015). A third problem that research on performance targets has revealed is that when variable pay is based on targets that are beyond one's control, they may inadvertently result in distrust among workers and even misconduct. For example, according to Gill et al. (2013), when employees experience uncertainty about their achievements, rather than perceiving a target as a challenge to their own skills, this may result in competition among workers and may stimulate dishonesty and cheating.

A recent study among multinationals on the relationship between executive pay, incentive pay and firm performance has put into question the very foundation of the principal–agent theory itself. Landis Weaver (2015) found that the correlation of pay with total shareholder return is zero, and if CEOs were paid on the basis of actual shareholder returns, pay would be 25–50% lower for the top 25 corporate earners in the world. Interestingly, a Dutch empirical study on variable pay carried out just before the crisis suggests that bank employees, who work in the sector of the economy in which variable pay is most prevalent (75% in the financial sector as compared to 64% on average across sectors), had begun to realize its downsides (Tijdens and Van Klaveren, 2008). Less than half of employees in the financial sector (41%) were in favour of variable pay. Overall, then, these studies seem to indicate that targets and financial incentives do not necessarily motivate workers, may lead to mutual distrust and bad behaviour and might not even help us to maximize shareholder value. These are all features of rationalization in an organizational field, which become part of that field's drive for status and legitimization even when they do not contribute to efficiency, as DiMaggio and Powell (1983) recognized and Vit (2007) confirmed for the banking sector in the USA.

It is also important to look at the type of leadership that is promoted by relying on the principal–agent theory. The leaders of Dutch banks adapted their mission statements in the years following the crisis. Almost every bank now talks about serving clients' needs and society—the missions and goals are interchangeable in the field. However, an empirical study by Guiso et al. (2013) concludes that the proclaimed values of a firm are often unrelated to the firm's performance. Only when employees

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regard the behaviour of the leadership as trustworthy and ethical, does the performance of the firm improve, the authors found. Moreover, Powell et al. (2011) show that 'talking the talk' and 'walking the walk' often do not match up in firms. This happens in a variety of conscious but often also in unconscious and unforeseen ways, as side effects of a firm's strong policy focus on utility maximization. For example, a study by Amabile and Kramer (2012) on leadership and motivation points out that leaders often announce wonderful goals but in the meantime focus on cost reductions. The authors conclude that this undermines the intrinsic motivation of workers, and hence, the internalization, through shared norms and values, of compliance with mission statements and business values. Furthermore, O'Brien and Meadows (2003) show that the gap that employees experience between the talk and the walk of their leaders often results in cynicism, while Killingsworth (2012) has added that such a gap tends to support a culture of distrust.

Performance targets and the leadership driving them, in their feedback and assessments, set a dominant social norm of short-term focus on achieving pre-defined targets in the organizational field of banking, enforcing conformity to the norm of utility maximization as the overriding ethic in the banking culture. This directly affects employees' moral dimensions of behaviour because moral behaviour is strongly influenced by the group one belongs to (Moore and Gino, 2013; Ellemers and van den Toorn, 2015). In other words, organizational fields affect the moral compass of employees by affecting their sense of right and wrong. This happens in three ways, according to Moore and Gino: through moral neglect, moral justification and moral inaction. 'Thus, when a local social norm neglects morally relevant consequences, it dampens moral awareness, and through this dampening, will increase unethical behaviour' (Moore and Gino, 2013, p. 57). Misbehaviour is then not so much a consequence of a missing moral compass, as in the case of a rotten apple, but of a misdirected moral compass, the authors explain. This misdirection is continuously reinforced in an organizational culture through the seductive power of socialization, performance targets that are not individually or collectively defined but imposed top-down and implicit messages from a bottom-line mentality.

Such pressure towards moral neglect is combined with the second way in which organizations affect moral behaviour—through moral justification. This happens through identification with a field, group loyalty and framing effects, for example in the legitimization of high executive pay.[6] The third way in which organizations misdirect workers' moral compass is through moral inaction. This is facilitated by social conformity to one's role, for example as a 'real banker', but also by diffusion of responsibility, for example through detailed compliance procedures, and through obedience to authority by stubbornly adhering to rules when faced with moral dilemmas. Hence, the moral compass of bankers, while expressing care for clients, is continuously misdirected by the utilitarian institutional setting of the organizational field.

Finally, the moral compass is not only affected by the direct effects of this institutional setting, but also by the indirect effects on mutual trust between bankers. Ellemers and van den Toorn (2015) argue that the social norm effect on the moral

[6] In March 2018, the Chair of the supervisory board of ING, former Shell CEO Jeroen van der Veer, defended a 50% salary raise for the CEO of ING, Ralph Hamers, with reference to football: he claimed that the CEO is playing in the Champions League and therefore deserves more than a first division salary (https://nltimes.nl/2018/03/08/politicians-furious-ing-bosss-massive-pay-raise).

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compass involves perceptions of trust and actual trust in other group members. Their model of group morals shows that group values influence mutual trust, which in turn influences moral behaviour. This leads, in the words of Moore and Gino (2013, p. 71), to 'suboptimal moral outcomes both individually and collectively'. Hence, the use of a moral compass is not only affected by the utilitarian norms in an organizational field, but also by the mutual distrust generated by these utilitarian norms.

The empirical literature on banking culture points to the need for a fundamental change in the field to address the dysfunctional social norms and their institutionalization in targets, incentives, leadership styles and distrust. This would require a shift away from the principal–agent theory-based system of extrinsic motivation and utilitarian norms, towards social norms encouraging intrinsic motivation, autonomy and mutual trust (Ryan and Deci, 2000). This would not only help employees to focus their compass on serving client interest but would also undermine the rationalization in the field which is so much concerned with status and legitimacy that any innovation 'provides legitimacy rather than improves performance' (DiMaggio and Powell, 1983, p. 148).

Insights from the literature review lead to the analytical framework as pictured in Figure 1. In the centre is the organizational field of banking. This is influenced by state regulation, which is expected, on the basis of the literature reviewed, to have a mixed effect on behaviour in the field. In turn, the field exerts influence on the ability of bankers to use their moral compass. The literature discussed suggests that the expected effect is negative. Finally, this will result in an effect on client service and responsible banking that will also be negative: the banking sector is predominantly concerned with status and legitimacy, regulation is weaker than the internal utilitarian norms and the ability to use one's own moral compass of integrity and care becomes very limited. It should be noted, however, that in the empirical analysis presented here I did not go into this last relationship, which is left for future research. The analysis will focus on the influence of the organizational field and state regulation on the moral compass of bankers.

In developing the questionnaire on attitudes, experiences and behaviour in Dutch banks, I used a two-step approach, which is detailed in Table 1. The first step was the listing of key terms of the three analytical categories of banking culture, based on

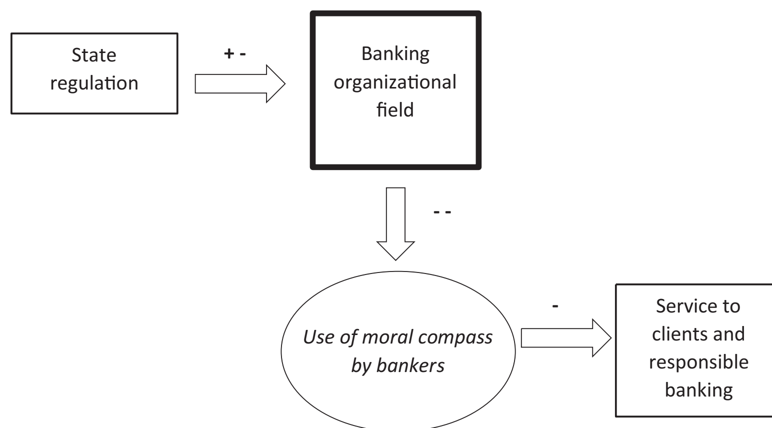

Fig. 1. *Misdirected moral compass in the organizational field of banking.*

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Table 1. *Linking theory on banking culture to statements in the questionnaire*

Banking organizational field	State regulation	Moral compass of bankers
Key terms from literature on (banking) organizational field: status seeking, legitimization, commercial success, conformity, short-termism, utilitarian social norms, rationalization, competition, incentives, targets, threats, distrust	*Key terms from banking literature on regulation: laws, rules, state regulation, oath, duty of care, fiduciary law, compliance procedures, fairness to tax payers, rule-approach*	*Key terms from literature on moral compass: mutual trust, intrinsic motivation, autonomy, personal development, motivation in serving client interest, pro-social values*
***Utilitarian key terms**: individualism, targets, principal-agent alignment, extrinsic motivation, utility maximization, income, profit*	***Deontological key terms**: universality, laws, rules, principles, compliance, duty, constraints, rule approach to moral dilemmas, sanctions*	***Ethics of care key terms:** interdependence, attentiveness, mutual trust, caring, service orientation, responsibility, relatedness*
Statements in the questionnaire		
Sales targets are in the interest of clients	I agree with increased regulation by the state	The most important motivation in my work is serving client interest
My performance is directed by targets	I agree with an oath for front office and managers	I trust my team
My performance is directed by variable pay based on targets	I agree with an oath for all bankers	I trust my bank
My initiative is constrained by commercial pressure	My initiative is constrained by state regulation	I experience a tension between products and client interest
The space for taking own initiative is limited	Moral dilemmas are solved by rules	The feedback I receive is about meeting targets
I am afraid of dismissal	A banker's job is over-regulated	I lack the autonomy to do my job well

the literature reviewed above: the banking organizational field, state regulation and the moral compass. This is shown in the first row. Key terms are, for example, status seeking and utilitarian social norms for the category of field rationalization; duty of care and compliance procedures for the category of state regulation and mutual trust and autonomy for the category of the moral compass. The second step involved a double-check of these categories with the help of the empirical literature on ethics measurement (Barnett et al. 1995; Skoe et al., 1999; Botes, 2000; Wark and Krebs, 2000; Shanahan and Hyman, 2003; Klingberg-Allvin et al., 2007; Libby and Thorne, 2007). The reason for adding this step is that, in this literature, questions and statements are formulated for empirical research. The three types of ethics corresponding to the three analytical categories of banking culture are utilitarianism (goal-oriented ethics), deontology (principle-based ethics) and the ethic of care (relational ethics). While there is no space here to discuss that literature in relation to economic behaviour, I have done this elsewhere (van Staveren, 2001, 2007).[7]

[7] General introductions to philosophical ethics can provide a good understanding of the key characteristics of, and important differences between, these ethical approaches (see, e.g., Beauchamp, 2001).

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The second row of Table 1 lists the key terms of these types of ethics. It is no surprise that there is a large overlap between the ethics terms on the one hand and the organizational culture terms in each column on the other hand. More precisely, key terms on the banking organizational field are largely utilitarian, whereas terms related to state regulation are largely deontological, and terms on the moral compass derive mainly from the ethics of care.

The 'statements in the questionnaire' in Table 1 are the variables used in the analysis reflecting the key terms above. The columns show the statements within each analytical category of banking culture, phrased in terms of the category-specific ethics. The combination of Figure 1 and Table 1 allows for the formulation of two hypotheses. The first hypothesis is that the Dutch banking sector functions as an organizational field, displaying a homogeneous culture across the different banks. The second hypothesis is that the limited ability to use one's moral compass is positively associated with organizational field variables; not significantly related to state regulation and negatively associated with trust.

4. Methodology and background statistics of the survey data

Since the crisis, many employees of banks have experienced negative reactions when they reveal that they work for a bank. The three largest Dutch labour unions—CNV, FNV and De Unie—received these signals from their membership and became interested in doing a survey on banking culture, hoping to find out whether there is something in the banking culture (rather than in bankers' individual attitudes) that should be changed to win back society's trust. At the same time, I was interested in the question of whether the banking culture may be related to the continuous scandals in Dutch banks and the low level of societal trust in banks. To my repeated requests to the four main banks to study the culture in these banks with a survey or interviews, only one bank agreed. Another bank did not respond and two answered that they would agree under the condition that I would not publish the results. I could not accept this condition. Fortunately, the labour unions expressed an interest in this issue at a public debate organized by the think tank Sustainable Finance Lab, of which I am a member.[8] We decided to develop a questionnaire together and to send it to all labour union members working in banks.

In June 2014, we sent out the online questionnaire, through the three unions, to 7,000 bank employees.[9] In total, we received fully completed online results from 617 anonymous bank employees.[10] One might expect some bias in this sample due to the labour union membership. About 10% of bank employees in the Netherlands are union members, and they may be more critical and more concerned with job security and salaries than non-members. In order to test for possible bias, I included questions about typical labour union issues and did not find typical union answers to these questions: 25% said that they find their earnings generous while 59% responded that they are satisfied with the severance pay agreed between bank and union in case of job loss. Interestingly, a recent survey among 600 Dutch financial sector employees

[8] For more information, see https://sustainablefinancelab.nl/en/rubriek/news/banks/.

[9] The survey could be filled in only once per IP address and was entirely anonymous.

[10] The level of confidence of the sample is 95% and the confidence interval is 4%. The sample is therefore statistically representative for all labour union members working at banks in the Netherlands.

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shows similar results for key questions in our survey. In particular, that survey found that 50% of the respondents agree that financial sector employees would be tempted to sell more products than clients need when they could earn additional income from doing so, and 74% agree that the quality of services would not improve from variable pay (Graafland et al., 2017).

The average respondent is a middle or lower level employee. The survey covers both front office (57%) and back office workers (support staff, team leaders and managers—43%). There was no pre-selection of particular categories of employees or of certain banks or bank departments, so most (if not all) will be concerned with retail banking activities. Table 2 shows the descriptive statistics for respondents' characteristics: 40% are female, 57% are 50 years or older and 47% earn a gross monthly full-time salary of 4,000 euro or less; 45% earn between 4,000 and 7,000 euro while only 8% earn 7,000 euro or more. I did not find any statistically significant correlations in the results between sex, age or salary with the responses to any of the questions in the survey. As expected, the large majority of respondents (89%) work for the top three banks in the country, which are all large banks, operating internationally.

After providing the results for the first hypothesis, the Results section will present three tables with frequency distributions of the bankers' attitudes, values and behaviour in relation to the organizational field, state regulation and their moral compass. After this, the results for the second hypothesis will be presented. For this, I will use an ordered logistic regression analysis which allows for the analysis of ordered dependent variables, such as those measured on a Likert-scale. The hypothesis will be tested with three models, each with a different proxy variable for the dependent variable: limited ability to use one's moral compass in the field of banking.

Table 2. *Descriptive statistics of the banking culture survey (% in brackets), n = 617*

Sex	Male	Female		
	370 (0.60)	247 (0.40)		
Age	Under 50	50 and older		
	266 (0.43)	351 (0.57)		
Salary (euro p/m)	<4,000	4,000–6,999	7,000–10,000	>10,000
	291 (0.47)	280 (0.45)	39 (0.6)	7 (0.1)
Bank	ABN Amro	ING	Rabobank	Other
	188 (0.30)	153 (0.25)	206 (0.33)	70 (0.11)

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5. Results for the two hypotheses

The first hypothesis, related to the homogeneity of the workforce across the different banks, is tested with cross tabulations of every variable. Due to lack of space, I cannot report all these cross tabulations here, but there were hardly any statistically significant differences in the responses for employees of different banks. The banking culture appears to be quite homogeneous, despite the fact that the three main banks have very different governance structures: a state bank (ABN Amro), a publicly listed bank (ING) and a cooperative bank (Rabobank). This finding confirms the first hypothesis that the Dutch banking sector functions as an organizational field, displaying a homogeneous culture across all banks. The finding is particularly interesting because Rabobank presents itself as a cooperative bank and therefore as closely connected to its clients. This self-image, however, is more of a reflection of its past, when it was founded by farmers who had a stake in the bank. Today, Rabobank is a giant multinational financial institution: farmers form a small minority of the clients and they are no longer owners of the bank. So, although Rabobank formally still has a cooperative governance structure, it is owned neither by clients nor by its employees, as a functional cooperative would be—the bank is simply owned by itself as a legal entity and has no external shareholders. Finally, and again confirming the result of a homogeneous workforce throughout the banking field, additional cross-tabulations between working in the front office or back office on the one hand, and all other variables on the other hand, reveal that there are very few (and only small) statistically significant differences in the responses between back office and front office employees.

Table 3 shows the frequency distribution for some organizational field variables. Many bankers report that their performance is either assessed by targets without variable pay but with consequences for their career (44%) or by targets with variable pay (30%). The combined answers suggest that, six years after the financial crisis, a large group is still assessed through performance targets. Table 3 further shows that the majority of the bankers (63%) do not believe that sales targets are in the interest of clients; only 11% thinks that they are. At the same time, a large group (48%) agrees that employees' initiative is constrained by commercial pressure. Moreover, 33% of the respondents state that they are afraid of dismissal and 35% say that they sometimes experience this fear (together 68%). This widespread fear is quite realistic given the

Table 3. *Field rationalization: carrots, sticks and attitudes (%), n = 617*

	Performance directed by targets	Performance directed by variable pay and targets	Sales targets in the interest of clients	Initiative constrained by commercial pressure		Afraid of dismissal
Strongly disagree	7.13	19.12	18.48	1.94	no opinion	2.59
Disagree	21.56	29.34	44.73	17.18	no	28.69
Neutral	27.55	21.72	25.45	32.74	sometimes	35.49
Agree	36.63	25.93	10.37	37.93	yes	33.23
Strongly agree	7.13	3.89	0.97	10.21		
Total	100.00	100.00	100.00	100.00	total	100.00

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continuous rounds of lay-offs in the banking sector in the Netherlands. In the period 2007–2015, 28,000 of the 147,000 jobs in this sector were lost (CBS Statline, 2017). As a consequence, bankers operate in a negative-sum game environment.

Table 4 reports the frequency distributions for variables of state regulation. It shows a lukewarm response to the obligatory oath for all bankers (43%). The support for the oath is slightly higher if back office workers would not be required to take the oath (54%—not reported in Table 4). The next column shows respondents' views on the increased level of banking regulation since the crisis. A large majority (86%) state that they find this increased regulation justified. The attitudes on the oath and regulation fit into one of the two driving forces of an organizational field, namely a strong tendency to seek legitimacy—irrespective of whether the motive behind this is genuine or opportunistic. At the same time, 51% feel that the space for taking own initiative is constrained by regulation and 55% experience their job on a day-to-day basis as over-regulated. A large majority (73%) try to solve moral dilemmas with rules (even though that is often not possible with dilemmas because they reflect conflicting rules). So, all in all, bank employees find increased regulation justified while simultaneously feeling that it is constraining them in their day-to-day operations in a complex and uncertain financial environment.

Table 5 shows the frequency distributions for the ability of bankers to use their moral compass. The first column indicates that 53% agree, and 32% strongly agree,

Table 4. *State regulation: legitimacy and constraints (%), n = 617*

	Agree with oath for all bankers	Agree with increased regulation		Initiative constrained by regulation	Banker's job over-regulated	Moral dilemmas solved by rules
No opinion	6.16	4.38	Disagree	14.59	22.36	6.48
No	50.73	9.56	Neutral	34.04	22.37	20.75
Yes	43.11	86.06	Agree	51.38	55.27	72.77
Total	100.00	100.00	Total	100.00	100.00	100.00

Table 5. *Field rationalization, motivation and ability to use one's moral compass (%), n = 617*

	Motivated by serving client interest	Trust in team	Trust in my bank	Lack autonomy to do job well		Feedback about meeting targets	Tension between products and client interest
Strongly disagree	0.66	5.35	12.97	6.81	no opinion	0.0	19.29
Disagree	1.13	12.32	31.77	35.49	never	20.26	19.77
Neutral	12.64	19.94	39.38	32.58	sometimes	55.43	49.27
Agree	53.48	45.38	14.26	20.75	often	24.31	11.67
Strongly agree	32.09	17.02	1.62	4.38			
Total	100.00	100.00	100.00	100.00	total	100.00	100.00

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that they feel motivated by serving client interests—a caring attitude that is crucial for having a moral compass in the first place. Hence, taken together, a large majority (85%) indicates feeling motivated by serving client interests, even though the answer may be partially motivated by the pressure to achieve one's targets rather than by a genuine concern with client interest.

Columns 2 and 3 show that the bankers have low mutual trust. Although 62% have trust in their own team members, less than half the respondents (46%) expressed trust in their manager (not reported in Table 5) and only 16% claimed to trust their bank as a whole. Furthermore, column 4 indicates that 25% of the employees experience limited or very limited autonomy to do their job well. Among the respondents, 24% often receive feedback about targets while 55% sometimes receive such feedback—a total of 79%. These results imply that meeting targets is quite important in the relationship with one's manager. In the final column of Table 5, we see that a majority of the bankers (61%) experience a tension between serving client interest on the one hand and the products offered by their bank on the other hand, while only 20% indicate never feeling such tension. Overall, the frequencies reported in Table 5 suggest that bankers are not necessarily immoral people seeking their own interest at the cost of clients. Rather, they display the shared social norms of the banking field, which include low trust, limited autonomy, and the feeling that one must sell products that are not necessarily good for clients. The results in this table, however, are descriptive. Table 6 provides the results of the regression analysis.

The second hypothesis states that the constrained ability to use one's moral compass is positively associated with organizational field variables; not significantly related to state regulation variables and negatively associated with mutual trust. Table 6 shows the regression results for three models, each with the same independent and background variables (sex, age, salary and bank).[11] The first model uses lack of autonomy as a proxy variable for the limited ability to use one's moral compass. In the literature review, autonomy was found to be a characteristic of being able to work from an intrinsic motivation, which includes (but is not limited to) the ability to use one's moral compass. The second model uses feedback about meeting targets as a proxy variable for the ability to use one's moral compass. The literature review has indicated that when leadership is concerned with commercial success rather than with supporting employees in providing good services, the feedback resulting from such a commercial focus is not supportive of the ability to use one's moral compass.[12] The third model uses the variable of experiencing a tension between products and client interest. In the literature review, such a tension was seen as a sign of the inability to use one's moral compass. The independent variables are ordered in three categories, reflecting the theoretical relationships pictured in the figure.

The first category (dark shaded in the table) contains three organizational field variables. The results for the autonomy model show that only one of the three field

[11] All variables are ranked from 'disagree' to 'agree', or from 'no' to 'yes' or 'often'.

[12] The survey also asked if feedback was received about tasks. The responses were similar to feedback about targets, which is no surprise given that targets are related to tasks. But the response to the question whether respondents receive meaningful feedback in a dialogue showed that 20% never receive such feedback while 31% did indicate receiving such feedback. This suggests that although much feedback is about tasks and targets, managers regularly do find the space to enter into a dialogue with employees.

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Table 6. *Ordered logistic regressions for limited ability to use one's moral compass, n = 617*

Dependent variables → Independent variables ↓	Lack of autonomy to do job well	Feedback is about meeting targets	Tension products and client interest
Space for taking own initiative is limited	1.325***	0.1701*	0.2788***
	(0.1025)	(0.0893)	(0.0844)
Performance is directed by targets	0.0874	0.3665***	0.2546***
	(0.0804)	(0.0821)	(0.0759)
Performance is directed by variable pay and targets	0.0360	0.3067***	0.1330*
	(0.0792)	(0.0804)	(0.0745)
Agree with increased regulation	0.3420	0.0227	−0.0374
	(0.2348)	(0.2333)	(0.2184)
Agree with oath for front office and managers	0.1266	0.0070	0.0166
	(0.1352)	(0.1408)	(0.1328)
Moral dilemmas solved with rules	−0.0856	0.1694*	0.1039
	(0.0957)	(0.0959)	(0.0908)
Trust in team	0.1934**	−0.1734*	−0.2145**
	(0.0942)	(0.0951)	(0.0913)
Sex	−0.0457	0.1088	−0.0180
	(0.1787)	(0.1831)	(0.1745)
Age	−0.0555	−0.0667	0.1060
	(0.1651)	(0.1691)	(0.1582)
Salary	−0.6347***	0.2837**	0.1900
	(0.1424)	(0.1413)	(0.1338)
Bank	0.0336	0.1346**	−0.0163
	(0.0499)	(0.0520)	(0.0467)
LR Chi^2	308.70***	60.82***	47.86***
Pseudo R^2	0.1981	0.0512	0.0313

Note: Standard errors between brackets; ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$.

variables is statistically significant ($p < 0.01$). Limited space for taking own initiative is positively related to a lack of autonomy, as one would expect. The second model shows that all three organizational field variables have a positive and statistically significant relationship with the moral compass proxy variable. Limited space for taking own initiative is positively related ($p < 0.1$) to receiving feedback on meeting targets. Performance directed by targets and performance directed by variable pay are also positively related ($p < 0.01$). Hence, the less space for own initiative and the more pressure from targets, the more likely it is that feedback is received about meeting targets.

The third model, with tension between products and client interest as the dependent variable, also shows that all three organizational field variables have a statistically significant relationship with the expected sign ($p < 0.01$ for the first two variables and $p < 0.1$ for the third variable). Having limited space for taking own initiative is positively related to feeling a tension between products and client interest. This suggests that limited space for initiative will make one less able to find the best solution to clients' needs. Performance directed by targets and by variable pay are also positively related to the feeling of a tension between products and client interest. So, the more one is directed by targets, and the more one is under a regime of variable pay, the more one experiences a tension between products and client interest. This suggests that targets may impede serving client interest—something

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that the bankers already acknowledged, as 63% agreed that sales targets are not in the interest of clients (see Table 3).

Hence, all three models suggest that the organizational field of banking has a negative effect on the ability of bankers to use their moral compass, and that many are also aware of this. The question is whether state regulation (medium shaded rows) can mediate this relationship. The results show that the signs are mixed and only the second model shows one statistically significant parameter ($p < 0.1$). The variable indicating that moral dilemmas are addressed with rules is positively related to receiving feedback about meeting one's targets. This suggests that regulation may reinforce a bureaucratic attitude among bankers so that dealing with moral dilemmas is considered just another instance for the application of rules, which contributes to, or at least does not divert one's attention away from, a focus on targets. But since the other regulation variables show no statistically significant relationships in the three models, it seems fair to conclude that state regulation of bankers' behaviour is not able to effectively redirect or reduce the strong negative effect of the organizational field of banking on bankers' moral compass.

Finally, the trust variable (lightly shaded row) also shows interesting results. It is statistically significant in all three models. Trusting one's team is positively related to lacking the autonomy to do one's job well ($p < 0.05$), which is at first sight unexpected. But Ellemers and van der Toorn (2015) make the point that mutual trust is mediated by group values, and since these are dominated by targets and commercial pressure, the effect of trust on the moral compass will be mediated by these field variables. Perhaps it is the team responsibility for meeting team-level targets that makes team members feel they lack autonomy for meeting such non-individual level targets, but this is mere speculation. The relationship requires more detailed study. However, the other two models show the expected sign for the trust variable. Having trust in one's team is negatively related to receiving feedback about meeting one's targets ($p < 0.1$) and also negatively related to feeling a tension between products and client interest ($p < 0.05$). Team-level trust therefore seems to contribute to the ability to use one's moral compass.

The background variables for sex and age show no statistically significant relationships, but salary is negatively related to the lack of autonomy ($p < 0.01$), suggesting that commercial pressure is stronger at the lower ranks in the bank. This is quite likely given the strongly hierarchical structure of banks. Salary is positively related to receiving feedback about meeting targets ($p < 0.05$). Hence, higher up in the bank, communication about meeting targets becomes even more dominant, which reflects the pressure of the top-down homogeneous culture on managers. Finally, the bank at which one is employed shows no relationship in two of the three models but is positively related to receiving feedback about meeting targets ($p < 0.05$). This suggests that there is some difference between banks in the extent to which feedback about meeting targets is provided to employees. It should be noted, however, that almost every other variable for banking culture showed no statistically significant relationship with the bank at which respondents are employed.

In conclusion, the second hypothesis is supported by the results. These indicate that, overall, the ability of bankers to use their moral compass is constrained by the utilitarian organizational field of banking, is not affected by state regulation, but is supported by mutual trust.

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6. Discussion

The empirical results show that banking in the Netherlands operates as a strong organizational field with a homogeneous workforce. This confirms the observation by DiMaggio and Powell (1983, p. 148) that once organizations are part of an organizational field 'powerful forces emerge that lead them to become more similar to one another'. They exhibit normative pressures, which 'create a pool of almost interchangeable individuals who occupy similar positions across a range of organizations and possess a similarity of orientation and disposition' (ibid., p. 152). The tables reporting on frequency indicate the strong influence of the organizational field on bankers' behaviour through targets and variable pay, although a majority of respondents realize that this may not be in the interest of clients—not only in the case of sales targets, but also because of the strong commercial pressure, fear of dismissal, lack of space to take own initiative and limited autonomy. Also, the majority of respondents are aware that there is a tension between the products their bank offers and serving client interest, while at the same time experiencing low trust in each other, particularly in their leaders and their bank as a whole. This reinforces the view of DiMaggio and Powell that in an organizational field, it is not so much the individual person who lacks morality or does not care about clients, but rather that the behaviour of bankers is systematically steered towards utilitarian social norms within the boundaries of a rationalized and bureaucratically managed repertoire of carrots and sticks.

The strong organizational field also seems to be the reason why mandatory behavioural regulation by the state has very little impact. The findings show that state regulation is supported by many bankers but the field's forces appear to be stronger. This confirms Ellickson's (1998) point that the field's informal institutions, which guide behaviour through socialization, sanctions and social status, are stronger than state regulation.

The findings about the ability to use one's moral compass also largely confirm the literature discussed above. First, the ordered logistic regression analysis shows that the strongly utilitarian organizational field variables limit the ability of bankers to use their moral compass, as suggested by Moore and Gino (2013). Second, the results indicate that regulation has no effect on the moral compass but that trust in one's colleagues does support the use of it, as Ellemers and van den Toorn (2015) have argued. But the same authors have also warned that mutual trust is affected by group norms. The findings confirm this view: the group norms of the bankers are strongly defined by the utilitarian institutions of the field.

The findings suggest, in line with the literature review, that a more fundamental change in Dutch banking culture is required. If banks are serious about serving client interests, valuing professional ethos and gaining back trust from society, the change must come from defeating the organizational field itself. State regulation aimed at cultural change is unlikely to do the job. The implication from the findings is paradoxical. For state regulation to have an impact on the ability of bankers to use their moral compass, regulation should probably not target bankers' behaviour but instead aim at banks as a whole and the utilitarian institutions that make up the organizational field, with its social norms driven by status seeking and the pursuit of legitimacy. This implies the necessity of macro-level regulation, not micro-level rules. In particular, two institutions seem to support the organizational field: the implicit guarantee that banks will be saved by the state (the idea that they are too-big-to-fail) and the entanglement

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of public and private interests in banking (with private money supply, private holding of savings, and a private payment system). If banks are required to hold much more equity capital (10–15%) than is currently required under Basel III, they are forced to reduce their balance sheets, to limit their leverage ratio and to reduce excessive risk exposure (Admati, 2014).[13] This will reduce the too-big-to-fail effect. Moreover, if the state creates a publicly anchored agency for savings and loans, for example, through central bank digital currencies, citizens will have a safe alternative for their money and payments (Kumhof and Noone, 2018). Such a publicly anchored alternative, in turn, will force banks to genuinely orient themselves towards serving client interest if they want to attract and retain customers.

7. Conclusion

This study indicates that the banking culture in the Netherlands is part of a strong organizational field in which status seeking and the pursuit of legitimacy shape compelling and homogeneous utilitarian institutional arrangements. The results also indicate that the vast increase in mandatory state regulation is unable to seriously reduce the effect of the organizational field on bankers' behaviour. Bankers' moral compass, therefore, appears to be continuously misdirected by the overwhelming forces of the organizational field.

Without a fundamental change in the dominant utilitarian institutions—which rely on a compelling rationalization of performance management, rivalry, lack of moral leadership and widespread distrust—better service to clients and more trust from society remain far away. More micro-regulation is not likely to bring about a fundamental change. To the contrary, behavioural regulation has been captured by the field to serve the internal goals of status and legitimacy.

The findings from this study suggest that macro-level institutional reform in the banking sector may be a necessary condition for effectively reducing the power of the organizational field of banking. With such externally enforced institutional reform, the incentive structures of banks may become less focussed on status and legitimacy and more oriented towards client interest and responsible banking.

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[13] This concerns Tier 1, or unweighted capital, not the Tier 2 capital ratios allowed under Basel III which is calculated with banks' internal weighted risk models. Tier 2 capital of Dutch banks is currently 10–15%, using the weighted risk models. But Tier 1 equity capital barely reaches 5% (DNB, 2018).

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