ETHICS IN THE BANKING INDUSTRY:
IDENTIFYING THE INDUSTRIAL AND EXTERNAL FACTORS INFLUENCING BEHAVIOURS IN THE INDUSTRY.

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By

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A Thesis Submitted in Fulfilment of the Requirements for the Degree of Doctor of Philosophy of Cardiff Metropolitan University

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April 2015

Cardiff Metropolitan University
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Abstract

Finance and economy, more importantly banking as a branch within finance, have a vast influence in our daily lives. History has shown that the decisions made by these institutions that were set up on one hand to provide security around the population’s wealth, and on the other to help manage and control the flow of money; can affect positively or negatively every member of society. Recently, populations around the world have suffered due to a crisis that sparked from the banking sector. This crisis has led the ethical culture in the industry as well as the role of governments and regulators to be questioned. This thesis presents an original perspective of ethics in the banking industry in the United Kingdom by analysing factors in the banking system influencing banker’s behaviour and evaluating the codes of conducts and codes of ethics of banking institutions. Using an OLS-moderated regression method, results show that certain aspects of the industry paradigm are not conducive to the preservation of ethics. It has been found that the long-term orientation, strategic aggressiveness, and competitive intensity of a bank can influence employees’ ethical behaviour. Finally, the evaluation of the codes of ethics and codes of conduct in the industry has shown important gap in the banks’ policies particularly with regards to the influence of banks strategic aggressiveness and competitive intensity on employee behaviour. This work has deep implications for further studies of ethics in the banking industry and could spark a new wave of research that will seek to formulate a proven framework to manage ethics in the industry.
ACKNOWLEDGEMENTS

All praise be to Allah, The Gracious, The One Worthy of praise, for guiding me, for surrounding me with the right people, for giving me strength, patience, and the necessary motivation to overcome the different challenges during this process.

I will forever be thankful to my mum: Arame; my dad: Oumar; my sister: Kadia; my little brothers: Abou and Thierno; my brother in law: Abdoul; and my extended family for the education I received, the words of wisdom, and the continuous support and unconditional love they have given me despite the challenges in their lives.

I would like to express my never ending appreciation to my supervisory team for being truly inspirational, for their invaluable advice throughout the process, their support – both academic and moral –, and more importantly for instilling in me the passion they have for research. Thank you for making me see research as an exciting quest for new knowledge.

A special tribute goes to the participants of the survey and the different chartered institutes, without whom this work would not have been completed.

I also would like to dedicate this work to those friends and companions who offered their advice at some of the very challenging times during the research process, and literally helped me keep my sanity by almost forcing me to go out and enjoy life.

I am very thankful to the panel that attended the thesis defence as part of the examination process for their efforts and corrections.

Last but not least, a very special thought goes to those family members who passed away during this research process and before. I hope that this work will be worthy of the values of these
uncles, aunts, cousins, and especially grandparents – those I knew as a child, and the one I never had the chance to know, namesake I have heard so much about.
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Chapter I. Introduction

1.1. Background of the study

Banking in the twenty first century plays a crucial role in society. Through its activities, it allows operations and exchanges between individuals, corporations and other entities in an economy. The services of the contemporary banking industry are a condition to fulfil basic aspirations such as the acquisition of a home, or even receiving wages from an employer. The bank account has sparked a revolution in the way individuals interact with money, the times when people were invited to place their money in a bank account rather than placing them under the mattress are long gone. Banks have built a strong image around bank accounts using the security argument and sending the message across that individuals were more at risk to lose their money at home in unfortunate events than in a bank. This argument has worked as security measures were taken in banks to ensure funds were physically safe and secure.

However, things seem to have changed in 2007 when the Northern Rock in the United Kingdom was overwhelmed by customers wanting to withdraw their money with fear of losing it (Thelwell, 2007). This was not an isolated incident as similar Bank runs occurred during the Greek Crisis (Granitsas, 2012) and more and more bank customers were voicing anger at banks during manifestations such as Occupy Wall Street, or during Bank Annual General Meetings with Shareholders (The Guardian, 2014). These manifestations were simply symptoms of a wider malaise affecting the general public. Banks simply lost the public’s trust: a crucial ingredient to any banking transaction. The banking system is built on trust, and therefore for it to work efficiently trust is required. At a basic level the symbol of that trust in the banking industry is the bank note as each note carries a promise made to the bearer.
The events which represent the reaction of an increasingly-anxious public occurred in a period when the world plugged in economic crisis triggered, fuelled and facilitated primarily by a blend of multiple happenings, practices and failings in the banking industry. In 2007 the difficulties in the real estate sectors in the US and UK and risks related to high leverage in banks resulted in the bankruptcy of the bank Lehman Brothers (Caplan, et al., 2012). This bankruptcy created havoc in the financial markets, which crashed triggering panic throughout the world. The crash was preceded by a long period of growth in the real estate industry which gave rise to the formation of a bubble in the housing market. The growth of the house market into a bubble was made possible by the opportunity for banks to be able to engage, into subprime lending, which the crash and the subsequent inquiries proved to be an industry wide practice. Many of the risky subprime loans authorised by banks under the supervision of the regulators, ultimately resulted in client bankruptcies and repossessions of assets, which meant banks were sitting on a pile of ever-increasing toxic assets which affected liquidity (Cho, et al., 2012). In addition, a new phenomenon was also occurring at a larger scale in the banking industry. The shadow banking system, which encompasses unregulated financial entities and the unregulated activities of regulated financial firms, was more and more popular (Prager, 2013). Through shadow banking practices firms were able to keep some of these toxic assets off-balance sheet (Prager, 2013) therefore reporting results stronger than reality and kinder on share prices. Furthermore the shadow banking system facilitated and permitted financial institutions to take more risks with very high leverage especially among investment banks (Prager, 2013). Innovative practices also played a facilitating role in the build up to the crisis. With the stock of toxic assets in banks and the increasing challenge posed by the liquidity issues, lenders adopted the “originate-to-distribute” model (Bord and Santos, 2012: p.2). Unlike the traditional lending model in which the lender lends using its funds and is repaid back over a period of time by the borrower –therefore the risks are the lender’s, which prompts
a thorough check to establish whether or not the borrower can repay. Under originate-to-distribute, the lender lends money to the borrower with the intention to sell the borrower-lender contracts to a third party, either an institution or an investor (Purnanandam, 2011). Consequently under this model the borrower does not repay the original lender but the buyer of the contract. This purports that the third party bears the credit risk, the original lender has been repaid shortly after providing the loan rather than many years after, and it is status quo for the borrower. Except, this practice has led to a deterioration of the quality of the loans (Prager, 2013). As the original lender provides loans with the knowledge that they would be distributed, less efforts are invested into the checks prior to approval of the loans under this model than in the traditional lending model. The ability for the borrowers to repay is no longer part of the interests of the original lenders in originate-to-distribute. However these sales would not be possible if they were not distributed in a complex system of derivatives with the loans being packaged and repackages into Mortgage-backed Securities and rated by Credit Rating Agencies as safe with an AAA rating (Rom, 2009). When some Mortgage backed securities were rated as risky, they were turned into AAA rated Collateralised debt obligations (Prager, 2013). These securities were therefore bought due to the good ratings. However because doubt remained with regards to the integrity of these loans, many investors bought those securities with another innovation: the Credit Default Swaps (Stanton & Wallace, 2011; Stulz, 2010). Also being a derivative the credit default swaps allowed investors to protect their positions and exposure to the Mortgage-Backed Securities and Collateralised Debt Obligations. Due to the apparent success of these layers of operations, the derivative market experienced an exponential growth. Furthermore, the bubble that was forming in the housing market was not identified until correction started to take place; which, combined with this cocktail of risky and sometimes unethical practices, yielded in one of the worst financial crashes that affected the global economy. The lower prices of homes meant homeowners who took ambitious loans on
the ground that the price of their house would appreciate found themselves in negative equity, considering the number of homeowners in that category more and more loans were in default, repossessions intensified, the pile of toxic assets grew exponentially, institutions were in severe shortage of liquidity as the assets repossessed could not be sold in such market environments, the colossal derivative market collapsed, and to complete the loop, due to the liquidity problems, not only did many in the public not want to buy houses amid fears prices will further plummet, but even those who wanted could not as the liquidity problem meant the system could not lend. This crisis was no longer a real estate crisis but entered a new phase: the “credit crunch” which also affected lending to other sectors and businesses. The spiral was continuing downwards as the fewer people had access to buy houses, the more unlikely it was for prices to stabilise, instead they were still falling, which meant more people in negative equity, more repossessions, more toxic assets, and more supply than demand. Economies were on their knees (Corneil & McNamara, 2010). The reverberations of the recklessness in the banking system has not only seen people become homeless, but also many companies, not necessarily related to real estate, went bankrupt, people being laid off, governments applying interventionist measures and austerity measures being imposed over the general public in order to control government debts, which during this crises, caused some governments, such as the Icelandic government, to go bankrupt. Moreover, while in some countries the population was paying double, first through the taxpayers’ money used to shore up the banks and avoid another Lehman brothers, then through the austerity measures; bankers, including the decision makers that saw the crash occur under their watch, were being paid millions in bonuses throughout the crisis. Millions that many among the public saw as being funded by the taxpayers’ money. These events were the catalysts to the public manifestations mentioned above. The public did not identify with the ethical culture of the industry, as these practices offered a solid ground for the public to question the ethical integrity of the industry, therefore weakening trust. More
importantly, these practices occurred despite supervision of the regulators and the ethical engagement of each of these firms, whether in the forms of codes of conducts, codes of ethics, ethical investments, or corporate social responsibility programmes.

With the importance of the financial industry in economies, governments were facing a challenge. Not only did they need to take measures to avoid a repeat of the event but they also aimed to make the industry more reliable and therefore engaged into regulatory reforms. Some reforms were considered in an international context – e.g. Basel III – whereas others were national – e.g. in the United Kingdom the Independent Commission on Banking issued in 2011 a report with regulatory recommendations (Vickers report); this follow the request in 2009 made by the then prime minister, Gordon Brown, to David Walker to review corporate governance in UK banks and propose recommendations. The Basel Committee which regrouped many countries, meanwhile agreed on the implementation of regulations that are centred on two aspects: Capital and liquidity (Bank of International Settlements, 2013).

The capital requirements are based on three “pillars” for all banks. Under “pillar 1” banks are required to fulfil requirement related to the quality and level of capital, capital loss absorption, capital conservation and to create “countercyclical buffers”. Banks also need to fulfil requirements related to risk coverage over asset securitisation, trading books counterparty credit risks and the “bank exposure to central counterparties”. Finally, pillar 1 also require banks to give greater attention to their leverage ratio. Pillar 2 focuses on the risk management and supervision while pillar 3 targets market discipline. Additionally banks regarded as global systematically important financial institutions (SIFIs) have further requirements related to loss absorbency designed to reduce the systemic risks banks of their size could pose (Bank of International Settlements, 2013).
With regards to liquidity, firms are required to comply with a global liquidity standard and supervisory monitoring. Particular attention is given to the liquidity coverage ratio, net stable funding ratio, the “principles for sound liquidity risk management”, and supervision and supervisor monitoring (Bank of International Settlements, 2013).

The report of the Independent Commission on Banking made three major recommendations. First was the implementation of a retail ring-fence. Second was the improvement of loss absorbency in the industry. And third was to improve competition in the industry.

The retail ring-fencing proposition was made in order to make it easier to sort out troubled banks without the use of taxpayer’s money, to isolate and protect the important banking services upon which small and medium enterprises and households rely, and finally reduce the risks to the public finances by limiting government guarantees, and therefore making banks more mindful of the risks they take (Independent Commission on Banking, 2011).

The loss absorbency recommendations were put forward in order to deal with the undercapitalisation of banks, the incentives for banks to take more risks due to the “unfairness” which sees banks creditors safe, employees handsomely paid while taxpayers suffer the pain of the losses due to refusal to let banks go into insolvency. The loss absorbency recommendations are also aimed to make banks protect themselves better against the risks they take, while finally, avoiding “disorderly” failures severely impacting on the system (Independent Commission on Banking, 2011).

Finally the Competition recommendations are geared towards addressing competition issues such as lack of power of customers and lack of threat of new entrants in the industry who could offer a real choice to well informed customers (Independent Commission on Banking, 2011).
David Walker’s review of corporate governance in the banking industry made various recommendations on targeting board size, composition and qualification; the functioning of the board and evaluation of performance; the role of institutional shareholders in the context of communication and engagement; governance of risk; and remuneration (Walker, 2009). For this part, considering the mentions of the problems related to risks, only the recommendations for governance of risk will be covered. The remaining recommendations will be covered during the literature review.

Five recommendations were made for governance of risk. The first recommendation was to require and to enhance the remit of a board risk committee. The second recommendation was to strengthen the role and independence of the chief risk officer. The third recommendation calls for regulators and companies to ensure that the board risk committee has appropriate access to external risk information. The fourth recommendation proposes a detailed due diligence process by the board risk committee on significant acquisitions and disposals. And finally, the last recommendation proposes improvements in the annual reporting of risk management (Walker, 2009).

Having quickly overviewed two different sets of reforms being implemented and being considered, it is fair to say that in resolving this crisis the reforms introduced by commissions, regulatory institutions and government in general do not target the ethical culture in the industry. In theory these would make the industry stronger to avoid such collapse we have experienced and reduce the systematic risks, however they do not address the anomic environment and moral hazard in the industry which saw it collapse. By strengthening the industry it is less likely for the public to suffer another recession in the same manner, however it does not break the unethical intentions of employees in the industry, which leaves the possibility to carry on with that immoral culture without external stakeholders suffering in the same manner. These regulations do not curb self-interest, mis-sales nor misreporting for
example. These regulatory reform therefore are at odds with public perception as not enough recognition is given to the preventive role ethics and professional integrity could play in the daily operations. An exclusion of the ethical theme in the reforms suggests either the causes of the crisis, in the eyes of the watchdogs, have nothing to do with the ethical culture nor the current regulations designed to promote ethics, or that regulators and governments are powerless when it comes to addressing the ethical challenges.

Yet, the LIBOR scandal, which emerged during the crisis added further fuel to the public anger and demonstrated that, despite the omission of the ethical culture in the regulatory reforms, the industry does have moral hazard issues which makes it prone to ethical scandals regardless of the ethical charters endorsed by the banks.

This study will attempt to explore these ethical problems, more precisely it will seek to understand the factors influencing the behaviours in the industry as well as assess the prevention frameworks implemented in banks.

1.2. Significance of the research

This research explores ethical culture in the banking industry covering the way ethics is promoted in banks, the influencers of behaviour, and the attitude of regulators towards it. The research seeks to investigate whether factors within and around the banking system are able to influence the behaviours of employees and generate anomic conditions with reference to Johnson et al.’s (2011) determinants of anomie in the US manufacturing industry. The behaviours of employees are studied based on the determinants of anomie in the Banking industry to help understand the causes of the ethical challenges in the industry. The banking industry is one that impacts on every member of society including those who are not employees in the industry. Banking services are widely used. The implication of this widespread use is
that any decision taken, or misbehaviour in the industry, will potentially have an impact on many individuals. The LIBOR-gate is a prime example how a few banks can influence the interest rate paid by customers in more than one country. This influence ultimately intensifies the importance of ethics as a topic of interest not only to those working in the industry and regulators, but also to the wider public. Consequently understanding the influencers of employees’ behaviours may lead to the formulation of more effective policies both by the companies and by the regulators, to manage behaviours, promote ethics in the industry and protect customers. Although many publications have dealt with ethics and sought to identify the factors influencing behaviours, not many studies are focused in the banking industry nor in the factors that related to the nature of and set-up of industries. Most research is focused on the factors related to the nature of the roles or positions within the companies (Wortuba 1990; Ingram et al. 2007; and Schwepker & Good, 2010), therefore assuming the findings could be applied by companies in different industries so long the organigram of the companies include the position studied. Consequently these research overlook the particularities of industries and the influence those particularities could have on decision making. These particularities in the environment of the banking industry are the focus of this research undertaken in the United Kingdom. They are studied in order to identify whether they can encourage or suppress anomic behaviour. The study of theses particularities in this research is inspired from Johnson et al.’s (2011) work based on the manufacturing industry in the United States of America. However, it represents a significant development as the study was adapted to the in the banking industry in the United Kingdom and included internal and external factors that are relevant to the industry of interest but irrelevant to the USA manufacturing industry.

Furthermore the research also looks into the history of the industry to observe the theme of ethics in past crises as well as assessing the influence of finance and banking in the society and governments’ endeavours. Such glimpse into the past of the industry is important as it allows
to identify whether, similar to the 2007 crisis, attitudes and self-oriented behaviours in the industry have caused crises in the past and how they have been addressed by governments if ever they have been addressed. In doing so, this research is able to show whether or not significant advancements have been made in influencing behaviours and ensuring a strong ethical culture for the banking industry. Also, it puts the regulatory response to the recent crisis in perspective with the regulatory responses to the past crises reviewed; allowing to identify whether traditionally in the industry enough efforts are invested in resolving ethical issues when regulators step in after crises, and whether parallels exist between the 2007 recession and past crises. The banking industry has experienced great progress overtime, especially in the strategies, its reach, the instruments, and operations. As progress comes through evolution, it is crucial to identify if the ethical culture and its management has evolved in the right direction over the years to be able to affirm or reject that it has progressed along with other aspects of the industry, or that it is an area of strength or weakness.

The research also evaluates the framework of preventions currently used by banks when managing ethics. As every bank has ethical engagements that it is expected to respect, the evaluation that is performed on the ethical frameworks used in the industry allows an understanding with regards to the strong contrast between the promises in the ethics charters and the actual practices in the industry. This understanding will be crucial if regulators and ethics and compliance officers in the banking industry are to address any ethical shortcomings and better enforce the ethical charters.

1.3. **Research aim, objectives, and questions**

The aim of this research is to identify factors in the environmental set up that influence behaviours in the industry and evaluate the existing methods of prevention. In order to achieve this aim, four research objectives were formulated:
Objective 1: To critically analyse the secondary research on ethics within the banking industry

Objective 2: To critically evaluate the theme of Ethics in the major crises involving banks in history.

Objective 3: To assess the current environment around the industry and identify factors that may undermine ethics in the industry.

Objective 4: To evaluate the existing frameworks for prevention of unethical behaviours used in the industry.

In order to reach the objectives of this study several questions were formulated during this study:

Question 1: What factors are currently known to influence behaviours?

Question 2: How has the question of Ethics in banking and finance been addressed during past crises?

Question 3: Has the ethical culture in the industry evolved or has it remained the same?

Question 4: Is the current banking industry one in which anomie is widespread?

Question 5: How suitable is the current industrial, political and social set-up to the existence of ethics in banking?

Question 6: What methods of prevention exist to avert unethical behaviour?

1.4. Research Methodology

In order to find answers to the questions formulated, two types of methods have been used while performing the research: a survey questionnaire and a descriptive analysis.
First, the survey questionnaire examines the relationship of different factors to anomie within the banking industry. The questionnaire was administered to a sample of 351 people occupying positions that are related to the core activities of the banks. Given the problems which have emerged during banking crisis are related to the primary activities, the topic of interest in this thesis is the behaviour of employees performing those primary activities, hence support staffs have not been considered in this research. The sample was selected using a stratified random sampling method based on the number of years of experience of the target population. The questionnaire was later analysed using Exploratory Factor Analysis, Confirmatory Factor Analysis and Ordinary Least Squares moderated regression in order to reveal the determinants of anomie in the banking industry.

Second, the descriptive method was implemented in order to evaluate the ethical charters that have been formulated by banks in order to promote ethics from within by setting the standard behaviour they expect employees to have. Consequently an in-depth assessment of the codes of ethics and codes of conducts of leading banks was performed to reveal how banks expect their employees to behave, how they enforce and follow up on these charters, and finally whether there are impartial consequences when an employee acts immorally.

1.5. Structure of the thesis

This thesis contains six chapters including this one. Chapter two reviews the history of finance with a focus on the role finance has played in society, the behaviour of financiers in the run-up to economic crises caused by financial crashes, and governance in banking. Chapter 3 reviews the literature of ethics management with an emphasis on the factors influencing behaviours at work, the models formulated to change the ethical culture of a company and tools designed to aid individuals during the decision making process. Chapter 4 represents the methodology chapter. It provides details regarding the research philosophy, design, sampling and data
collection procedures as well as the data analysis methods implemented during this research. Following the methodology chapter, chapter 5 presents the results and findings of this thesis. The results of the different statistical tests applied to this research are therefore presented as well as the review of the ethics charters. Finally chapter 6 summarises the findings of the research and presents the implications and contributions of these findings.
Chapter II.  Finance during Major Historical Events

2.1.  Introduction

Although ethics in modern finance has lately become a subject of actuality, it would be true to say that for many individuals the catalogue of scandals gives an opportunity for diverse speculations on the culture of the industry and the actions the governments ought or ought not to take. Whether opinions are right or wrong, it would be unreasonable that people express judgments that are not sufficiently or ill-informed especially for an industry that for a while has been proven to be the engine that has kept the world going, an industry so important that when there is collapse, it can cause riots, conflict within governments, and even changes of regime; be it through violence, or peacefully by forcing governments to a referendum or early election. In fact, the financial industry is so crucial to modern life and welfare of citizens that a malfunction could not only bring economic activities in the world to a halt but also a complete new order or disorder for that matter, in the geopolitical landscape. Despite this influence on the mechanics of our world, the history of finance, the major decisions that brought in more regulations or reduced them throughout the years, seem to have been overlooked somehow during the last thirty years.

Furthermore, if shares have historical patterns, then it must be that the decision taken around those shares and influencing them also have historical patterns. Given that markets are not self-animated but well and truly animated by humans and provided the decision maker is deprived of any form of insanity that would call for taking over and over again the same decisions which have been in the past proven to causes financial ruin; such historical pattern can only be the trace of reason or logic, the most common human asset. Such patterns in the reasoning would be true especially if, regardless of the time the decision was taken, the goals of the decision
makers were similar. In turn, in the financial markets and where there is an atemporal resemblance in goals and expected effects, if reason has indeed a pattern, therefore such pattern would exist in any function or industry provided there is no transformational change in the principles on which the industry is based. Such prospect includes the function of a government or a regulator of the financial market. For centuries, regulators and governments have sought to protect people's interests from the greed of financiers, although it is also in their own interest given the risk of public revolt if they fail to do so.

The importance of reviewing the history of finance stems from the nature of the subject. As it will be seen, mistakes can be repeated in finance especially when they are made over different generations. It would therefore be crucial to learn from the past given “insanity is doing the same thing over and over again and expecting a different result”. Furthermore many pillars of modern finance have been in existence for centuries, and have been established after centuries of experience. Consequently a historical review of major events will allow an understanding of how modern finance was shaped.

This thesis will show how similar the events in the late noughties are compared to many others in the past. Those past events have often pushed governments to apply policies that would serve their political ambitions or reaffirm the supreme authority of society over financiers. Meanwhile, finance, probably due to the fact that money is considered to be in its core, has often been regarded as a nest for the greedy, and the selfish, without “état d'âme”, when it comes to unethical accumulation of wealth.

### 2.2. Financiers and Government duties

As the art of generating, managing and investing money, finance has for a long time been high in the list of priorities of governments as, not only do they require it to ensure economic activity
and fulfil their obligations towards society, each government also seeks prosperity in the land governed. One of the most costly duties for government is security and defence. Wars can be an expensive exercise in which governments can invest a huge portion of their budget. Such heavy investment into armed forces can not only be observed in events since 9/11; but also in the past, in twelfth and thirteenth-century Italy, where according to Pezzolo (2005) financial innovations –in the form of the bond– and financier have played a crucial role in ensuring troops were well equipped for victory during wars in Florence, Venice, Genoa and Milan (see appendix 3).

The successful deployment of bonds in twelfth century Italy to support wars has been emulated ever since to our days. Two major events in history that saw a similar approach were the two world wars with the creation of the US Baby bonds and the invitation made to the public with the famous slogan “A stamp’s a bullet, A bond’s a Gun. Buy them both till the War is won” (Kimble, 2006: pp. 14-18). In the Second World War the campaign proved successful, thanks to the bonds nicknamed “Share in America” (Olney, 1971: p.1); and that, despite still recovering from the great depression (Leuchtenburg, 2009).

The importance of finance for government has not waned as in twenty first century Banks and other financial institutions are approached in order to finance wars and other public services such as education, healthcare etc. However the crucial importance of finance and banking to the government and society in general means that governments also have to ensure not only that they are well regulated but also that the economic policies allow them to prosper.

2.3. Government policies and their impacts

Regulation of the banking and financial industry and economies represent great challenges for governments. The recent global crisis has reinvigorated one of the most divisive debate in the
banking industry, namely the one opposing the Kantian perspective and the Hayekian one, with each camp accusing governments of implementing the opposite perspective. However, it must be acknowledged that the impression given by government to banks that they were Too Big to Fail, which has undermined accountability, and the subsequent decisions to bail them out to avoid failure are contrary to the spirit of free markets. The core rational behind the Hayekian perspective of free markets is that governments will never be expert enough to be able to regulate the market, therefore rather than trying, governments need to keep a low profile and minimise their interventions as much as possible while still being present to police it. This perspective came after numerous examples of disastrous interventionist measure. Often government interventions may solve a particular economic problem while creating many more. One of the most disastrous example of this occurred in eighteenth century France in what is known as French dirigisme (see appendix 3) (Crouzet. 2007; Spagnoli, 2007). While they successfully allowed France to raise funds for armaments, French “dirigist” measures also created hyperinflation and severe food shortage in the land, in effect crippling the entire economy.

French dirigisme is not the sole example showcasing the dangers of deploying financial policies that dictate the way the market operates to meet political ends can lead to disaster when the laws of economics are not fully considered. The recent debate over the derivatives, and the difficulty for politicians and the wider to public to understand them, are a perfect example of this issue. Precedence of the difficulty to understand and regulate derivatives can however be found in the disorder that resulted in the introduction of the “opsies” (options) in the financial landscape (see appendix 3). The Mississippi Company (Murphy, 2005) and the South Sea Company (Napier, 2004) bubbles also represent how greed from governments and their representatives, and the lack of regulatory experience caused by innovation in the financial and banking system can also lead to economic meltdown (see appendix 3). Yet, although
interventionist measures seem to create disaster, as this thesis is going to show in the next part of this chapter, the market needs regulation so order can exist and all participant can understand each other and the way it function. This is well illustrated by the stock exchanges and antitrust measures.

2.4. Stock exchanges and Corporate Governance

2.4.1. Stock exchanges
In their core, stock exchanges need a set of rules and strict record of all transactions in order to function as efficiently and effectively as possible. This is not only true in the present with exchanges around the world, including the New York stock exchange, but also in the past with what is considered the first stock exchange - the Amsterdam stock exchange. However despite the rules regulating exchanges, the presence of unethical actions performed by participants to beat the market have always existed (Neal, 2005; Brandeis, 1914) (see appendix 3). The 2007 crisis and the progress in information technology have caused an increase in the number reports of unethical activities such as false rumour spreading to create movement in share price, strategies that are condemned such as short-selling, market behaviours such as mass speculation and short-termism. Although the multiplication of these reports in the twenty first century may give the impression that these phenomenon are new, the examples of Isaac Le Maire in 1609 (Neal, 2005) and the limited success of the ban of short-selling in the early days of the Amsterdam stock exchange are evidence that these issues have always been present in the banking industry.

2.4.2. Corporate Governance
The behaviour of participants in the stock market was not the only cause for concern during the recent crisis. Greed within banks, manifested by strategies that are too aggressive, has also prompted corporate governance concerns which in the United Kingdom resulted in the Walker
Report mentioned in the previous chapter. These corporate governance challenges and the Too Big To Fail status of banks are very similar to those reported by Brandeis (1914) in *Other people’s money and How the Bankers Use It*, in the beginning of the twentieth century in the United States of America where the government responded by appointing the Pujo Committee in 1912.

2.5. Summary

This chapter has been able to cover some important events in the history of the banking industry. More importantly we have seen that many of the governance problems currently identified in the banking industry are recurrent in the centuries-long history of this sector. Despite attempts to regulate, the recent crisis and its bundle of ethical scandals have shown that the regulations that have been implemented have had very limited success if any at curbing behaviours. Yet, questions could be raised regarding the goals of sets of regulations such as the different Basel agreements and the Dodd Frank as these regulations mainly target technicalities of banking such as capital or reporting requirements. Historically there has been little focus towards the formulation of proactive regulations designed to champion ethics and reduce the gulf between moral interest and financial interest.

As this review of the literature shows, the financial industry has for a long time been an engine for economies but also prey to crises caused by ethically questionable behaviours. Behaviours which are in many instances surprisingly similar to the reported behaviours in the XXIst century banking industry. Not only do we see similarities in terms of causes but also in terms of economic consequences, which proves that the influence of the industry on society has remained the same if not greater. Although a lot of these issue had ethical implications, throughout history many reactive measures have been implemented in order to eradicate specific behaviours judged unethical, however these measures, although successful at putting
the industry back on track economically, have not been successful at dealing with the ethical perspective of these problems.

Further, given the recurrence of some behaviour throughout history, which made Leinweber and Madhavan (2001) for example call their article “300 years of Market Manipulation”, we could wonder whether the industry and regulators do learn from the history of the industry, and whether a politic of deregulations is one that is justified, as, although still imperfect, past regulations may have embodied the lessons learned from centuries of banking. A free market does not mean a market free from any regulation destined to police behaviours in a way that protects the right of all participants.

However, although bankers may be regarded as unethical, it is important to recognise that banks are set up to play specific roles in society. Each stakeholder be it the government, the customers or shareholders have expectations. One of the greatest expectations is to have a significant positive contribution in the economy. This contribution is achieved only through profitability, which is even more desirable by governments in economies where the banking sector has a huge share of the Gross Domestic Product. Throughout this history we have seen how banks have created booming economies with artificial growth resulting in situations such as the Mississippi Company bubble. Yet during the period of economic boom here illustrated, society seemed very satisfied with bankers. Consequently the expectation we often have from banks, the symbol of capitalism, is financial profitability. This leads us to question whether unethical actions such mis-sales actually occur because the performer sets a genuine intention to act so, or whether the societal expectations on banks could have an input in creating a system where bankers are overly pressured to create wealth, with those who successfully contribute in firm profitability being very generously rewarded and those who do not, risking punishment in the form of job loss. The risk in such system; where profitable employees are regarded as good and very well rewarded while non-profitable ones are punished very hard; is the creation of a
gulf between moral interest and financial interest since many employees could be tempted to act immorally to reach their main goal and meet at all cost the expectations weighing on their shoulders. To ascertain whether or not bankers could be under pressure to act unethical, we turn to the next chapter to focus on anomie and the factors that are known in the literature to be its influencers. An understanding of these factors could be the first step if ever proactive regulations would be introduced with the aim to align moral interest and financial interest, which could ultimately result in less conflict during the financial decision making process of the banking professional.
Chapter III. Ethics and Banking Environment

3.1. Introduction

This chapter reviews the literature related to the banking industry and ethics in order to acquire a level of understanding that will support the hypotheses developed for this research. First and foremost it reviews the literature on ethics by evaluating different models developed to promote ethics and also examining the different factors in the literature that are credited to have an influence positive or negative on anomie. Following that, the literature on environmental factors, internal and external to companies, is reviewed to reveal factors that potentially influence employees at work.

3.2. Ethics

For decades, ethics has been a subject that has inspired a lot of debates in the banking industry. The recent crisis therefore did not make ethics a new point of interest; rather it has offered to the stakeholders of the industry an opportunity engage into a new round to what already seemed to be a never ending debate. However, although ethics has been a subject of interest during each financial crisis since the 1980s, when corporate greed was said to be in an all-time high, governments and regulators, hardly addressed the question of morals in banking in their regulatory proposals. Instead, the focus of resolutions, for example Basel 3, has often been on bringing technical changes in the industry. Consequently, in the wake of the 2007 crisis regulators, seemingly loyal to this approach, focused on trying to solve the systemic liquidity problems that made it impossible for banks to lend the way they were prior to the crisis. Their response was therefore to bring in rules that will require banks to tone-up their balance sheet and increase their reserves. This is intended to make the industry much more resistant to future shocks similar the one which followed the Lehman Brothers’ collapse and therefore reduce
significantly the risk of panic and systemic failure. If regulators seek to avoid panic by making the system more resistant to shocks, it therefore means that it was those shocks were the real threat. It is within those shocks that the causes of the credit crisis lie. The systemic liquidity problems, which therefore caused a shortage of credit, are only a resultant of a bank collapse which sparked panic. We therefore face a causality chain.

That causality chain may encourage many to ask why regulators do not seek to avoid the shocks in the first place. Following the collapse of Lehman Brothers’, we have seen unprecedented and much criticised moves to bailout banks across the globe. The fear was that this would be fuelling moral hazard although it was intended to avoid further shocks at a moment when the systemic liquidity risk was at its peak. The phrase that was used at the time was Too Big to Fail. Furthermore the regulators’ response will always be limited to the scope of the responsibilities assigned to them. These do not include managing the daily operations of banks on behalf of their management. The presence of moral hazard and the fact that regulators cannot intrude a bank’s operations unless there is breach, make it difficult for watchdogs to avoid shocks caused by the bankruptcy of a firm.

Consequently in the causality chain, liquidity risk is addressed, while the cause of that liquidity risk is not. This is one way to solve the problem. Another way to deal with the issue would involve analysing the reasons behind the collapse of Lehman Brothers’: the very moral hazard that sparked criticism of the bailouts. During the events Lehman Brothers’ lost the market’s trust due to practices that were already current on an industrial scale e.g. the huge leverages used in deals and the mis-sales of products such as mortgage backed securities that were known to have no yield.

In the past ethics and trust, have been crucial for banks. They have been the engine of the success of the industry. Although there is consensus that financiers have never been liked, one
has to say that the very fact that people have taken the yield of their labour and deposited it in banks, when in the past they were not obliged to do so given salaries were paid in cash or cheque, shows that trust in banks has for a long time been abundant in society, considering some banking institutions have defied age. Today however, trust is said to be in danger. Individuals indeed use banks more than ever; however questions can be raised as to whether that use is not occurring out of obligation, instead of a choice. The reason why trust has been slowly fading is because of the perceived anomie in the industry. According to Schwepker and Good, (2010) the perceived level of ethics is so low that there is increasing belief that unethical behaviour is a norm in the industry. For example, in the recent crisis, one of the symbols of that increasing scarcity of ethics is the sub-prime mortgages which were then securities, rated as reliable and sold off to investors and other banks who did not know much of the securities they had bought. As mortgage owners in huge numbers defaulted, their houses were repossessed. Banks were holding more and more of those assets, while increasingly finding it difficult to lend money for new customers to buy houses. With demand of houses falling, so were the prices, which meant the value of assets also repossessed by banks who already had limited cash to lend, also started to deflate. This compounded the liquidity problems for each bank, but also and more importantly for the different economies. In this case, the mis-selling of mortgages as well as that of mortgage-backed securities, which were ultimately affected by homeowners defaulting, were the trigger of the liquidity problems. The way these operations were led and limited knowledge from clients and customers of the products they were buying makes this problem an ethical issue. The 2007 crisis is the perfect example of what can happen if moral responsibilities are not respected. Ethics could therefore in this way be assimilated to a mean of protection, albeit undervalued, against man-made industrial crisis.

These activities show that contemporary banking has moved its focus from customer care, which could well be the source of the trust they enjoyed, to sales, which results to a more
aggressive way of operating. Yet even after that switch of focus, the title personal banker is still kept and in many ways that title my give the impression advices given are in the customer’s interest. Although they are called bankers, today’s bankers are nothing but salesmen with and advanced understanding of finance and economics. As such, given bankers are sellers, for example in an originate to distribute system, and as the literature is almost deprived of ethical decision making models for the banking industry, we will scrutinise the decision making models as well as the theories relevant to ethics that have been formulated for salespeople in general; decision making models which may have been ignored or underestimated due to that switch in focus from a customer service industry to a selling industry.

According to Saxe and Weits (1982) every salesperson is expected to sell with honesty and making show of strong moral principles. By developing client relationships (Schwepker and Good, 2010), salespeople find themselves locked into a position where they need to protect that relationship, which subsequently means not acting in a way that could harm the customer, e.g mis-selling. Indeed, sales ethics is said to be very important in that mission of maintaining and expanding customer relationships for organisations operating in industries towards which, similar to the banking industry after the 2007 crash, customers negative attitude. Such negative attitude create an opportunity for some firms in the industry to use ethics as a key selling point (e.g. Cooperative Bank and other Islamic Banks) (Ingram, et al., 2007). Throughout surveys and the literature drafted on ethics in the sales environment, it has been shown that the ethical shortcomings are often motivated by “competitive pressures” as well as “industry standards” (Competitor See, Competitor Do, 1982, cited in Mantel, 2005: p.43). According to Stewart (2003) quotas and the pressures they come with, as well as the worry to compete successfully in sometime hostile economical environments may increase the occurrence of unethical behaviours among salespeople towards stakeholders – regardless of whether they are internal to the organization or external. Put simply, the pressure on salespeople’s shoulders to reach
their targets and goals may have the effect of encouraging salespeople to indulge into unethical practices (Schweitzer, Ordóñez, and Douma, 2004). One of the great questions in the issue of ethics among salespeople is that of exaggeration. The nature of sales is as such, that it is not rare to see salespeople embellish, and amplify the functions and features of their products. However according to Mantel (2005) it is difficult to decide how much exaggeration is too much. This question is even more important considering unethical practices, albeit often more lucrative in the short term, hurt relationships with clients and ultimately weaken the business in the long term (Mantel, 2005). It therefore is crucial to discover what makes an individual resist or give-in to the temptation of acting unethically, especially if in his firm scoreboards and tables are used to identify and rank the best salespeople; which ultimately suggests that not only do they have to contend against other organisations, they also have to compete within their own company against their colleagues if they are to have a positive performance appraisal. As salespeople within the same team often sell the same products or services, with an emphasis on quality and functions, it would be logical, especially where the whole team was trained and instructed to use the same sales techniques, to suggest that, with an equal amount of efforts, it is very difficult to positively break out of the pack provided the customers in the experiment are the same.

However, in reality the customers are never the same; there are those who are difficult to convince to buy and those who are not so difficult to sell to. Who the salesperson gets to sell to is not dependent on the salesperson. Therefore a huge number of “difficult customers” may have a negative impact on the salesperson’s record. However due to the quotas that at least have to be met, especially if they are unsustainable, a salesperson may indeed be tempted to do “all that is necessary” to convince the “difficult customers” particularly if there job is at risk. These particular issues therefore give an added importance to the role of the firm in training staff and in the elaboration of codes of ethics or internal compliance related protocols.
According to Brady and Hatch (1992), there are numerous situational variables that may have some bearing on people’s ethical perspectives. Indeed, economic conditions or competitive pressure are found to be able to induce salespeople to act unethically (Competitor See, Competitor Do, 1982, cited in Stewart 2003 and Mantel, 2005: p.43), while according to Boyle, et al. (1998) past judgements and irregular references can bias ethical evaluations. Also the point made by Boyle et al. (1998) on irregular references seems well justified considering Bellizzi and Hite (1989) affirmed that the magnitude of the unethical action, its perceived consequences and the performances of the salesperson are often the main determinants of the manager’s response, rather than the action itself. Furthermore, in the past, questions have been raised over the influence of the manager’s personal moral philosophy on ethics’ weight in the organisation as Sivadas et al. (2003, cited by Mantel 2005: p.44) affirm that depending on their moral philosophy, “41% of sales managers were willing to hire a salesperson who had engaged in an unethical behaviour”. Other examples of situational or personal variables that could also create variance in the ethical judgements being made are: monetary implications, salesperson performance, organisational climate … (Mantel, 2005). It is worth to re-emphasise that the studies these personal and situational variables are derived from have been made in a sales management context therefore targeting salespeople in different industries. The very fact that the findings of these studies can be generalised in different industries and companies means for example that ethical judgements, even in a standard industry, are already significantly influenced enough to vary as a result of monetary implications; let alone if the industry has to be the banking industry, which has the particularity of being a high money environment, where transactions exclusively involve money only. All products are monetary, and they are paid for monetarily. Consequently, if salespeople in standard industries are influenced enough in their ethical judgements by monetary implications, decisions made by banking professional will be bound to be much more sensitive to such factors. Similarly, in the banking industry, those
decisions will also be much more sensible to salesperson’s performance, with regards with the very common, high, aggressive targets set in the banking industry coupled with the inter-colleague competition promoted; and to organisational climate with regards to the secretive and super-competitive nature of the industry. All in all, due to the importance they bear, situational and personal variables can be seen as equally important as the “behaviour itself in determining the ethical evaluation of a business practice” (Mantel, 2005: p.44).

To explain the phenomenon by which a “person’s judgement process is influenced by the framing of uncertainty and risk associated with a situation”, Kahneman and Tversky’s (1979, 1987; and Mantel, 2005: p.45) introduced the prospect theory while also calling that judgement bias as the framing effect (Mantel, 2005). According to the prospect theory, in a situation with different alternatives, salespeople will tend to choose the probable loss solution, even if unethical, over the sure loss solution. This has been confirmed by studies such as that of Kellaris, Boyle and Dahlstrom (1994), which subsequently induced Mantel (2005: p.45) to conclude that “more risk taking will occur under conditions of potential loss that under conditions of potential gain”. Furthermore it has been demonstrated, based on Hershey and Schoemaker’s (1980) study that “salespeople are more likely to engage in ethically questionable behaviour when it is associated with higher dollar/pound value outcome compared to a lower dollar/pound value outcome” although a positive affect, here representing the effect of positive situational or personal variables on ethical judgement, may moderate such behaviour to some extent (Mantel, 2005: pp.45-46). This represents even further confirmation for the above-mentioned arguments that in a banking industry employees might be more likely to indulge in ethically contestable actions than salespeople in other industry not only due to the high exposure to vast amounts of money, but also because almost all decisions taken by bankers generally result in a vast amount of gain or loss. Consequently the study led by Mantel (2005: p.51) suggests that “salespeople in a positive affect state are almost two times more likely to
choose the ethical solution”. This means in order to promote better ethical judgements, managers should create, through situational and personal variables, an environment that will positively influence the affective state of salespeople. However, in a high moneyed environment that couples ego and hubris from employees that have the opportunity to gain millions per year, how will management create such environment that will promote a positive affect state? How will management change the culture?

3.2.1. Influencing behaviours
Where Mantel (2005) recognises the influence of situational and personal variables that could influence ethical judgements without proposing a framework to create an environment inspiring salespeople to choose the ethical solution, Schwepker and Good, (2010) suggests the use of transformational leadership theory, Wortuba (1990) introduced the Ethical decision/Action Process and Ingram et al. (2007) present a framework purpose-made with the goal of Enhancing Salesperson Moral Judgement.

3.2.1.1. Transformational Leadership
The transformational Leadership theory was first introduced by Burns 1978 and extended by Bass in 1985. According to Burns, transformational leadership exists in an organisation when “leaders and followers make each other to advance to a higher level of moral and motivation” (Burns 1978 cited in Fan & Lee, 2011: p. 174). There are four components in transformational leadership (Harrison, 2011):

Individualised consideration. Judge and Piccolo (2004: p. 755) identifies this as the “degree to which the leader attends to each follower’s needs”. Therefore this relates to the way the leader guides the subaltern, and listens to his concerns and needs. This is indeed in line with Bass’s (1999) affirmation that individualised consideration is on show when the leaders is considers the developmental needs of the subordinates and therefore play a supportive, and coaching role for the advancement of the followers.
**Intellectual stimulation.** Avolio, et al. (1999) associate intellectual stimulation to the degree to which the leader encourages the followers to challenge and better the existing knowledge. Bass (1999) recognises intellectual stimulation in situations where the leader helps the followers reach an upper level of creativity and innovation.

**Inspirational motivation.** Judge and Piccolo (2004: p.755) explain that leaders with inspirational motivation nurture “high standards, communicate of optimism about future goal attainment, and provide meaning for the task at hand” among subordinates. Hall, et al. (2012) highlight the importance of the organisation’s vision when it comes to inspirational motivation. In their opinion there can be inspirational motivation only if managers impel subordinates to adhere to the vision of the organisation. Managers in this case foster team spirit to reach predetermined goals.

**Idealised influence.** Bass and Riggio, (2006) declare that managers with idealised influence are keen to take risks while being consistent rather than arbitrary, which makes them trustworthy when it comes to doing the “right thing and demonstrating high standards of ethical and moral conduct” (Ayoko & Muchiri, 2014: p. 445). Inspiring trust, respect and admiration, these leaders will be regarded as role models for the followers who, according to Bass and Riggio (2006), will identify themselves with these leaders and also want to emulate them. Consequently, idealised influence is the extent to which the leader “display conviction, take stands, and appeal to followers on an emotional level” (Judge & Piccolo, 2004: p.755).

In all, according to Schwepker and Good’s (2010) study, transformational leadership can indirectly, through trust in sales managers, influence the moral judgement of salespeople. Leaders’ behaviours can transform the values, goals, and aspirations of subordinates, who will feel motivated to follow good practice at work, not because they expect to receive a reward in the end, but because of consistency with their values. Critically in a sales environment, Schwepker and Good (2010) have established that ethically oriented transformational leaders
show concerns not only for reaching targets but also for how things are done. Consequently, if one extrapolates such findings to the industry of interest, one could assume that if quotas set were unrealistic, and therefore incited the sales force to engage into unethical actions, then a transformational manager would recourse to the revision of quotas.

Yet, Schwepker and Good’s (2010) warning casts a doubt on the question of the banking industry using such theory. They state that organisations looking to implement such strategy will need a lot of patience and focus on long term benefits rather than seek short term results. If, when implementing the transformational leadership strategy, zero positive results in the short term means employees indulging in short term profitable malpractices, banks would not lose out financially. However if zero positive result in the short term is equivalent to a bigger emphasis on how things are done and to a drop in revenues, banks will certainly be reticent to implement this strategy.

3.2.1.2. The ethical decision/action process (EDAP)

The EDAP contains four parts with part A being inspired from Rest’s (1986) Four-Component Model of Moral Behavior, part B exposing the decision maker’s characteristics, part C showcasing the situational moderators that can impact the decisions being taken and part D displaying the factors that are affected by the moral action taken which subsequently is said to have an influence on Part A and Part B (Wortuba, 1990).

Part A: Moral Decision Structure

Part A of the model describes the process through which an individual ought to go through in order to reach an ethical course of action. It has a direct influence on part D. Due to Rest’s (1986) influence the Part A process is also divided in four stages:

1. Recognition of all possible actions, all parties that could be affected for each recognised action, and what those consequences are likely to be (A1). It represents an analytical process.
2. *Determination of the morally right option that is the best choice in the situation (A2)*. The purpose of this exercise according to Wortuba (1990: p. 32) is not to establish a standard of right and wrong. The objective is to indicate how one “arrives at that judgment for themselves using criteria or standards to justify the moral choice.”

3. *Prioritisation of moral values and formulating the intention of acting ethically (A3)*. At this stage that individual will be comparing and assessing the different options available to give prominence to the most ethical one. However in order to identify the most ethical option one
needs to have the intention to act ethical, otherwise serving any other intention might result in a completely different order (Wortuba, 1990).

4. Deciding to and/or behaving accordingly with the intention formulated (A4). This is the action stage. The individual tries to turn his ethical intention into reality by adopting the course of action that is morally the best (Wortuba, 1990). Also, the decision maker might need to find solutions to solve unexpected issues that might emerge, while, on the other side, he will also need to stay focused and motivated in order to avoid distraction, allurement, and succeed in dealing with fatigue and frustration, to finally reach the eventual goal set (Rest, 1986).

The subparts of Part A interact and influence each other in a similar manner as depicted by the arrows representing mutual relationships.

Part B: Characteristics of the Decision Maker

Wortuba (1990) establishes that any ethical decision made is also subject to influences emanating from the decision-maker’s personal characteristics and those of his position. It directly influences part A. Three categories of those characteristics are proposed:

1. Demographic. These characteristics encompass particularities such as age, education which according to Rest (1986) to be frequently and positively related to ethical judgement. Chonko and Hunt (1985) signify the influence education has on the ethical decision process through their study which found that people who received an education with a technical emphasis tended to perceive less ethical issues compared to people with an education in humanities, social sciences and Business. Nevertheless, gender seems to be a factor of influence according to the same study conducted by the pair. In fact, women are found to be more likely to recognise ethical issues than the males. Yet in the terms of the actual decisions made, Barnett and Karson (1987) found that men favour ethical values over economic values more than women.

2. Behavioural (psychological and cultural). Among behavioural aspects which seem to influence the ethical analysis, Wortuba (1990) cites cognitive complexity, empathy, and
personal values. Also, Hegarty and Sims (1978) report that highly Machiavellian individuals tended to make decision that are less ethical. Moreover, perseverance and ego are perceived as strength by Rest (1986) when it comes to act in accordance with the moral intention as according to Treviño managers that have low ego strength are less likely to follow their conviction than those who are high in ego strength.

In terms of culture, Wortuba (1990: p. 35) reports that Allerheiligen, Graham and Lin (1985) have established that “Japanese bargainers were more satisfied when they rated their own strategies as honest”. Furthermore, the influence of culture can also be seen for example when one looks at the question of bribery. In some countries bribery is considered morally wrong and illegal, whereas in others, it is accepted by society and may even be legal. Such differences in cultures is what made Kaikati and Label (1980), state that U.S. companies may be disadvantaged when operating in countries where bribery would be legal.

3. Positional (type and level within the organisation). In terms of the position the decision-maker has within the organisation, Wortuba (1990) distinguishes the influences upon the ethical analysis coming from the positional level of the individual in the organigram of the organisation, from the influences coming from the “functional area of responsibility”.

Chonko and Hunt (1985) affirms that people positioned at the top of the hierarchy are less likely to perceive ethical problems than those comparatively lower. Laczniak (1983) explains such phenomenon by the fact that middle management for example, are at the heart of the organisation, they are in the profit centres, consequently the pressure to favour the most profitable action regardless of the moral implications is much greater. Such finding may explain the fact that issues arising from ethical scandals often emanate from the operational level. One has to say that often unethical actions performed by top management would be much harder to identify, unless a whistle-blower comes forward, as these take advantage of systemic weaknesses, therefore such immoral action could also be industry-wide practice. Actions such
as one has seen with Enron and other organisations are much better planned, and having easy access to lawyers, and other competent individuals, who would act as accessory if not accomplice in the unethical action; it might be easy, perhaps almost tempting, to devise strategies or put together products that, although immoral, would go stealth in front of the radar of the watchdogs. At operational level however it is a different story, often decisions are made by the operator and regard only him unless he has a team under him which he involves in his activities. Other than that, if colleagues and competitors act ethically, it becomes easy to identify the unethical action as those peers become a point of reference for the customer, even if he does not have access to the regulations, to compare the service given. Issues such as mis-selling in the banking industry becomes hard to identify by the customer because, not only they are often financially illiterate, but also mis-selling is popular in the banking industry. Such popularity is evidenced by the recent PPI scandal which saw Banks and the Banking Industry fined and forced to compensate customers billions of pounds. Consequently, the more remote the individual is, and the more ethical his environment is, the more likely they are to be caught if they indulges in unethical actions. Conversely, Barnett and Karson (1987) are adamant that entry-level managers and top executives tend to give more importance to economic values compared to ethical values, while middle-managers prioritise moral values over economic ones.

In terms of the type of position, Wortuba (1990) compares individuals based on the different functional areas of responsibility. For example, studies conducted by Lincoln, et al. (1982) and confirmed by Barnett and Karson (1987), show that marketing executive exhibit more moral values than finance or production executives.

Part C: Situational Moderators

Variables linked with the environment within which the decision-maker is operating also have an influence in the decision making process. More precisely part C influences directly Part A.
The variables of part C, also known as situational factors, which can be combined in various ways create precise situations that can “override an individual’s normally-expected moral decision” according to (Wortuba, 1990: p. 35). In his ethical decision/action process model, Wortuba identifies six situational factors:

1. **Corporate culture and policies.** The existence or not of corporate policy on ethics or a dedicated code of ethics can influence employees’ decision. Quite clearly, when a code of ethics is approved by the company it can act as a guide for decision makers if that code of ethics recognises the possible existence of the problem faces, therefore influencing behaviours (Kreie & Cronan, 2000).

2. **Peers and referent others.** In his review of different studies Wortuba (1990: p. 36) found convincing evidence that the “perception of what peers do had greater influence on marketing managers’ ethical behaviours that did their own ethical beliefs”. This according to him is due to the fact that the factors 1, 2, and 3 in Part A are not observable, which makes it a little easier to use a peer’s behaviour as standard or a benchmark. This becomes even more likely if such behaviour occurred and was not subject to sanction or condemnation.

3. **Superiors.** As for peers and referent other, there is extensive data in the literature about the influence superiors have on the behaviour of their subordinates (Hunt, et al., 1984).

4. **Competitors.** Wortuba (1990) states that the behaviour of a competitor may influence negatively ethical decision-making, as unethical behaviours may be seen as necessary in case of intense competition. Such statement might be explained as sales results and revenues are regarded in the Business and Banking world as the most significant measure of the firm’s health. Given that particularity, the reference in one industry is often the firm that ends up with the most revenues/sales. This in turn, encourages marketing and finance managers alike, in order to stay competitive, to sometimes mimic the strategies implemented by the leading firm. Consequently, a decision makers in Banking or any other industry, avid of success and worried
about survival, would in effect be disregarding morals for competition-sake, therefore being influenced by the competitor; or rather, the success of the competitor. The Co-operative Bank being involved in mis-selling, would be a good example of how a self-proclaimed moral firm can put aside morals for profit.

5. Customers. Dwyer, et al. (1987) cite the interaction between customers and organisation personnel as the stage where the customers influence the firm’s workers. According to them, the sellers at this stages alters its norms to the expectations, needs and values of the customers. Yet, this statement may be questioned, in-light of the mis-selling scandal in banking. The sellers may in that case have altered their pitch to suit the profile they have of the customer and what he wants to hear. However one cannot say in that sellers have altered its norms to the expectations, needs and values of the customers. Wortuba (1990: p. 37) also questions the ethicality of incentives and gifts given by sellers to buyers, which, he states, “are the focus of much ethical concerns”.

6. Legislation. Westing (1967) affirms that many people believe that they are ethical as long as they do not violate the law (cited by Wortuba, 1990). Wortuba (1990) believes that because laws change over time and vary from market to market, decision makers end up adjusting or at least reconsidering their ethical decisions accordingly.

Part D: Outcomes

Wortuba (1990) sees the outcome of ethical decision made as crucial first, because financial performance are still the preferred tool of measurement which if satisfactory could lead to rewards for the decision maker; and second, because of the impact those outcomes have on the ethical environment and behaviours, which would be improved or hampered by the feedback from the consequences of one’s moral judgement. Consequently the factors identified by Wortuba (1990) are:

Mouhamed El Bachire Thiam – Cardiff Metropolitan University – April 2015
1. **Job performance.** This relates to the attainment of objectives set by the firm. Chonko and Hunt (1985) show that marketing managers are more inclined to believe that performing specific unethical actions contributes to make a manager successful. Although some studies in the literature suggest that ethics profits to the company in the long term, in the short term however the jury is still out. Further study might therefore be needed in this field.

2. **Reward and punishment.** Hegarty and Sims (1978) found that unethical behaviours often emanated when the performer had extrinsic rewards and punishments in mind. External rewards include promotions, more revenue..., while examples of extrinsic punishments could be fines. Ferrell and Weaver (1978) found managers may believe some unethical actions are acceptable due to lack of punishment. Newstrom and Ruch (1975) confirmed such thought by affirming that managers would tend to perform unethical actions if the barriers preventing unethical behaviour are weakened or removed.

3. **Feedback and learning.** Feedback is crucial according to Wortuba (1990) given it may quite simply affect future decisions.

3.2.1.3. **Ingram et al.’s (2007) Enhancing Salesperson Moral Judgement**

Prior to Schwepker and Good’s (2010) proposition to use the transformational leadership theory, Ingram (2004; Ingram et al. 2007: p. 302) had already argued that to influence salespeople’s ethical behaviour, one need to focus on the “relationship between ethical climate, control systems, and management’s role in communicating and reinforcing ethical climate”. To be more precise, they constrain their thoughts on "sales leadership and sales management control strategy on sales organisation ethical climate, salesperson cognitive moral development and sales person moral judgement" (Ingram et al. 2007: p. 301). While some may find that a transformational leadership theory relates to the latter of the three aspect cited, one has to say that the ethical climate and the control systems seems not to be covered.
The ethical climate. Victor and Cullen (1988: p. 101) described it as “the prevailing perceptions of typical organisation practices and procedures that have ethical content”. Ingram et al. (2007: p. 303) concur and add that it could be seen as “a composite of organisational perceptions of the ethical values and behaviours supported and practiced by organisational members”.

Sales person moral judgment. Moral judgement is viewed as the outcome of a moral reasoning (Rest, 1986). It is described by Treviño (1986) as a personal stance on a question over the righteousness or wrongfulness, the ethical or unethical attributes of a particular action. Ingram et al. (2007) affirm that researches generally suggest that a higher moral values or higher cognitive moral level often yield into ethically superior decisions.

Figure 2: Conceptual Framework Enhancing Salesperson Moral Judgement (Source: Ingram et al. 2007)
Salesperson cognitive moral development. Cognitive moral development is according to Rest (1986) vital when engaging into the judgement process of the decision making process. Treviño (1986), concurring with that statement, affirms that cognitive moral development is related to the reasons justifying the moral choice rather than the decision itself. Furthermore, in a sales force environment, studies have shown that there are less chances for salespeople with higher levels of cognitive moral development to act unethically.

Sales leadership. Ingram et al. (2007) suggest that the presence of codes of ethics in organisations do not constitute a barrage to unethical actions, given they still persist. Furthermore they question the effectiveness of organisational ethical climates created by ethical codes and policies on field salespeople who could be less influenced by those compared to in-office salespeople. This could be relevant in the banking industry given deals are often agreed at senior level out in the field. Consequently, they suggest that sales leaders improve the ethical climate beyond what they call its structural dimensions. Those structural dimensions are the “control factors external to the individual, such as law, ethical codes, ethical policies, and punishment for unethical behaviour” (Ingram et al., 2007: p. 305). As a result, they show preference in the sales leader creating an environment which has a strong emphasis on the interpersonal dimensions of the ethical climate; dimension which they consider as “being created by the perception of the ethical (unethical) behaviours of organisational members” (Ingram et al., 2007: p. 305). To do so their review prescribes paths:

- Adopting a transformational leadership strategy, which has already been covered in our work.
- Establishing an ethics-inclusive socialisation process, which according to them could simplify the “internalisation of the norms and values of the organisation” (Ingram et al., 2007: p. 307) seen as “a specific, individualised outcome of the socialisation process” (Ingram et al., 2007: p. 308).
● Fortifying mutual trust among salespeople and other employees in the organisation. As Ingram et al. (2007: p. 308) cited, “salesperson trust in his or her manager has been linked to positive salesperson perceptions of job autonomy, perceived fairness, support for innovative sales behaviour, and fairness of rewards in relation to accomplishments (Strutton et al., 1993 cited in Ingram et al. 2007: p. 308) and with ethical climate and job satisfaction (Mulki, et. al. 2006 cited in Ingram et al. 2007: p. 308)”

● Adopting a multilevel leadership approach, in order guarantee accountability for sales ethics at all levels in the organisation. Ingram (2005) declares that senior sales leadership should take upon itself the responsibility of formulating the standards for ethical sales behaviour, while the responsibility of enforcing, understanding and compliance should be borne by the field sales managers, and the incumbent on salespeople is to implement those standards with all stakeholders.

**Sales management control strategies.** There are two types of control systems: behaviour-based, which focuses on overseeing and directing the routine behaviours of salespeople, and outcome-based which relates to relying on incentive compensation to produce desired outcomes (Ingram et al. 2007). Behaviour-based control systems have been further dissected into two dimensions: the activity dimensions and the capability dimension (Challagalla and Shervani, 1996), with the capability dimension said to concentrate on cultivating salesperson competencies (Ingram et al. 2007). According to Baldauf et al. (2005), management control should be viewed by sales organisations as a strategy to manage salespeople rather than as an overall management system. Further, they assert that the different types of sales management control systems are not mutually exclusive, meaning sales organisations can, in pursuit of an effective sales management control system, use a variety of control activities to meet their different objectives.
All in all Ingram et al.’s (2007) find through this model which has been subject to rigorous testing process that salespeople with high cognitive moral development and working in an ethical climate particularly strong in terms of interpersonal dimension are more inclined to make ethical decision. Consequently the answer to managers seeking to promote ethics in their organisations should according to them look into these two factors. Further, the interpersonal dimension of the ethical climate is said to be improvable by capability based sales management control strategies, transformational leadership style, socialisation processes leading salespeople to adopt ethical values, and building higher levels of trust. This also affects positively the cognitive development of salespeople. Meanwhile and activity based sales management control strategies should be favoured in case the organisation wishes to enhance the structural dimension. Also managers are advised to improve ethical climate, to recruit salespeople already high on cognitive moral development, change the reward and compensation plans, and use performance evaluations to assess ethical performance and identify future improvement. Yet, although they have identified the tools to enhance the organisational ethical performance, Ingram et al. (2007) admit that it will be a challenge to align sales management control strategies, leadership approaches and sales management activities in order to promote the structural and interpersonal of the ethical climate and salesperson cognitive moral development. Furthermore the same questions relating to transformational leadership will also be relevant here again. Besides, suitability to the banking industry and its ethos might be a cause of concern, given the climate in the banking industry has dramatically changed and become more aggressive ever since the 1980s. The suggestion of using performance evaluation is a fair and legitimate one. However, history has shown us that banks in the industry have always fought regulations that have seemed to squeeze profits in order to let them operate freely and maximise their returns. In such an environment, it would be unlikely to see them raise ethical objective at the same level as making the biggest profit and attract fund. Such is their
ultimate goal. Using performance appraisals for ethics would mean offering ethics a prominent place in the firm. Even if they do introduce it, profits will always remain more important as it guarantees survival. Some may provide the examples of Islamic Banks as well as other ethically branded Bank such as Cooperative Bank to counter such an argument. Nevertheless even in the case of those banks, one should know that providing Shariah compliant or ethical products does not necessarily mean being totally ethical in the processes and dealings between the firm’s employees and other stakeholders. This means mis-sales could happen in Ethical banks. Another example is the Co-operative bank despite being an ethical bank, engaged into PPI mis-selling (Financial Times, 2012).

The studies conducted by Mantel (2005) and Ingram et al. (2007) are in line with one of the objectives of the work Wortuba published back in (1990). In his time Wortuba (1990: p. 29) observed that the literature on ethics was focussed on the actual ethical or unethical actions instead of addressing the “structure or process yielding that behaviour”. It is rather easy when an ethical scandal occurs in an industry to focus on the actual scandalous action, bring sanctions and new regulations to avoid a repeat of specific action, and finally slam the ethics of the industry. However it is a totally different matter to probe the ethical climate and the processes leading to ethical decisions in order to improve ethics in the industry. Understand that focusing on the actual actions may prevent recurrence, however they will not prevent other forms of unethical actions to occur, or bring drastic improvement in the industry.

3.2.1.4. Other factors influencing behaviours

3.2.1.4.1. Intention

Defined as prioritising moral righteousness over any other avenue (Nguyen and Biderman, 2008), ethical intention is regarded as the third step in Jones’s (1991) figure describing the different steps in the ethical decision making model.
The intention of a subject is crucial when it comes to making a decision that has ethical considerations. However in the literature on ethics, two different types of intentions have been mentioned as the work done by Nguyen and Biderman (2008) illustrate. The first type is the aforementioned ethical intention, whereas the second is behavioural intention, which has a definition that is a little vaguer than that of the former, as it describes an individual’s intent to act in a certain way. It is “the subjective probability that an individual assigns to the likelihood that a given behavioural alternative will be chosen” (Ajzen, 1991 and Hunt and Vitell, 1986 cited by Chiu, 2003: p. 66). The lack of precision regarding the nature of the intention as positive or negative, ethical or unethical, represents a slight but very decisive nuance. Understand that in the case of the latter no direction is given. As decision making models are formulated with the optic of guiding professionals to act ethically, behavioural intention tends to be discarded due to the direction towards the righteousness ethical intention offers.
However most objective studies geared solely towards observing people’s decision making and evaluating intention as a factor, behavioural intention seems the preferred option of researchers, as it implies that subjects may take any direction, ethical or unethical. This is particularly true with researchers such as Ajzen and Fishbein (1977), Ajzen (1991), Cruz, et al. (2000), Armitage and Conner (2001). Ajzen (1991) for example finds behavioural intention to be particularly useful when forecasting an individual’s actual actions.

Beyond those distinctions, many researchers attempted to identify the factors influencing intention whether behavioural or ethical. In that effort, Ajzen and Fishbein (1977) and Ajzen (1991) suggested that intentions in our context are affected by attitudes, Subjective norms and perceived behavioural control. Indeed, Chiu (2003) concurs to this opinion as he describes behavioural intention as a function of those exact factors.

3.2.1.4.2. Desire

According to Rabl’s (2011: p. 86) citation of Perugini and Bagozzi (2004), desire can be differentiated from intention. They are “perceived as less performable by the decision maker, are less connected to actions and enacted over longer time frames”. This depiction of desires is similar to Malle and Knobe’s (2001). In their opinion desiring to do or get something does not necessarily mean planning to fulfil that desires, whereas an intention implies action, making the necessary moves to reach the actual goal (cited by Malle, et al., 2001). However although desire does not necessary call for action to fulfil it, this definition does not exclude the possibility of desire being able to inspire a subject enough to formulate the intention of fulfilling it. In the model of corrupt action (fig. 4) Rabl (2008) find a strong relationship between the desire to achieve a goal through a particular manner and its equivalent intention – i.e. the intention to achieve the same goal in the same manner –, with the former influencing the latter. Although similar but different to intention, desire as a concept feature much less in the literature than intention – perhaps its very personal nature and the fact it is not always acted
upon have made it either difficult to measure or quite simply slightly insignificant in the eyes of some researchers. Yet, some researcher attempted to study the relationship desire and ethics from different perspectives. Sarwar (2012: p. 81) has tested a mechanism to measure the “intrinsic desire” subject under observation have to “enhance their ethically effective leadership performance”. Resenblatt (2012) meanwhile studied desire from the angle of dominance. Specifically she suggests that desire to remain dominant regardless of the means to achieve such desire and the belief of entitlement to a dominant position make the judgement of individuals more lenient towards some unethical actions they themselves would perform. Chirayath, et al. (2002: p. 131) in their work published years before the ethical standards that hit the banking industry which played a role in the credit crisis of 2007, have indexed the desire for increased profit within organisations as one of the factors which made them predict in 2002 that “the incidence of corporate deviance” would be on the rise. A few years later the credit crisis with its scandals in plethoric number in the banking industry proved there prediction right. Such desire in that work was found to contribute in causing “organisational goals and the means to achieve them” to be “often turned around and revised … to include deviant goals and deviant means” Chirayath, et al. (2002: p. 139). These revisions often occur when the industry or organisation reach a stage where it seems to constantly, year on year, be hitting the same levels of profit after strong efforts to squeeze the maximum amount of profit out of the market. We could call this the market growth limit. This would be the stage where organisations in the market feel that current products or current rules and regulations seem to be limiting the growth of the industry. The options organisations face when that desire of more profit animates them at this stage are therefore to either lobby governments to open up markets further (i.e. deregulations) with the argument that it helps the economy to also grow, or create new product to find new markets – this may possibly create difficulties for regulators as they would not have prior experience in regulating the particular product –, or indulge in deviant activities, just as
Chirayath et al. (2002) found. This desire for increased profit when shared throughout a company, may also explain the reason why Bellizzi and Hasty (2003) found that supervisor often discipline the poor sales performers harder than they discipline the top performers when the same transgression was performed. More importantly they find this fact true even when the top management also desired that all staff be treated equally. Perhaps the deciding factor as to why they prefer following the organisational desire for more profit rather than that for equal disciplinary action is the sanction they would receive. In that case they may choose to favour the desire for profit because of the strong belief that not backing that desire would result in harder sanction for them in their careers that the alternative.

![Diagram of Corrupt Action Model](image)

*Figure 4: The Model of Corrupt Action – results of the PLS analysis (Rabl, 2008; Rabl and Kuhlmann, 2008)*

**Key of the diagram:**

- n = 196
- *p<0.05

*Mouhamed El Bachire Thiam – Cardiff Metropolitan University – April 2015*
The diagram therefore finds that attitude and subjective norm influence desire to achieve a private or professional goal through corrupt action, which in turn, with perceived behavioural control, influences the intention to achieve a private of professional goal through corrupt action. Finally that intention impacts on corrupt action.

All in all, from the literature there is strong evidence suggesting that desires do indeed influence behaviours, whether directly or indirectly through intentions.

3.2.1.4.3. Attitude

**Key of the diagram:***

- SN1 = factor measuring Subjective Norms
- AT1 = factor measuring Attitudes
- BI1 = factor measuring Intention

Rabl and Kühlmann (2008) state that attitude concerns the extent to which a person’s assessment is pro or against the conduct in question. Ajzen (1991) defines it as the product of assessment an individual makes about adopting a certain conduct. It is found to influence intention as Trongmateerut and Sweeney (2012: p. 439), concurring with other authors, state
that “the more favourably, a person evaluates performing the behaviour in question, the more likely he/she will intend to carry out that behaviour”. However Trongmateerut and Sweeney’s (2012) research used a model different to that of Rabl (2008). They suggested in their measurements a direct relationship between attitude and intention, therefore not considering desire. Figure 6 exposes the framework and partial results of those measurements.

However the validity of this framework can be questioned as the arrows between attitudes, subjective norms and intentions are supposed to illustrate the impact of subjective norms on the other two variables as per the hypotheses while the numbers are supposed to show the strength of relationship. However although the authors find in there research that subjective norm directly influence the other two variables, and also indirectly influence Intentions through attitudes, the drawing of the diagram seem to suggest that all factors impacts each other directly and indirectly, which would be a cause of concern as such case was not hypothesised not mentioned in the literature.

3.2.1.4.4. Subjective norm

Subjective norm is defined as the appropriate behaviour or course of action the people an individual considers as most important think he or she should have or take (Lin & Ding, 2003). It is the “individual’s interpretation of the opinions of important others regarding the behaviour in question” (Cialdini and Trost 1998 cited by Trongmateerut and Sweeney, 2012: p. 438). Subjective norm relates to the “social pressure” people come under vis-à-vis the adoption or non-adoption of certain behaviour (Wated and Sanchez, 2005; Ajzen 1991 cited Rabl and Kühlmann, 2008). It is therefore a question of gaging one’s behaviour against the values, norms, and preferences of those whom one looks up to as model. With an approach that is consistent to that which they had to the relationship between attitudes and intentions,
Trongmateerut and Sweeney (2012) in their measurement model have eliminated desire in the relationship between subjective norm and intentions.

Consequently, we know that it is only after an action has been judged as ethical based on the attitudes, subjective norms, and, according to some researchers, perceived behavioural control, that an individual is more likely to develop the intention to implement it (Nguyen and Biderman, 2008). This affirmation is echoed by Barnett and Valentine (2004) who equate ethical judgement to moral equity which is found by Cruz et al. (2000) to be the biggest influence explaining behavioural intentions across different circumstances. However one could challenge such affirmation by asking whether in such case, there is not an open intention to act ethically, before assessing which option is the most ethical and only then going ahead to perform one action over the other. This therefore means that the decision maker would from the start entertain the general intention to act ethically. This intention takes precedence over all other considerations, and therefore becomes only targeted to a particular option after the analysis which involves attitudes, subjective norms and perceived behavioural control.

This research aims to test in a specific environment, the banking industry, some factors seen as crucial in an ethical process to observe their behaviour assess the relevance of previous research in this environment which is completely different from any other industry. One of the main particularities of this environment is the high exposure to money and perpetual quest for more profit. With regards to money, Tang et al. (2000, cited by Tang and Liu, 2012: p. 296) suggest that it is possible for people with high love-of-money to have “many foolish and harmful desires”, and be “likely to take action and make money”. (Ariely, 2008) echoes that sentiment suggesting that such people are more at risk to give into temptation. This high Machiavellianism potentially makes them individuals with high unethical behaviour intentions.
(Tang and Liu, 2012), who would truly believe that the ends justify the means, and therefore would act with disregard towards the stakeholders’ feeling.

Among other influencers of intention, Robertson and Crittenden (2003) according to Beekun et al. (2005) suggest that moral philosophies do indeed determine moral intention, and not necessarily in a mutually exclusive manner. Gerhart (2009), Kish-Gephart et al. (2010) cited by Tang and Liu (2012) also contributed positing ethical intentions as being subject to cultures and ethical values both at the organisational and individual levels.

It is therefore clear that attitude, subjective norms and ethical intention are linked in a decision making process and therefore work in ways that influence the subject’s behaviour. Where attitude and subjective norms may not influence each other, although Trongmateerut and Sweeney (2012) found in in their research that it does, it is absolutely clear from the literature that they do work somewhat in parallel as there is consensus that they both at least influence the intention of the subject contemplating a decision. One exposes the subject to the influence of factors in his external environment, whereas the other exposes the intention of the subject to factors which emerge from the subject himself. However some authors found that the intensity to which they influence intention can vary from culture to culture. As a matter of fact Church (2000) and Triandis and Suh (2002) came to conclusion in their researches that attitude has a greater influence on intention in individualist cultures, while in collectivist cultures, subjective norm is given greater importance.

Having identified different factors influencing people’s final decisions, and given the aforementioned issues giving an added importance to training and codes of ethics. It is crucial that we review the literature on ethical training and codes of ethics.

3.2.2. Decision Making Process
According to Reich (2007: 168, 173) because we live in an era of “supercapitalism”, it is often impossible for business to hold a genuine social responsible stance, as under a supercapitalist economy, companies impose a cost on consumers or investors when they act ethically. He further affirms that because of the extra cost they are likely to suffer if they do business with the ethical firm, those investors and consumers in turn, will most likely choose to flee in order to find a better deal elsewhere. Despite this scepticism, one must say that Reich is a strong advocate of business ethics and believes in empowering population in order to ensure that every business take the ethical approach.

Although Reich’s arguments on the supercapitalist economy hold ground, business ethicists are still thriving to find that elusive framework to apply their theories. Some of the proposed frameworks are designed to help businesses during the decision-making process. Today companies in many industries, such as medical and some banks do publish documents enclosing the decision making frameworks they have adopted and they say they use in every decisions they make. In the literature some adopt a 4 step model, while others go up to 10 (see Appendix 1). However, in their core, the ethical decision making models, no matter how many steps they have, are very similar. The Josephson Institute of Ethics suggest a seven step model as follow:

1. **Stop and think**
   The decision maker here is suggested not to take any impulsive decision. He must emotionally leave as distance between himself and the problem to think rationally.

2. **Clarify Goals**
   This is where the subject set long and short term aims.

3. **Determine Facts**
   All information surrounding the situation must be gathered in order to unearth all the facts relevant to the situation.

4. **Develop Options**
   This is the part where the subject identifies all the different options available to him. He can also implicate other trustworthy people in order to have a different perspective.
5. **Consider consequences**
   Here the subject is advised to identify how the decision is likely to affect the stakeholders or use the six pillars of Character (trustworthiness, respect, responsibility, fairness, caring and citizenship) to filter the options through.

6. **Choose**
   Once at this stage the decision-maker has already all that is needed to make a choice. However in order to ensure he makes the right one he can consult other people, imagine what the most ethical person choose to do, reflect on what he would do if everybody would know; or follow the rule of doing unto others as he would have them do unto him.

7. **Monitor and Modify**
   Finally the decision-maker must monitor the impact of decision after it has been adopted in order to measure whether there is a gap between the aimed effect and the actual one. If gap exists he must correct.

   (Josephson, 2012)

Beside the framework suggested by the Josephson Institute of Ethics, Wortuba (1993:2) has identified a many Ethical Decision Making Models (EDMMS):

1. Ferrell and Gresham's (1985), Contingency Model of Ethical Decision Making in a Marketing Organisation
2. Hunt and Vitell (1986),
3. Treviño (1986),
4. Bodmer et al. (1987),
5. Ferrell, Gresham and Fraedrich (1989),
6. Dubinsky and Loken (1989),
7. And Wortuba (1990)


**3.2.2.1. A contingency Model of Ethical Decision Making in a Marketing Organisation**
Although they were thinking in a marketing context when formulating their Contingency Model of Ethical decision making, Ferrell and Gresham (1985) affirm that this model is not exclusive to marketing.

In their model, the two authors have categorised their variables into "individual and organisational contingencies". The variables considered within the individual contingencies (which are the individual factors on the figure) "consist of personal background and socialisation characteristics" while the variables considered within the organisational contingencies "consist of the effect of organisations external to the employing organisation" such as the competition or the marketplace and of "intraorganisational influences" such as colleagues and managers (Ferrell and Gresham, 1985: p. 88).

Their research highlights the strong influence factors and beliefs external to the decision maker or the decision-making committee have on the final decision. Those factors and beliefs are to be accounted for when facing an ethical dilemma. Those forces influencing that final decision, when combined, design the context of the decision making context.

In an ethics context, the individual contingencies, which represent the psychological and behavioural characteristics of the decision-maker(s), designate the philosophical approach of ethics that is adopted (eg. Utilitarianism, deontology, justice, Right principle...) which impact on the "individual's Knowledge, values, attitudes, and intentions toward ethical issues" (Ferrel and Gresham, 1985).

On the other hand, organisational contingencies suggest the existence of pressures that are external. Those pressures can come in many ways. They could be pressure from peers, from the press, the public, or even the pressure emerging from the need for result.
The nature of the two contingencies are as such that a decision making process always calls for an evaluation that is in part normative and in part based on the decision-makers' perspectives. Indeed as we will see below, George et al. (2009) also consider in their own way the two facets of the evaluation required in this type of exercise. Only with them the influences come from three category of factors rather than two.

3.2.2.2. Hypothesized Effects of Contending Values in the Person-Situation Model.

According to George et al. (2009) the individual values that can influence a decision are not only moral values. They demonstrate in their article Ambiguous Allure: The Value–Pragmatics Model of Ethical Decision Making, featuring their Person-situation model, that nonmoral values do also influence the final decision. In their model not only do amoral values and reasoning have a role in determining what the decision is going to be, in the ethical decision making process, but situational factors such as the possible outcome: Reward and punishment and the four contending values they have identified (Hedonism, Power Benevolence and Universalism) are also proven to influence our ethical decision making. Not only do the contending values influence decisions, their study has proven that "all contending values simultaneously influence decisions" (Watson, et al., 2009: p. 17).

Also, the contending values are found to influence decision in ways that are less direct. Indeed, these values, while influencing directly decisions, do also influence the relationship between the situational factors and the decision in the following ways:

A- Hedonism

In a situation where punishment is highly likely to be the outcome of an unethical decision, those high on hedonism -defined as seeking pleasure and sensual gratification for oneself- are "less likely to act unethically than those low on hedonism". When reward is expected out of an unethical action, then those high on hedonism are more likely to act unethically than those low on that contending value (Watson, et al., 2009: p. 19).
**B- Power**

Similarly, those with a high value of power—defined as the "seeking of social prestige, status, and control"—show greater inclination towards acting unethically when punishments are low, or rewards high, than people with no values of power (Watson, et al., 2009: p. 11).

**C- Universalism**

Universalism, regarded as "an appreciation for the welfare of all people" is also said to have an influence on the relationship between situational factors and the ethical decision (Watson, et al., 2009: p. 11). According to the findings/people that happened to have a low value of universalism are more inclined to act unethically than those with high values of it, when punishment is low. However, unlike with the preceding two contending values, no significant effect of universalism was found on the relationship between reward and ethical decision the relationship between reward and ethical decision the relationship between reward and ethical decision (Watson, et al., 2009).

**D- Benevolence**

Benevolence, indicating helpfulness, forgiveness, honesty, owed enhancement of people surrounding one, was also found to be similar to universalism. On one side, people who are high in benevolence are found to be less likely to take unethical decisions than those who are low on it. On the other, no significant effect of benevolence was found over the relationship reward/ethical decision (Watson, et al., 2009).

All in all, what emanates from this effort is that the 4 contending values identified do not only have a direct influence over the ethical decisions but they do also have an indirect influence with their moderating effect in the relationships between the different situational factors and ethical decisions. According to Watson, et al. (2009), these four contingent values, can be categorised in two: Self-transcendent category (Universalism and benevolence) within which one behaves towards other people; and the self-enhancing category (power and hedonism) which, in their own words is "inwardly oriented" and "involves how one behaves in reaching privately held, personally satisfying, goals and objectives" (Watson, et al., 2009: p. 11).
This in effect, may indicate that the self-transcendent category is more likely to act ethically, especially when considering the failures of finding proofs that people high on self-transcendent values would act unethically when such action would reward them.

However it would be interesting to see how such people would act when facing a dilemma where the ethical action would condemn or bring a great deal of harm to a group of people they have strong feelings for.

Yet, this model may be challenged as an ethical decision making model for the simple fact that it is more of a model describing the effect of contending values in the ethical decision process rather than a prescription of how to make such a decision. Yet, according to Maritain (Acevedo 2012), the ethical decision making process has to be guided by philosophy which forbids any influence of one’s self and feelings when seeking the truth, the reasonable outcome and rightfulness. Consequently, if one has to remove his feelings and sources of pleasure before embarking in a thinking exercise, then those very contending values should not leave any effect, direct or indirect, on the final decision. Even self-transcendent individuals find pleasure and feel good about their universalism and benevolence. Indeed ethics is a subject within which there is no absolute right decision however society expects its members to take decisions that will safeguard its harmony. In order to do that those decisions need to be motivated by moral values that are set up by the community as time passes by. In this way, in order to reach the reasonable/ethical/moral decision, one needs to remove himself and his feelings from the equation, and only consider the facts and moral values promoted by society. Any amoral values would be likely to cloud one’s judgement.

3.3. Banks
Having examined models that are recognised as tools to promote ethics using factors that positively influence behaviours in organisations, we will now focus on other factors that are rarely given a great deal of emphasis in the ethics literature will being often recognised to also influence behaviours in organisations. The importance of these factors is even greater considering the above average intensity or presence of those factors in the banking industry.

### 3.3.1. Anomie

Relating to moral nihilism, moral anomie, developed first by Durkheim (1947) then by Merton (1957, 1968), is considered as a “measure of relatedness to society” (Tsahuridu, 2006: p. 165). According to Durkheim, anomie is more likely to be present in societies where a differentiation and individualistic culture dominate. In Hofstede’s (1983) work, societies high in the individualism dimension are societies characterised by a high degree of consciousness of the “I”, of self-orientation (Parsons and Shils, 1951), identity based on the individual instead of the social system, emotional independence of individual from organisations or institutions, emphasis on individual initiative and achievement - leadership ideal -, right for everybody to a private life and opinion instead of having that privacy invaded by clans and organisations, and the opinions being predetermined. Also those societies are patterned with a high sense of autonomy, variety, pleasure, individual financial security at an individual level, a need for specific friendships, a preference for individual decisions, a universalistic approach to value standards (Parsons and Shils, 1951), a philosophy of man based on “personality” (Hsu, 1971), a society-based (Gesellschaft) perspective of social order rather than one based on community (Gemeinschaft) (Tönnies, 1887), and finally an interaction between the individual and the organisation that is primarily calculative (Etzioni, 1975).

In his study Hofstede (1983) has discovered that the United State of America scored the highest in terms of individualism, while the United Kingdom comes third in the ranking just behind Australia.
With the 2007 crisis being sparked first in the United States then in the United Kingdom before spreading to other economies, and the fact that among the causes unethical behaviour was cited, one may find a justification for Durkheim’s argument that anomie is more likely to be present in Individualistic cultures. Considering the similarity in the management of both financial industries (Federal Reserve Bank of San Francisco, 2002) or at least the high integration of the two – which can be seen in the effect on the United Kingdom of a housing market crash in the United States –, and the fact that a policy of deregulation has for a long time been championed in both sides across the Atlantic, it is clear that the only possibility for an industry where financial rules have been minimised to remain ethical, is that societal values and rules to fill in the void. However, in an individualistic culture such as the United Kingdom and United States, the fact that it is highly likely for anomie to thrive means that it is more likely to for a deregulation scheme to fail as individual self-interest would dominate the common good. Therefore, societal values would not fill the void left by the deregulation; instead such behaviours will not be influenced by set rules but by situational factors at individual level.

Figure 6: 2013 Graphical Representation of Individualism scores (Data source: The Hofstede Centre, 2013)
Considering the number of employees in a banking industry, if all operations are carried subject to the self-interest of the employee rather than to protect that of the customer, the resulting situation will certainly be chaos. This thought is in line with Bernburg’s (2002) explanation of Durkheim’s point of view about anomie, which he says occurs because economic activity is deregulated and no normative framework is provided by society to limit people’s cravings. This is how social relationships are embedded in the economic system instead of the economic system being embedded in social relationship (Tsahuridu, 2006). This lack of embeddedness of economic systems into social relationships therefore leads the industry to become unregulated morally, politically and socially. This clearly shows that the three social dimensions here cited do not dictate the behaviour of individuals, rather it is the economic ideals that have greater influence in this case. Consequently in such cases where the decision processes are deprived of morals, the accusation of anomie would not be one that is unfounded.

However, in Rose (1966) and Merton’s (1968) perspective, one needs to separate individual anomie from social anomie. Anomie according to them is the lack of regulation in goal achievement without any allusion to the appropriateness of the goals. This individual anomie in Merton’s theory is what was previously referred to as Anomia by Rose (1966). It describes the psyche displayed by a person exposed to an anomic environment (Stole 1956, cited in Deflem 1989, cited in Tsahuridu 2006). It therefore designates an individual with an amoral state of mind and without any values or moral code the individual could use in decision making processes. It in effect describes a disconnection with society when making decision (Tsahuridu 2006). According to Campbell and Goritz’s (2014) highly competitive organisations risk to witness the assumption that the end justifies the means develop among workers. This effectively creates a disconnection with society and its values. The culture of the firm can be affected by those assumptions as these will tend to inspire the values and norms of the organisation. Given the nature of the banking industry, and with traders and other employees
often encouraged to remain cold, make decisions that are the best to reach the end goal, making profit, and forget every other sentiments; it would be justified to state, in light of the above, that the model employees in the industry’s eyes are those who are disconnected to society, and take positions based solely on their objectives, on figures and on market reactions rather than some moral underpinnings. According to (Hampden-Turner, 1970), people are enabled to discover “human meaning” only after they utilise their ability to select, combine and apply norms to their surroundings. In Fromm’s (1955) opinion, the anomic person can be described as seeing people in the market society as “dehumanised”, forgetting the human power they hold in employment and thinking of themselves as mere agent successfully employed. This vindicates Hampden-Turner’s (1970) view of anomic people as a “thing” rather than humans.

He also describes them as “deluded, helpless, obedient, hostile, conforming and cruel” (Turner 1970: p.97).

There are many theories that have been advanced to explain anomie at work. Among the major contributors in this topic are Emle and Hogan (1992) Shepard, et al. (1995), Lindholm (1997), MacIntyre (1993), Himmelfarb (1995) and others. Lindholm (1997) advances as cause of the detachment from society, the upsurge of emotivism as a perspective of ethics which maintains that “moral judgements are nothing but expression of feelings, attitude or preference” (Kaczor, 1997: p. 1) , which, beside Lindholm (1997) was also, perhaps more notoriously, criticised by MacIntyre’s (1993). When moral is based on preference and feelings, it becomes as subjective as its bases. Given people may have different preferences, which are personal by nature, moral as an expression of preference, also becomes personal, if not a matter of convenience. This puts an end to any societal agreement or social code of conduct unless people constantly think alike. Ethics, once more, is supposed to allow society to reach Eudaimonia. Without consensus, division and disagreement occurs. That in turn would create chaos, and the absence of a set of
agreed upon rules and values within the relevant society or group. And finally, giving rise to anomie.

Other possible causes have also been found. Lindholm (1997) in his research makes the case that capitalist economies can give rise to anomie. Himmelfarb (1995) contributed in this particular topic with what he describes as the replacement of virtues with values. Tsahuridu (2006) while citing Fromm (1942) and McKenna and Tsahuridu (2001) points as cause scientific rationalism and neo classical economics. Finally Emler and Hogan (1992) found that the industrial revolution might also have a contribution due to the loss of the sense of community, of “moral authority and supervision.” This vindicates Durkheim’s statement, reported by Emler and Hogan (1992: p. 203) that “people will be inclined to transgress when their actions are anonymous”. Consequently the risks to act unethical would increase when in a group where the division of roles is ambiguous. Such failure to establish a governance system to track actions of employees therefore could represent an opportunity for the proliferation of anomie in the firm. Also, security is an important value in unethical organisations, and in such organisation those who are often sanctioned are the non-corrupt employees; those who do not seek to reach their targets by any means necessary (Campbell & Goritz, 2014).

Despite these efforts, anomie in the organisation according to Tsahuridu (2006) has not been fully understood, which is the reason why ethics despite, all the decision making processes and models formulated, still loses ground in business in general, and more specifically in the financial industry. Indeed, if anomie in an organisation represents a vacuum that is empty of any morals, one could wonder how one could recognise in the first place ethical dilemmas which in turn would call for the use of a model as a support to make the right decision. The fact of the matter is that it is only when an individual still has values or when his environment is not depleted of morals that he would be aware enough of the possible moral transgression, therefore ponder on which ideals to pursue. As it seems therefore, in order for them to be
successful, ethical models need to be employed in an environment where a certain number of morals still exist. These models therefore do not recognise the existence of anomie, or at least are formulated with the assumption that the environment in which they are applied will still enclose some sense of morals.

Codes of ethics are widely adopted in the financial industry. But does listing a few values on paper mean the organisation does hold some morals and values? In other words can anomie exist in an organisation that already has a code of ethics which employees are aware of?

3.3.2. Strategy

Although it is a concept that has been around for centuries, mostly used in the military field and having been the subject of Sun Tzu’s atemporal piece The Art of War, strategy has been a fairly recent feature in the corporate environment. Defined by many authors as a plan formulated at top management level in order to achieve a goal in light of the mission and vision statements of the firm (Wright et al., 1992), strategy may often involve a subterfuge in order to defeat the competitor. This notion of competition is crucial in the definition of strategy. From its origins in the military, a strategy has always been a plan which is meticulously elaborated and relied upon in order to gain an advantage in the battleground and ultimately win wars. In the corporate environment, the battleground represents the market within which firms compete. According to Johnson et al. (2011) a number of dimensions of strategy may or may not influence anomie in a company. Given the interest in the banking industry, the research will only be concerned with the relevant ones, which are: Severity of competition, competitor orientation, strategic aggressiveness, and strategic long-term orientation.

3.3.2.1. Severity of competition

This dimension relates to the level, intensity of the rivalry within the relevant industry (Van de Ven & Jeurissen, 2006). Given competition exists only when two or more parties fight for
the same goals (Slater and Naver, 1994 cited in Johnson et al., 2011), rivalry can be said to attain its peak, when and only when the industry is in perfect competition (Van de Ven & Jeurissen, 2006). The closer the industry is to perfect competition therefore, the more intense the competition. This translates on the ground into a competition in which leads do not last long as they are stifled or equalled by rivals in no time (Zhou et al., 2005). A high severity of competition can lead to a faster product life cycle in the industry. Given the competition is high, the competitors often move in the same direction meaning there is not much diversification in terms of the visions or methods applied to reach those. This in turn means that firms in the industry often approximately have the same level of exposure to the same risks. And because margins are low the closer and industry is to perfect competition, a very severe competition in an industry may well create more vulnerability to systemic problems.

The tendency for competitors to constantly seek to close the gap on rivals can, according to Menezes and Quiggin (2012) lead to implicit collusion, also known as tacit collusion. This according to them often exists in competitive intense industries, especially when the industry in question does not have a great number of competing firms. In the United Kingdom for example, where the banking industry fits the definition of an oligopoly, the banking crisis resulted in the entrance of new firms such as Metro bank and the separation of existing banks such as Lloyds TSB which resulted in two separate banks Lloyds Bank and TSB. These separations and the new entrances in the industry were suggested as remedies to these tacit collusion and lack of diversity in the offerings.

Also in light with Chirayath et al.’s (2002) suggestion that organisations may indulge in deviant activities when they have reached their limit of growth and profitability, the question that could be asked is, given the tighter margins companies would have the closer their industry is to perfect competition, would severe competition in an industry create anomie?
In this research we shall evaluate how severe the competition within banks is. This will allow us measure how conducive to anomy a competitively severe industry is.

3.3.2.2. Competitor orientation

Competitor orientation relates to the extent to which a strategy is formulated with the competitor in mind. It requires knowledge about the attributes of the competitors, their forte and flaws and also knowledge about the attribute of the actual company formulating the strategy (Armstrong and Collopy 1996; Day and Nedungadi, 1994). Often the competitor oriented strategy results in policies that either imitate the competitor targeted or if there is full knowledge of their attribute, innovate on that knowledge and their processes to create an advantage. This consequently calls for strong and constant monitoring of the competitor’s activities. According to Johnson et al. (2011: p. 479), “The organisations’ actions and directions are dictated by others, namely peer competitors”. Such orientation seems specifically designed to keep the companies enemies closer than its allies. According to Day and Nedungadi, (1994) supported by Slater and Narver, (1994) and Johnson et al. (2011), anarchy can result in strategies based on such orientation as those may not form the pattern Mintzberg et al. (2005) announced. Instead it is easy to fall in a scenario where the strategies are “disjointed” and “unstable” (Johnson, et al., 2011). As according to Johnson et al. (2011) anomies also thrives in confusion and uncertainty, such strategy may lead to it.

According to Andrevski, et al.’s (2011) and D’Aveni’s (1994) organisations that constantly study the offering of their competitors and subsequently are able to offer superior product or service are much more likely to create new competitive advantage. These constant renewal and of their offering is likely to always keep them ahead of rivals as, while rivals are busy catching up with their temporary advantage they have the time to identify new opportunities and create new competitive advantage. Young et al. (1996) support that point by affirming that “each new competitive action creates a temporal advantage or erodes rivals’ market positions”.

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Furthermore, Andrevski, et al.’s (2011) found that “many successive actions tend to overwhelm rivals by neutralizing the effects of their actions or preventing effective responses.”

Wright, et al. (2009) findings in the UK retail banking industry have shown that competitive oriented activities such as competitor intelligence gathering are undertaken in order to understand markets and subsequently to be used in strategic planning. This shows a high degree of competitor orientation in the banking industry. We will therefore seek to measure how competitor oriented strategies are in general in the banking industry.

### 3.3.2.3. Strategic aggressiveness

Strategic aggressiveness relates to the ambitiousness of the strategies formulated by the firm. It is a strong feature among companies in an industry that are vying for the industrial leader’s mantle (Johnson et al. 2011; Hamel and Prahalad, 1994; Johnson and Sohi, 2001). This shows therefore motivation to reach as soon as possible the objectives of the company and hurt as much as possible the competitors. Throughout the organisation the culture of winning is cultivated whereas the strategies adopted are not conservative by nature (Johnson and Sohi, 2001). Campbell and Goritz’s (2014) found that managers in highly competitive firms tend to promote values such as success, results, and performance, and implements these values in their norms of goal setting. According to Andrevski, et al.’s (2011) findings, which are generated from a study across industries with different growth rates, more aggressive firms tend to constantly over-perform their rivals.

However, according to Johnson et al. (2011) the biggest danger for a strategic aggressive company is that the objectives can often be “unrealistically ambitious”, which increases the risks for anomie to gain the firm. In the banking industry we know that very aggressive quotas are set for employees, and rather than diminishing these increase year on year especially if the employee reaches his previous year targets. We do also know that the industry has witnessed
many instances of mis-sales and other unethical actions such as rumour spreading in the investment cluster of the industry, which show signs of anomie. We will therefore seek to see whether strategic aggressiveness is indeed a feature in this industry and whether it has a relationship with anomie.

3.3.2.4. **Long-term orientation**

Long-term orientation dimension describes strategies that have a durable vision. These are strategies that favour stability and more crucially sustainability. With such strategies organisations may sometimes forgo short term opportunities in order to build a more robust business in the long-term (Pesämaa and Hair, 2007). It can therefore lead to not maximising revenues in the short term but in the long term reduce risks. Often long term strategies take pressure off employees for the short term while emphasising on the strict adherence to rules. Meanwhile short-term strategies emphasise on the short-term results especially on the quarterly results of the firm (Tellis et al., 2009; Johnson et al., 2011). This results in more stress in terms of targets and also in terms of time available to reach those. This may cause according to Johnson et al. (2011) chaos and ambiguity in the organisation, which in turn may lead to employees seeking to reach their targets and safeguard their employments regardless of the avenues.

Furthermore the acceptance that firms can report and increase profits while disregarding the long-term is according to Kaplan (1984) is a flaw in the accounting model. This flaw can have different causes. Loescher (1984:8) suggests that the dependence on quarterly and annual reports for information on performance discourages managers to have only long-term strategies. Laverty (1996) points out that not many firms can sustain losses over a long period of time even if their projects have a positive NPV. He also highlights the widespread suggestion that markets are efficient with respect to the expectations of short-term revenues but are not so efficient when it comes to long term revenues (Laverty, 1996). Drucker (1986) highlights the
importance of stock price maximisation in avoiding attracting hostile takeovers, which means maximisation of short term returns often to the detriment of the long-term. Finally Porter (1992) highlights the fact that the investor tend to invest based on figures that uncover opportunities in the short term, while not being able to forecast the longer term with certainty.

The banking industry has for a long time been criticised for its short-termism when doing business and once again patterns showing signs of anomie have in the past existed and continue to emerge. It will therefore be interesting to investigate any relationship between the long term orientation and anomie.

3.3.3. Economic responsibility: Shareholders Expectations
As commercial entities owned by shareholders and managed by individuals considered as legal proxies supposed to look after those owners’ interests, companies are organisations which can be seen as a point of convergence which gathers numerous stakeholders. However among those stakeholders the shareholders as owners are regarded as prime stakeholders, they are regarded as the stakeholders that hold the most power and because in a capitalist economy the rights on the financial value, i.e. profit, created by the company belong to them, often decisions are taken prioritising the maximisation of the interest of those prime stakeholders. This viewpoint is wildly held by neo-classical economists (Bird, et al., 2007). However Bird et al. (2007) find that management in companies do still keep in mind the interest of stakeholders, and that interest can coexist without conflict with the interest of the shareholders. Yet in their findings, although there seem to be a positive attitude from markets when valuing companies that set up a CSR programme, Bird et al. (2007: p. 203) report that markets often seem to punish “companies with a high environment strength score”. What we can understand from this is that although markets do find it positive for a company to have a CSR programme, there is a general feeling among them that a limit exists as to how much a company shall invest in CSR especially if such investment towards the environment or the stakeholders is not made through the means
of an environmentally or socially friendly product which would be put in sale by the company and therefore generate revenues. Consequently Bird et al. (2007) conclude from their evidence that there are areas, although only a few, where organisations can face conflict while attempting to balance the interest of shareholders and other stakeholders. In cases where there is conflict, Friedman’s (1970) theory supports that the management of the organisation as agent for the shareholders shall favour the interest of the shareholders. This opinion is also shared by any other authors (Haksever, et al., 2004). Such advice is often followed by the management team as the shareholders back the appointment of the team with the understanding, which becomes expectation; that it will look after their interests. Failure to do so could see the shareholders use their power of control to sanction the management, remove them all together, or even sue them. An example in which prosecution has been considered against management, although in this case the management stood neither for the interest of shareholders nor for stakeholders is the case of the ex RBS chiefs who were threatened of legal actions by investors in 2012 after allegations that they demanded £12 billion shareholders only month before being bailed out by the government (Gayle, 2012). Such prospect is even more daunting for the management knowing, even if the wider public would support them if they were to stand up for the stakeholders, shareholders from other companies, after such event, may not trust them to look after their interests, which could make it hard for them to find such position in some other company.

Haksever et al. (2004: p. 294) in their work have been a little more specific about the shareholders’ expectations. According to them the interest and expectation of the shareholder who invests in a company is that the “investment will grow in value and/or will bring income”. Only some shareholders, according to their words, demand that the organisation follows a strict set of rules, that we could call code of conduct, in the process of realising that growth or income. Heath (2012: p. 8), explains the fact that shareholders invest in a company with the
expectation that their “interests will be assigned priority” by the fact that profit-maximisation generally features as the top objective, or priority, in corporate charters. Any other objectives are secondary to profit-maximisation. All in all we can say that the prioritisation of shareholder’s interest is heightened by the fact that company leaders are often evaluated based on whether or not they have achieved the “expectations set by financial analysts and investors” (Chen, 2010: pp. 33-52) and more importantly the ultimate evaluator of their performance is the shareholder.

Consequently, the literature does show that meeting shareholder’s expectations is still crucial to management as they are those prime stakeholders are the ones that decides whether or not they keep their positions in the firm. However what happens if the expectations of those prime stakeholders are too high?

Chen’s (2010) work answers that question. In his research Chen (2010) shows that high shareholders’ expectation contributes to an increase in unethical action by CEOs, more specifically: misreporting. When such high expectations from shareholders are targeted at Narcissistic and dishonest CEOs, the increase in misreporting is exponential. This constitutes the first piece of evidence indication that high shareholder’s expectations can influence an organisation to take an unethical position. Question now remains to know whether that could play a role also in the banking industry as one of the most important facts that emerged from the recent credit crisis, which has not been dealt with yet in a thorough fashion, is that banks prior to the crisis acted unethically by not reporting accurately the amount of toxic assets on their balance sheet, instead their liquidity positions were overestimated in public.

3.4. Stakeholders:

3.4.1. Government
As an institution in a democratic country, a government is entrusted with the responsibility of looking after its population’s interest. In order to accomplish that mission, governments have to take various decisions on a daily basis, which target different aspects of the public life. Those aspects may span from security to education, healthcare, foreign policy, or more significantly in or topic of interest economics and welfare.

Indeed it is widely accepted that governments play a role not only of referee enforcing the rules of the markets, but also that of formulator of those very rules. They police the economic landscape in an attempt to ensure macroeconomic stability as well as offering a platform that creates opportunities for organisations to be more successful (Snowdon and Stonehouse, 2006). Indeed according to Wagener (2009: p. 307) “in a modern market economy the assurances provided by government and law are essential for entrepreneurial initiative and investment decisions”.

This position therefore makes the government a crucial player in any industry, especially when it comes to a financial industry that is the main driver of an economy. Considering the quasi-totality of the population over 16 years old in developed countries is served by banks, in those countries, more and more intellectuals are joining Senator Robert L. Owen Chairman of the Committee on Banking and Currency in the United States of America from 1913 to 1919 in his are assimilation of banks as “public-utility institutions” (Brandeis, 1914: pp. 13, 64). Owen is however not the only one to perceive banks as such many other contemporary authors also do including Donaldson (2012) and Mullineux (2009). As a leading institution therefore a government’s influence can make or break a sector such as the banking industry. To some extent it decides of the direction the industry takes, through its economic policies and regulatory bodies. It would therefore be important for this thesis to evaluate that leadership. More specifically we will look at the expertise the government bases its decisions on and identify the economic model it tries to implement.
3.4.1.1. Financial expertise

In order to be able to regulate and answer the needs of the industry, the perquisite for the government is to have the required financial expertise. In this work we ask whether governments and their regulator bodies are expert enough in this field. According to Pusey (2007) regulators can solve their expertise problems by having a participative approach to regulation. Players in the industry would therefore self-regulate and “share the regulatory burden” (Pusey, 2007: p. 315). This collaboration will see the players make their expertise available to regulators when it comes to elaborating new policies. However even if regulators do not have a participative approach, Culpepper, et al. (2008) affirm that players in the industry have a strong hand when it comes to influencing government policies through lobbying especially when the issue that is being discussed is of no interest to the voters or if those voters are not well informed about it.

According to Lee (2008), despite its “lack of knowledge and expertise in international finance” the Korean Government choose ahead to liberalise the capital market in the 1990s. The shortage of knowledge and expertise was quickly exposed as the economic crash in 1997 was partly caused the government failure to develop relevant policies to regulate the liberalised market and prevent “risky, immoral, high profit seeking behaviour”. This crisis provides the perfect motive for Weimer (2006) to state that it is crucial for rule makers to have sufficient expertise to produce “technically well-informed rules”.

The question to know whether governments are expert enough in this field is even more justified in light of the financial innovations which make it even more daunting for regulators to catch up and understand the new products within a short period of time and design the best
regulatory framework to referee those innovative products. Besides the innovative products, more justification can be derived from the fact that governments are often headed by politicians. And although they do have technocrats as advisors or as head of the governmental agencies supposed to lead the industry, we have to remember that governments often make political promises during elections, promises that may not be well informed especially if that political party is not in office and therefore may not have full access to information about the way the regulators oversee the industry. Moreover those politicians when they make a promise find it very hard to retract their words as it is those public and mediated promises that wins them support among the electorate or secures funding that would allow them to spend on their campaigns. Consequently, if elected they automatically come under pressure to deliver on their manifesto made to voters or to financial backers, the likes that have the power, as history showed us earlier with the bonds, to decide of the outcomes of very sensitive issues such as wars. Failing to satisfy those would make them face the prospect of losing that support and more importantly their very position of leaders during the following elections given governments often hope to win based on their track records. Policies therefore may be decided upon well in advance due to the pressure by the public opinion and other political and financial influences. Doubts may be therefore raised regarding whether those policies were informed by pure financial expertise and data and whether they have been endorsed for economic reasons rather than political.

Establishing whether the government including its regulators such as the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority are expert enough is important in this task as that expertise would prove the ability of to police the industry and enforce the rules of the industry which would constitute a barrage to anomie. The opposite would leave no barrier to contain or eradicate anomie in the industry.
3.4.1.2. **Coherence of economic policies**

In the late 1970s and early 1980s the UK fell prey to the “British disease” which was symbolised by a government constantly at odds with a population that believed they were incapable to direct the economy the way it should be directed. With Reagan and Thatcher, the Western economies found two leaders who were determined to resolve those problems once and for all (Prabhakar, 2013). From the 1929 crash to the 80s, capitalist economies have harboured, with conviction, the Keynesian economic model (Reitan, 2003). However with those two leaders, the West would seek to move away from that tradition and embrace the Hayekian model. In many ways, the 80s were therefore a decade of transition from a model which supported strong government action in every industry, to a model arguing that governments should set markets free to regulate themselves. In that model the big state had to become as small as possible in terms of their involvement in the industrial affairs (Bicksler, 2008). For instance, an unhealthy, almost bankrupt company, in the free market, would not be saved by the government; rather it would be left to disappear from the economy the way a dead wood ought to be removed from a tree in the interest of its continued health.

As a result, a well-documented politic of liberalisation and privatisation took place with the Big bang representing a climax in the whole economic liberalisation process (Mullineux, 2009). The Western world in this way switched towards a completely divergent direction to the previous one. That switch occurred so fast that after more than twenty years we can now wonder whether governments did prepare their population well enough for a totally free market.

The Keynesian system has been implemented for so long that, no matter what decision the state would take to free and deregulate financial markets, the public would still expect them to play a central role in all industries including the financial industry. A good indicator of that failure to prepare populations is electoral campaigns. Independently of the country, the time period,
the societal framework within which elections are organised, the political party, and the
candidate; a recurring electoral promise in history have in common that of creating and
protecting jobs or at least putting the country back to work. There is often at least a political
party that puts employment as a subject of debate during elections, hinting that it is a sensitive
issue for the population. Such promise for a government that has a direct approach to creating
jobs is a pillar in the Keynesian philosophy (Angle, 2011). Even after having switched to a
Hayekian economics, political candidates in the West, have kept making Keynesian-like
promises, perhaps out of necessity in order to tick one of the public perceived major
requirement for the top job. Indeed if the electorate is not ready to accept a Hayekian economy,
then neither is the political class, as, if they are to be in office, they have to convince the nation
that they embody what it needs to meet its desired end.

The aim of this thesis is not to fuel the decades-long debate seeking to prove which one of the
two is superior. Rather it is to put under scrutiny the way the transition has occurred if ever
transition has really happen. Thioleron et al. (2008) state that change of Government can create
lack of policy continuity and consistency which can lead to contradictory decisions. Schneider
and Ingram (1997; cited by May et al., 2006), go further and affirm that the lack of coherence
of economic policies may send confusing signals to potential policy targets.

It was Thatcher's (2002) belief that “the market is a more powerful and more reliable liberating
force than government can ever be” (Thatcher, 2002 p.421). That belief concurs with the
Hayekian argument that a government is not the most reliable body to regulate markets. It does
not have the expertise required nor does it understand the mechanics of economics well enough
to direct markets simply because according to that school of thought, no human can predict
market behaviour accurately. And if well-educated individuals in governments are not
knowledgeable enough, how would the majority of an electorate fair?
Nevertheless, despite Thatcher’s beliefs and efforts, with the changes of regime over the years, coming with new policies, and with the electorate still demanding government action, especially after the crises thought to be caused by the great of financiers, the UK government, like many other western governments, may have failed to really free the market. Indeed unless the same party stays in power, it is highly likely that a change of party in power will result in a change in policies. These change in policies and direction may well deprive the sector targeted of continuity, even for plans that were decided from a long term perspective. Given the two mentioned models of economy also have their own diametrically opposed approaches to regulation, if frequent these changes of direction and approach may result in a “yo-yo economy” where regulation can also see frequent change from tight to loose and vice versa. Consequently, we posit that there may be ambiguity in the direction western governments’ offer to the industry. Some policies being typical of Hayek’s idea and other being typical of Keynes’.

This ambiguity in the industry may lead to confusion and uncertainty which Johnson et al. (2011) says can favour anomies.

3.4.2. Client Vulnerability (Customers and Investors)
Society is a crucial element in an industry. As a stakeholder of the industries that serves it, different members of the public may often play different roles for an organisation. The public not only plays the role of the customers, but also of supplier; and more importantly, especially in the banking industry, it can represent a source of fund as investor. However, the public is often inclined to interact with the firm only as long as it trusts the firm to deliver in its promises. This trust is so important that it has been considered crucial in any transaction in the banking industry (Yousafzai et al., 2005; Hazra and Srivastava, 2009; Thiam, 2010; Anita, et al., 2010). Given the fragility of that trust and the perceived vulnerability of the public, the government through its role as a regulator acts as a buffer to protect it. This is the main purpose of the
regulations. It is therefore to maintain Eudaimonia in the industry, and anomie in the industry would consequently signify disregarding these regulations. However even if the regulators did not have the power to bar the proliferation of anomie, the public could have the chance to do so by rewarding or choosing the product (Dedelow, 2009) and company that respects the moral rules. However, could the public make that choice without knowing the standard it should expect, having access to independent source of information, and being financially literate? According to Langenderfer and Shimp (2001) the very trust customers put on the firms and employees may lead to gullibility which in turn makes them vulnerable to mis-sales of scams. In this case, the bank employee may use the complex nature of the products under consideration, as well as his/her power of persuasion and position as a financial professional to influence customers to choose the option that helps reach the firm’s targets rather than serve the customer’s interest.

3.4.2.1. Financial literacy
According to Huston (2010: p. 304) financial literacy “could be defined as measuring how well an individual can understand and use personal finance-related information”. This definition see financial literacy not only as involving knowledge about finance but also as involving building the self-reliance required to act upon that knowledge. Prior to buying a product it is necessary for a customer to understand his problem and also understand the product in order to properly assess its attributes and be able to decide whether or not the product will provide a solution that fulfils those needs. This evaluation process is often necessary in order to know whether the investment that is being considered is a good one. Consequently the product will be considered in terms of quality, durability, effectiveness efficiency… This consideration is guided by prior knowledge of what should be the desirable quality, durability, effectiveness, efficiency… The same principle is true for financial products. That is why Huston (2010: p. 304) states that a financially literate individual will, in front of financial choice, have a particular behaviour, and
make expected choices which show literacy and in the long run “increase in financial well-being”. This is the “utility” of financial literacy (Huston, 2010). Indeed Steen and MacKenzie (2013) concur with Huston’s (2010) statement and assert that poor financial literacy is more likely to result in poor financial choice. The only instance when a financial literate individual would fail to display those indicators is when he is subject to influences such as: “behavioural/cognitive biases, self-control problems, family, peer, economic, community, and institutional” (Huston, 2010: p. 304). It is therefore clear that members of the public who are not financially literate will be more risk-blind when it comes to evaluating the risks of a financial product (Bateman, et al., 2014).

Given the importance of the service being provided by the banking industry, whether designed for investors or customers, it is crucial for those members of the public to understand the products they are about to buy into if they are to reach that sate of financial well-being and avoid surprises that may arise due to a change in the economic climate in the short or long-term. Moreover, we suspect that this literacy could empower investors and customers during transactions and be considered as a defence against mis-sales, which means it could be a preventive rather than reactive tool against anomie.

3.4.2.2. Independent source of information
Having just gone through an exposé of the importance of financial literacy, a potentially pertinent question can be asked at this point. Given in society not everybody has a major in finance, and given the education system in many countries still does not consider finance as a compulsory course, how can the members of the public who are not financially literate therefore take well informed decisions? With the majority of member of the public not having a financial background, financial advisors are made available by firms in order to assist clients...
in their financial decisions that impact on their present and future (FSA, 2013). However, because these advisors are employees of banks, an inherent risk exists for those giving advice that do not serve the interest of the customers. That risk is the motive for the financial watchdogs to introduce and enforce a set of rules that are designed to regulate the information provided by banks in their communications with investors or customers. In the United Kingdom, those directives can be found in the Handbook under chapter 4: Communicating with clients, including financial promotions (FCA, 2013).

However during the credit crisis, many disturbing news came in terms of mis-selling. Not only have we had the mis-selling case of PPI, which also involved banks that branded themselves as ethical, but in the credit crisis the number of clients who bought mortgages without knowing the effect of the fluctuation of interest rate on their debt came to light. Add to that the increase in complaints from investors who bought securitised assets without being aware of the specifics of the products they were investing in. All these despite the fact that the information provided by banks is regulated in order to ensure transparency. However it takes a financial literate individual to recognise product that is not suitable. This brings us back to that concept of risk-blindness.

This fact and the likelihood of an advisor not giving the right advice may make it important for a client to have access to independent sources of information on products, their specificities and terms and condition, and all that while losing as much as possible the financial jargon.

3.4.2.3. Standard expected
Whereas we posited that having more information about the product may have an influence on anomie, we now turn our attention on the standard of the service the employees in banks should offer according to the regulators. The regulators often orders banks to gather a certain number of information about the client to assess whether the product is suitable to him/her (FSA, 2013).
These information and other sets of recommendations made by the regulators represent the set standards to expect. These standards may not be directly linked to the product, rather they would concern the support and time the employee gives to the client in order to help the client understand and consider without pressure the best option for him/her.

However, although these best practice standards are regulated and although employees are required to gather information about the financial profile of the clients in the banking industry, a Mystery Shopping Review published in February 2013 by the FSA considers 25% of the advices given during their mystery shopping exercise as concerning. Among those 25% the main recurring trends were advises that were deemed unsuitable to the level of risk the customer was willing to take, advises that proposed the wrong option, and advises that did not consider the “length of time customers wanted to hold the investment” (FSA, 2013: p. 6). Whether intentional or not, all of these concerning advises would have misled the clients, and considering the percentage of advises that raised concern, one can imagine the amplitude of the problem if these figure are representative of what is going on in an industry where the size of the population using banks either as customers or as investors is considerable. Moreover, these advises are regarded by the FSA as concerning only because its Handbook shows the right operating procedure. Yet, despite the regulations such issues are still not eradicated or lowered to a much more insignificant percentage.

This make us therefore wonder whether knowledge about the standards of sale to expect from the banker could not help the client assess whether the advice he received is satisfactory or not. If the banker has not applied the expected standard, the client could go to another bank until those standards are satisfied. Given the standards are put in place to reduce the risk of anomie and erroneous advice, knowing the standard to expect from the banker and ensuring it is enforced could therefore represent a mechanism of self-protection for client from anomie.
3.5. **Presentation of the codes of ethics and codes of conducts of banks operating in the UK**

In this part nine banks have been selected. Eight of the banks selected are among the biggest banks in the world. Those eight included the top 3 banks in the United Kingdom (HSBC, Barclays, and RBS), the top 3 banks in the United States of America (JPMorgan, Bank of America, and Citigroup), the biggest bank in Germany (Deutcshe Bank), and finally the second biggest bank in France (BNP Paribas). This selection was certainly influenced by the size of those bank in terms of assets, the fact that they are among the biggest banks in terms of number of employees and the fact that they are industry leaders that influence other players in countries considered as world leaders when it comes to financial markets. The ninth bank, the Co-operative bank in the United Kingdom, has been selected considering it is branded as the “ethical bank”.

3.5.1. **Bank of America**

Bank of America’s code of conduct is also regarded as code of ethics. The name of the code was amended in January 2014 to code of conduct (Bank of America, 2014). This code was available online in the corporate website of the group, the content of the code was last updated in 2013.

The code of conduct of Bank of America focuses on eleven pillars which represent the basis of the corporate culture and the environment in which employees operate and exhibits the four core values of the bank which are to “deliver together”, to “act responsibly”, to “realise the power of our people”, and to “trust the team”. Among other features of the code of conduct are two lists of considerations formulated in order to assist employees make decisions and identify potential conflict of interest. With regards to decision making, the position of the company is that employees should:
- Make sure they have the relevant facts
- Take into account the laws, rules, regulation and polices
- Consider competing interests
- Identify potential options and their consequences
- Uphold Bank of America values

(Bank of America, 2013)

In order to identify potential conflict of interest, the policy of Bank of America is that employees should consider the perception others may potentially have of the action, whether the action is performed with the intention to influence judgment, what illegitimate impact the action could have on the company, shareholders, or the customers; whether the action may stop the customer or the employee to act objectively; and finally, in case of an activity that is not related to the organisation, the code of conduct prescribes that employees consider whether the time required to perform the action will interfere with the ability to fulfil the responsibilities towards the company, the shareholders and the customers (Bank of America, 2013).

3.5.2. **JP Morgan**
Unlike Bank of America, JP Morgan separates code of conduct and code of ethics. The code of conduct was published in November 2013 whereas the code of ethics is available only as a webpage copyrighted in 2014. The code of conduct is designed around the responsibility of the employees to the “heritage” of the company, the “customers and the marketplace”, the “company and shareholders”, “each other” (colleagues) and the “neighbourhoods and communities”. Out of all these responsibilities, the most detailed in the document remains, the responsibilities to the company and shareholders.

Similar to Bank of America, JP Morgan also provides guidance in decision making to its employees, with a tool titled Decision Tree. This Decision Tree features in figure 23.

3.5.3. Citigroup
Similar to JP Morgan, Citigroup also separates code of ethics and code of conduct. The code of ethics for financial professional was issued in December 2004 and revised in April 2014.
The code of conduct meanwhile was published in 2013. The code of conduct (2014) focuses on four main points: prohibition of workplace retaliation, the way in which they do business, the conduct in the workplace, and conflict of interest. In cases of potential unethical situation, the code of conduct provides a list of five questions employees are invited to ask themselves prior to taking action. Those questions are:

- Does something feel wrong?
- Would my actions be consistent with the code of conduct?
- How might my decision impact others?
- Would my action or failure to act result in even the appearance of impropriety?
- What might be the consequences of my action or inaction?

(Citi, 2013)

3.5.4. Barclays
The Barclays Way represents the new ethical charter released in September 2013. It is regarded as the code of conduct and code of ethics of the firm. This new code of conduct was drafted around four themes of interest: the expected behaviour in the firm, decision making, the opportunities to speak up and raise concerns, and the formal policies and guidance offered by the firm. Similar to Citi, this document presents the decision making guidance provided to employees in the form of a list of six questions:

- Is the decision/action legal?
- Is the decision/action consistent with the Barclays Way?
- Have the interest of all those who might be adversely affected by this decision/action been taken into account?
- Would I be happy to explain this decision/action to colleagues, family and friends?
- Am I confident that this decision/action will not lead to criticism of Barclays, now nor in the future?
- Is this the right thing to do?

(Barclays, 2013)

3.5.5. HSBC
The equivalent of HSBC’s code of conduct is embedded as section 1 in the employee handbook released in February 2014. In comparison to the other banks so far presented, this section highlighting the way HSBC works and the way its employees are expected to work is much less detailed, with only three pages as opposed to the booklets of the other banks. In addition, to this section, HSBC also has a code of ethics that is available as a webpage in the corporate website. Unlike the four banks above, HSBC does not provide decision making guidance in its employee handbook nor in its code of ethics.

3.5.6. Royal Bank of Scotland (RBS)
Similar to Barclays and Bank of England, RBS provides one single document as an equivalent to the code of ethics and code of conduct. This code of conduct was published in July 2013 and is built around three ideas: “how we do things”, “how we behave”, and “how we think”. Additionally the document introduces the purpose (to serve customers well), the vision (to be trusted, respected and valued by our customers, shareholders and communities), and the values (serving customers, working together, doing the right thing, and thinking long term) of the firm. In the code of conduct, similar to employees of Citi and Barclays, RBS employees are also required to consider asking themselves five questions during decision making. This list of questions is called the Yes Check. The questions in the Yes Check are:

- Does what I am doing keep our customers and the bank safe and secure?
- Would customers and colleagues say I am acting with integrity?
- Am I happy with how this would be perceived on the outside?
- Is what I am doing meeting the standards of conduct required?
- In 5 years’ time would others see this as a good way to work?

(Royal Bank of Scotland, 2013)

3.5.7. Deutsche Bank
Deutsche Bank has the particularity of having two documents as means to promote ethics in the firm. The first, titled “Code of Business Conduct and Ethics for Deutsche Bank Group”, is a document that is general to all employees last updated in 2012. The second is a document specific to senior financial officers hence the title “Code of Ethics for Senior Financial Officers” published in February 2013. The Code of Business Conduct and Ethics for Deutsche Bank Group introduces the general responsibilities towards the bank’s vision, values and beliefs while the Code of Ethics for Senior Financial Officers presents specific requirement that senior financial officers are expected to comply with. The peculiarity of Deutsche bank’s code of conduct and ethics compared those so far presented is that it does not propose a general decision making template in the form of a list of questions. Instead, it provides a list of consideration for each of its five values (Client focus, Trust, Performance, Teamwork, and Innovation), that supposedly help employees fulfil their responsibilities.

For Client focus, the bank expects employees to ask themselves the following questions:

- Are you considering accepting or offering a gift, meal, entertainment, or other benefit that goes beyond normal business courtesy?
- Are you considering trading as a consequence of information that you learned in connection with your employment?
- Are you intending to use your position at Deutsche Bank for personal gain?

The list of question endorsed by Deutsche Bank in order to uphold trust is:
- Are you going to access or discuss confidential information for a legitimate business purpose?
- Are you considering sharing price sensitive information, and if so, is the intended recipient an employee who has a need to know?

In order to constantly perform in accordance with Deutsche Bank, employees are expected to consider the following questions:

- Could your action or decision lead to a negative headline in the media?
- Are you considering offering or taking money, a gift, or anything of value intended to influence a business decision?
- Do you understand the regulations, laws, and local practices?
- Are you prepared for the consequences of your decision or action?

The list of questions diagnosing whether the employee fulfils his teamwork obligation is:

- Are you considering the views of your colleagues?
- Could your behaviour be perceived as embarrassing or threatening?
- Are your personal feelings, prejudices, or preferences having an influence on your business decisions?

Finally employees also have the following list of questions to consider in order to maintain innovation:

- Do you understand your client’s needs?
- Have you disclosed your innovative ideas to your supervisor?
- Have you received proper authorisation to use the intellectual property of a third party in the manner that you propose?

(Deutsche Bank, 2012)
3.5.8. BNP Paribas
With regards to BNP Paribas, the researcher was able to gain access to two documents. First the BNP Paribas Charter, last updated in February 2014, and second the BNP Paribas Code of Ethics which was signed in 2011. The BNP Paribas code of conduct is structured around 9 core principles formulated to govern the conduct of the employees. The charter meanwhile, focuses on two dimensions: the economic responsibilities of the bank and the social responsibility, civic responsibility and environmental responsibility. Similar to HSBC, BNP Paribas does not provide any decision making guidance in order to identify or support decisions in case of a potential unethical situation.

3.5.9. Co-operative bank
Having branded itself the only bank with a customer-led ethical policy, the Co-operative bank has long been regarded as an ethical champion in the industry due to their ethical policies which cover five key areas: Social enterprise, Ecological Impact, International Development, Human Rights, and Animal Welfare. The co-operative bank has for a long while made possible to customers to decide where they should do with their money. However, this list of areas the ethical policies target omits a crucial area as it does not include the relationship between the company and the customers more precisely no policies are related to the way the bank would like its employees to treat its members and customers. In the search for such policy, the code of business conduct was consulted. However, it has been discovered that the code of business conduct of the Co-operative bank is standard to all businesses of the Co-operative Group, which therefore means that the guiding principles are the same for the Banking, Funeralcare, Pharmacy, Food, Estates, Legal services, and other businesses in the group. The standardisation of the code of conduct make it more challenging for the group to outline or provide specific guidance on how it expects employees in a particular business, such as banking, to conduct the
banking operations. Also, no decision making framework was suggested by the company for the employees to use. The ethical policies therefore of the Co-operative bank seem very explicit when it comes to corporate social responsibility, issues that surround the daily lives of the customers, however they are lacking, when it comes to its transactions and interactions with the customers, which for a sustainable business should be priority.

3.6. Summary

In order to even attempt to find a solution to the problem, it is crucial to understand it. In this review we have seen factors that have been found to influence behaviours and have an impact on anomie. However, these factors have not been researched specifically in the banking industry. Furthermore, this chapter has also presented the codes of ethics and/or codes of conducts adopted by 9 prominent banks operating in the United Kingdom. These factors and the codes and charters adopted by the industry to ensure employees adopt ethical behaviours will be the focus for the remainder of the study.

In Chapter IV further discussion in the hypotheses and research methods will be brought.
Chapter IV. Methodology

4.1. Introduction

In this chapter the research choices that were made in this thesis are introduced. This research seeks to identify the factors that influence anomie in the banking industry. In order to achieve that, the research, in its design and analysis, was inspired by similar research from Johnson et al. (2011) in a different industry.

This methodology chapter is divided in eleven parts, first covering the planning stage of the research with the research paradigm, research framework, research design, the sampling applied, and research instruments used. Following that is a report on the first major test of the research plan with the pilot test. Then the chapter reports on the success of the data collection, and the ethical issues encountered. It finally focuses on the data analysis methods used for the data of the questionnaire survey.

4.2. Research Paradigm

Research Paradigms are perspectives or philosophical stances that dictate the way and attitude with which researchers conduct their research (Muwazir, 2011; Collis & Hussey, 2003). These philosophies represent aggregates that are formed by elements such as assumptions, concepts, values and practices (Johnson & Christensen, 2010). These elements which are distinctive for each paradigm influence their ontology, epistemology, axiology, rhetoric and methodology which, as dimensions of the paradigms, also inherit of their elements. This means each paradigm has an ontological, epistemological, axiological, rhetorical, and methodological view of research which distinguishes it in characteristics from other paradigms distinctiveness (Johnson & Christensen, 2010). Consequently it is crucial to discuss the research paradigms, as these views the researcher has of the world and the knowledge sought after during the
research process, can yield in conclusions and knowledge that differ from paradigm to paradigm even if each was adopted to study the exact same phenomenon in parallel (Hatch and Cunliffe, 2006). Furthermore, according to Flowers (2009), the discussion on these paradigms will help minimise, display, and explain the researcher biases.

In the preceding chapter, we have shown that ethics has always been a subject of discussion in the banking industry. Despite the wealth of literature produced to improve our understanding of it, ethics is still a major issue of governance in banks and other industries. We go from the premise that the direction taken by the majority of those studies has been determined by an excessive focus on ethics in itself, its philosophies and description, and not enough on the actual settings of the environment within which the action that is under ethical evaluation is being performed. The characterisation of ethics as a grey area and as being subjective has influenced many to consider that a qualitative study is more relevant to its examination. Yet, without implying that such a paradigm is false, it has to be recognised that firms on the ground have found it extremely difficult to incorporate these theories in the daily operations and be successful at that practice. This could be because the qualitative nature of those studies, which is forced to recognise the element of subjectivity in ethics, yields only in models such as decision-making frameworks that are too generic, supposedly usable by all. The universal nature of the results of these efforts could well be the downfall of those theories. As we can see in the appendix A, decision making frameworks ignore the factors that may give the unethical decision a degree of attraction in the eyes of the employee. This makes it hard for a firm or an employee to implement this as those factors can make the unethical options look disproportionately more profitable with a very low risk of getting caught. This makes it crucial to study these factors as they could just be the spark in the genesis of many ethical dilemma. Put simply, perhaps if these factors are better managed, employees would not be so often facing ethical dilemmas, and if they do, perhaps the unethical option will lose in attractiveness. It may
however, be impossible to study all the factors that could influence every professional in the world in times of decision making, nevertheless it should be possible to study factors that are industry specific that influence the daily decisions of the employees. Studying the factors in the banking industry would therefore allow to build on the current knowledge which does not seem to guide many employees in the industry enough. It is accepted that the body of knowledge is not at a level where it has the means to provide a systematic decision chart based on a simulation or scenarios that accurately mimic all the different situations and contexts within which decisions have to be taken now or in the future, and prescribing in advance the actual decisions that will be tolerable. However, studying the factors in the banking industry will equip the firms’ management to manage them and find manners in which to reduce their influence on employees, while it allows regulators to identify potential areas of weakness in the ethical governance of banks. This will result in a more proactive management of ethics and more importantly would support the current knowledge on ethics by making it easier for firms in the banking industry and employees to apply the current ethical models, given it will be possible to regulate the influencers of the staff’s decisions to achieve an environment where the conclusion of the decision making process is that the ethical alternative be more attractive than the unethical one. This research will therefore solely focus on the factors that influence behaviours in the banking industry, with the anticipation that other researchers will do the same for other industries which will finally yield in an ethics literature that is easier to apply in practice, in different industries, industry-fitting ethics.

With all this in mind, we are going to introduce the paradigm that has been implemented in this research through the assumptions that have been made for each of the dimensions we have earlier identified as components of paradigms.

4.2.1. Ontology
Ontology is described as “the branch of philosophy dealing with the nature of reality and the truth” (Johnson & Christensen, 2010: p. 32); a dimension which is more meticulous than epistemology when it comes to scrutinising the beliefs and views the researcher has of the “way the world operates” and to what extent he/she holds them (Saunders, et al., 2007: p. 108); “the science or study of being” which in social science aggregates “claims about what exists, what it looks like, what units make it up, and how these units interact with each other” (Blaikie, 1993: p. 1 cited by Flowers 2009).

Two types of ontology exist: **objectivism** and **subjectivism** (Saunders, et al. 2007). In this research given the choice of paradigm, an objectivist ontology is here applied.

Objectivism describes a reality that is singular and independent from the social actor’s influences (Saunders, et al. 2007). This means an objective reality is not influenced by the social actors’ perception, beliefs, sentiments and views. In the workplace employees as subject to rules they have to follow. First, it is known from human resource management that during the recruitment process, details about the job are advertised including the job description. These details represent guidelines provided before the appointment as, during employment, each employee must fulfil the responsibilities encompassed in his/her job description. These represent instructions that are usually known from the start of employment. Also employees are subject to other types of instructions which are this time more emergent. These are instructions that are derived from factors such as the strategy of the firm, the expectation of shareholders and the level of competition in the industry. The employee is expected to aid the firm to meet the shareholder’s expectations, become more competitive, and successfully implement its strategy. The view that these guidelines and expectations are singular and objective guides independent from the influences of the employee, is vindicated when it comes to the widely practiced in firms and almost obligatory employee performance reviews. During these reviews those guidelines and targets are used by the firm as benchmark to measure the
performance of the employees. The danger for an employee whose performance review is negative is at least being subject to increased pressure if not lose all together employment and the financial, psychological, and social benefits that come with it (Caspi, et al., 1998). Therefore to avoid unemployment, employees, knowing these factors will be used as benchmark to appraise their performances, can be said to be incentivised to have them in mind at all times during their operations and when important decisions have to be taken. With this interest in mind, an opportunity to act unethically can arise if other factors independent from the employees allow. Those factors are the level of financial expertise of the government; the vision, the coherence of economic policies, and client vulnerability.

The implication of our assumption is therefore that the matter being studied here is independent from the actors.

4.2.2. Epistemology

Epistemology is seen as the dimension of a paradigm that covers what is considered as an “acceptable knowledge in the field of study” (Saunders et al., 2007: p. 102). It scrutinises the personal involvement, engagement, or relationship of the researcher with the object in the process of the research (Bryman and Bell, 2003; and Collis and Hussey, 2003 cited by Muwazir, 2011). Although there are many philosophies, three of them are identified as the main ones, the roots of epistemological positions: Positivism, Realism, and Interpretivism.

Because we are looking to study the factors that influence people’s behaviour at work in the banking industry, study of ethics is undertaken with the view that the typical interpretivist research philosophy applied in mainstream studies of ethics will not assist in answering our questions. Instead a positivist epistemology is here applied.

Positivism is regarded as the stance typically assumed by natural scientists. It completely isolates the involvement of humans and therefore is not interested by the personal interpretation
social actors make from the object researched. It involves setting hypotheses from relevant literature which will be subsequently tested to confirm or reject (Saunders et al., 2007). This process applied in the positivist approach which starts from the theory and ends with the findings is called the **deductive approach**. First we can conclude that we are maintaining an independent and objective approach, and second this research will involve hypotheses testing.

4.3. **Research Framework**

Existing measures were compiled and adapted to this context from the literature. However three of them are new. These three measures are the ones that are external to the banking industry: Clarity in economic direction, Government/Regulator’s financial expertise, Client vulnerability. We will be able to go into much more detail about how these were developed later in the Research instruments part.

The research framework (figure 7) hypothesises that variables from three dimensions of the banking industry’s environment have a relationship with the anomie within the industry.

The first dimension, which relates to the internal environment of the banking industry, has 7 independent variables that are hypothesised to have a positive or negative relationship with anomie. The independent variables are: strategic aggressiveness, competitive intensity, competitor orientation, long-term orientation, ethical policies, shareholders’ expectations, and ethical apathy.

The second dimension is external to the industry. It relates to the government and its financial industry watchdogs. The independent variable hypothesised to have a relationship with anomie in this dimension are: coherence of economic policies and Government/regulators’ financial expertise.
Finally the last dimension is the public. The independent variable considered under this dimension is clients’ vulnerability.

The hypothesised relationship between these independent variables and the dependent variable that is anomie will be enunciated in greater detail in the research instrument part later in this chapter.

**Figure 8: Conceptual Framework**

**Variables:**
- A = Strategic Aggressiveness
- B = Competitor Orientation
- C = Competitive Intensity
- D = Long-Term Orientation
- E = Ethical Policies
- F = Shareholders’ expectation
- G = Ethical apathy
- H = Coherence of economic policies
- I = Government/Regulators financial expertise
- J = Client vulnerability

(+): Positive Relationship
(-): Negative Relationship

**4.4. Research Design**
Research design is defined as a “blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings” (Burns & Grove, 2003: p. 195). It converts the “research question into research project” (Robson 2002 cited by Saunders et al., 2007: p. 18), it is the “general plan” to follow to answer the research question (Saunders et al., 2007). Saunders et al. (2007) identify three components in the research design: research strategies, research choices, and time horizons. However, these are underpinned by other aspects that a researcher ought to bear in mind: the purpose of the study, the ethics of the research design and the credibility of the findings.

### 4.4.1. Research strategy: Survey in this research

Many research strategies have been identified including: experiment, survey, case study, action research, grounded theory, ethnography, and archival research. The research strategy here applied is the survey which is suited to the deductive approach according to Saunders et al. (2007). The survey strategy is even more relevance in our exercise considering that it allows the researcher to collect a large quantity of data economically. Furthermore, in the industry in question, we know that firms are very secretive; and because intellectual property cannot be claimed for strategies, banks are often not transparent regarding their strategies and the way their new financial products work. On one hand the latter not only will legitimately make it hard for competitors to copy, but on the other hand, customers do also suffer from this secrecy in terms of understanding the products they buy. In line with this, and considering the public sentiment depicting the industry as unethical, the consideration of using a multiple method research with interview of player in the industry was eliminated due to concerns over the validity of the data gathered from a potential interview of bankers who would want to defend the industry. The risk of having a biased opinion in favour of the banks was too high. Also, this decision not to do interviews came after individual bankers were approached with the option for anonymity. Despite the promise of anonymity, those approaches were turned down, namely
because of the fear to be regarded as a whistle-blower in an industry where information travels fast and reputation among peers crucial. A survey was therefore the most appropriate given respondents were invited to participate without writing their names, therefore ensuring anonymity. Moreover, although there is still risk for bias in favour of their own industry, the result of the research would not be the representation of one single opinion but that of representative group, therefore the survey method due to its nature provided insurance when it comes to an attempt to identify individual opinions in order to potentially sanction participants. The fact that individual opinions would melt into the collective opinion would also protect the research making it unnecessary, or at least reducing the urge for respondents to offer a biased opinion.

4.4.2. Research Choice
Research choice according to Saunders et al. (2007) concerns the approach in the choice of techniques within the quantitative and/or qualitative methods. Three approaches exist: **mono method**, **multi method**, and **mixed method**. In this thesis, the researcher has opted for a mono method. This choice is only logical in view of the previous decision to opt for a positivist paradigm rather that a pragmatist stance. That decision therefore restricted the choices to either mono or multi method as according to Saunders et al. (2007: p. 145), a mixed method of research “uses quantitative and qualitative data collection techniques and analysis procedures”. Ultimately, although we could have opted for a multi-method quantitative study, which “refers to those combinations where more than one data collection technique is used” (Saunders et al., 2007: p. 145), the limited time to complete this thesis prompted the researcher to opt for a mono method, in order to avoid dispersion and apply that time in a single method that would be executed in a very thorough manner. This has led to the development of a very comprehensive questionnaire which we will later discuss in more detail.
4.4.3. Time horizon

The time horizon of a research is very important. Often such decision depends on whether the research project has to be completed in a short period of time or whether in such short time limit does not exist. The researcher here has the option to decide whether the research will represent a “snapshot” of a particular point in time – Cross-sectional Study – or whether it will represent a “diary” that covers a long period – Longitudinal Study (Saunders et al., 2007).

In our research we have opted for a cross-sectional study. This therefore implies that this study will depict the reality at the time data was collected. The limitation of such study is that the opinion may change and therefore the results could be different if the research is conducted at a different point in time or if it was conducted over a longer period. However due to the limited timescale that was set for this research to be conducted, the adequate study to opt for is the cross-sectional study. Furthermore, the cross sectional study will allow us to compare the views of the different demographics in our study, and zoom in on the contrasts in opinion (Remenyi et al., 1998). This should allow us to also study the relationship between variables.

4.5. Sampling

The aim of a survey is to gather the point of view of a population. When the population is of a considerable size, it is preferable as well as practicable to only gather the opinion of a number of people within that population rather than administer the survey to the entire population (Saunders et al., 2007). This is due to the enormous amount of time and the budget the latter would require. One therefore needs to sample due to the impracticability of surveying the whole population. However, in order to produce valid results, the sample of the research must be representative of the population. In order to fulfil this condition, various sampling techniques are available. Yet before thinking about the sampling technique, we first need to identify the population and then the sampling frame.
4.5.1. Identifying the population

A population is defined by Saunders et al. (2007: p. 610) as “the complete set of cases or group members”. This is the total number of people meeting the criteria to be surveyed from which the sample will be selected. Given the matter of interest in this research, our focus is on professionals that meet a certain criteria.

Respondents had to be professionals working in commercial banks or investment banks at the time of the data collection in order to be considered. The identification of the profiles was based on these definitions of commercial/retail banks and investment bank:

*Commercial/Retail Bank:* A bank that offers services to the general public and to companies (oxford dictionaries, 2014).

*Investment Bank:* A bank that, amongst other activities, purchases large holdings of newly issued shares and resells them to investors (oxford dictionaries, 2014).

We focus on bankers who are in constant contact with clients, and also on the hierarchy above that team. This mean we will cover the operational level, middle management level and top management. Covering all levels is important in this research. The top management sets the targets and strategies, and assesses the performance overall of the group. They have the ability to decide the criteria on which employees are rewarded or punished for their actions, hence their ability to promote or discourage behaviours through policies depending on the priorities they have set for the group. The middle managers organise and control their teams in order to meet the objectives. They also judge the efforts and actions of subordinates in their team. This assessment can often represent the basis on which to reward or punish an employee. Pressure could also come from them when it comes to meeting targets. Finally, the operational staff executes the strategies and works to meet their targets. They are the front line, because they are in contact with clients.
4.5.2. Sampling Frame

Given that there are more than a million professionals in the financial industry, gathering a complete sampling frame was a challenge, since with the timing of this research and the topic being dealt with, no bank agreed to participate in this study. Instead, the research turned towards chartered institutes regrouping financial professionals in the industry as member. This strategy was viable for this research given members of these institutes are first and foremost employees in the industry. Also, targeting these pools would allow access to employees working in different banks and at different levels in the industry, therefore safeguarding the representativeness of this survey in terms of the diverse number of companies in the industry and the variety of strategies and approaches they apply. Furthermore, members of chartered institutes, would represent the best possible respondent’s as their status members show that they are qualified professionals who not only have been trained to perform their jobs, but also who have received independent training and stay regularly informed through an independent source, of new regulations and the impact that these have on their daily job. Consequently they would be the most knowledgeable, even if their firm has not provided a comprehensive ethics training they would be well aware of the matters at hand and would be better assessors of ethics and anomie at work. Further, given that they would receive these invitations to participate in the context of their membership, they would be more likely to respond. Access was granted to administer the questionnaire within two institutes. The lists of fully qualified members of chartered institutes specialised in training professionals in banking and financial management was used. However, given confidentiality was a condition in the negotiation of access, the researcher was not provided with the names of the members who have been sampled. The next step was to separate professionals carrying out banking activities and influencing them from other professionals who work in the banking industry but do not perform those activities. This is because the institutes had members that are not bankers – having occupation such as legal, consulting, accounting, research, Information Technology … Consequently these had been
eliminated by our study. Given that our study concerns the influence of factors on core operational banking decisions, which are financial in nature, the efforts were focussed on people who influence and perform those operations as previously enunciated. Approximately 51% of members fulfilled those requirements equivalent to about 24826 cases.

4.5.3. Sampling Design
There are two categories of sampling: probability and non-probability. Non-probability sampling techniques are based on the researcher’s subjective judgement (Saunders et al., 2007). They are often more convenient, however, a major disadvantage is that it is impossible to measure the sample with precision. These characteristics mean that they are widely used during pilot studies during the design phase of the questionnaire. The techniques which fall in the non-probability sample category are: Quota sampling, Purposive sampling, Snowball sampling, Self-selection sampling, and Convenience sampling (Saunders et al., 2007). On the other hand, in probability sampling the likelihood for each case within the population to be chosen is known (Saunders et al., 2007). In this category, Saunders et al. (2007) identify techniques such as: the Simple random sampling, Systematic sampling, Stratified random sampling, Cluster sampling and Multi-stage sampling. In our research we apply as stratified random sampling technique. Stratified random sampling involves dividing the population into strata based on relevant attributes. This is therefore dividing the population into groups based on characteristics and then selecting a random sample from the group (Saunders et al., 2007). This sampling technique ensures a representative sample (Babbie, 1998).

The population in this study has been divided in terms of their years of experience. Consequently eight groups have been identified: 0-4 years of experience, 5-9 years of experience, 10-14 years of experience, 15-19 years of experience, 20-24 years of experience, 25-29 years of experience, 30-34 years of experience and 35 years and more of experience.
4.5.4. Sampling Size
As articulated above, our total population is 24,826. In order to come up with a suitable sample size, we referred to Krejcie and Morgan (1970) and their sample size table. This table indicates that for a population of 30,000, one needs a sample size of 379 people to be 95% confident. This represents a margin of error of 5%.

4.6. Research instruments
Some instruments were collected and adapted to our context from the literature, whereas other measures were new. The literature review allowed us to define and understand all instruments in order to develop the questionnaire and verify its adequacy through pilot testing and consultancy.

4.6.1. Content of Questionnaire
The questionnaire was designed to measure whether or not and how strongly do factors that are internal and external to the industry as well as personal ones can influence ethics in the banking industry.

In this questionnaire we only applied five-point Likert scales a close-ended question and a ranking type question.

The questionnaire was divided into four parts. The first part focused on the biodata of the respondents.

In the second part, we focused on independent variables that are internal to the industry. These variables included person-based factors such as: desire, attitude, and intention towards acting unethically. These variables were used in order to only gain a perspective about the perception and attitudes of the respondents towards ethics. The second part then continued with the decision making factors which influence decision making. Also, among variables that were
internal to the industry, we considered factors that are inherent in the environment such as: the competitive intensity in the industry, competitor orientation, strategic aggressiveness, and long-term orientation of the firms, Stakeholders’ expectations, ethical apathy, Firm’s policies, and anomie in the firm. Many elements in this part are proposed by other researcher. These researchers are: Rabl (2011), Jaworski and Kohli, (1993), Narver and Slater (1990), Johnson and Sohi (2001), Menard (1995) and Johnson et al. (2011)

The third and fourth part, which are entirely new, focused on external factors. They investigate independent variables that emanate from two stakeholders.

The third part looks at the governmental factors that influence the industry. These are the financial expertise when regulating, and the coherence in the economic regulatory policies formulated with the economic identity sought.

Finally the fourth part focuses on the influence of the sole factor related to the relationship between the industry and its clients (customers and investors): client vulnerability.

Among the measure of the factors internal to the industry which featured in previous researches, the ones that seemed to point at another environmental context were adapted to our industrial context, as they were not applied in the banking industry. For example Rabl’s (2011) scale contained: “My family would bear me out in the decision to accept the customer’s offer”. With offer being unethical in Rabl’s (2011) scale’s context – i.e. a bribe – it was adapted in our scale into: “My colleagues would bear me out in the decision not to disclose some information about a product that would act as deterrent for the client or investor”.
4.6.2. Hypotheses Development

In their study, Johnson et al. (2011) have shown that Long term orientation, competitive intensity and strategic aggressiveness had a significant effect on anomie positive or negative. As for competitor orientation, its effect is seen as not significant therefore not confirming there hypothesis. However, this study was not done in the context of a banking industry rather in the manufacturing industry. We are therefore looking to apply these in a banking context in order to see whether there are variations but more importantly in order to identify the strength of the relationships, if any, within the banking industry.

We are also trying to establish whether ethics training and decision making processes endorsed by the firms do have an effect on anomie.

On the other hand, Rabl (2011) has found that attitude, desire, intention and subjective norms are in some way or the other related to corrupt actions.

However, these are factors that are internal to the industry. We would like to find out whether factors that are external to the industry could also have an impact on anomie. These factors are financial expertise when regulating, the coherence in the economic regulatory policies formulated with the economic identity sought, and client vulnerability. This would tell us whether ethics in the industry is something that is only influenced by factors internal to firms and therefore parties involved in its management should be narrowed only to the company in question; or whether it is something that is also influenced by factors external to the industry which therefore mean by managing those external factors, we could control anomie within firms and ethics in the industry. The latter would in all effect mean that firms can only partially control anomie and that there are other factors that can only be controlled by stakeholders.

In a banking industry where there is much more pressure, where employees are exposed much more frequently to situations of high monetary gains or losses, and where success in the past
has meant it occupies a crucial place in the economies, we expect positive relationships between anomie and strategic aggressiveness, competitive intensity and competitor orientation; and a negative relationship between anomie, ethical policies, and long-term orientation. All the external factors also are thought to be negatively related to anomie.

Finally, we propose anomie in firms to be negatively related to the perceptions of the progress of ethics in the industry.

H1: Strategic aggressiveness impacts positively on anomie at work

H2: Long-term orientation impacts negatively on anomie at work

H3: Competitor orientation impacts positively on anomie at work

H4: Competitive intensity impacts positively on anomie at work

H5: High shareholder expectations has a positive effect on anomie

H6: Ethical apathy is positively related to anomie

H7: A financially expert government making sound financial policies when regulating impacts negatively on anomie at work

H8: Coherence of economic policies formulated with the economic identity sought impacts negatively on anomie at work

H9: Client vulnerability is positively related to anomie

H10: Detailed ethical policies in banks impacts negatively on anomie.

H11: Effects on anomie differ for retail banks and Investment banks such as relative to retail banks:
H11a: The effect of strategic aggressiveness on anomie is greater for investment banks.

H11b: The effect of long term orientation on anomie is greater for investment banks

H11c: The effect of competitor orientation on anomie is greater for investment banks

H11d: The effect of competitive intensity on anomie is greater for investment banks

H11e: The effect of client vulnerability on anomie is greater for investment banks

H11f: The effect of high shareholders’ expectation on anomie is greater for investment banks

H11g: The effect of ethical policies on anomie is greater for investment banks

H11h: the effect of coherence in economic policies and regulation on anomie is greater for investment banks

H11i: The effect of a financial expert government leading the industry on anomie is greater for investment banks

H11j: The effect of ethical apathy on anomie is greater for investment banks

4.7. Pilot Test

Prior to the data collection, the questionnaire has been tested in accordance to the recommendations in the literature (Saunders et al., 2007; Neuman, 2003; and Bell, 2005) in
order to verify the validity and reliability of the data we will collect as well as identify possible
difficulties and problems the respondents could face while answering the questions. It gives an
indication with regards to the time it takes to complete the questionnaire, the clarity of the
instructions, the attractiveness and user friendliness of the layout, the existence of disturbing
questions which the respondents would not want to answer, and whether there is anything that
was omitted (Bell, 2005). It has allowed the researcher to confidently administer the final
version of the questionnaire after having corrected defect identified by the pilot test and related
to the “quality, uniformity, and consistency” of the instruments.

This test of appropriateness first started in October 2012 with the consultation of academics
and the directors of the institutes to verify its suitability and comment on the representativeness
of our questions. This step was immediately followed by a distribution of the questionnaire to
54 respondents who were selected on LinkedIn and who matched the profile sought.

In our questionnaire it was crucial to perform a pilot test as some of the questions were not
altered after being taken from studies that did not investigate the banking industry. For these
questions it was therefore critical to test the potential fit and their adequacy in the banking
environment. Also some of those were constrained in only one geographical area. In our study
because we are focused on the banking industry, we regarded that restriction as irrelevant as
the industry in question is global with affairs that stretch all over the world, firms that are not
present in only one country, and that often employ expatriates all over the world to work in one
country. Also some of the questions that were taken from the literature, were adapted. This test
provided an excellent opportunity to appreciate the relevance of this alteration. Finally, the
pilot study was even more essential given the fact that new measures were developed in our
study. We were therefore required to test the reliability and validity of these new constructs.
Besides reasons that were linked to the actual reliability and validity of our question, we also had to pilot our questionnaire in order to find potential issues that could lower our response rate. First of all questions were raised as to whether this period was the best time to ask bankers their opinions about ethics in their own industry. Many researches dealt with ethics in the banking industry lately but most of them had stakeholders external to the industry as core respondents. The fact that we wanted the bankers to be the core respondents was therefore on its own a motive to perform a pilot study and verify whether they would actually want to participate.

Moreover, the questionnaire was deemed as “very comprehensive” and accurate during one of our consultations. Although this comment was very positive, the worry was that this comprehensive questionnaire could be seen as too widespread and broad. Given this is an industry that is fast paced, it would have been a mistake to use a questionnaire that respondents judge too long and insignificant to set time apart to answer them.

The feedback we received was very insightful. Some instruments were eliminated altogether as they were seen as irrelevant. Other elements were altered further taking into account comments. The time to complete the questionnaire was seen as too long considering the difficulties the respondents faced. However the corrections and elimination of unimportant questions changed that. Also questions that appeared to enclose bias in the eyes of the respondents were corrected.

4.8. Data Collection

In order to collect the data, the method used was the internet-mediated survey. The data was collected within a 6 months’ timeframe; between June 2013 and December 2013.
4.8.1. Internet-mediated Survey
All our questionnaires were administered using this method. Rather than sending the questionnaire via email, we invited the respondents to fill up the questionnaire online on an especially dedicated website which according to Witmer et al. (1999, cited by Saunders et. al 2007) offers as advantage anonymity for the respondents, also biases about the significance of the opinions is avoided given the respondents are anonymous therefore equal, and finally, the respondents would be unable to alter the questionnaire unlike for email based questionnaire. Accordingly with the recommendations of Saunders et al. (2007), we explained on the website the purpose of the questionnaire, the profile of the target respondents, and what they have to do. We advertised the link of the survey within the institutes and provided the hyperlink of the survey so that respondents can access the questionnaire. Reminders have been sent to those who had not responded yet 1 week and 4 weeks after the first contact with them. The survey platform used to design the questionnaire on a website was Google Drive.

4.8.2. Response Rate
In order to arrive at a significant number of respondents, 390 responses, 1206 potential respondents were invited to take part to the survey by visiting the link of the questionnaire. This would return a response rate of 32.5%. This response rate compared to that of Johnson et al. (2011) who had a response rate of 22.3% represents a better rate. However, 351 responses were gathered which represent 29% response rate.

4.9. Ethical issues
Respondents were provided with a consent form and a participant information sheet explaining their rights and informing them about the aims of the research. Among those rights were:

1. The respect of anonymity and privacy
Ethics being a sensible topic in the industry, and given the natural reaction individuals in employment have to protect their positions against possible threats, it was crucial for the researcher to ensure anonymity. Proactive steps to convince respondents that anonymity would be guaranteed included the data collections method selected and the assurance that they are free not to leave any contact detail in the form.

2. Informed consent

Informed consent is crucial in this research. The respondents were made aware of all the details around the research including its purpose and how long it would take to complete. Also the Participant information page specifically informed the respondents of their right to decline filling up the questionnaire as well as withdrawing from the process at any time.

3. Deception and harm

The researcher ensured the respondents that they would not be deceived or harmed in any ways and that if they have any complaints, if something goes wrong, they would be able to contact the Research Degree Committee or the researcher. The contact details of the Research degree committee and those of the researcher were both provided. Also the precision was brought over the potential risks the researcher believed the research contained.

4. Confidentiality

Assurances of confidentiality were also given on the Participant information page. This was accompanied by the statement that the research was overseen and reviewed by the Research Degree Committee in order to protect the safety, rights, well-being, and dignity of the respondents. The researcher also mentioned what would and what would not be published in the final report, journal, and which information would and would not be shared with third parties.
4.10. Data Analysis Method

Based on the research objectives, the data analysis in this thesis focused around 3 main analyses: Exploratory factor Analysis, Confirmatory factor analysis and Cross-sectional factor analysis. The first two were used as means to validate our data whereas the last one was used to test our hypotheses.

4.10.1. Exploratory Factor Analysis (EFA)

Exploratory factor analysis is as statistical analysis that is often used in social science mainly as a data filtering technique (Field, 2007). The process allows researchers to simplify the information that is in their data and is even more useful in researches that have gathered responses for a lot of variables. When doing an explanatory factor analysis, we aim to identify groups of variables in order to understand the structure of the set of variable within each group, to “design a questionnaire to measure an underlining variable”, and to “reduce data set into a more manageable size while retaining as much of the original information as possible” (Field, 2007: p. 627).

Before going into much more details about the steps involved in a successful exploratory factor analysis, we will first look at the differences between principal component analysis (PCA), which is often used as a method of extraction despite not being a true method of factor analysis (Costello & Osborne, 2005), and actual factor analysis.

4.10.1.1. Principal Component vs. Factor analysis

The consideration of principal component as similar to factor analysis and its use as a method of extraction not different, or even for some, more preferable (Arrindell & van der Ende, 1985; Steiger, 1990) is the subject of an intense debate between academics ongoing for more that decades. In actual fact the principal component analysis is not a method of factor analysis (Field, 2007). The common use which it is the object can be traced in historical facts. According
to Gorsuch (1990) the principal component analysis was common among researcher and therefore in published academic articles because it was a more cost and time effective alternative to factor analysis in a period when computers were simply slow to use and access was limited. It is a simpler alternative which does not take into account all the considerations of factor analysis. Indeed, it has been found that the principal component analysis does not take into consideration “any underlying structure caused by latent variables” as it does not discriminate between the shared variance, error variance and unique variance of these variables. Consequently, where principal component analysis yields in a solution that features all the variance of the variables, the factor analysis’s solution only features the shared variance (Costello & Osborne, 2005: p. 2). In turn, these differences in the handling of variance, according to Gorsuch (1997), can result in discrepancies between the results of the two methods. This has been proven by Costello and Osborne (2005). In the face of these differences Costello and Osborne (2005) suggest the use of factor analysis where possible. This advice is taken in this thesis consequently the extraction methods that were considered by the researcher do not include the principal component analysis.

4.10.1.2. Extraction method

Factor Analysis has many different extraction methods namely, in SPSS’s default order, the unweighted least squares, generalised least squares, maximum likelihood, principal axis factoring, alpha factoring and image factoring. The lack of a significant amount of detail regarding the advantages and disadvantages of each, which incidentally creates confusion over which one to choose, is regarded by some researchers as the possible reason why people use principal component (Costello & Osborne, 2005). However, the suggestion offered based on the relative normal distribution of the data is to use maximum likelihood when the data is generally normally distributed and the principal axis factor when the distribution is
significantly non-normal (Fabrigar, et al., 1999). In our exploratory factor analysis we used the maximum likelihood method.

4.10.1.3. Number of factors
In the factor analysis, one important decision that the researcher must take concerns the number of factors to retain. A general convention in social science is to keep all factors with eigenvalues greater than 1 according to Kaiser’s (1960) recommendation; and confirm the number using the point of inflexion on Cattell’s scree plot, which represents a graph plotting the eigenvalues of all factors. However, this is debated. The scree plot alone, although “fairly reliable”, is seen as an insufficient basis of selection, whereas, Kaiser’s criterion is regarded as too severe by Jolliffe (1972,1986) who advocates retention of factors with eigenvalues greater than 0.7 which can result in a huge number of extra factors to retain (Field, 2007). However, as Field (2007) argues, the Kaiser criterion often overestimates the number of factors, which eventually means that Jolliffe’s suggestion is even worst. In light of all this debate about the number of factors and because, it is an accepted method of selection, Kaiser’s criterion has been applied in this thesis.

4.10.1.4. Rotation
Rotation methods are used in order to streamline and clarify the structure of the data (Costello & Osborne, 2005). There are two main categories of rotation. On the one hand we have orthogonal rotations, which are used to ensure that after rotation the factors are uncorrelated. These include varimax, quartimax and equamax. On the other hand we have oblique rotations, which allow the factors to correlate after the rotation and include direct oblimin and promax. Due to the natural expectation in social science of correlation among factors, and to reflect the reality which is that behaviours are rarely independent from each other, it has been suggested to use the oblique rotations for more accuracy and reproducibility in solutions (Costello &
We therefore implement an oblique rotation using the direct oblimin method.

4.10.1.5. **Sample size**
Sample size is another important consideration for the exploratory factor analysis simply due to the threat of instabilities in correlation coefficients. Similar to the method of extractions, this has also been subject to much debate. Many “rules of thumb” have been proposed among which is the suggestion to have at least 10 to 15 participants per variable. Another rule is to have 5 to 10 participants per variables up to 300 as once that size is reached, the parameters become stable. Indeed studies have clearly found that 300 or more respondents would suffice to provide stable factor solution (Field, 2007). From this suggestion we are already confident that our sample size of 351 is large enough.

Alternatively, researchers have been advised to also use the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) (Kaiser, 1970), which uses a scale of 0 to 1, with 0 indicating that “the sum of partial correlations is large relative to the sum of correlations” and 1 indicating that “patterns of correlations are relatively compact and so factors analysis should yield distinct and reliable factors” (Field, 2007: p. 647). Finally, the sample is considered as average when the KMO value is between 0.5 and 0.7, good between 0.7 and 0.8, very good between 0.8 and 0.9 and finally excellent above 0.9 (Hutcheson & Sofroniou, 1999).

4.10.2. **Confirmatory Factor Analysis (CFA)**
The confirmatory factor analysis is a technique that seeks to test hypothesised relationships between variables. It is different to the EFA in four main points. Firstly, it requires the estimation of an approximate initial model. Secondly, the number of factors needs to be detailed. Thirdly the researcher needs to identify the items loading on each factors. Fourthly the researcher must specify a model that is based on theory or previous research (Suhr, 2006).
Many aspects can impact on CFA including the research hypothesis being tested, the sample size, the instruments used for measurements, multivariate normality, outliers, the identification of parameters, missing data and the interpretation of model fit indices (Schumacker & Lomax, 1996; Suhr, 2006). In order to be successful in a CFA, Suhr (2006) suggests the following steps:

1. Thorough review of the relevant literature in order to come up and support the model put forward,
2. Specification of the model,
3. Determination of model identification,
4. Collection of data,
5. Preliminary descriptive statistical analysis,
6. Estimation of the parameters in the model,
7. Assessment of the model fit,
8. Presentation and interpretation of the model fit.

(Suhr, 2006)

4.10.2.1. Model fit indices

Table 1: Confirmatory Factor Analysis and Structural Equation Modelling Model Fit Indices (Compiled from Savalei & Bentler (2006) and Byrne (2001))

<table>
<thead>
<tr>
<th>Indices</th>
<th>Critical values</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMIN/DF</td>
<td>Acceptable between values of 1 and 3</td>
</tr>
<tr>
<td>RMSEA</td>
<td>&lt;0.05 is regarded as a close fit</td>
</tr>
<tr>
<td>PCLOSE</td>
<td>&gt;0.05 acceptable</td>
</tr>
<tr>
<td>NFI (Normed Fit Index)</td>
<td>&gt;0.9 Good fit</td>
</tr>
<tr>
<td>RFI (Relative Fit Index)</td>
<td>Close to 1 very good</td>
</tr>
<tr>
<td>TLI (Tucker-Lewis Index)</td>
<td>&gt;0.95 good fit</td>
</tr>
<tr>
<td>CFI (Comparative Fit Index)</td>
<td>&gt;0.90 good fit</td>
</tr>
<tr>
<td>GFI (Goodness of Fit Index)</td>
<td>Close to 1 good fit</td>
</tr>
<tr>
<td>AGFI (Adjusted Goodness of Fit Index)</td>
<td>&gt;0.8</td>
</tr>
</tbody>
</table>
In order for the CFA model to be accepted it has to have an appropriate value for a number of indices the most important of those indices and their threshold can be seen in the table below.

4.10.2.2. **Factor validity (convergent and discriminant validity)**

Besides the model fit, for the confirmatory factor analysis to be acceptable it is necessary to test the construct reliability (CR), average variance extracted (AVE), maximum shared variance (MSV), average shared square variance (ASV) of factors.

Discriminant validity is assessed through the condition that MSV an ASV should both be smaller that AVE. Convergent validity meanwhile requires AVE>0.5 and CR>AVE. (Gemmell, 2011)

4.10.3. **Cross-sectional data analysis**

4.10.3.1. **Regression**

Our objectives in this research are to test and establish whether the factors we have identified through the literature and others emanating from an educated guess have a significant predictive relationship with anomie. These objectives are in harmony with the purposes of the regression equation which are to forecast a dependent variable’s values from that of the independent variables (Saunders et al., 2007), to find an approximate value of the mean of the dependent variable from the independent variable, and to test hypotheses (Gujarati, 1999). In this thesis we use the regression analysis for the purpose of hypothesis testing. However, we need to consider that there are two types of regression analyses: a simple regression equation, which would calculate the dependent variable’s value from only one independent variable, and the multiple regression analysis, which calculate the value of the dependent variable based on multiple independent variable. In this thesis as we have different independent variables, our focus is on the multiple regression analysis, the OLS (ordinary least squares).
Although our analysis is done using the calculation software, it is important to understand the formula which is applied to get our results. In multiple regression, the recognised equation is accepted to be 

\[ y_i = b_0 + b_1 x_{1,i} + b_2 x_{2,i} + \ldots + b_m x_{m,i} + \epsilon_i. \]

With \( y_i \) being the dependent variable, \( b_0 \) the intercept in the equation, \( x \) the relevant independent variable, \( b \) the coefficient of the relevant independent variable, and \( \epsilon_i \) the random error term which is required in order for the equation to reflect reality.

After finding the regression equation the ordinary least squared method consist in estimating the best fitting line within the data by minimising the sum of squared residuals. Its formula is

\[ y_i = \hat{b}_0 + \hat{b}_1 x_{1,i} + \hat{b}_2 x_{2,i} + \ldots + \hat{b}_m x_{m,i} + \epsilon_i \]

where \( y_i \) is the dependent variable, \( \hat{b}_0 \) the intercept in the equation, \( x \) the relevant independent variable \( \hat{b} \) derived coefficient of the relevant independent variable and \( \epsilon_i \) the random error term (Andersen, 2008).

However, according to Burke (2010), for the ordinary least square method to be applied, a number of assumptions should be met:

1. The model must have linear parameters.
2. The data must be from a random sample to ensure statistical independence of the residuals.
3. Absence of strong collinear relationship between the explanatory/independent variables
4. Expected value of the residuals should be equal to zero
5. Precise measurement of the independent variables
6. Normal distribution of the residuals, and
7. Homogeneous variance between the variables

### 4.10.3.2. Group differences test

A group difference test allows to assess whether groups within our population are statistically different in their responses. Different tests exist depending on the number of groups in the
When the population is divided in three or more groups, it has been suggested to use an Analysis of variance (ANOVA). Where there are only two groups we can use two different tests. The z-test for when the standard deviation of the population is known and the t-test for when it is not known or when the sample is small (McCluskey & Lalkhen, 2007). Given the specifications of our thesis, we opted for a t-test.

### 4.11. Summary

In this chapter we have detailed the processes that where applied in this research. We have therefore covered the research paradigm that was here applied, the research framework, the design that was implemented, the sampling technique and approach selected, the research instruments and hypotheses, the process of testing the questionnaire, the method of data collection including the response rate, the ethical issues that were relevant in this research, and finally we covered the data analysis methods that will be applied to this work. The table below summarises the choices made in this chapter.

**Table 2: Summary table of major methodological decisions**

<table>
<thead>
<tr>
<th>Research Components</th>
<th>Component Applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philosophy</td>
<td>Positivism</td>
</tr>
<tr>
<td>Approach</td>
<td>Deductive</td>
</tr>
<tr>
<td>Strategy</td>
<td>Survey questionnaire</td>
</tr>
<tr>
<td>Choices</td>
<td>Mono method</td>
</tr>
<tr>
<td>Time horizon</td>
<td>Cross-sectional</td>
</tr>
<tr>
<td>Ontology</td>
<td>Objective</td>
</tr>
<tr>
<td>Data Collection Method</td>
<td>Website Internet-mediated questionnaire</td>
</tr>
<tr>
<td>Sampling technique</td>
<td>Stratified random sampling</td>
</tr>
<tr>
<td>Pilot test</td>
<td>54 Respondents plus consultation</td>
</tr>
<tr>
<td>Exploratory Factor Analysis</td>
<td>Extraction Method: Maximum Likelihood</td>
</tr>
<tr>
<td></td>
<td>Criterion to decide of number of factors: Kaiser’s criterion</td>
</tr>
<tr>
<td></td>
<td>Rotation method: Direct oblimin</td>
</tr>
<tr>
<td>Method</td>
<td>Description</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Confirmatory Factor Analysis</strong></td>
<td>Sample size test: Kaiser-Meyer-Olkin measure of sampling adequacy (KMO)</td>
</tr>
<tr>
<td><strong>Cross-sectional analysis</strong></td>
<td>Multiple Regression analysis: Ordinary least squares</td>
</tr>
<tr>
<td></td>
<td>Group differences: T-test</td>
</tr>
</tbody>
</table>
Chapter V. Results and Findings

5.1. Introduction

This chapter presents the results of the primary research conducted and the analysis performed through different statistical tests. It starts off with an analysis of the background of the respondents, covering their gender, their age, experience, the banks in which they currently work, and their job title. The chapter follows this analysis of the biodata of the respondents, with a presentation of the perceptions and attitudes the participants have towards ethics. After this presentation of the general analysis of the background and perceptions of the participants, the descriptive and inferential analyses of the different variables is provided. More precisely, the chapter discloses the results of the tests for the different hypotheses formulated regarding the relationship between anomie and the different independent variables identified. This is followed by the results of the group difference test between investment banks and retail banks that was performed on the data. Finally, this chapter is rounded off with the results of the analysis on the codes of conducts and codes of ethics.

5.2. Background of respondents

Before analysis of the variables and conclusions, it is common practice to first perform a general analysis of the participants in order to identify their profiles and background. This is particularly important as responses may often be influenced by those background. In this part, the descriptive review of the backgrounds is presented starting first with the gender and age of the respondents, followed by their experience, job title and finally the type of bank in which they currently work at.
5.2.1. Gender and Age

Most participants in this research were males. The tables below features the gender distribution of the participants. The female respondents accounted for approximately 21.4% of the participants. That is 75 female respondents. Meanwhile male respondents accounted for approximately 78.6% of the respondents. That is a strong majority of 276 respondents.

<table>
<thead>
<tr>
<th>Table 3: Gender of all respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Out of all the 351 respondents, 71% (252 respondents) were in the age bracket 25-34, 11% (39 respondents) were within the 45-54 age bracket, and 8.5% (30 respondents) were between 35 to 44 years old. The 18-24 and 55+ age brackets had equal number of representations among respondents, also the smallest, with 4.3% (15 respondents) each.
Table 4: Age for all respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>15</td>
<td>4.3</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>25-34</td>
<td>252</td>
<td>71.8</td>
<td>71.8</td>
<td>76.1</td>
</tr>
<tr>
<td>35-44</td>
<td>30</td>
<td>8.5</td>
<td>8.5</td>
<td>84.6</td>
</tr>
<tr>
<td>45-54</td>
<td>39</td>
<td>11.1</td>
<td>11.1</td>
<td>95.7</td>
</tr>
<tr>
<td>55+</td>
<td>15</td>
<td>4.3</td>
<td>4.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 10: Age of all respondents

Observing strictly the 75 female respondents the age distribution was within three age brackets. Similar to the age distribution for all respondents, the most represented female group based on age was the 25-34 age bracket with, this time, 84% (63 respondents). The only other two age brackets for female respondents 35-44 and 45-54 had equal number of representation with each 8% (6 respondents).

Table 5: Age for Female Respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-34</td>
<td>63</td>
<td>84.0</td>
<td>84.0</td>
<td>84.0</td>
</tr>
<tr>
<td>35-44</td>
<td>6</td>
<td>8.0</td>
<td>8.0</td>
<td>92.0</td>
</tr>
<tr>
<td>45-54</td>
<td>6</td>
<td>8.0</td>
<td>8.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Focusing on the male respondents, the trend with regards to the most represented group continues as the 25-34 age bracket was the most represented with 68.5% (189 Respondents). The next most represented group with 12% (33 respondents) was the group of respondents aged between 45 and 54. The 35-44 age bracket was the third most represented with 8.7% (24 respondents). Through this descriptive analysis it becomes clear that the individuals mentioned earlier who were 55 and over and those who were between 18 and 24 were all males with 15 respondents for each age bracket. Compared to the total number of respondents these respondents account for 5.4% of the male respondents for each of the two group.

<table>
<thead>
<tr>
<th>Table 6: Age of Male Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>18-24</td>
</tr>
<tr>
<td>25-34</td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>35-44</td>
</tr>
<tr>
<td>45-54</td>
</tr>
<tr>
<td>55+</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

5.2.2. Experience

<table>
<thead>
<tr>
<th>Table 7: Experience of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>0-4</td>
</tr>
<tr>
<td>5-9</td>
</tr>
<tr>
<td>10-14</td>
</tr>
<tr>
<td>15-19</td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>25-29</td>
</tr>
<tr>
<td>30-34</td>
</tr>
<tr>
<td>35+</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
The experience of the respondents is distributed over eight groups: 0-4 years, which had the second highest representation with 33.9% (119 respondents); 5-9 years, which was the most represented group with 40.5% (142 respondents); 10-14 years, which was the third most represented group with 10.8% (38 respondents); 15-19 years represented by 6% (21 respondents) and fourth biggest group; 20-24 years, which ranked eighth in representation with 0.9% (3 respondents); 25-29 years, which is the sixth most represented with 3.1% (11 respondents); the 30-34 years of experience bracket which ranked seventh in representation with 1.7% (6 respondents); and finally the 35 years and over group, fifth biggest group with 3.4% (12 respondents).

The experience in the banking industry of the respondents was further scrutinised in order to identify their experience in the types of banks of interest. In retail banking, the distribution is across seven groups. The group with the most representations was the one with the least amount of experience in retail banking 0-4 years which accounted for 69.2% (243 respondents) of the
participants. The next most represented group was the one with between 5 to 9 years of retail banking experience with 15.7% (55 respondents) of the participants. The third most represented group with 6% of the participants (21 respondents) was the group with retail banking experience spanning from 10 to 14 years.

The fourth most represented group was the group of respondents with between 15 to 19 years of retail banking experience with 5.1% (18 respondents). The fifth group with the most participant having retail banking experience was the group with 35 years of experience and over.

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>243</td>
<td>69.2</td>
<td>69.2</td>
<td>69.2</td>
</tr>
<tr>
<td>5-9</td>
<td>55</td>
<td>15.7</td>
<td>15.7</td>
<td>84.9</td>
</tr>
<tr>
<td>10-14</td>
<td>21</td>
<td>6.0</td>
<td>6.0</td>
<td>90.9</td>
</tr>
<tr>
<td>15-19</td>
<td>18</td>
<td>5.1</td>
<td>5.1</td>
<td>96.0</td>
</tr>
<tr>
<td>20-24</td>
<td>4</td>
<td>1.1</td>
<td>1.1</td>
<td>97.2</td>
</tr>
<tr>
<td>25-29</td>
<td>4</td>
<td>1.1</td>
<td>1.1</td>
<td>98.3</td>
</tr>
<tr>
<td>35+</td>
<td>6</td>
<td>1.7</td>
<td>1.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 12: Retail Banking Experience
Finally the group of respondents having between 20 to 24 years and the one with those having 25 to 29 years of experience in retail banking had the least representations with each enclosing 1.1% of the total respondents (4 respondents).

With regards to the experience in investment banking, none of the participants had more than 24 years within investment banking the most experienced individuals in this category were recorded to have 20 to 24 years. Only 0.6% (2) of the respondents had such longevity making it the least represented group. The highest representation, 62.1% (218) of the respondents, went to the group of individuals capitalising from 0 to 4 years of experience in investment banking. This was the biggest number of respondents. The second biggest was the group of workers with experience spanning from 5 to 9 years with 29.1% (102) of the respondents identified in this group. The group with between 10 to 14 years of experience in investment banking ranked fourth in the number of participants with 24 respondents which equate to 6.8%. Finally, 1.4% of the participants (5) belonged to the group of individuals with investment banking experience between 15 to 19 years, making it the third biggest group.

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>218</td>
<td>62.1</td>
<td>62.1</td>
<td>62.1</td>
</tr>
<tr>
<td>5-9</td>
<td>102</td>
<td>29.1</td>
<td>29.1</td>
<td>91.2</td>
</tr>
<tr>
<td>10-14</td>
<td>24</td>
<td>6.8</td>
<td>6.8</td>
<td>98.0</td>
</tr>
<tr>
<td>15-19</td>
<td>5</td>
<td>1.4</td>
<td>1.4</td>
<td>99.4</td>
</tr>
<tr>
<td>20-24</td>
<td>2</td>
<td>.6</td>
<td>.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
With regards to experience in banks other than retail and investment banking, only 13 respondents had 5 and more years of experience. Out of those 13, 9 of them, 2.6% of the respondents, had between 5 to 9 years of experience in other types of banks; and the remaining 4 respondents (1.1%) had between 15 to 19 years of experience in other types of banks. All the remaining respondents, 338 (96.3%) had between 0 years and 4 years of experience in other types of banks.

**Table 10: Other Experience**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>338</td>
<td>96.3</td>
<td>96.3</td>
<td>96.3</td>
</tr>
<tr>
<td>5-9</td>
<td>9</td>
<td>2.6</td>
<td>2.6</td>
<td>98.9</td>
</tr>
<tr>
<td>15-19</td>
<td>4</td>
<td>1.1</td>
<td>1.1</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>351</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>
5.2.3. Job title

Table 11: Job title of respondents

<table>
<thead>
<tr>
<th>Job title</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry level analyst</td>
<td>9</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Experienced Analyst</td>
<td>24</td>
<td>6.8</td>
<td>6.8</td>
<td>9.4</td>
</tr>
<tr>
<td>Business Development and Planning</td>
<td>18</td>
<td>5.1</td>
<td>5.1</td>
<td>14.5</td>
</tr>
<tr>
<td>Fund Manager</td>
<td>25</td>
<td>7.1</td>
<td>7.1</td>
<td>21.7</td>
</tr>
<tr>
<td>Associate</td>
<td>9</td>
<td>2.6</td>
<td>2.6</td>
<td>24.2</td>
</tr>
<tr>
<td>Vice President</td>
<td>33</td>
<td>9.4</td>
<td>9.4</td>
<td>33.6</td>
</tr>
<tr>
<td>Managing Director/Partner</td>
<td>30</td>
<td>8.5</td>
<td>8.5</td>
<td>42.2</td>
</tr>
<tr>
<td>Bank Cashier</td>
<td>32</td>
<td>9.1</td>
<td>9.1</td>
<td>51.3</td>
</tr>
<tr>
<td>Senior Cashier</td>
<td>3</td>
<td>.9</td>
<td>.9</td>
<td>52.1</td>
</tr>
<tr>
<td>Financial Adviser</td>
<td>18</td>
<td>5.1</td>
<td>5.1</td>
<td>57.3</td>
</tr>
<tr>
<td>Bank Manager</td>
<td>5</td>
<td>1.4</td>
<td>1.4</td>
<td>58.7</td>
</tr>
<tr>
<td>Loan Officer</td>
<td>24</td>
<td>6.8</td>
<td>6.8</td>
<td>65.5</td>
</tr>
<tr>
<td>Area Manager</td>
<td>9</td>
<td>2.6</td>
<td>2.6</td>
<td>68.1</td>
</tr>
<tr>
<td>C-Level Executive</td>
<td>18</td>
<td>5.1</td>
<td>5.1</td>
<td>73.2</td>
</tr>
<tr>
<td>Collection specialist</td>
<td>9</td>
<td>2.6</td>
<td>2.6</td>
<td>75.8</td>
</tr>
<tr>
<td>Other</td>
<td>21</td>
<td>6.0</td>
<td>6.0</td>
<td>81.8</td>
</tr>
<tr>
<td>Portfolio Administrator</td>
<td>6</td>
<td>1.7</td>
<td>1.7</td>
<td>83.5</td>
</tr>
<tr>
<td>Equity Trader</td>
<td>58</td>
<td>16.5</td>
<td>16.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The job title of the respondents had also been a point of focus of the research in order to better understand the participants and more importantly the possible perspectives from which answers were being given. A total of 17 different lines of work featured covering the operational level, middle management level and top management level.

The segments with 30 respondents or more included the Equity Trader segment with 58 respondents (16.5%), the Vice President segment with 33 respondents (9.4%), the Bank Cashier segment 32 respondents (9.1%), and the Managing Director/Partner 30 respondents (8.5%).

The segments with less than 20 respondents counted the Business Development and Planning segment, C-Level Executive segment, and Financial Adviser segment where each featured 18 respondents (5.1%); the Entry Level Analyst segment, Associate segment, Area manager segment, and Collection Specialist segment where each involved 9 respondents (2.6%). The segments with less than 20 respondents also included the Portfolio Administrator segment with 6 respondents (1.7%), the Bank Manager segment with 5 respondents (1.4%), and the Senior
Cashier segment with only 3 respondents (0.9%), the smallest job title segment in the whole process. The remaining segments comprised between 20 and 29 respondents. This included the Fund Manager segment with 25 respondents (7.1%), and the Loan officer segment and Experienced Analyst segments with each 24 respondents (6.8%). One extra segment was included in the analysis of the job titles in order to cover the other job titles the respondents may have. The “Other” segment regrouped 21 respondents which accounts for 6% of the total participants.

5.2.4. Type of Bank Employing Respondent

Table 12: Type of Bank Employing Respondent

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>retail</td>
<td>179</td>
<td>51.0</td>
<td>51.0</td>
<td>51.0</td>
</tr>
<tr>
<td>investment</td>
<td>172</td>
<td>49.0</td>
<td>49.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

One of the main aim of this chapter is to compare differences in the relationships of the variables based on the bank in which the respondents currently work. With this objective in

Mouhamed El Bachire Thiam – Cardiff Metropolitan University – April 2015

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mind the respondents have been divided based on the type of bank within which the respondents were employed. The distribution was almost even with 51% (179 respondents) being currently employed by retail banks and 49% (172 respondents) by investment banks.

5.3. Perception and sentiment towards ethics

A focal point of this general descriptive analysis is the general exploration of the perceptions and attitudes respondents have towards ethics. This has been carried out in order to identify the general sentiments bankers have about ethics and provide a basis and context for the subsequent in-depth analysis. This exploration focused on the attitudes, intentions, subjective norm, desire the respondents have towards unethical action and the perceived progress made in ethics since the big bang in the late 1980s.

5.3.1. Attitude towards unethical action: Information retention to make a deal

To gather the attitude the respondents had towards unethical action, their opinion was gathered using retention of relevant information for the sake of closing a deal as the unethical action. They were given eight sets each with two possible answers which measured their attitude towards an unethical action as positive or negative. In their answers they could either see this type of information retention to make a deal as right or wrong, wise or foolish, useful or useless, advantageous or disadvantageous, exciting or boring, pleasant or unpleasant, attractive or unattractive, and satisfying or dissatisfying.

The respondents unanimously had a negative attitude towards the unethical action in this case. For each of the sets they responded with the negative option, therefore indicating that the personal perception of information retention which could lead to a mis-sale as negative. Consequently this constitutes evidence that bankers as members of society, who are influenced by its values and belief systems as any other member would be also do have an ethical compass
which is shaped by society. However, it is possible that some respondents could have insincerely answered negatively. Even in that case it shows an acknowledgement of society’s values and beliefs. Even if they do not personally share those beliefs, this still proves that bankers are not totally out of touch with society, are acquainted with its rules and can even act in accordance to them as such possibility would imply that is what happened in this exercise.

<table>
<thead>
<tr>
<th>Right or Wrong?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Wrong</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wise or Foolish?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Foolish</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Useful or Useless?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Useless</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advantageous or Disadvantageous?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Disadvantageous</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Exciting or Boring?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Boring</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pleasant or Unpleasant?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Unpleasant</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attractive or Unattractive?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Unattractive</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
5.3.2. Intention
The intention of the bankers was assessed through two main questions. The first sought to establish their natural disposition towards unethical action – information retention. This indicated that the intention to act unethical in general times when no external factor influences the respondent. It therefore measure the intention to generally respect personal ethical principles. Overall 97.4% (342) of the respondents stated that it is out of question for them to hide information from a client to make a deal. Out of those 342, 224 (63.8%) strongly agreed with the statement whereas the remaining 118 (33.6%) agreed. This means that some of our respondents set out the principle not to act unethical, which in turn indicates that they generally do not have the intention to do so. The remaining 2.6% of respondents (9 respondents) were neutral.

Table 13: Intention to retain information (statement 1)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Dissatisfying</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

For me, it is out of question to hide information from a client to make a deal

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>SA</td>
<td>224</td>
<td>63.8</td>
<td>63.8</td>
</tr>
<tr>
<td></td>
<td>A</td>
<td>118</td>
<td>33.6</td>
<td>97.4</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>9</td>
<td>2.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The second question sought to establish whether in the past some of the respondents had had a strong intention to act unethically. Out of the 351 respondents, 104 respondents (29.6%) strongly disagreed, 233 respondents (66.4%) disagreed that they sometimes have strong intentions to perform the unethical action, 10 respondents (2.8%) where neutral, 3 respondents admittedly agreed to have sometimes strong intentions, and finally only 1 respondent strongly agreed to having strong intentions to perform the unethical action.

Table 14: Intention to retain information (statement 2)

<table>
<thead>
<tr>
<th>My intention to hide information from a client to make a deal is sometimes strong</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD</td>
<td>104</td>
<td>29.6</td>
<td>29.6</td>
<td>29.6</td>
</tr>
<tr>
<td>D</td>
<td>233</td>
<td>66.4</td>
<td>66.4</td>
<td>96.0</td>
</tr>
<tr>
<td>N</td>
<td>10</td>
<td>2.8</td>
<td>2.8</td>
<td>98.9</td>
</tr>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td>99.7</td>
</tr>
<tr>
<td>A</td>
<td>3</td>
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<td>.9</td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>1</td>
<td>.3</td>
<td>.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
5.3.3. Desire

The desire of the participants to act unethically has also been explored with reference to the differentiation between desire and intention made in the literature review (Rabl, 2011). Firstly, the respondents were asked to indicate to what extent they agreed with the statement “Often my desire to hide information from a client to make a deal is strong”. 53.3% (187 respondents) strongly disagreed, 44.2% (155 respondents) disagreed, 2% (7 respondents) showed indecision by selecting neutral, and 6%, the remaining 2 participants in the survey, agreed with the statement.

Table 15: Desire to retain information (statement 1)

<table>
<thead>
<tr>
<th>Often my desire to hide information from a client to make a deal is strong</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD</td>
<td>187</td>
<td>53.3</td>
<td>53.3</td>
<td>53.3</td>
</tr>
<tr>
<td>D</td>
<td>155</td>
<td>44.2</td>
<td>44.2</td>
<td>97.4</td>
</tr>
<tr>
<td>Valid</td>
<td>7</td>
<td>2.0</td>
<td>2.0</td>
<td>99.4</td>
</tr>
<tr>
<td>A</td>
<td>2</td>
<td>.6</td>
<td>.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Secondly, the participants were asked to affirm the extent to which they agree with the statement “The thought of hiding information from a client to make a deal leaves me cold”. 62.4% (219 respondents) strongly agreed, 35.6% (125 respondents) agreed, and the remaining 2% (7 respondents) were neutral.

Table 16: Desire to retain information (statement 2)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Often my desire to hide information from a client to make a deal is strong.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA</td>
<td>219</td>
<td>62.4</td>
<td>62.4</td>
<td>62.4</td>
</tr>
<tr>
<td>A</td>
<td>125</td>
<td>35.6</td>
<td>35.6</td>
<td>98.0</td>
</tr>
<tr>
<td>N</td>
<td>7</td>
<td>2.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Finally, the respondents were asked to indicate to what extent they agreed with the statement “I considered it attractive to hide information from a client to make a deal”. 55.8% (196 respondents) strongly disagreed, 42.5% (149 respondents) disagreed, and the remaining 1.7% (6 respondents) indicated that they were neutral.

Table 17: Desire to retain information (statement 3)

<table>
<thead>
<tr>
<th>I considered it attractive to hide information from a client to make a deal</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SD</td>
<td>196</td>
<td>55.8</td>
<td>55.8</td>
<td>55.8</td>
</tr>
<tr>
<td>D</td>
<td>149</td>
<td>42.5</td>
<td>42.5</td>
<td>98.3</td>
</tr>
<tr>
<td>N</td>
<td>6</td>
<td>1.7</td>
<td>1.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
5.4. Preliminary analysis

Prior to analysing the data gleaned from the research process, it is usually considered useful, to engage into a preliminary analysis which offers a first look at the data through a descriptive and reliability analyses.

Unlike the previous part of this chapter, the focus of this preliminary analysis is not the background of the respondents rather, the descriptive analysis was applied on the answers they gave to the statements designed to measure both the dependent and independent variables. However, although crucial, the descriptive analysis only is not enough, it is equally important to consider analysing the data for reliability as data quality is crucial in a research if the results of the analysis are to be acceptable and generalizable. A measure is considered as reliable when it “consistently reflects the construct that it is measuring” (Field, 2007: p. 673). One of the most used methods to analyse reliability is the Cronbach’s $\alpha$ (alpha). The Cronbach’s $\alpha$ is a method based on the variance and covariance of the items. Field (2007) suggests that a separate
reliability analysis should be performed for all subscales of the questionnaire. However there is also a standardised version of the method which is based on the correlations rather than the covariances. The use of the simple version or standardised version depends on how the researcher intends to find a score for the scale. The normal alpha is suitable when the score of the scale is simply the result of a sum of the items in that scale. The standardised alpha is considered useful only in cases where the items are standardised before being added up to result in the score of the scale (Field, 2007).

In the case of this research, the standardised alpha is considered as the confirmatory factor analysis that was performed subsequent to the Cronbach’s alpha was done considering the standardised estimates.

To be acceptable the ideal value of Cronbach’s $\alpha$ according to suggestions must be superior to 0.7 (Pallant, 2001; and Field, 2007). The different variables involved in this study were therefore analysed in line with these recommendations.

5.4.1. Anomie

Anomie in this study was considered the only dependent variable, hence it was the first variable analysed. A total of eight statements were proposed to the respondents in the form of a 5 point Likert scale, as for all other variables, and they were requested to indicate the extent to which they agreed or disagreed with them. These statements were used in order to measure anomie based on the perception of the respondents.

5.4.1.1. Reliability analysis

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.894</td>
<td>.898</td>
<td>8</td>
</tr>
</tbody>
</table>

Table 18: Reliability Statistics for anomie
Cronbach’s alpha for anomie was calculated using SPSS. The value of the Cronbach's alpha based on standardized items for all 8 items was 0.898. This value is well above the 0.7 threshold suggested by Pallant (2001), which is more than satisfying to continue with the analysis.

5.4.1.2. **Descriptive analysis of dependent variable: Anomie**

Having opted for a Likert scale with items scored by respondents between 1 and 5, the mean of the standard scale is 3 which means that statements with a mean above 3 contribute to the increase of the score of the variable whereas those that have a mean below 3 decrease that score. As the majority of the statements are normally coded a mean above 3 for those statements indicates overall agreement with the statement, while a mean below shows overall disagreement. As reverse coded items are statements that were negatively advanced, a mean below 3 indicates overall agreement with the statement, whereas a mean above 3 indicates overall disagreement with the statement. Consequently, for reverse coded items, overall agreement will negatively contribute in the score of the variable, while overall disagreement will positively contribute in the score of the variable.

Furthermore the data was tested for normality according to the +/-2.0 benchmark (Bolt, 1999) which regards normal distributed conditions as being identifiable by a skewness and kurtosis values within +/- 2. However other researchers do view moderately non-normal conditions as identifiable by a skewness value of 2.0 or kurtosis value of 7.0 and beyond (Curran, et al., 1996).

The descriptive analysis that was performed for the dependent variable anomie showed that the respondents generally agreed with all the statements and all of them had a mean that was superior to 3. Based on the +/-2.0 benchmark, the output for skewness and kurtosis revealed that the data satisfies the normality assumption. At first glance, all the statements measuring
anomie have mean values that are very close to each other. The highest mean is 3.97 while the lowest is 3.30. Statements such as “The prevailing attitude in our firm is that "nice guys finish last"” (rank= 1; mean= 3.97; standard deviation= 0.794; skewness= -0.402; kurtosis= -0.331); “At work it is considered okay to play dirty to win” (rank= 2; mean= 3.90; standard deviation= 0.746; skewness= -0.382; kurtosis= -0.005); “For the most part at work, there is no right or wrong way to achieve the firm's goals” (rank= 3; mean= 3.87; standard deviation= 0.741; skewness= -0.253; kurtosis= -0.211); and “In our firm the feeling is that the ends justify the means” (rank= 4; mean= 3.84; standard deviation= 0.726; skewness= -0.293; kurtosis= -0.039) had the most weight in the overall score of the variable anomie. These statements refer to the work environment that show signs of anomie. The relatively higher levels of agreement of these four statements, compared to the remaining ones, would indicate that anomie often thrives in organisations where behaviours and their yield – reward or punishment – tacitly suggest to workers that the sole worry they should have is to reach their objectives no matter how. This illustrates Tsahuridu’s (2006) argument in chapter 3 of an environment in which social relationships are embedded in the economic system instead of the economic system being embedded in social relationships. Organisations that use financial performance as only basis to designate their best employees with no regard for the ways in which those were obtained would offer the conditions that are suitable to anomie; especially considering the natural instinct employees have to find security at work and preventing bad performance reviews. This is in line with Campbell and Goritz’s (2014) findings indicating that highly competitive organisations risk to witness the assumption that the end justifies the means develop among workers.

Furthermore as anomie is a phenomenon in which the rules are disregarded in goal achievement the only rule that would be respected in that case is success by any means necessary, without regulation of how it is achieved.
Because such rule is highly unlikely to be explicitly endorsed by the organisation and the manager therefore would only be silent. The fact that the statement “In our firm you have to be willing to break some rules if that is what it takes to get the job done” (rank= 8; mean= 3.3; standard deviation= 0.880; skewness= 0.117; kurtosis= -0.743) is the least important in the scale, and the fact that the difference between its mean and the means of the statements ranked joint 6 (Anom4 and Anom5) in the scale is the greatest, show the level of agreement of the respondents is higher when the statement emphasises on the tacit nature of the organisational belief in question. All statements, except statement Anom8, use terms such as “pressure”, “for the most part”, “considered”… to indicate that these belief are only observable among colleagues but are not explicit. The statement coded Anom8 seems less accurate in that regard.

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aom1</td>
<td>In our firm, there is pressure to meet organizational objectives by any means possible</td>
<td>3.80</td>
<td>.734</td>
<td>-.491</td>
<td>.270</td>
<td>5</td>
</tr>
<tr>
<td>Aom2</td>
<td>For the most part at work, there is no right or wrong way to achieve the firm's goals.</td>
<td>3.87</td>
<td>.741</td>
<td>-.253</td>
<td>-.211</td>
<td>3</td>
</tr>
<tr>
<td>Aom3</td>
<td>At work it is considered okay to play dirty to win.</td>
<td>3.90</td>
<td>.746</td>
<td>-.382</td>
<td>-.005</td>
<td>2</td>
</tr>
<tr>
<td>Aom4</td>
<td>The attitude in our firm is that sometimes it is necessary to lie to others in order to keep their trust.</td>
<td>3.77</td>
<td>.740</td>
<td>-.501</td>
<td>.235</td>
<td>6</td>
</tr>
<tr>
<td>Aom5</td>
<td>In our firm, the rules can be broken in order to achieve organizational goals.</td>
<td>3.77</td>
<td>.701</td>
<td>-.505</td>
<td>.407</td>
<td>6</td>
</tr>
<tr>
<td>Aom6</td>
<td>The prevailing attitude in our firm is that &quot;nice guys finish last.&quot;</td>
<td>3.97</td>
<td>.794</td>
<td>-.402</td>
<td>-.331</td>
<td>1</td>
</tr>
<tr>
<td>Aom7</td>
<td>In our firm the feeling is that the ends justify the means.</td>
<td>3.84</td>
<td>.726</td>
<td>-.293</td>
<td>-.039</td>
<td>4</td>
</tr>
<tr>
<td>Aom8</td>
<td>In our firm you have to be willing to break some rules if that is what it takes to get the job done.</td>
<td>3.30</td>
<td>.880</td>
<td>.117</td>
<td>-.743</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Average mean of the statements</td>
<td>3.775</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

5.4.2. Competitive intensity

Mouhamed El Bachire Thiam – Cardiff Metropolitan University – April 2015
In order to measure the level of competitive intensity in the industry, the Likert scale that was provided to the participants was comprised of a total of 5 statements.

5.4.2.1. Reliability analysis

The value of the Cronbach's alpha based on all the five statements is 0.911 which represents a very satisfactory values ensuring reliability of the scale.

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.909</td>
<td>.911</td>
<td>5</td>
</tr>
</tbody>
</table>

5.4.2.2. Descriptive analysis

All statements considered by the respondents had a mean greater than 3 suggesting an overall agreement for each of the five items. Also the normality assumptions were satisfied as the skewness and kurtosis for all statements was within +/-2.0. Statements coded CI3 (rank= 2; mean= 3.61; standard deviation= 0.814; skewness= -0.252; kurtosis= -0.399) and CI4 (rank= 1; mean= 3.76; standard deviation= 0.751; skewness= -0.599; kurtosis= 0.320) have the greatest means. Statement CI3 particularly indicates that competitors among the industry often instantly seek to respond to, and match the offering of other players. The statement corresponds to Zhou et al.’s (2005) description of an industry experiencing intense competition as presented earlier. This could lead to great similarities or even homogeneity in the offerings of firms operating in a competitively intense environment. This is in line with Menezes and Quiggin’s (2012) findings suggesting the existence of implicit collusion in competitive intense industries as mentioned earlier in chapter 3.
<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>CI1</td>
<td>Competition in our industry is cutthroat.</td>
<td>3.51</td>
<td>.871</td>
<td>-.157</td>
<td>-.663</td>
<td>4</td>
</tr>
<tr>
<td>CI2</td>
<td>There are many promotion wars in our industry.</td>
<td>3.54</td>
<td>.861</td>
<td>-.192</td>
<td>-.611</td>
<td>3</td>
</tr>
<tr>
<td>CI3</td>
<td>Anything that one competitor can offer, others can match readily.</td>
<td>3.61</td>
<td>.814</td>
<td>-.252</td>
<td>-.399</td>
<td>2</td>
</tr>
<tr>
<td>CI4</td>
<td>Service competition is a hallmark of our industry.</td>
<td>3.76</td>
<td>.751</td>
<td>-.599</td>
<td>.320</td>
<td>1</td>
</tr>
<tr>
<td>CI5</td>
<td>One hears of a new competitive move almost every day.</td>
<td>3.44</td>
<td>.882</td>
<td>-.076</td>
<td>-.741</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Average mean of the statements</td>
<td>3.572</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

5.4.3. Competitor Orientation

For competitor orientation, a scale formed of four statements in total, developed by Narver and Slater (1990), was used.

5.4.3.1. Reliability analysis

The reliability analysis performed yielded in a Cronbach’s alpha on standardised items value of 0.796 almost 0.8. Bearing in mind the 0.7 threshold, the result of the reliability analysis is considered satisfactory.

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.793</td>
<td>.796</td>
<td>4</td>
</tr>
</tbody>
</table>

5.4.3.2. Descriptive analysis

The factors included in the scale measuring competitor orientation all satisfied the normality assumption based on the +/-2.0 benchmark. All the factors also had a mean score above 3
indication an overall agreement among the respondents that competitor orientation is crucial in any business. This shows a competitive oriented mentality among respondents. The statement coded CO3 (mean= 3.52; standard deviation= 0.903; skewness= -0.176; Kurtosis= -0.76) had the highest mean whereas the statement coded CO1 (mean= 3.27; standard deviation= 0.813; skewness= -0.116; Kurtosis= -0.809) had the smallest mean value. The statement coded CO3: “Top management should regularly discuss competitors' strengths and strategies” (mean= 3.52; standard deviation= 0.903; skewness= -0.176; Kurtosis= -0.76) brings further confirmation of Wright, et al. (2009) results reported in chapter 3 as they highlighted the importance of competitor orientation for top management by stressing the efforts managements are investing in the developing positive attitude towards competitive orientation activities such as competitive intelligence gathering.

The statement coded CO2: “Firms should rapidly respond to competitive actions that threaten them” (mean= 3.32; standard deviation= 0.983; skewness= -0.276; Kurtosis= -0.81) is complementary with Young, et al., (1996) and Andrevski, et al.’s (2011) ideas that new competitive actions keep firms in an advantageous position or weaken rivals who wear out due to the constant effort to catch up.

Furthermore the overall agreement with the statement that “Firms should target where they have an opportunity for competitive advantage” (mean= 3.30; standard deviation= 1.028; skewness= -0.292; Kurtosis= -0.879) in the context of this scale shows the importance of identifying the position of the competitor in order to identify opportunities of competitive advantage to target. This justifies Andrevski, et al.’s (2011) and D’Aveni’s (1994) suggestion in chapter 3 that organisations focusing on the offering of their competitors and subsequently offering superior product or service are much more likely to create new competitive advantage.
Table 23: Descriptive Statistics for Competitor Orientation

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO1</td>
<td>Salespeople should regularly share information within the business concerning competitors' strategies.</td>
<td>3.27</td>
<td>.813</td>
<td>-.116</td>
<td>-.809</td>
<td>4</td>
</tr>
<tr>
<td>CO2</td>
<td>Firms should rapidly respond to competitive actions that threaten them.</td>
<td>3.32</td>
<td>.983</td>
<td>-.276</td>
<td>-.810</td>
<td>2</td>
</tr>
<tr>
<td>CO3</td>
<td>Top management should regularly discuss competitors' strengths and strategies.</td>
<td>3.52</td>
<td>.903</td>
<td>-.176</td>
<td>-.760</td>
<td>1</td>
</tr>
<tr>
<td>CO4</td>
<td>Firms should target where they have an opportunity for competitive advantage.</td>
<td>3.30</td>
<td>1.028</td>
<td>-.292</td>
<td>-.879</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Average mean of the statements</td>
<td>3.3525</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

5.4.4. Strategic Aggressiveness

Questionnaire respondents were presented with a list of eight questions meant to measure the level of strategic aggressiveness in the firm they work at, and were asked to indicate their degree of agreement on a 5-point rating scale.

5.4.4.1. Reliability analysis

The reliability analysis on SPSS for the Cronbach’s alpha coefficient based on standardised items resulted in a value of 0.9 for all eight items of the construct. This value shows strong reliability for the responses gathered.

Table 24: Reliability Statistics for Strategic Aggressiveness

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.900</td>
<td>.900</td>
<td>8</td>
</tr>
</tbody>
</table>
### 5.4.4.2. Descriptive analysis

The normality assumption for all the statements measuring firm’s strategic aggressiveness was satisfied. Also, all statements had a mean of 4.4 or above. On a scale that measures the level of strategic aggressiveness, this shows a strong indication from respondents that the banks they work for employ very aggressive strategies, therefore identifying them as very aggressive. Considering 5 is the maximum value the means can have, the very high mean of the item coded SE6: “Stretches or reconfigures resources into new competitive advantage” (mean= 4.51; standard deviation= 0.684; skewness= -1.06; Kurtosis= -0.149) shows that in the banking industry the creation of competitive advantage and maximisation of the return for each resource is a constant focus. Also statement SA1 (mean= 4.49; standard deviation= 0.696; skewness= -1.011; Kurtosis= -0.28) had one of the highest means, wish indicate an unequivocal admission by respondents that their employers are strategically aggressive. Statement SA2 (mean= 4.49; standard deviation= 0.724; skewness = -1.043; Kurtosis= -0.339) ranked second highest mean together with SA1. The high mean confirms the importance of competitive dominance as an ambition for strategically aggressive firms. This logic is in accordance with Andrevski, et al.’s (2011) affirmation that more aggressive firms generally perform better than their competition.

Statements coded SA5 (mean= 4.41; standard deviation= 0.750; skewness= -0.843; Kurtosis= -0.736), SA7 (mean= 4.40; standard deviation= 0.745; skewness= -0.797; Kurtosis= -0.772), and SA8 (mean= 4.41; standard deviation= 0.715; skewness= -0.715; Kurtosis= -0.657), highlight the importance for aggressive firms of ingredients such as commitment in the efforts invested by the workforce, a winning mentality, and a focus on the firm’s goal. These ingredients are similar to those enumerated by Campbell and Goritz’s (2014) about managers in highly competitive firms in chapter 3.

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
To assess the extent to which the banks employing the respondents are, the participants were presented with a list of items developed by Johnson et al. (2011). The respondents were requested to indicate to what extent the statements matched the reality in their organisations using a 5-point scale.

### 5.4.5. Reliability analysis

The reliability analysis for long-term orientation resulted in a Cronbach’s alpha based on standardised items value of 0.829 which is above the threshold of 0.7.

#### Table 26: Reliability Statistics for Long-term Orientation

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.829</td>
<td>.829</td>
<td>3</td>
</tr>
</tbody>
</table>

### 5.4.5.2. Descriptive analysis

The results of the descriptive analysis performed for Long-term Orientation shows first of all that the data was normally distributed according to the +/-2.0 benchmark; and that all the items
had a mean value below 3 indicating that the respondents generally do not identify their firm’s strategy as long-term oriented.

Statement LTO3 (mean= 1.95; standard deviation= 0.672; skewness= 0.064; Kurtosis= -0.776) registered the lowest mean among the statements which in this case means it had the highest level of disagreement. These results show that in the banking industry, firms tend not to focus on the long-term. Instead, the banking industry is in the same case as other companies using current accounting methods and present in the stock market. Their strategies are therefore influenced and exposed to the flaw in the accounting model (Kaplan, 1984), the dependency on short-term measures of performance such as the quarterly and annual reports (Loescher, 1984), the efficiency of the market with respect to short-term revenues and relative inefficiency with respect to long-term revenues (Laverty, 1996), the role of stock price maximisation in avoiding hostile takeovers (Drucker, 1986), and short-termism of investors unable to forecast the long-term with certainty (Porter, 1992).

All in all, the descriptive analysis of the variable Long-term orientation confirms what was suspected: long-term orientation is not a focus for banks.

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTO 1</td>
<td>Strategies are planned with a focus on long-term success.</td>
<td>2.08</td>
<td>.753</td>
<td>.387</td>
<td>-.049</td>
<td>2</td>
</tr>
<tr>
<td>LTO 2</td>
<td>Long-term goals are prioritized over short-term gains.</td>
<td>2.14</td>
<td>.711</td>
<td>.411</td>
<td>.264</td>
<td>1</td>
</tr>
<tr>
<td>LTO 3</td>
<td>It is generally believed that it is the long-term success that matters more.</td>
<td>1.95</td>
<td>.672</td>
<td>.064</td>
<td>-.776</td>
<td>3</td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

5.4.6. Ethical Policies
The effectiveness of the ethical policies applied by the companies in which the respondents are employed was measured using a list of statements that was presented in the form of a 5-point scale which was presented to respondents.

5.4.6.1. Reliability analysis
The reliability analysis for the statements measuring the effectiveness of the ethical policies resulted in a Cronbach’s alpha based on standardised items value of 0.903. This value suggests strong reliability allowing further analysis.

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>Cronbach’s Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.891</td>
<td>.903</td>
<td>3</td>
</tr>
</tbody>
</table>

5.4.6.2. Descriptive analysis
The effectiveness of the ethical policies is considered crucial in this research as it influences success of the policy. The normal distribution of the factors was satisfied through skewness and kurtosis, while the mean for all the statements presented to the questionnaire participants were above 3 although among all the variables that have an average mean above 3 the ethical policy variable has the second smallest with 3.24. This means that the level of agreement with the statements measuring this variable is not as high as the levels of agreements experienced with strategic aggressiveness for example.

The statements coded EMP2: “In my company the ethical decision making process employees have been prompted to use has often helped me identify potential ethical issues” (mean= 3.32; standard deviation= 1.517; skewness= -0.409; Kurtosis= -1.39) had the highest level of agreement among the statements. However the results of the means and the statements EMP2
and EMP3: “In my company the ethical decision making process employees have been prompted to use has often helped me take the ethical option in a dilemma” (mean= 3.12; standard deviation= 1.492; skewness= -0.185; Kurtosis= -1.517) show that the ethical policies implemented in the banking industry are more useful at helping the respondents identify potential ethical issues than it has been at helping them identify and choose the most ethical option. By subjecting respondents to these statements, it becomes possible to identify not only whether or not they are aware of the ethical policies in their firm, but also whether these policies, through their effectiveness, prevent anomie. According to Valentine and Barnett (2003) workers with awareness of the ethical policies of their firm tend to have higher ethical values and prove to be more committed to the organisations. Furthermore, the measurement of the effectiveness of the ethical policies will also give a glimpse of the commitment of the management to promote ethics in the firm as ethical attitudes of managers influences ethical training and hiring of workforce (Schwepker & Good, 2007: 329).

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMP 1</td>
<td>The organisation I currently work at applies an ethical policy that is clear, that allows all colleagues to identify ethical situations when they arise, and helps them in their decision making.</td>
<td>3.28</td>
<td>1.104</td>
<td>-.288</td>
<td>-1.017</td>
<td>2</td>
</tr>
<tr>
<td>EMP 2</td>
<td>In my company the ethical decision making process employees have been prompted to use has often helped me identify potential ethical issues.</td>
<td>3.32</td>
<td>1.517</td>
<td>-.409</td>
<td>-1.390</td>
<td>1</td>
</tr>
<tr>
<td>EMP 3</td>
<td>In my company the ethical decision making process employees have been prompted to use has often helped me take the ethical option in a dilemma.</td>
<td>3.12</td>
<td>1.492</td>
<td>.185</td>
<td>-1.517</td>
<td>3</td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements
5.4.7. Shareholders’ expectations
Shareholders’ expectations of the firm was measured with a set of 5 statements developed by the researcher. Similar to other variable, the questionnaire respondents were presented with those statements and request to indicate their level of agreements using a 5-point scale.

5.4.7.1. Reliability analysis
The compulsory reliability analysis resulted in a Cronbach’s alpha based on standardised items that is above the threshold of 0.7 with a value for Shareholders’ expectations equal to 0.814.

Table 30: Reliability Statistics for Shareholders’ expectations

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>Cronbach’s Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.814</td>
<td>.814</td>
<td>6</td>
</tr>
</tbody>
</table>

5.4.7.2. Descriptive analysis
The average of the means for Shareholders’ expectations was 4.265. All statements had a mean above 4 indicating a strong overall agreement with them, and were normally distributed.

The statements with the strongest level of agreement was ER1: “Success means posting positive quarterly figures that will increases share price” (mean= 4.29; standard deviation= 0.504; skewness= 0.359; Kurtosis= -0.687). This statement highlights the short term orientation of the definition of success. However, success is not defined by the firm only but also by the expectations of shareholders and potential investors who expect strong quarterly results and a maximisation of the share price. Statements ER2: “Shareholders’ expectations are very high” (mean= 4.26; standard deviation= 0.505; skewness= 0.342; Kurtosis= -0.378) shows in no uncertain terms the belief among the respondents that the shareholders expectations are very
high which means higher quotas for employees and higher pressure to meet them as stated in ER5: “High shareholders’ expectations create greater pressure on bankers which could result in mis-sales to meet individual performance targets” (mean= 4.23; standard deviation= 0.501; skewness= 0.362; Kurtosis= -0.102) and ER6: “Due to quotas that increase on a yearly basis, to keep their jobs, workers may be pressured into mis-sales” (mean= 4.26; standard deviation= 0.514; skewness= 0.277; Kurtosis= -0.416). ER5 and ER6 confirm the opinions of Krieger and Ang (2013) who found that often higher shareholders’ expectations and pressure lead to unethical activities such as inflation or distortion of performance.

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ER1</td>
<td>Success means posting positive quarterly figures that will increases share price</td>
<td>4.29</td>
<td>.504</td>
<td>.359</td>
<td>-.687</td>
<td>1</td>
</tr>
<tr>
<td>ER2</td>
<td>Shareholders’ expectations are very high</td>
<td>4.26</td>
<td>.505</td>
<td>.342</td>
<td>-.378</td>
<td>4</td>
</tr>
<tr>
<td>ER3</td>
<td>Shareholders' expectations increase year on year</td>
<td>4.27</td>
<td>.533</td>
<td>.141</td>
<td>-.446</td>
<td>3</td>
</tr>
<tr>
<td>ER4</td>
<td>High shareholders’ expectations can only be met by a firm in our industry if it uses an extremely aggressive approach in sales</td>
<td>4.28</td>
<td>.499</td>
<td>.404</td>
<td>-.606</td>
<td>2</td>
</tr>
<tr>
<td>ER5</td>
<td>High shareholders’ expectations create greater pressure on bankers which could result in mis-sales to meet individual performance targets.</td>
<td>4.23</td>
<td>.501</td>
<td>.362</td>
<td>-.102</td>
<td>6</td>
</tr>
<tr>
<td>ER6</td>
<td>Due to quotas that increase on a yearly basis, to keep their jobs, workers may be pressured into mis-sales.</td>
<td>4.26</td>
<td>.514</td>
<td>.277</td>
<td>-.416</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Average mean of the statements</td>
<td>4.265</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

### 5.4.8. Ethical apathy

The readiness of the respondent’s firm to take initiatives and introduce further ethical governance policies was also measured in the questionnaire using seven statements. These statements were developed by the researcher and presented to the participant.

#### 5.4.8.1. Reliability analysis

The Cronbach’s alpha based on standardised items, as it can be seen in the table below, was equal to 0.845.
5.4.8.2. Descriptive analysis

All seven statements presented to the respondents had mean values higher than 4, which show strong evidence for ethical apathy in the banking industry. The data measuring ethical apathy for each statements proved to be normally distributed. The statements INI1 “Generally banks in the industry take the initiative of implementing, in every department, internal compliance policies that are stricter than those of the local or international Regulatory bodies” (mean= 4.19; standard deviation= 0.563; skewness= 0.018; Kurtosis= -0.165) was reverse coded which signifies a mean of 4.19 indicates strong disagreement to the statements. The overall sentiment of respondents is that the governance policies in the industry are not much different across banks and are mostly a reiteration of the policies imposed by the regulators without any attempt or initiative to improve on them by covering potential regulatory loopholes. This sentiment is clearly illustrated by the level of agreement with INI1, INI5 “Policies and standards between the firms are not very much different” (mean= 4.31; standard deviation= 0.515; skewness= 0.256; Kurtosis= -0.742) and INI4 “The only policies applied in the majority of firms in the industry are those introduced by the regulators” (mean= 4.44; standard deviation= 0.597; skewness= -0.555; Kurtosis= -0.609), which had the highest mean.

The statements INI7 “The industry perceives increasing policies in a bank as undermining the company in terms of competitively, unless the same policy is introduced in all other banks at the same time” (mean= 4.23; standard deviation= 0.477; skewness= 0.563; Kurtosis= -0.073), INI6 “The industry generally believes that policies have the undesirable effect of restricting

---

**Table 32: Reliability Statistics for Ethical Apathy**

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.841</td>
<td>.845</td>
<td>7</td>
</tr>
</tbody>
</table>
revenue, so the fewer the better” (mean= 4.23; standard deviation= 0.485; skewness= 0.496; Kurtosis= -0.108), and INI3 “In the industry, individual firm policies that seem to reduce revenues are often abandoned in order to remain competitive” (mean= 4.22; standard deviation= 0.494; skewness = 0.401; Kurtosis= 0.018), indicate that the apathy that firms in the industry have could be related to the perceived cost incurred when applying governance and ethical policies. This belief that ethical policies may cost firms is confirmation for Schwartz’s (2014) opinion that through regulations and transparency, companies can lose competitive advantage.

Table 33: Descriptive Statistics for Ethical Apathy

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>INI1</td>
<td>Generally banks in the industry take the initiative of implementing, in every department, internal compliance policies that are stricter than those of the local or international Regulatory bodies. (Reverse coded)</td>
<td>4.19</td>
<td>.563</td>
<td>.018</td>
<td>-.165</td>
<td>7</td>
</tr>
<tr>
<td>INI2</td>
<td>Services under the same category are often the similar between firms in the industry.</td>
<td>4.37</td>
<td>.540</td>
<td>-.029</td>
<td>-.936</td>
<td>2</td>
</tr>
<tr>
<td>INI3</td>
<td>In the industry, individual firm policies that seem to reduce revenues are often abandoned in order to remain competitive</td>
<td>4.22</td>
<td>.494</td>
<td>.401</td>
<td>.018</td>
<td>6</td>
</tr>
<tr>
<td>INI4</td>
<td>The only policies applied in the majority of firms in the industry are those introduced by the regulators</td>
<td>4.44</td>
<td>.597</td>
<td>-.555</td>
<td>-.609</td>
<td>1</td>
</tr>
<tr>
<td>INI5</td>
<td>Policies and standards between the firms are not very much different.</td>
<td>4.31</td>
<td>.515</td>
<td>.256</td>
<td>-.742</td>
<td>3</td>
</tr>
<tr>
<td>INI6</td>
<td>The industry generally believes that policies have the undesirable effect of restricting revenue, so the fewer the better.</td>
<td>4.23</td>
<td>.485</td>
<td>.496</td>
<td>-.108</td>
<td>4</td>
</tr>
<tr>
<td>INI7</td>
<td>The industry perceives increasing policies in a bank as undermining the company in terms of competitively, unless the same policy is introduced in all other banks at the same time.</td>
<td>4.23</td>
<td>.477</td>
<td>.563</td>
<td>-.073</td>
<td>4</td>
</tr>
</tbody>
</table>

Average mean of the statements 4.284

*Rank is based on the mean of the statements
5.4.9. Financial Expertise
Financial expertise of the government and regulators was another important variable hypothesised to have a relationship with anomie. Financial expertise to regulate the banking industry was measured with seven statements that were put across to the respondents.

5.4.9.1. Reliability analysis
The reliability analysis performed on the items measuring financial expertise yielded in a Cronbach’s alpha based on standardised items value of 0.776 which provides assurances of the reliability of the data for further analysis.

Table 34: Reliability Statistics for Financial Expertise

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.775</td>
<td>.776</td>
<td>4</td>
</tr>
</tbody>
</table>

5.4.9.2. Descriptive Analysis
All statements measuring financial expertise satisfied the normal distribution assumptions. Overall questionnaire respondents disagreed with the proposition that Governments’ financial expertise is satisfactory to regulate the banking industry. This disagreement is indicated by the very low average mean of 1.6 registered for the statements and more importantly the fact that none of the statements had a mean higher than 3. Items FE2 (mean= 1.61; standard deviation= 0.488; skewness= -0.464; Kurtosis= -1.795), FE3 (mean= 1.64; standard deviation= 0.554; skewness = 0.109; Kurtosis= -0.814), FE5 (mean= 1.53; standard deviation= 0.5; skewness = -0.109; Kurtosis= -2) and FE6 (mean= 1.62; standard deviation= 0.492; skewness= -0.429; Kurtosis= -1.633) were all reverse coded therefore indicated agreement with the particular
statements presented. It is possible to conclude from these statements and the support of the respondents that the insufficient expertise of governments and regulators acting on behalf of the government, creates a time lag between the creation of new products and services and the introduction of effective regulation. Regulation may be introduced for the product or service at launch, however, at that moment regulation may often be short of effectiveness requiring amendments at later stage as a better understanding of the product or service and its impact on the markets is gained. A glimpse at the importance for adequate expertise when regulating can be gained with FE5 and FE6 in particular as respondents believe that the economic downturn shows Governments are not qualified enough to regulate. The agreement with FE5 and FE6 indicates that when there is not enough expertise to regulate, one can safely expect deficiencies in regulations which in the case of the banking and financial industry will result in crashes. All in all the results of the survey seem to point toward a lack of financial expertise of officials and regulators which, similar to Lee’s (2008) affirmations about the 1997 crisis in Korea, could be the cause of the 2007 crisis.

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FE2</td>
<td>During the early life of new products, regulators often struggle to understand them and introduce effective and sensible regulation. (Reverse coded)</td>
<td>1.61</td>
<td>.488</td>
<td>-.464</td>
<td>-1.795</td>
<td>3</td>
</tr>
<tr>
<td>FE3</td>
<td>Regulators only get better at understanding new products from the early maturity phase of those onwards. (Reverse coded)</td>
<td>1.64</td>
<td>.554</td>
<td>.109</td>
<td>-.814</td>
<td>1</td>
</tr>
<tr>
<td>FE5</td>
<td>The 2007 crisis is proof that government regulation does not work. (Reverse coded)</td>
<td>1.53</td>
<td>.500</td>
<td>-.109</td>
<td>-2.000</td>
<td>4</td>
</tr>
<tr>
<td>FE6</td>
<td>The economic downturn shows that government cannot be equipped or expert enough to police the markets. (Reverse coded)</td>
<td>1.62</td>
<td>.492</td>
<td>-.429</td>
<td>-1.633</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Average mean of the statements</td>
<td>1.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements
5.4.10. Coherence of economic policies
To measure the coherence of the economic policies, the respondents were requested to show how much they agree or disagreed with another set of statements presented in the form of a Likert scale.

5.4.10.1. Reliability analysis
The reliability analysis for the coherence of economic policies indicated that the subscale had very strong reliability with a Cronbach’s alpha based on standardised items that was equal to 0.921, well above the 0.7 threshold.

Table 36: Reliability Statistics for Coherence of economic policies

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.920</td>
<td>.921</td>
<td>3</td>
</tr>
</tbody>
</table>

5.4.10.2. Descriptive analysis
All the items used to measure the coherence of economic policies satisfied normal distribution conditions and registered a mean below 3. In the case of all these statement a mean below 3 indicate an agreement with the statements as they were all reverse coded. Statements CH3 “The government has been implementing a mix of free market and Keynesian policies for the past decade” (mean= 2.35; standard deviation= 1.309; skewness = 0.805; Kurtosis= -0.636) and CH4 “In the industry we have two opposing opinions on the causes of the recent crisis. One puts the government at fault, for looking to have the biggest role in regulating the industry, While the other condemns the government for minimising its role in the market by choosing to
free markets” (mean= 2.35; standard deviation= 1.379; skewness = 0.909; Kurtosis= -0.535) have the highest mean. Statements CH5 “Changes of government means it is at times hard to have continuity in the philosophy of the regulatory policies applied in the banking industry” (mean= 2.33; standard deviation= 1.371; skewness = 0.894; Kurtosis= -0.558) was the statement with the smallest mean therefore, the one with the strongest level of agreement. This statement stresses the difficulty to have continuity and coherence in financial regulatory policies after government change; as stated in chapter 3 by Thioleron et al. (2008) and Schneider & Ingram (1997; cited by May et al., 2006).

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>CH3</td>
<td>The government has been implementing a mix of free market and Keynesian policies for the past decade. (Reverse coded)</td>
<td>2.35</td>
<td>1.309</td>
<td>.805</td>
<td>-.636</td>
<td>1</td>
</tr>
<tr>
<td>CH4</td>
<td>In the industry we have two opposite opinions on the causes of the recent crisis. One puts the government at fault, for looking to have the biggest role in regulating the industry, While the other condemns the government for minimising its role in the market by choosing to free markets. (Reverse coded)</td>
<td>2.35</td>
<td>1.379</td>
<td>.909</td>
<td>-.535</td>
<td>1</td>
</tr>
<tr>
<td>CH5</td>
<td>Changes of government means it is at times hard to have continuity in the philosophy of the regulatory policies applied in the banking industry (Reverse coded)</td>
<td>2.33</td>
<td>1.371</td>
<td>.894</td>
<td>-.558</td>
<td>3</td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

5.4.11. Client Vulnerability

Finally client vulnerability was measured as an independent variable with six statements that were presented to respondents for them to indicate the extent of their agreement or disagreement.

5.4.11.1. Reliability analysis
The reliability analysis for client vulnerability resulted in a strong subscale with a Cronbach’s alpha based on standardised item of 0.908.

Table 38: Reliability Statistics for Client Vulnerability

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.909</td>
<td>.908</td>
<td>7</td>
</tr>
</tbody>
</table>

5.4.11.2. Descriptive analysis

Each statement in the subscale met the normality assumption taking as a standard the +/-2.0 benchmark for normality. The average mean for all the statements measuring client vulnerability was 3.088, indicating that overall the respondents agree very marginally that customers are vulnerable in the banking industry. The statements were divided, with respondents being overall in agreement with statements CV3 “Customers need to understand financial products before they buy them” (mean= 3.12; standard deviation= 0.9; skewness = -0.078; Kurtosis= -0.809), CV4 “Understanding of financial product prior to contacting a bank could prevent mis-sales and misleading claims” (mean= 3.3; standard deviation= 0.834; skewness= -0.74; Kurtosis= -0.774), and CV5 “Often, customers are mis-sold products because they did not understand them before signing for them” (mean= 3.28; standard deviation= 0.798; skewness = -0.137; Kurtosis= -0.766); while they were in disagreement with the remaining statements CV1 “Customers and investors who already know the standard of sale to expect from the industry are much harder to mislead” (mean= 2.95; standard deviation= 0.938; skewness = 0.159; Kurtosis= -0.906), CV6 “The regulator could do a much better job to provide a source of information to customers so they can understand the product they go for” (mean= 2.98; standard deviation= 0.93; skewness = 0.125; Kurtosis= -0.91), and CV7 “There are no independent sources of information that inform customers about the
particularities of the services available in the financial industry” (mean= 2.90; standard deviation= 0.916; skewness = 0.266; Kurtosis= -0.712). Statements CV1 on one side, and CV3, CV4 and CV5 on the other seem to be at odds, with respondents agreeing with CV3, CV4 and CV5 and disagreeing with CV1. This difference may be explained through the logic that knowing the standard of sale to expect does not necessarily means that the customer understands the product he is buying. Also, through their response with regards to CV6 and CV7, respondents seem to be satisfied with the efforts of the regulators in the provision of independent information about the products, while also rejecting the idea that there are not enough sources of information about financial products and services available to potential customers.

<table>
<thead>
<tr>
<th>Code</th>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>CV1</td>
<td>Customers and investors who already know the standard of sale to expect from the industry are much harder to mislead</td>
<td>2.95</td>
<td>.938</td>
<td>.159</td>
<td>-.906</td>
<td>5</td>
</tr>
<tr>
<td>CV3</td>
<td>Customers need to understand financial products before they buy them</td>
<td>3.12</td>
<td>.900</td>
<td>-.078</td>
<td>-.809</td>
<td>3</td>
</tr>
<tr>
<td>CV4</td>
<td>Understanding of financial product prior to contacting a bank could prevent mis-sales and misleading claims.</td>
<td>3.30</td>
<td>.834</td>
<td>-.074</td>
<td>-.774</td>
<td>1</td>
</tr>
<tr>
<td>CV5</td>
<td>Often, customers are mis-sold products because they did not understand them before signing for them.</td>
<td>3.28</td>
<td>.798</td>
<td>-.137</td>
<td>-.766</td>
<td>2</td>
</tr>
<tr>
<td>CV6</td>
<td>The regulator could do a much better job to provide a source of information to customers so they can understand the product they go for</td>
<td>2.98</td>
<td>.930</td>
<td>.125</td>
<td>-.910</td>
<td>4</td>
</tr>
<tr>
<td>CV7</td>
<td>There are no independent sources of information that inform customers about the particularities of the services available in the financial industry.</td>
<td>2.90</td>
<td>.916</td>
<td>.266</td>
<td>-.712</td>
<td>6</td>
</tr>
</tbody>
</table>

*Rank is based on the mean of the statements

Table 39: Descriptive Statistics for Client Vulnerability
Nonetheless the agreement with CV3, CV4 and CV5 show that those efforts to bring information to customers are not enough to protect everybody. This puts in the spotlight the role of the financial advisor who would be performing the unethical action in case of an intentional mis-sale as Langenderfer and Shimp’s (2001) suggested in chapter 3.

5.5. Exploratory Factor Analysis

As discussed in chapter four exploratory factor analysis allows to summarise and simplify the data gathered during a research process. Different measures allow to test the adequacy of the data for the factor analysis: Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, and Bartlett’s test of sphericity. For the KMO the value must be superior to 0.5, whereas Bartlett’s test of sphericity should result in a significant value (p<0.05).

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</td>
<td>.844</td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>10577.442</td>
</tr>
<tr>
<td>Bartlett’s Test of Sphericity</td>
<td>df</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

The KMO and Bartlett’s test for the 55 items resulted in a KMO value of 0.844 which is well above 0.5 and considered as great considering it falls in between 0.8 and 0.9 (Hutcheson & Sofroniou, 1999). The Bartlett’s test of sphericity meanwhile is highly significant with p<0.001. This reveals that the factor analysis is appropriate.

The 55 items were then subjected to extraction using the maximum likelihood as extraction method. In order to specify the number of factors to extract, the software was set to extract
factors with eigenvalues superior to 1.0. The rotation method selected was direct oblimin with a delta value of zero. In order to ensure the adequate number of factors was being extracted, Cattell’s scree test was also performed.

The total variance explained table (Appendix 2) exhibits the results of the extraction. Eleven factors had an initial eigenvalue above 1.0 and consequently were extracted. These 11 factors explained approximately 57.5% of the variance. Factor 1 explained approximately 16.08% of the variance, factor 2 explained 4.95%, factor 3 explained around 5.39%, factor 4 explained 6.57%, factor 5 explained 4.67%, factor 6 explained 3.27%, factor 7 explained 4.47%, factor 8 explained 4.15%, factor 9 explained 3.43%, factor 10 explained 2.77%, and finally factor 11 explained 1.7% of the total variance.

The scree plot (fig.21) confirms the result of the extraction based on the eigenvalues. Indeed it is only after the eleventh factor that the curve forms a stable plateau. Consequently, based on the scree plot the number of factors can be recognised to be 11.
The pattern matrix (Appendix 2) shows the loadings of each item on the factors. The pattern matrix of the data also exhibits 11 factors. Factor 1 represents anomie, factor 2 represents coherence of economic policies, factor 3 represents the measurements for ethical policies, factor 4 represents strategic aggressiveness, factor 5 represents client vulnerability, factor 6 represents competitive intensity, factor 7 represents Shareholders’ expectations, factor 8 represents ethical apathy, factor 9 represents financial expertise, factor 10 represents competitor orientation, and finally factor 11 represents long term orientation.

In order to achieve measure purification, reach a clean pattern matrix, and an acceptable Cronbach’s alpha for each subscale, some items were removed. Those were: EMP5, EMP6, CI6, SA6, INI7, CH1, CH2, CV2, LTO4, LTO5, FE1, FE4 and FE7.

5.6. Confirmatory Factor Analysis

The confirmatory factor analysis was performed which also involved verification for convergent and discriminant validity, screening the data for multivariate outliers in AMOS 21 and testing for multivariate normality.

5.6.1. Factor Reliability and Validity test:

In terms of discriminant validity all items satisfied the conditions however, 3 items failed at satisfying the convergent validity conditions. These items are: Ethical Apathy (CR= 0.813, AVE= 0.422), Shareholders’ expectations (CR= 0.814, AVE= 0.423), and Financial Expertise (CR= 0.777, AVE= 0.465). Due to this failure to satisfy the convergent validity conditions, these items were not carried further into the analysis. All other variables satisfied those
conditions, Anomie had an AVE = 0.528 and CR = 0.898, Strategic Aggressiveness values were AVE = 0.55 and CR = 0.893. One further item was (CO1) removed for some Competitor orientation in order to achieve convergent validity. Competitor Orientation had a final AVE = 0.51 and CR = 0.757, the AVE for Competitive Intensity was 0.675 whereas CR was 0.912, Long-term orientation had an AVE= 0.621 and CR= 0.831, Ethical Policies had an AVE = 0.757 and CR = 0.903, Coherence of economic policies had an AVE = 0.528 and CR = 0.898, and finally customer vulnerability had 0.595 as AVE and 0.897 for CR.

### Table 41: Convergent validity and discriminant validity for the different variables

<table>
<thead>
<tr>
<th>Factor</th>
<th>CR</th>
<th>AVE</th>
<th>MVS</th>
<th>ASV</th>
<th>Convergent Validity</th>
<th>Discriminant Validity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anomie</td>
<td>0.898</td>
<td>0.528</td>
<td>0.433</td>
<td>0.131</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Strategic aggressiveness</td>
<td>0.893</td>
<td>0.550</td>
<td>0.058</td>
<td>0.024</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Competitor Orientation</td>
<td>0.757</td>
<td>0.510</td>
<td>0.166</td>
<td>0.063</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Competitive Intensity</td>
<td>0.912</td>
<td>0.675</td>
<td>0.259</td>
<td>0.124</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Long-term Orientation</td>
<td>0.831</td>
<td>0.621</td>
<td>0.433</td>
<td>0.136</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Ethical Policies</td>
<td>0.903</td>
<td>0.757</td>
<td>0.023</td>
<td>0.008</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Shareholders’ expectations</td>
<td>0.814</td>
<td>0.423</td>
<td>0.008</td>
<td>0.003</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Ethical Apathy</td>
<td>0.813</td>
<td>0.422</td>
<td>0.030</td>
<td>0.012</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Coherence of economic policies</td>
<td>0.924</td>
<td>0.802</td>
<td>0.008</td>
<td>0.004</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Financial Expertise</td>
<td>0.777</td>
<td>0.465</td>
<td>0.017</td>
<td>0.005</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Client vulnerability</td>
<td>0.897</td>
<td>0.595</td>
<td>0.259</td>
<td>0.097</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

**CR:** Construct Reliability  
**AVE:** Average Variance Extracted  
**MSV:** Maximum Shared Variance  
**ASV:** Average Shared Square Variance

### 5.6.2. Common method bias testing

According to Podsakoff, et al. (2003), common method variance may strongly influence the observed relationships between independent and dependent variables. Consequently it is recommended for researchers to control method biases. In this research, the investigator applied the single-common-method factor approach that was suggested by Podsakoff, et al. (2003). The insertion of the CLF resulted in a better fit as model fit improved from $\chi^2$ value of 868.345 with d.f. = 632 to $\chi^2$=765.931 with d.f.= 594. These results suggest common method
bias. Appendix 2 exhibits the table generated during the common method bias testing. In order to control for them the common latent factor (CLF) was not removed from the model during the imputation of composites of the variable.

5.6.3. Multivariate normality testing

All variables in the model were also tested for multivariate normality with Amos 21. With a multivariate kurtosis value of 1.948 and a critical value for multivariate kurtosis of 1.178, well below the ceiling of acceptability of 1.96 we are satisfied that the model does not suffer from multivariate non-normality. Also the univariate test reveals that all the composites have skewness and kurtosis values within the +/-2.0 benchmark (Bolt, 1999). Consequently, there was no reason to remove any further observations.

5.6.4. Final Structural Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>min</th>
<th>max</th>
<th>skew</th>
<th>c.r.</th>
<th>kurtosis</th>
<th>c.r.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coherence of economic policies</td>
<td>.921</td>
<td>4.937</td>
<td>.811</td>
<td>6.203</td>
<td>-.697</td>
<td>-2.664</td>
</tr>
<tr>
<td>Ethical policies</td>
<td>.226</td>
<td>3.733</td>
<td>-.417</td>
<td>-3.190</td>
<td>-1.428</td>
<td>-5.461</td>
</tr>
<tr>
<td>Strategic aggressiveness</td>
<td>2.694</td>
<td>4.938</td>
<td>-.816</td>
<td>-6.239</td>
<td>-.428</td>
<td>-1.636</td>
</tr>
<tr>
<td>Client vulnerability</td>
<td>1.566</td>
<td>5.096</td>
<td>.236</td>
<td>1.805</td>
<td>-.374</td>
<td>-1.432</td>
</tr>
<tr>
<td>Competitive intensity</td>
<td>.555</td>
<td>4.016</td>
<td>-.329</td>
<td>-2.516</td>
<td>.026</td>
<td>.098</td>
</tr>
<tr>
<td>Competitor Orientation</td>
<td>1.479</td>
<td>4.247</td>
<td>-.082</td>
<td>-.628</td>
<td>-1.619</td>
<td>-2.367</td>
</tr>
<tr>
<td>Long-term</td>
<td>.832</td>
<td>3.374</td>
<td>.443</td>
<td>3.385</td>
<td>.597</td>
<td>2.284</td>
</tr>
<tr>
<td>Age</td>
<td>1.000</td>
<td>5.000</td>
<td>1.499</td>
<td>11.464</td>
<td>1.507</td>
<td>5.763</td>
</tr>
<tr>
<td>Gender</td>
<td>1.000</td>
<td>2.000</td>
<td>-1.397</td>
<td>-10.685</td>
<td>-.048</td>
<td>-.185</td>
</tr>
<tr>
<td>Bank</td>
<td>1.000</td>
<td>2.000</td>
<td>.040</td>
<td>.305</td>
<td>-1.998</td>
<td>-7.642</td>
</tr>
<tr>
<td>Anomie</td>
<td>1.226</td>
<td>3.671</td>
<td>-.563</td>
<td>-4.303</td>
<td>.422</td>
<td>1.614</td>
</tr>
<tr>
<td>Multivariate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.948</td>
<td>1.178</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indices</th>
<th>Critical values</th>
<th>Model value</th>
</tr>
</thead>
<tbody>
<tr>
<td>χ²/Df</td>
<td>Acceptable between values of 1 and 3</td>
<td>1.075</td>
</tr>
<tr>
<td>RMSEA</td>
<td>&lt;0.05 is regarded as a close fit</td>
<td>0.015</td>
</tr>
</tbody>
</table>
The controls and moderator interactions were finally added to the model. The measures for overall model fit indicated that model fit was acceptable with additions or deletion not able to improve the model fit. The value of each index measuring model fit was within the acceptable range. $\chi^2$ was equal to 31.180 and Df was equal to 29.
5.6.5. **Hypotheses testing: OLS Moderated Regression**

Table 44 exhibits the results of hypotheses testing. Hypothesis 1 proposed strategic aggressiveness would positively impact on anomie in banks. As predicted, the results of the test supported H1 with a β value of 0.062. However the relationship was significant only at p<0.10. These results contrast with Johnson, et al. (2011) who found a negative relationship between strategic aggressiveness and anomie (β= -0.26) at a p<0.05 significance level.

Long-term orientation had a very strong and significant negative effect on anomie (β= -0.488, p<0.01), therefore supporting Hypothesis 2. Long-term orientation registered by far the strongest relationship with anomie among the variables. The strength of relationship was almost double that found by Johnson, et al. (2011) (β= -0.28) in their study of the manufacturing industry. This could indicate that the banking industry is by far less long term sighted than the manufacturing industry. In other words, the timeframe embedded within strategies has greater influence on the behaviour of employees in the banking industry that in the manufacturing industry, especially considering shareholder’s high expectations; therefore resulting in a greater influence on anomie in the industry.

Competitor orientation had no significant influence on anomie therefore failing to support Hypothesis 3. Furthermore, unlike in Johnson et al. (2011) the results of Hypothesis 3 were inclined towards a negative relationship with anomie (β= -0.051).

Competitive Intensity had a significant positive relationship with anomie (β= 0.088, p<0.05) consequently supporting Hypothesis 4. This corresponds to Johnson et al. findings.

Coherence of economic policies is found to negatively impact on anomie (β= -0.020) in accordance with the predictions, however, Hypothesis 8 was not supported due to the relationship found not to be significant.
Hypothesis 9 was not supported due to the predicted positive relationship between client vulnerability and anomie ($\beta = 0.002$) not being significant.

The results of the test for Hypothesis 10, showed a positive relationship between Ethical policies and anomie ($\beta = 0.021$) unlike what was posited. It may be that while firm establish ethical policies, they are the least important worry in the firms, not being enforced properly by the management or employees knowing they would escape punishment if they prioritised firm’s revenues over firm ethical policies. Ethical policies in the firm, which are regulatory requirements, in this case could be nothing more than a front used by firms without really integrating them in the governance system. Nevertheless, the relationship between ethical policies and anomie was not found to be significant.

It has not been possible to test Hypotheses 5, 6 and 7, as the constructs measuring the independent variables failed during the validation process.

Finally only the moderating Hypothesis 11g ($p<0.05$) and Hypothesis 11h ($p<0.10$) showed significant interaction. However, due to the lack of significance of the relationship both ethical policies and Coherence of economic policies have with anomie these interactions were not plotted. All the remaining variables did not influence anomie differently based on the bank of the respondent being an investment bank or commercial (retail) bank. Consequently each variable has the same effect on anomie regardless of the whether the bank carries retail or investments operations. This could be due to the fact that some bank have both retail and investment arms. This raises question with regards to the motives of the propositions to separate retail and investment banks. These results show that both retail and investment bank are not different in terms the factors that influence anomie in their environment and the extent to which those influence it. This reveals that the influences on anomie are not exclusively dependant on the nature of the bank. Consequently anomie and unethical behaviours are not specific to
employees that work for investment or the retail arms. For example, investment banks partly contributed in the recent crisis by trading mortgage backed securities, however the source of those securities was the subprime loans often approved in retail banks.

<table>
<thead>
<tr>
<th>Table 44: Hypotheses testing: Ordinary Least Squares Regression Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
</tr>
<tr>
<td>Anomie H1(+) &lt;--- Strategic aggressiveness</td>
</tr>
<tr>
<td>Anomie H2(-) &lt;--- Long Term Orientation</td>
</tr>
<tr>
<td>Anomie H3(+) &lt;--- Competitor Orientation</td>
</tr>
<tr>
<td>Anomie H4(+) &lt;--- Competitive Intensity</td>
</tr>
<tr>
<td>Anomie H8(-) &lt;--- Coherence of economic policies</td>
</tr>
<tr>
<td>Anomie H9(+) &lt;--- Client vulnerability</td>
</tr>
<tr>
<td>Anomie H10(-) &lt;--- Ethical Policies</td>
</tr>
<tr>
<td>Anomie H5(+) &lt;--- Shareholders Expectation</td>
</tr>
<tr>
<td>Anomie H6(+) &lt;--- Ethical Apathy</td>
</tr>
<tr>
<td>Anomie H7(-) &lt;--- Financial Expertise</td>
</tr>
<tr>
<td><strong>Current Bank Interaction</strong></td>
</tr>
<tr>
<td>Anomie &lt;--- Investment vs Retail Bank</td>
</tr>
<tr>
<td>Anomie H11a(+)&lt;--- Strategic aggressiveness x Bank</td>
</tr>
<tr>
<td>Anomie H11b(-)&lt;--- Long Term Orientation x Bank</td>
</tr>
<tr>
<td>Anomie H11c(+)&lt;--- Competitor Orientation x Bank</td>
</tr>
<tr>
<td>Anomie H11d(+)&lt;--- Competitive Intensity x Bank</td>
</tr>
<tr>
<td>Anomie H11e(+)&lt;--- Client vulnerability x Bank</td>
</tr>
<tr>
<td>Anomie H11g(-)&lt;--- Ethical Policies x Bank</td>
</tr>
<tr>
<td>Anomie H11h(-)&lt;--- Coherence of economic policies x Bank</td>
</tr>
<tr>
<td>Anomie H11f(+)&lt;--- Shareholders Expectation x Bank</td>
</tr>
<tr>
<td>Anomie H11i(-)&lt;--- Financial Expertise x Bank</td>
</tr>
<tr>
<td>Anomie H11j(+)&lt;--- Ethical Apathy x Bank</td>
</tr>
<tr>
<td><strong>Controls</strong></td>
</tr>
<tr>
<td>Anomie &lt;--- Gender</td>
</tr>
<tr>
<td>Anomie &lt;--- Age</td>
</tr>
</tbody>
</table>

Notes: *** p-value < 0.01; ** p-value < 0.05; * p-value < 0.10
The figures equivalent to t-value is labelled as critical ratio (CR) in Amos (Graham, et al., 2003)
S.E.: Standard Error

A simple separation of investment banks from retail banks in order to ensure deposits are safe will indeed protect deposited funds from being solicited by investment banks to leverage high risk and greedy strategies, however they will not protect those funds from the high risks and greedy strategies applied in retail banks. Such measure recognises the risks in investment bank, but does not address the risks and ethical abuse in retail banks. Or else it implies that anomie is much more present in investment banks than it is in retail banks.
5.7. **Analysis of the codes of conduct and Codes of Ethics in the banking industry**

The conclusions that can be made from the hypotheses test is that strategic aggressiveness, competitive intensity and long-term orientation all have a significant influence on anomie in the industry. Based on these conclusions the research will seek to scrutinise the codes of ethics and codes of conducts in selected banks in order to evaluate the existing frameworks designed to prevent unethical behaviours in those banks.

The codes of conducts and codes of ethics of the selected banks were screened to identify whether they offered guidance in ethical decision making process. They were also evaluated in accordance with the findings of the hypothesis testing by looking to find specific policies that are aimed at providing employees an environments where factors such as strategic aggressiveness, competitive intensity and long-term orientation are controlled to reduce or limit anomie. More importantly these documents allow to identify the values and ethical culture of the banks. Consequently this part sought to ascertain whether or not any of the above findings and practices in this thesis are covered in the ethical governance policies of the selected banks.

**5.7.1. Guidance in ethical decision making**

Beyond the statements of the values and the expected behaviour employees ought to have at work, six out of the nine banks provided further assistance in the code of conduct or code of ethics for decision making.

This assistance often does not come in the form of a description of the decision making process as presented in chapter 3 (Josephson, 2012), rather five of the banks (JP Morgan, Barclays, Deutsche Bank, Citi, and RBS) provide that assistance in the form of questions employees should ask themselves prior to taking a decision.
Table 45: Summary of dimensions considered in decision making models of the banks selected

<table>
<thead>
<tr>
<th>Considerations in the decision making guide</th>
<th>Barclays</th>
<th>RBS</th>
<th>HSBC</th>
<th>Co-operative</th>
<th>JP Morgan</th>
<th>B of A</th>
<th>Citi</th>
<th>Deutsche</th>
<th>BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal and/or company policies</td>
<td>✓</td>
<td>✓/2</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>N/A</td>
<td>✓/2</td>
</tr>
<tr>
<td>Consequence of action on Bank and/or Shareholders</td>
<td>1/2 ✓/✓</td>
<td>1/2 ✓/✓</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓</td>
<td>✓/✓</td>
<td>N/A</td>
<td>✓/✓</td>
</tr>
<tr>
<td>Consequence of action on customers</td>
<td>✓/✓</td>
<td>N/A</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓</td>
<td>N/A</td>
<td>✓/✓</td>
</tr>
<tr>
<td>Reciprocity and adoption of the practice by others</td>
<td>✓/✓</td>
<td>N/A</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓</td>
<td>✓/✓</td>
<td>N/A</td>
<td>✓/✓</td>
</tr>
<tr>
<td>Colleague and/or third party (press, family and others) perception</td>
<td>✓/✓</td>
<td>N/A</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓</td>
<td>✓/✓</td>
<td>1/2 ✓/✓</td>
<td>✓/✓</td>
</tr>
<tr>
<td>Identification of facts and/or interest of each party</td>
<td>1/2 ✓/✓</td>
<td>N/A</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓</td>
<td>✓/✓</td>
<td>N/A</td>
<td>✓/✓</td>
</tr>
<tr>
<td>Identification of alternative options and their consequences</td>
<td>N/A</td>
<td>N/A</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓/✓</td>
<td>✓</td>
<td>✓/✓</td>
<td>N/A</td>
<td>✓/✓</td>
</tr>
</tbody>
</table>

Table 45 provides seven industry common standard dimensions and shows how the different decision making tools offered to employees, by banks, cover them. The first observation in table 45 is that all three American banks selected provide a guidance for decision making, which is not the case of two British banks (HSBC and Co-op) and the only French bank (BNP Paribas). Another observation that can be made is that some dimensions are only partially covered by decision making guides provided, while some are sometimes omitted.

### 5.7.1.1. Legal and/or company policies

Company policies allow to create a culture in a company. Ethical policies, laws and regulations provide a point of reference that allows employees to identify their responsibilities, what is expected of them and shape their behaviours in a way that is compliant. In a potential situation
of unethical dilemma, considering the relevant law and company policy could greatly influence the decision/action of the employee. All the banks that offer guidance in decision making invite employees to consider this dimension at least to some extent. Barclays, JP Morgan, Bank of America and Citi all specifically ask their employees to consider both legal and company policies during decision making. In contrast RBS requires employees to consider the company policies and Deutsche Bank employees are invited to consider the local laws.

5.7.1.2. Consequence of action on bank and/or shareholders
Similar to the previous dimension, the consequences of actions on banks and shareholders all the six banks that offer employees a basis to guide their decision making include the possible consequences of the decision or action on the company or shareholders in the list of consideration. Some of these banks such as JP Morgan, Citi, Deutsche Bank, and Bank of America do not limit the consideration of consequences to only the shareholders or the bank. Barclays and RBS however, expect the employees to consider the consequences of their actions towards the bank.

5.7.1.3. Consequence of action on customer
In contrast to the consequences of actions on the bank and shareholders, three banks do not specify the consequence of actions on customers in their decision making guide and list of considerations. These banks are Barclays, JP Morgan and Deutsche Bank. RBS however does make specific provision for consequences on customers. Although they do not specifically mention customers, the decision making guides of Bank of America and Citi are found to also cover consequences on customers as employees are expected to consider consequences in general without any specification.

5.7.1.4. Reciprocity and adoption of the practice by others
Only two banks (RBS and JP Morgan) expect employees to consider whether it would be acceptable if the decision or action under consideration became a widespread practice or whether in the future those actions would be regarded as very good practice in the industry. The remaining banks (Barclays, Bank of America, Citi and Deutsche Bank) do not ask their employees to make such considerations.

5.7.1.5. **Colleague and/or third party perception**

Perception is something that is very highly regarded by the bank considering all of the decision making guides requires employees to consider the perception of other parties. Only JP Morgan and Deutsche Bank do not consider the opinions of the colleague during the decision makings. Instead, employees are required to consider the specifically the perception of the action in the press. With the remaining banks however, the consideration is not just limited with the press, but could be extended to the colleagues and family.

5.7.1.6. **Identification of the fact and/or interests of all parties**

In the literature for the decision making process, the context and the stakeholders are regarded as a central point of the ethical decision (Josephson, 2012). It is important in the consideration of the context to identify the facts around the decision contemplated. Also it is crucial to consider stakeholders by identifying the interest of all parties that could be affected. This is recognised by only one bank: Bank of America. Barclays’ decision making guide however, only considers the interest of the stakeholders. None of the other four banks makes mention require the employees to consider the context and the interest of the stakeholders.

5.7.1.7. **Identification of alternative options and their consequences**

The identification of alternatives is as important as the context, and stakeholders in the decision making processes identified (Appendix 1). Despite this importance in the formulation of a decision making process only Bank of America specifically expects its employees to identify
and evaluate all the alternative options and their consequences. None of the other banks providing a decision making guide do require the employees to consider such point.

5.7.2. Long-term orientation, strategic aggressiveness, and competitive intensity
The objective of this analysis of the codes of conduct and ethics was not only to ascertain whether they provide guidance for ethical decision making but also whether the findings of the OLS regression were reflected in the codes of conducts and ethics. This part therefore identifies whether or not policies are formulated in the codes of conduct and ethics to control the three variable proven to influence anomie.

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<th>Barclays</th>
<th>RBS</th>
<th>HSBC (U.S only)</th>
<th>Co-operative</th>
<th>JP Morgan</th>
<th>B of A</th>
<th>Citi</th>
<th>Deutsche Bank</th>
<th>BNP Paribas</th>
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<tr>
<td>Long-term Orientation</td>
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<td>Strategic Aggressiveness</td>
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<td>Competitive Intensity</td>
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5.7.2.1. Long-term orientation
Generally banks acknowledge the importance of the long-term business and goals. Conscious that the bank’s actions can have a long-term impact through the world, RBS insists that its employees must think long term, while Deutsche bank rests on the corporate social responsibility policies to “secure” its long term values. In the only code of ethics available and only relevant for U.S. employees, HSBC also exhorts its employees to take a “long-term outlook”. BNP, JP Morgan and Barclays set the objective of establishing long term relationships with their customers and expect employees to act accordingly. Finally in the code
of conduct of the Co-operative group, which is relevant to all businesses in the group, firm states its willingness to work towards a long term success of the co-operative sector.

Apart from these brief mentions, no clear policy, framework for enforcement, or sanction – in case employees act differently – are proposed in the codes of conducts and ethics reviewed. The absence of clear policies directing employees towards those objectives; framework for enforcement making it possible to assess employees in terms of the long-term policies; and sanctions to ensure long-term is a priority, could signal the importance or unimportance of the long-term for these companies compared to other objectives, especially considering the measures of financial performance are based on short-term, and more importantly the very generous financial rewards distributed as bonus to the employees are also based on the financial returns generated by the employees rather than the plans and strategies they intend to execute in the future or the long term.

5.7.2.2. Strategic aggressiveness and competition intensity
According to the finding of the survey performed in this thesis, strategic aggressiveness and competition intensity influence positively anomie. As competition can lead to setting of high goals (Mulvey & Ribbens, 1999), excessive strategic aggressiveness and competitive intensity will create greater pressure and stress among employees. None of the codes of conducts reviewed indicate that the firms acknowledge that strategic aggressiveness and competitive intensity could lead to an anomic environment. Yet many of the code of ethics and conducts do assert the responsibility of the company towards employees and that of employees towards each other. However, considering high goals could lead to high performance (Locke, et al., 1988) and that these financial organisations know better than any other organisations the importance of financial performance an anomic environment could be nothing but a collateral damage in the pursuit of positive financial results compared to competitors in the industry. Questions therefore will arise regarding the nature of these codes. Are they defined by banks
as a collection of practical and enforceable rules? Or as a collection of written, unimportant conventions within companies that refuse to make employees accountable for ethical deviations because of the fear of erosion in profitability?

5.8. Summary

This chapter started with the aim to present the findings and analysis of the primary research performed in the banking industry. This analysis involved a presentation of the background, perceptions and sentiments of the respondents towards ethics, a preliminary analysis, a regression analysis and a review of the codes of ethics and conducts of nine banks.

The presentation of the background, perceptions and sentiments of the respondents towards ethics revealed that all respondents, professional in the banking industry, had a negative attitude towards ethics and the large majority do not have the desire nor intention to act unethical. This leads to the conclusion that, as members of society, bankers are subjected and conditioned by the same societal rules, customs, beliefs and moral values. Paradoxically, it is a fact that unethical practices such as LIBOR fixing and mis-selling are performed by professionals in the industry who according to their perceptions and sentiments towards ethics are found to adhere to the moral code of their society.

However, this can be explained by the conclusions of the regression analysis as among three variable hypothesised to influence anomie failed to be rejected. Strategic long-term orientation has been found to significantly and negatively influence anomie, whereas strategic aggressiveness and competitive intensity have been found to have a significant positive relationship with anomie. Consequently one could conclude that environmental factors do influence employees to act out of bounds even if those employees have a strong preference habitually have a preference to comply with their society’s moral code. In other words,
employees may feel pressured, in order to comply with their performance and target related responsibilities, to disconnect with that moral code or relegate as a secondary concern.

Similarly, the review of the codes of ethics and conduct of 9 banks showed that no adequate policies are formulated with the aim to control anomie in the workplace through the factors identified by this research. This therefore indicates that no effective framework of prevention is implemented nor developed in the banking industry.
Chapter VI. Conclusions, Contributions and Implications

6.1. Introduction

This research proposed to evaluate the environmental factors that have a negative influence on behaviours in the banking industry and assess the existing prevention methods applied by companies in the industry. In order to reach this aim a model was constructed to measure the factors influencing anomie in the banking industry and the codes of conducts and codes of ethics of nine banks were evaluated to identify the frameworks and policies used to prevent unethical behaviours. This chapter presents a summary of the findings and the conclusions of the research objectives set in the introduction. This chapter also highlights the contributions of this research in the body of knowledge and offers recommendations in governance and ethics managements. The chapter is divided in seven parts. First it presents an overview of the thesis, then it presents the key findings, followed in order by the contribution of the research to knowledge, the recommendations, the limitations of the research, and finally the opportunities for future research.

6.2. Overview of the thesis

This thesis provides extensive knowledge about ethics in the banking industry using a quantitative approach to test factors influencing bankers’ behaviours and consulting current governance tools employed by companies to ensure integrity in their operations. The introduction provided a definition of the problem of the research, and presented the aims and objectives. The aim of this research was to identify and measure the influence of factors in the banking environment on bankers’ behaviours, and identify frameworks of preventions within the industry that curb these behaviours. The objectives formulated to reach this goal were: firstly, to provide a critical review of the literature on Ethics in the banking industry; secondly,
to critically evaluate the theme of Ethics in the major crises involving banks in history; thirdly, to assess the current environment around the industry to identify factors that may undermine ethics in the industry; and finally, to evaluate the existing frameworks for prevention of unethical behaviours used in the industry. To attain these objectives, this study is is based on a theoretical research or literature review, which is represented by chapter 2 and chapter 3; a methodological research, which is represented by chapter 4; and finally an empirical research, represented by chapter 5.

6.2.1. Overview of the literature reviewed
Chapter 2 was a review of some of the major historical crises and efforts of reconstructions that involved financiers, government’s interventions through financial policies, stock exchanges, and major conglomerates that shared with state banks a very tight and intricate relationship of mutual dependence. This review first presented the powerful and irreplaceable role finance, financiers, and financial instruments can play in society. More precisely, the role of bonds during and after wars but also in pulling economies back on track. In this way the different wars, territorial expansions and reconstruction in Florence, Venice, Milan and Genoa in Italy (Pezzolo, 2005), as well as during and after the first and second world wars were covered (Kimble, 2006; and Olney, 1971). Furthermore between those wars, bonds played a crucial role in pulling the American economy from what is still considered as the greatest economic depression in 1929 (Leuchtenburg, 2009). The potential economic danger of government policies and their impact was also covered in chapter 2, with the “dirigiste” system and the bubbles that were created due to greed. The “dirigiste” system that was implemented in France between 1793 and 1794 and was characterised by a state in huge debt that believed that an extreme interventionist approach, with control and implication in all financial and economic affairs, was the solution to restore economic order and continue financing the different wars it was involved in (Crouzet, 2007; and Spagnoli, 2007). This look at the French “dirigiste”
system provided the first parallel between the sentiments towards the banking industry at present and sentiments in the past towards financiers and the rulers. The “dirigiste” system also represents a pertinent example of economic decisions being taken by governments not because they make economic sense but because they were the preference of the population that is being served. More importantly this period exposed the dramatic economic consequences that result from decisions that are not informed by a relevant economic and financial expertise (Crouzet, 2007). The facts around the Mississippi Company bubble (Murphy, 2005) and the South Sea Bubble (Napier, 2004) were also presented. Parallels between these conglomerates and banks in the twenty first century can be found in their too big to fail status in their respective economies which caused them to benefit from the favours of the governments. Following this exposé of the devastating consequences non-financial savvy government intervention can have, chapter 2 progressed with the Stock exchanges and corporate governance. It was evident through this review that despite the rules regulating stock exchanges, unethical actions by market participants have been a historical feature in the industry (Neal, 2005; Brandeis, 1914). Present difficulties to regulate and manage issues linked with short-selling and greed have also been found to be nothing more than reoccurrences of events centuries ago in the Amsterdam stock exchange; therefore suggesting a lack of development in regulatory effectiveness despite four centuries of progress (Neal, 2005). Continuing from the Amsterdam and New York Stock exchanges, corporate governance issues that arose from the influence and greed of banks have also been briefly covered, and a historical parallel was made with the banking landscape at the beginning of the twentieth century (Brandeis, 1914). All in all the review of the major crises involving banks and the financial industry in history shows that many of the current problems emanating from a weak ethical culture in the banking industry were already experienced by previous generations. The importance of finance in society has definitely not been reduced, and
the approach to regulating the industry is often similar in that the theme of ethics is recurrent in all the financial crises reviewed, yet regulations failed to address the ethical culture.

Building from chapter 2, chapter 3 focused on ethics, the banks and the stakeholders. The literature around ethics and the factors influencing behaviours were reviewed through different theories formulated designed to promote ethics in organisations. The transformational leadership theory of Burns (1978) and later Bass (1985) was covered in that way, along with Wortuba’s (1990) Ethical Decision/Action Process (EDAP), Ingram et al.’s (2007) theory on Enhancing Salesperson Moral Judgement, and the factors influencing decision making such as the Contingency Model of Ethical Decision Making and the Hypothesised Effect of Contenting the Values in Person-Situation Model of Watson, et al. (2009). The study of these theories revealed that behaviours are often not only influenced by personal factors such as intentions, desires, attitudes, and subjective norms; but also by situational factors in the environment within which the individual operates. Chapter three then progresses to review the different environmental factors within banking organisations that could have an effect on the employee’s behaviours. These factors included anomie (Johnson et al. 2011; Durkheim, 1947; Tsahuridu, 2006; Bernburg, 2006; Rose, 1966; Merton, 1968; and Fromm 1942), the Shareholders’ expectations of the organisations (Friedman, 1970; Haksever et al., 2004; Bird et al. 2007; Chen 2010; and Heath, 2012), the severity of competition (Chirayath et al., 2002; Zhou et al., 2005; Van de Ven & Jeurissen, 2006; Johnson et al., 2011; and Menezes & Quiggin, 2012), factors related to the nature of strategies such as their long-term orientation (Kaplan, 1984; Loescher, 1984; Drucker, 1986; Porter, 1992; Laverty, 1996; Pesämaa, & Hair, 2007; Tellis et al., 2009; and Johnson et al. 2011), strategic aggressiveness (Hamel & Prahalad, 1994; Johnson & Sohi, 2001; Johnson et al., 2011; Andrevski, et al., 2011; and Campbell & Goritz, 2014), and competitor orientation (Day & Nedungadi, 1994; Slater & Narver, 1994; Armstrong & Collopy, 1996; Mintzberg, et al., 2005; and Johnson et al., 2011). Finally chapter three also
presented factors that are external to the banks in the shape of the financial expertise of the government and regulators (Weimer, 2006; Pusey, 2007; Lee, 2008; and Culpepper et al. 2011), the coherence in economic policies (Thatcher, 2002; Reitan, 2003; Bicksler, 2008; Mullineux, 2009; Angle, 2011; Johnson et al., 2011; and Prabhakar, 2013) and client vulnerability (Langenderfer & Shimp 2001; Huston, 2011; Steen & MacKenzie, 2013; and Hazel et al., 2014).

6.2.2. Overview of Methodology
The methodology applied in the research was presented in chapter 4 which starts first by exhibiting the decisions related to the paradigm and design of the study and ended with an in-depth explanation of the statistical methods and decisions applied. These decisions were dictated by the aims and objectives of this research. With regards to the paradigm of the research, the researcher opted for a positivist epistemology (Collis & Hussey, 2003; Bryman & Bell, 2003; and Saunders et al., 2007) with a deductive approach and an objective ontological position (Caspi et al., 1998; Saunders et al., 2007; Flowers, 2009; and Johnson & Christensen, 2010). These decisions in turn influenced the choices of design in the study. More precisely quantitative research strategies were considered with the survey questionnaire strategy ultimately selected with a cross sectional time horizon (Saunders et al., 2007). This questionnaire was administered using the internet as platform. The survey questionnaire further implies the selection of a sample. In this case the sample and its size were decided upon with reference to Krejcie and Morgan’s (1970) sample size table and using a stratified random sampling technique based on the total years of experience of the respondents. Following the design of the questionnaire, it was tested through a pilot study and through consultation of academics and directors of the institutes where members were targeted as respondents. More importantly it was approved by the ethics committee before distribution. A response rate of 29% was registered.
With regards to the data analysis, a Confirmatory Factor Analysis (Schumacker & Lomax, 1996; Byrne, 2001; Savalei & Bentler, 2006; Suhr, 2006, Johnson et al., 2011; and Gemmell, 2011) was performed using the pattern matrix of the Exploratory Factor Analysis as a basis. The Exploratory Factor Analysis was performed using a Maximum Likelihood as Extraction Method, Kaiser’s criterion as criterion to decide of the number of factors, direct oblimin as rotation method and the Kaiser Meyer-Olkin measure of sampling adequacy as sample size test (Gorsuch, 1990 & 1997; Costello & Osborne, 2005; and Field, 2007). A cross-sectional analysis was also performed using the ordinary least squares as multiple regression analysis method (Gujarati, 1999; Sauder et al., 2007; Andersen, 2008; Burke, 2010; and Johnson et al.2011) and the t-test for group differences (McCluskey & Lalkhen, 2007; and Johnson et al., 2011).

6.2.3. **Overview of the empirical research**

The empirical research is featured in chapter 5 and sought to identify the factors influencing anomie in the banking industry and identify through secondary research frameworks of prevention that are used by the banks in order to manage those factors and control anomie. To reach that aim, the analyses were performed using SPSS 21 and AMOS 21. The chapter was sectioned in seven main parts. First, it presented the background of the respondents by presenting the bio-data of the participants including age, gender, experience in the banking industry, job titles, and the type of bank that employed them during the data collection period. Following the presentation of the background of the respondents, their perception and sentiments towards ethics was analysed with special focus on the attitude, intention and desire towards ethics. This all-round presentation of the respondents was followed by a preliminary analysis of the data collected. At this stage, a reliability analysis using Cronbach’s alpha and then a descriptive analysis were performed for each subscale. Inferential analyses were then
performed with Exploratory Factor Analysis, Confirmatory Factor Analysis, Ordinary Least Squares Moderated Regression to test the hypotheses formulated. Three of the hypotheses failed to be rejected whereas the other three hypotheses where not tested due to failure to validate their constructs. Finally a secondary research was performed in chapter 5 to identify the framework and policies applied by banks to influence employees’ behaviours. To reach that objective codes of conducts, and where relevant codes of ethics, of nine banks were analysed on the basis of the decision making process literature (Josephson, 2012; Audi, 2006; Gunia, et al., 2012; Pimentel, et al., 2010; Barlaup, et al., 2009) and the findings of the hypothesis testing.

6.3. Key Findings

Throughout the research very important findings came across in relation to the objectives that were set. These findings are presented in the following parts.

6.3.1. On the critical review of the literature on ethics management

The critical review of the literature on ethics management has shown that most of the ethical management tools were not the outcomes of researches undertaken in the banking industry (Mantel, 2005; Saxe & Weits, 1982; Bass, 1985; Wortuba, 1990; and Ingram, et al., 2007), which is the industry this research is focused on. Although similarities may sometimes be drawn between industries, each industry has particularities and factors proper to the industry that influence operations and professional. The absence of models and theories in the literature that studied ethics in the banking industry constituted a substantial gap. Instead of models built based on the characteristics and specificities of a particular industry, the majority of models are found to be built based on the characteristics of individuals’ functions and positions (e.g. salespeople). The inclusion of factors influencing the dynamic of industries suggests a “one
size fits all industries” approach where the same model could be used by companies in different industries as long as it is to influence the behaviours of the employees within the company occupying the function used as basis to develop the model. This means a model developed to manage the behaviour of salespeople could be used in all industries as long as it is applied on salespeople. A limitation of these models therefore is that they ignore elements that are different from industries to industries and influence the behaviours of the professional.

6.3.2. On the theme of ethics in the major crises involving banks in history
The review of major crises in history showed first that it is vital that regulatory decisions in financial matters are guided with sound financial expertise, or risk devastating economic consequences. Furthermore, parallels were found between the banking industry in the twenty-first century and in the past. One of the major parallels concerns the importance of finance and banks in society, which throughout history attracted the favours of governments (Brandeis, 1914; Napier, 2004; Murphy, 2005; Crouzet, 2007; and Spagnoli, 2007). However the most important parallel with regards to the objectives set for the research concerned ethics. As it emerged, important ethical shortcomings have played central roles in causing some of the crises reviewed. From the Bubbles of the Mississippi Company (Murphy, 2005) and the South Sea Company (Napier, 2004) to the short-selling of forwards contracts in 1609 (Neal, 2005), unethical behaviours have often been a plague in financial activities. Although antitrust and governance laws have emerged, another important finding is the repetitive failure throughout these crises, of regulators and governments to address the ethical issues at the root of these crises. Rather it has been found that regulations and solutions have targeted technicalities such as the financial instruments, or institutions’ capital structure (Brandeis, 1914; Walker, 2009). All in all the theme of ethics is a recurrent one in financial crises, however the failure to address the ethical shortcomings is also recurrent.
6.3.3. On the factors in the banking industry that influence banking professionals’ behaviours

Factors within the banking industry were identified and hypothesised to have a relationship with anomie. Those factors are: strategic aggressiveness, competitor orientation, competitive intensity, long term orientation, client vulnerability, ethical policies, ethical apathy, economic responsibilities, financial expertise and coherence of economic policies.

6.3.3.1. Relationship between Strategic Aggressiveness and Anomie

Results of descriptive statistics

The descriptive analysis that was performed for the instruments measuring strategic aggressiveness indicated that the respondents strongly identified the strategies applied by the firms they work for as aggressive based on their emphasis on targets and goals, competitive dominance, market leadership, their efforts to focus employees’ attention on winning, the allocation of targets and the perpetual search for competitive advantage.

Results of hypothesis testing

The research tested the proposition that the strategic aggressiveness positively influenced anomie. The results of the hypothesis test contrast with the findings of Johnson et al. (2011) as the proposition here posited was supported by the results of the hypothesis test leading to the conclusion that strategic aggressiveness has a positive relationship with anomie.

6.3.3.2. Relationship between competitor orientation and anomie

Results of descriptive statistics

The descriptive statistics for competitor orientation found that the banking industry is an industry where rivals keep each other close as close as possible as the respondents identified the strategies employed by employers as competitor oriented by nature.

Result of hypothesis testing

The hypothesis that was posited was that competitor orientation has a positive relationship with anomie. Despite the overall agreement that companies in the industry are characterised by their competitor orientation, and similar to Johnson et al. (2011), the hypothesis was rejected as the
test failed to reveal a significant relationship. Therefore based on these findings, competitor orientation cannot be considered among factors influencing anomie.

6.3.3.3. Relationship between competitive intensity

Results of the descriptive statistics
The research indicated that the banking industry is one where competition between rivals is very intense with the suggestion that any lead for a particular firm can be easily lost over competitors closing the gap.

Results of hypothesis testing
The hypothesis that was considered was that competitive intensity has a positive relationship with anomie. This hypothesis was supported by the tests performed at a more significant level in the banking industry than found in Johnson et al.’s (2011) findings. In conclusion the findings suggest that the competitive intensity is, similar to strategic aggressiveness, an environmental factor influencing anomie in the banking industry.

6.3.3.4. Relationship between long-term orientation and anomie

Results of the descriptive statistics
The descriptive statistics for long-term orientation found that the banking industry is not long-term oriented as respondents working in the industry that participated in the survey did not recognise that long term results are prioritised in banks.

Results of hypothesis testing
The hypothesis that was proposed with regards to the relationship between long-term orientation and anomie was that anomie influenced negatively anomie. The research supported this hypothesis at a very significant level. Furthermore the research found that long-term orientation is the environmental factor that influences the most anomie in the banking industry. These results are consistent with Johnson et al.’s (2011).

6.3.3.5. Relationship between coherence of economic policies and anomie

Results of the descriptive statistics
The results of the descriptive statistics founds that professional in the banking industry do not perceive economic policies of governments as totally coherent.

**Results of hypothesis testing**
The test of the hypothesis proposing a negative influence of coherence of economic policies on anomie found no significant relationship between the two variables, therefore leading to the conclusion in based on these data that coherence of economic policies cannot be considered among environmental factors influencing anomie in the banking industry.

**6.3.3.6. Relationship between client vulnerability and anomie**

**Results of the descriptive statistics**
The descriptive analysis performed for client vulnerability discovered that respondents perceive clients as vulnerable.

**Results of hypothesis testing**
The hypothesis proposed was that client vulnerability influences positively anomie. The research found no significant relationship between the proposed independent variable and the dependent variable. This therefore leads to the exclusion of client vulnerability as an environmental factor influencing anomie.

**6.3.3.7. Relationship between ethical policies and anomie**

**Results of the descriptive statistics**
The descriptive statistics for ethical policies founds that bankers are generally satisfied with the clarity and effectiveness of the ethical policies implemented by banks.

**Results of hypothesis testing**
Despite the overall agreement that the ethical policies provided by banks are effective, the hypothesis that ethical policies negatively influence anomie was here not supported as the test found no significant relationship. Consequently ethical policies are also excluded among the factors that influence anomie.
6.3.3.8. **Group difference between respondents working in investment banks and those working in retail banks**

**Results of hypothesis testing**
It was proposed that all the relationships between anomie and the independent variables would be different in relative to type of bank. However the hypothesis test revealed no significant differences between investment bank and retail banks.

6.3.3.9. **Conclusion of the hypotheses tests**
The hypotheses test were designed to identify environmental factors in the banking industry that influenced anomie. Following the hypotheses tests, three factors were found to influence anomie on a significant level: strategic aggressiveness, competitive intensity, and long-term orientation.

6.3.4. **On the framework of preventions used in the banking industry**
Following the identification of the factors that influenced anomie, an analysis of the codes of conducts, and where relevant codes of ethics, was performed in order to identify the framework of prevention used by nine banks that are considered as leaders domestically and internationally. The policies of the banks were therefore scrutinised to identify if they are geared towards controlling the factors identified in this research and also to identify whether they offer a guidance for ethical decision making. The research found that four of the banks provided a decision making guidance. However the research failed to find in any of the banks’ codes policies that seek to limit or manage the pressures that emanate from the three factors identified in the hypothesis test. Also, the research found that there is no framework to enforce the ethical policies in the banks, meaning even if the ethical policies were effectively designed, because of the absence of clear and impartial sanctions or pressure for bankers to use them, they will fail to influence behaviours as those will be dictated by other more pressing factors. Consequently the research has found no framework of prevention that successfully met all the requirements related to the factors influencing anomie.
6.4. Contributions to Knowledge

The research sought to make contribution by filling a void in the governance and ethics literature. The main aim was to bring an original contribution by identifying the factors influencing the behaviours of employers in the banking industry and by identifying the framework of prevention at use in an industry that is often branded an unethical. The research provide new and unique perspectives in the ethics management by focusing on the environmental factors that characterise the banking industry rather than the characteristics and responsibilities inherent to the job title of employees. More importantly, despite the fact that ethics management and governance has throughout history been a weakness in the banking and financial industry, regulatory policies have failed to address the issue due to factors influencing behaviours that are not under the control of governments and regulators. The findings of this research show that further research needs to be conducted in the domain of ethics management in order to understand and identify all the factors that influence behaviours of professionals at work in different industries, and subsequently build effective models to manage ethics. The new knowledge that emerged from this research not only can be added to the current knowledge on the factors influencing ethics, but also will provide more control in the management of ethics to the firms attempting to do so but fail due to the unawareness of the influence factors related to the strategy applied by the firm have on employees. Moreover this study makes the following contributions to the body of knowledge:

1. New subscales were developed and validated during the research process. These subscales were designed to measure client vulnerability and the coherence of economic policies.
2. This study is the first of its kind that studies ethics in the banking industry taking into account the influences of factors in the environment of banks on bankers behaviours.
3. This research is the first to assess the codes of ethics and codes of conducts based on the industrial factors that have been found to influence ethics.

4. This research is the first in the literature to present the very close parallels between the banking industry and the attitudes of society towards it in the present day and the equivalent in the past.

5. This study provides unique governance solution to the banking industry and regulators based on its findings.

6. This study is the first that compared the efforts of governments past and present in the policies formulated during the crises reviewed to address the ethical shortcomings in the financial environment.

7. Few studies have researched ethics in the banking industry using bankers as main respondents despite to the sensibility of the topic in the industry. This study offered bankers the opportunity to voice their opinion about ethics in time when the voices of many members of society have been heard except those of bankers.

8. This study is the first to have clearly shown industrial factors and governance deficiencies that could explain the ethical challenges in the banking industry.

6.5. Implications of the study

Many studies have been conducted in the field of business ethics with the aim to understand the influencers of employee’s behaviour at work. However most of these studies focused on industries other than the banking industry. Furthermore none of the studies focused on the factors built in the banking industry in the effort to understand the forces influencing employee
behaviour. In light of this, the original findings of this research generate a number of implication on banks and on the governments and regulators.

6.5.1. Implication on banks
As the study shows, the banking industry has had a history throughout which numerous examples of employees acting unethical stained its reputation, so much so, during the past five years, the phrase “restoring trust” has been repeated time and time again by leaders in the industry and regulators. Also the research has shown that the unethical actions that occur in the industry are performed despite the fact that employee do share the same values, beliefs and moral code with the wider society. By finding the factors in the banking set up that influence employees behaviours, this study allows banks to be able to further understand their employees and realise the importance in controlling the forces influencing their behaviours as they may be reticent to act unethically but ultimately give in due to those environmental forces.

The evaluation that was performed on the codes of ethics and codes of conducts of banks revealed that none of these charters recognised the influence of the factors that were identified in this study. No indications exist with regards to the relative success of these codes. However, unethical actions have been performed in spite of the policies. The findings of this study therefore show that important factors influencing bankers are ignored. Banks need to reflect and make provision for those forces in their ethical and governance policies as well as during the formulation of strategies.

The third implication on banks regards sanctions that are imposed on employees that choose to ignore ethical policies. As the literature presented, there is no consistency in the way firms sanction the employees that act unethically as employees that are less performant are found by Bellizzi and Hasty (2003) to receive harder sanctions than those performing well for the company. Also, the analysis that was performed on the codes of ethics and conduct identified
no clear and definite sanction that would be imposed. Consequently, it is crucial in order to dissuade employees from making unethical choices, that ethical policies in banks be backed up with impartial sanctions no matter how financially productive the employee is.

Finally, following the review of the ethics charter, it is important that the industry adopts ethical policies that not only engage them to offer ethical products and invest in ethical ventures; but also policies that require them to do so in an ethical manner. It is crucial for all banks including Islamic banks and banks that are branded ethical, to operate ethically. Banks cannot limit their ethics policies to only offering products that are ethical. The delivery of these products ought to also have moral underpinnings. An ethical bank is in essence one that provides ethical products through ethical practices behind the counter, not one that only satisfies itself with a display of ethical products. The example of Co-op and the very difficult times it experienced to justify its ethical branding after its role in the PPI scandal and other subsequent ones associated to high profile staffs illustrate well this point.

6.5.2. Implication on governments and regulators

The study has shown that Bellizzi and Hite (1989) throughout history solutions regulatory policies applied to strengthen the banking industry after economic crises, even if they involve unethical activities, have often not targeted the ethical culture of the industry. Indeed these policies have often exclusively targeted financial instruments and the financial structure of the industry and its firm. The first implication of the findings of this study is that greater involvement and initiatives will need to come from government and regulators to promote a healthy ethical culture in the banking industry. These initiatives will need to come in the form of more regulation targeting exclusively the behaviour of professionals of the industry in order to preserve the integrity of the financial markets.
Also, as mentioned earlier the study found insufficiencies related to enforcement with ethical policies in firms regarded a helpful on paper but unable practically to influence bankers. In this way it is vital that regulators, beyond introducing more regulations targeting the ethical culture, to encourage and monitor the way firms enforce their ethical policies especially considering that mystery shopping reviews of the kind performed in 2013 by the FSA result in a high number of mis-selling or inappropriate sales.

6.6. Limitation of the research and opportunities for future research

The aim and objectives of the research have been successfully reached. However similar to other studies this research has limitations that can inspire future research.

6.6.1. Limitations of the study

- The research had to overcome a scarcity of materials in the literature concerning ethics management and governance in the banks. Furthermore some of the factors that were tested as independent variable in this research were not observed in the literature. This forced the development of new subscales.

- The researcher had to work around issues related to the data protection policies of the institutes where members were targeted. The stratified random sampling was based on the number of years of experience of the members as the institutes refused to provide details such as the job titles, contacts and banks where the members worked. However the questionnaire was designed to gather personal information with the consent of the participants.

- Furthermore, many difficulties were encountered to have an acceptable response rate. The number of respondents could have been much greater were it not for the sensibility of the topic of ethics and the apparent omerta culture (code of silence) around that topic in the industry.
• As participation was voluntary, the participants may by nature have a strong sense which, coupled with the efforts institutes invest into raising awareness regarding the importance of ethics in the banking industry, could make the sample in this study less representative of the reality.

• Finally, the research focuses only on bank employees that hold positions with responsibilities directly contributing to the core activities of the firm. Support staff were not considered in this research despite also working in the banking industry and sometimes also facing great pressures to behave unethically (e.g. misreporting).

6.6.2. Opportunities for further research
Although the research has identified factors in the banking industry that influence the behaviour of employees and although it has sought to identify the frameworks of preventions applied in the banking industry, a lot more research is necessary to understand all the mechanics of those forces and formulate a clear and definite framework that take these into account to curb unethical behaviours, while remaining objective.

Based on the premise that each industry has its particularities, future research could also be inspired by this study to also identify industrial factors influencing employee behaviours in other industries.

Also, with regards to the banking industry the next step would be to study whether the way the factors identified in this research influence behaviours in the banking industries changes depending on the market form (e.g. monopoly, duopoly, oligopoly…). This would entail measuring these influences in different countries and comparing them.

Further research on external factors outside of the companies’ sphere of influence should also be done. Such research would imply that the responsibilities of the management of ethics does
not rest solely on the companies, rather it would be by nature participative and would require efforts from all stakeholders that are found to influence

Finally, more research should be conducted in order to understand the sizable gap that exists between ethics and the interest of employees and banks, and propose theories designed to align them.
References


[Accessed 10 May 2014].


[Accessed 08 October 2013].


Available at: www.hsbc.com/codeofethics
[Accessed 10 February 2014].


Appendix 1: Ethical decision making frameworks (compiled using as basis a 4 step model)

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<td>1. Context</td>
<td>1. Recognizing and defining the ethical dilemma;</td>
<td>1. Identify the facts 2. Determine the relevant Ethical principles</td>
<td>1. Situation 2. Immediate Reaction</td>
<td>1. Classification</td>
<td>1. Obtain the facts relevant to the decision; 2. Identify the ethical issues from the facts;</td>
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<td>2. Stakeholders</td>
<td>2. Identifying relevant stakeholders and the impact of decisions on these stakeholders;</td>
<td>2. Obtain the facts relevant to the decision; 2. Identify the ethical issues from the facts;</td>
<td>2. Identification of conflicts of obligations</td>
<td>2. Determine who will be affected by the decisions and how;</td>
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<td>3. Alternatives and Trade-offs</td>
<td>3. Identifying organizational values and norms relevant to the ethical issue; and 4. Identifying legal regulations relevant to the ethical issue.</td>
<td>3. Explore the Options 3. Contemplation/Conversation(Moral)/Immediate choice/Conversation (Self-Interested)</td>
<td>3. Ethical Assessment of obligations 4. Selection of options</td>
<td>4. Identify the alternatives; 5. Identify the consequences of each alternative; and</td>
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<td>1. Stop and think</td>
<td>1. Identify the Problem.</td>
<td>1. Identify and define an ethical dilemma</td>
<td>1. Identify the desired result</td>
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<td>2. Identify the Goal(s)</td>
<td>2. Clarify Goals</td>
<td>2. Apply the professional body’s Code of Ethics.</td>
<td>2. Purpose: Questions, Arguments, Actions at issue</td>
<td>2. Describe the conditions or criteria that the result must meet to be satisfactory</td>
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<td>4. List ethical values at stake</td>
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<td>5. Name all the stakeholders</td>
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<td>7. State all feasible solutions</td>
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<td>8. Eliminate unethical Option</td>
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<td>9. Reflect on the consequences of the choice and the actions affecting it and learn from both the process and the consequences.</td>
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### Appendix 2

#### Table 46: Total Variance Explained

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Extraction Method: Maximum Likelihood.

a. When factors are correlated, sums of squared loadings cannot be added to obtain a total variance.
Table 47: Pattern Matrix

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Extraction Method: Maximum Likelihood.
Rotation Method: Oblimin with Kaiser Normalization.
a. Rotation converged in 9 iterations.
### Common method Bias Results

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Model fit with common latent factor (generated with Amos)
 Appendix 3

1. Government policies and their impacts: French Dirigisme

Throughout history governments have in numerous occasions taken decisions and set rules under which financial societies and markets would operate. After all, the state is expected to govern within the border of the country it represents. However, the resultants of those decisions do not always match the aims set prior to government actions. In fact many decisions taken may inspire serious criticism from economists, academicians and philosophers alike, directed not only at the compatibility of those policies to the field of economics and finance, but also at the way politics and the political system, which as we will see, may influence the outcome of a decision process.

Applied for a little more than a year, the “dirigiste” or “command” system - imposed between 1793-1794 in France- was defined and referred to as “economic terror” (Crouzet. 2007; Spagnoli, 2007). Although it was for a short period, it had devastating long term consequences. Facing a debt, inherited from previous regimes, that it had more and more difficulty to repay, the government of the neo-democratic République Française was also facing wars that it needed to finance. Engaged in two fronts, the new leaders needed to quickly find a solution if they were not to lose everything: the wars and the new Republic, based on liberté, égalité, fraternité (freedom, equality, brotherhood), they fought so much for and won to put an end to monarchy in the country. At the times, the financial culture was one dominated by preference for laissez-faire, which, with the debt problems of the country, caused financiers to be despised especially given the Mississippi bubble was still fresh in the memory (Crouzet, 2007). These financiers and economist had, according to Crouzet (2007), a reputation of “suceur de sang or sangsue”

\[1\] *Suceur de sang* means blood sucker while *sangsue* means leech in French
who would not hesitate to cause harm to the poor for personal gains. Given the replacement of the monarchy by the republic meant the power of deciding the people's faith went from the king to the populace; and in a period when the power of the people was arguably as great as ever due to the revolution fresh on the minds of the rulers and the population, the economists’ solution to solve the debt, i.e. introducing austerity measures, was rapidly put aside. The decision makers where therefore under huge pressure to take a politically motivated decisions, given according to Crouzet (2007) the power of the sans-culottes\(^2\), term given to the working class, whose support toppled the French monarchy. The fear of losing such valuable support would definitely have an influence on any decision, especially considering that class shouted out loud its disagreement to pay for the mistakes of those financiers who benefited so much, monetarily, from the way the economic system while their lives were a daily struggle even in good economic conditions. With that in mind the leaders of the Republic chose to go down another route, the aforementioned dirigisme (command system).

The command system was a set of policies that were taken with a principal objective of raising funds for armaments and military uniforms. Crouzet (2007) reports that the main rules that were imposed during that year were:

- Foreign exchange controls
- Commandeering of supplies with the help of the military
- A kind of nationalisation (state monopoly) of foreign trade,
- Rationing basic foodstuffs in large cities
- Price and wages control (“laws of the Maximum”)
- State factories for producing armaments and soldiers uniforms

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\(^2\) Sans-culottes means those without panties. This was a term used in France to describe the lower class and working class
Forced loans to be subscribed to by rich citizens

As one can therefore see with the fundamental rules representing the dirigiste France, this system is a very political solution to what is an economical problem. However, this system has been regarded as a success by many historians because its objectives -- supplying bread to the army and Paris, plus arms to the former -- were marginally achieved. Yet the fact that these policies lasted for only just over a year could be seen as an indicator of failure.

In reality, what this system did was to make commodities disappear and only available on the black market. Besides “coercion and repression, terror and the apparitus of a police-state” (Crouzet, 2007) were the means through which it was implemented. Furthermore despite implementing these measures to avoid the sans-culottes' anger, the leaders started to lose the support of the latter due to their hard line. The “laws of the maximum” for example capped prices at a level that was believed by sellers to be derisory. Amongst those sellers were farmers who believed the maximum prices of their products were derisory, "they preferred eating them themselves, including the cattle" (Crouzet, 2007). Also, Crouzet (2007) mentions the consequences of the weather which was to make things more complicated for 1794-1795, therefore after the dirigiste regime, as the conditions were not adequate for a good harvest. Consequently, France was now facing a severe food shortage in most parts of the country. All these actions and events had a huge impact on the economy. At the grass roots, due to the law of maximums, the requisition, and the inflation; sales were being made at loss and by offering long credit. However in a position where it seemed impossible for the economy to go further south, the inflation turned into hyperinflation, which was a blow in the short, medium and long term Crouzet, 2007).
Nevertheless, although it is thanks to those the main factor of inflation, the “assignats” that France was able to defend itself against their various enemies, Crouzet (2007) feels that the funds raised for those wars could have been mobilised without inflation if the leaders resisted the demands of the sans-culottes.

Overall, through this example we can see the consequences when financial and economic policies are formulated by individuals that do not have enough experience in financial and economic management. The reality of governing is that decision makers can be divided between their political interest and the economic interest of the country. When economic and regulatory policies are influenced by political interest they may lose effectiveness in solving the targeted problem as they can easily spare the electorate that voted for the party in power.

2. Finance’s role in financing wars and reconstruction

Throughout history finance through its instruments has played a huge role in the daily lives of society, whether in times of economic expansion or regression. In this part, our focus will be set on an instrument that has played a particular role in the way the world is shape today, an instrument that has on numerous occasions designated the victors of wars: the bond. The power of the bond has become so great that Ferguson (2008) admitted that nowadays, power does not reside in the offices of presidents or prime ministers; in actual fact, it resides in the hands of an elite group of ordinary men controlling the bond market.

In this part we will evaluate the rise to prominence of the bond its controllers by looking at role bonds they play and the way they are used by government especially in times of armed conflicts with other forces. In this way we will first focus on Italy, more precisely on the city states which are Venice, Genoa and Florence. Then we will look at two major bond issues in the United States of America: the first is that of the Baby Bonds which occurred after the 1929
financial crash, and the second, that of the Defense and War Bonds occurred between 1941 and 1942, in the midst of the Second World War.

2.1. The Italian bonds
As early as the thirteenth century, bonds were already regarded as a huge weapon in war financing. In 1262 Venice was involved in a costly war with the Byzantines and their Genoese allies. Not only were they under pressure in the military front, they were also in a position where they had to instate order in the public finances. Anxious of doing just that, the great council of Venice issued a decree, called Ligatio pecuniae. According to Pezzolo (2005) the Ligatio pecuniae “permitted the government to spend for its ordinary needs up to 3000 lire… a month; spending beyond that had to be used to pay 5 percent interest to those from whom the government had borrowed money. The interest had to be paid twice a year, and once paid if additional money was available, it would be used first to finance the current war and wars to come and second to pay off the loans”.

As an innovation, this decree represented a significant novelty in finance. It was a significant novelty not only because it guaranteed the payment of a regular interest of 5 percent to lenders but also because it was the starting point for additional developments in financial markets. As Pezzolo (2005) put it, “government credits were traded in a secondary market as financial assets, and financial derivatives –such as overdue interest-became defused objects of trade. Furthermore state bonds took on a more important role in both private portfolios and social institutions.”

Consequently, this decree allowed Venice to rise to the challenges posed by military conflicts and by their public financial difficulties. However bonds have also played a different role in the making of cities.
During the thirteenth and fourteenth centuries Genoa, Florence, Venice and Milan entered a
dynamic of territorial expansion with huge outlay. To face up to these costs, the different
governments could either increase or raise new taxes or borrow money from the wealthiest
citizens like it was done in the twelfth century in Genoa and Venice respectively in 1152 and
1164 (Pezzolo, 2005). However, the major issue that was linked with raising taxes is the fact
that it is very time consuming and requires public acceptance and this meant the option of the
bonds was more advantageous. Yet these loans were not at the discretion of the citizens, rather
those wealthy citizens were obligated to lend the money to their respective cities.

According to Pezzolo (2005) although the citizens had no other choice but to yield to the cities
borrowing demands, there was a very dynamic and growing secondary market came to see the
day, as they argue that the primary bond market only made its apparition in the sixteenth
century

Whether with Florence, Venice, or Genoa, this way of raising money has played an important
role to finance wars. And to do so, bond proved to be the most useful tool as there was a distinct
preference from the governments’ short-term loans due to their perception of indebtedness as
only a “temporary solution” which had to be quickly abandoned but would allow to fulfil
temporary and pressing needs (Pezzolo, 2005).

2.2. US Baby Bonds
Similar to Italy between the thirteenth and the seventeenth centuries, the United States in a
more recent past has made use of bonds to win wars. The Great War and the Second World
War were the points in history when the US has used the majority of the mainstream media in
order to fund their battles against the Axis. It was an aggressive campaign in which the message
to the citizens was to put their savings at the disposal of the State by buying bonds, which came
to be considered one of the most powerful weapons to win a war. This inspired the slogan “A
stamp’s a bullet, A bond’s a Gun. Buy them both till the War is won” (Kimble, 2006: p. 14). This message states very explicitly that bonds are crucial to sustain a military action. As long as people are buying it in both sides, the war can continue until one side runs out of money.

In the distant past in Italy, it was not only the war financing tool of choice; but also that of construction. In the twentieth century, it represented the guns in the trenches, however, as it will be seen, with the baby bonds, and in the footsteps of the Italians, the canon of that “gun” was also capable to produce better lives by funding progress.

Known as the great depression, the 1929 financial crash is regarded as the worst in recent history although this can be challenged by the recent crisis in terms of the number of countries affected. The great depression was so bad in fact that the US government approached the financial problem with as much seriousness, according to Kimble (2006), as if they were presented with the challenges of war finance. The country was prey to Unemployment, Debt, decline of productivity…

In order to boost the economy, Roosevelt’s government chose to create jobs by undertaking many projects to build and refurbish various infrastructures including barrages, bridges… throughout the country in order to reduce unemployment (Leuchtenburg, 2009). However the sheer number and the scale of the projects were such that gathering the financial means required to fund them was in itself challenge. Due to the crisis, the state did not have the means to finance on its own those projects. The dilemma that was presented was how to finance projects that are supposed to create salaries, and therefore stimulate buying power if there is no money to finance such project in the first place. The answer found by Morgenthau Jr., the new Secretary of the Treasury was the bond. Most of the previous bonds were attractive to financial institutions due to their high denomination. However this innovative bond was put together with a denomination that was very low in order to appeal to the “average Americans” (Kimble,
2006: p.18), and according to Morgenthau “the more people owning government securities… the greater would be the interest of Americans in the affairs of the government, in its strength, and in its credit” (Blum, 1965: p.301). This is why according to Olney (1971: p. 1) these bonds were nicknamed “Share in America”.

Although Morgenthau believed that the population could gain increased interest in governmental affairs and therefore influence in the way they are managed, those to whom the bonds were targeted, the saving “average Americans”, had to share the same belief. Considering this was the first time a bond was made for the population, this in many ways represented a gamble, given people would need to be convinced of the potential and the safety of a product they had not bought before, and therefore they did not know much about. Furthermore, in Mobilizing the Home Front: War bonds and Domestic Propaganda, Kimble (2006) states that following the 1929 financial crash and the banking failures still fresh on people’s minds, the population had a very bad image of financial risk. Consequently, it was clear to Morgenthau that this was an uphill task.

In order to convince even the most sceptical amongst the public, Morgenthau introduced innovations in to the nature of the new bonds on top of the variety of denominations that would be made available. First of all, instead of providing flexible returns, these new bonds were to be sold as “non-negotiable securities that offered a fixed return”. Also in order to reassure those who were risk averse, the note they proposed were sold at $18.75 each with a face value of $25, with a Federal government guarantee that they would be redeemed after the maturity period of ten years at full value. The low prices inspired the nickname of the bonds which is “baby bond” (Treasury department, 2012). Finally these bonds were also going to be refundable at any time in order to lower the risks. All in all these bonds were had “an absolute profit… Federal guarantee… and money-back option”.
Despite all the anticipated difficulties, the sales of the bonds were a success. These baby bonds were promoted aggressively. They were offered in Series A, in 1935; B, in 1936; C, in 1938; and D, in 1941 (Treasury department, 2012). They were promoted in such a way that they would represent “a picture of national prudence and purpose and patriotism” (Blum, 1959). In the six years to 1941, these promotions contributed heavily to the total number of baby bonds sold which was 19 million which provided $3.9 billion (Kimble, 2006).

In an era when the United States needed to infuse growth into the economy and create jobs to recover from one of the worst financial crises in history, the baby bonds, due to their popularity, have certainly contributed to rebuild the country and keep activities going again. This is one of the clearest examples of the impact a financial instrument may have in a growing society. However all this would not be possible without an important factor: trust. That trust the government gained it by lowering the risks with Morgenthau’s innovations and the Federal guarantees which, to some extent, played the role of insurance. These measures and the success of the bond issues, placed the treasury and the government in a strong position were patriotism and trust in the government’s actions and enterprises meant the same. If one was to compare the situation in the US post 1929 financial crisis and the one in the UK post 2007 financial crisis, one would identify similarities and contrasts. Similarities in the fact that the populations in majority has lost trust in financial institutions, banks in particular. And contrasts in the trust the US Government had from the public/investor, which the UK Government is struggling to get back nowadays, at least in terms of their regulating the financial markets to protect the public (Dispatches, 2012), which in turn hinders any suggestions the government could inspire the public into a 1935-like economical rally. Such trust on a government is crucial, just as the American government is going to discover in 1941, date when it will be obliged to turn once again towards its population to finance a new project: the Second World War.
The comparison with the gun confirms Ferguson’s (2008) thoughts of bonds as a financial instrument offering a great deal of power to the ones controlling its market. Given it is a transaction, one can say it is very much a passage of power from the power holder to the power seeker; from the investors to the government. If it is a gun that would allow governments to win wars, and if those at the helms of the bond market have control over the market; then, as intermediaries, they have the ability to make a bond issue a success or a failure—which would determining the outcome of the reasons behind the bond issue. They become a deciding factor. This would create high, or rather vital, incentive for politicians and governments to act in the
favours of that few so long they control that market and government is certain of turning towards their markets in the future. Politicians will always want to ensure there will be no obstacle in the stream of power moving from the investors to the government. The power of the bond market controllers therefore comes from their position as deciding factors which, assuming the government plans for the public’s interest, gives them the ability to act against government, national, and that same public interest.

Furthermore the use of bonds in wars is the reason why many pacifists have a negative view of it. Yet even though is a tool that could be used for destruction it is also capable of construction, it is a tool at man’s disposal with an outcome determined by the operator’s wishes and intentions. The influence of bonds in the past and in the present highlight the importance of financial markets in societies. The more these markets thrive, the more beneficial they become for governments and societies, hence the importance of a management that establishes a landscape that is friendly to these financial markets. However does financial market-friendly environment mean one that accepts unethical behaviours?

3. Stock exchanges

3.1. Amsterdam stock exchange and options

The first stock exchange that specialised in creating and sustaining secondary markets in corporate securities was established with the 1602 creation of the Verenigde Nederlandsche Geoctroyeerde Oostindische Compagnie (United Netherlands Chartered East India Company) which authors including Neal (2005) refers to as VOC.

Following a first successful try, with ships leaving the Dutch ports to the source of spices, the East Indies, investors became more eager and competed with merchant communities to invest and put their capital again for ensuing trips. In terms of the organisation and operation the long
trips would require, the VOC benefited from the experiences of already established Dutch mariners. The chief stockholders, known as the bewindhebbers, were the main decision makers. They would decide of the number of ships to send out from each port, of the cargoes and instructions, of the way the cargoes would be sold off, and of the way the takings would be distributed. They had the power to decide whether the profits were to be reinvested in new sea adventures or distributed to shareholders, the participanten. However if unhappy of the decisions taken by the main stockholders, the participanten had the right to withdraw from the enterprise by demanding their share capital back (Neal, 2005).

In total six cities participated in the adventures. However the capital of the VOC was not divided equally as half went to Amsterdam, one fourth to Rotterdam and one-sixteenth to the other chambers: Delft, Enkhuizen, Hoorn, and Middleburg. The number of directors for each city was proportional (Parthesius, 2010). The cities with one-sixteenth of the capital had only one director, Rotterdam: had four directors, while Amsterdam had eight. With an even number of directors, the committee was at risk of being held hostage by the directors representing Amsterdam, who could make use of a veto any time decisions seem not to favour them. Consequently on extra director was added, which took the number of directors to seventeen. The last directorship was to be rotated among the five remaining cities. Owing to the number of directors, this committee was called the Heren XVII (Parthesius, 2010).

Shareholders had no control over the VOC given the local authorities in each city played a major role in selecting the bewindhebbers for their chamber. “From that point forward shareholders were only interested in the share for their usefulness as financial assets” (Neal, 2005). Each city having its own ledger, the capital paid by shareholders in each city was meticulously recorded in the city’s ledger. Considering the weight Amsterdam had in the
venture compared to Rotterdam, it had in its ledger “twice the amount of transferable share as in the Rotterdam chamber” (Neal, 2005).

Unlike the path chosen by the English, who made the capital of the English East India Company, also established in 1602, available only to English citizens, with the VOC there was no restriction as to who could participate, so long they were able to pay a share and to register it in the stock ledger of one of the six chambers in person or by letter of attorney (Neal, 2005). Although the regulations that were less rigid compared to the English equivalent brought many investors to the VOC, the director’s failure to deliver on their promises – especially for the first twenty years – motivated the creation of a secondary market for the VOC (Neal, 2005). It therefore seems that the establishment of the secondary market was a corporate governance motivated action.

The number and variety of investors involved meant that an active trade of share could develop if delays occurred in returns on the capital and if calls on capital occurred at moments of liquidity shortage for some individuals. With annual dividends becoming more and more generous, to the point of even reaching 99 percent of the company’s net profit, the problem of financing expansion arose especially given the company had constrained itself from increasing the size of its capital stock. In order to finance the expansion of its activities for the following two centuries, the VOC issued debt on its own credit, “publicly regarded as sound by the very size and generosity of its annual dividends” (Neal, 2005).

The company bonds were issued in such a manner that in the seventeenth century the debt to capital stock ratio was 2 to 1. Those bonds were later replaced by short term anticipation warrants which help reduce the debt to equity ratio to a level below 2. With increased competition and war especially with the English, the debt-equity ratio began to permanently rise while the price of share began to permanently fall (Neal, 2005).
Although the record system was accurate, with titles easily tracked and transferred, the only disadvantage to transfer in this system was the “infrequent times when the clerks of the company were allowed to open the books, usually for the distribution of dividends” (Neal, 2005).

To allow trade in the shares and carry on freely until the transfer books were opened, a forward market was created in the Amsterdam Exchange. This new market allowed the transfer of title to a given amount of stock. The accumulated trades would then be settled at what was called the rescontre dates. The rescontre dates occurred quarterly (Brezinski & Fritsch, 1997).

Because forward trading carried risks about the market price for a duration of up to three months, it made sense that ways would be devised to allow individuals to offset that risk, ways such as the Opsies (options) which according to Joseph de la Vega’s description carried huge importance. Yet, despite the importance and popularity of these opsies, difficulties arose regarding the evaluation of risk option holders would be exposed to between the moment they strike the option contract and completion. With no clear method of evaluation, the stock market was subject to what many authors described as disorder. Such disorder leads De La Vega to coin the expression “confusion of confusions”, which would be the title of his book (Neal, 2005).

However the reasons why those options were so in demand were, according to Neal (2005) who refers to De La Vega, the “lack of trading opportunities in the underlying stock, apparently, led the active corps of stockbrokers to start rumours of war, peace, safe voyage, shipwrecks, market gluts, market shortfalls –whatever was deemed useful to create a movement in the share prices”. Also the demand was spurred by the fact that it was now possible for merchants to use as collateral their VOC shares to have access to cash loans in order to equip ships, pay contractors, or maintain storage of their inventory until market prices rose for their
commodities. The lenders in that case would have plenty of “motives to protect themselves against a decline in the market price of the stock by purchasing options”. In these passages quoted from Neal (2005) it seems clear with the rumours and actions to create a movement in prices that, already at the time, investors knew the “importance of dividends, politics, psychology, monetary affairs and liquidity when estimating the price of an equity” (Riley and Napier 2004).

Also banning short-selling came as early as in 1610 in the Amsterdam stock market due to a “gamble” that went wrong. This clearly shows that difficulties in managing options, and did not start with the 2007 crisis, rather they date from the creation of options, and as we will see the response from the government was identical to the response on governments between 2007 and 2012.

According to Neal (2005), 1609 was the year when Isaac Le Maire and his “group” sold forward shares they did not have possession of, their expectation was that a French rival to the company would be launched. Although during the first full year they profited from a 12% slump in the share price, they lost their bet given their anticipation of the establishment of a French rival failed to materialise. Yet the ban was not permanent given the fact the Neal (2005) also suggests that the Dutch government has subsequently banned short selling at many more occasions during the seventeenth century alone. This to him is a hint that such legislation is ineffective. Yet, in a legitimate move – considering these legislations have repeatedly been adopted since the seventeenth century –, he seems to hint that regardless of their ineffectiveness, they may stay for a while when he states: “Investors should expect authorities to restrict the activity of short sellers in extreme circumstances. However, all previous attempts to ban short selling have eventually failed”. This shows therefore the weakness of authorities, who would consistently use methods that are known, by experience, to be failures. This is very
much a licence to crash for financial markets while the players, who continually provoke those crashes by their actions, are condemned to a state of continuous wait for the next certain crash. To describe the financial market and the way people behave within it, Joseph de la Vega in *Confusion de Confusiones* published in 1688 stated that the Dutch market was “full of instability, insanity, pride and foolishness”. “They will sell without knowing the motive; they will buy without reason”. Many among the present population will certainly support those statements. Considering De la Vega (1688) expressed his views in the seventeenth century, and given these habit have still not changed, one would wonder whether the corporate governance elite has failed or whether such behaviour is prerequisite of a successful financial market, which makes it plainly and simply impossible to change. Regardless of the answer, the public outcry after the 2007 crash, put in the perspective of the history of financial market, is nothing but a mere déjà vu.

However, De la Vega (1688) did not believe that all players in the financial market were irresponsible or to blame. In actual fact, he believed investors that bought share in order to enjoy the revenues brought by the dividends –and not the high price the share might potentially achieve – deserved respect. As he says:

> “Every year the financial lords and the big capitalists enjoy the dividends from the shares that they have inherited of have bought with money of their own. They do not care about movements in the price of the stock. Since their interest lies not in the sales of the stock but in the revenues secured through the dividends, the higher values of the shares forms only an imaginary enjoyment for them, arising from the reflection… that they could in truth obtain a high price if they were to sell their shares.”

In this statement the emphasis on people buying share with money of their own may suggest that at the time there might already be people buying share on behalf or with the money of others. This passage could therefore cast a doubt regarding the readiness of those buyers to
look after the interest of the investor. Further from this statement it seems clear that De la Vega (1688) believed the aches of the financial market lied with those involved in short-term trading, given those whose interests were in the dividends would continuously wait for a year to reap their rewards in the form of dividends.

3.2. The New York Stock Exchange

The NYSE board was founded by 24 brokers, four amongst whom had signed the Buttonwood agreement in 1792. Compared to the Amsterdam stock exchange, the NYSE was not as revolutionary given it was founded in 1817, centuries after the Dutch exchange.

The more formal style of organisation of brokers adopted could be justified by the fact that first, a growing list of securities and increased trading volumes meant that the “club” would find it advantageous to admit new member, however “would increase the settlement risk faced by each member – a negative network externality – in the absence of rules settling disputes”. Besides, the New York law of 1792 remained on the books, meaning the brokers could not have reliable recourse to the courts for resolving dispute except in cases involving simple transactions. So to carry on expanding a strict self-regulatory code by the club was necessary (Sylla, 1999).

In order to become members, brokers “had to be vetted and had to pay a membership fee for their seats “. This membership would give them various advantages including: low transaction costs, access to other members and to orderly price-discovery procedures. Also, members had an advantage that was even more crucial. They had access to up to date securities price information before anyone else. This is a considerable advantage given they could make their moves before the market does. This was a valuable “inside information” (Sylla, 1999). Owing to the due diligence process that would see potential members subject to checks, a sense of confidence and trust amongst members in the reliability and creditworthiness of other fellows
was quickly established. Furthermore those measures also provided reasons for members to believe in the “rule-governed procedures for settling disputes between members.” These advantages stated so far have not only been beneficial to the members but also to the NYSE. A lot of the attractiveness of the NYSE to outside customers is owed to the reputation of fair dealing members were renowned for. All these good management practices made the NYSE a “trusted brand” (Sylla, 1999).

Given New York was the leading port of the United States; the exchange had another advantage based solely on its location. Such advantage was enhanced by the completion of the Erie Canal in 1825. This allowed demand for New York funds to expand throughout the country. That is how “banks in other cities and interior began to keep balances in New York banks to meet their client’s demands” (Sylla, 1999). However the banks were required to be liquid if ever they were to meet the prospective demands of these balances. This requirement, led to yet another innovation in the history of finance; because, the banks discovered a great “employment of outside banker’s balance, one that would be liquid and yet profitable” (Sylla, 1999). The solution was to create call loans on securities collaterals, which, were not only profitable but also did not create too much additional risk exposure. As Sylla (1999) articulates it:

“Generally a safe use for bank reserves given, when a loan to a securities investors had to be called, the borrower could roll it over into another call loan or liquidate the securities collateral at the exchange to meet the call. Since securities-market participants paid interest on call loans, the banks could pay interest to outside banks making deposits in New York”.

This payment of interest on bankers’ balance made the New York money market so much more desirable to an increasing number of banks outside of New York that business skyrocketed.
By the 1820s, the New York exchange was the dominant U.S. securities market. The New York banks increased in number, while also becoming larger, attracting more bankers’ balance than any other city, and employing these funds to finance securities trading. This brought more liquidity into the NYSE Board and solidified its lead over other city securities markets (Sylla, 1999).

Strength and influence were so great that by the mid-nineteenth century the competing securities markets became, in Sylla’s (1999) words, either “local markets of vassals” on the New York exchange. This represented a win-win situation for the parties involved. NYSE being the largest US stock exchange represented a boon to the other banks. They “could reap the spread between call loan rates and the rates they paid on the bankers’ balances flowing into New York through the expanding US banking system” (Sylla, 1999).

Although it has become the biggest stock market in the world, the New York Exchange is not the first exchange the world has seen. Nevertheless during its relatively short on-going life compared to the Amsterdam Stock Exchange, it has contributed in the history of finance as a place where innovative strategies, theories and financial product have seen the day. Undeniably, it is part of the institutions, or rather monuments that have made finance, with an emphasis on banking, what it is in the present day.

Finally, we observe in the case of both exchanges that financial innovations have in the past provided loopholes for financiers to act unethically due to the opportunities made available by lagging regulations.

4. **Bubble bursts and their impacts**

John Law is considered as one of those to whom the world owes a great part of the financial innovations in the late seventeenth century and first two decades of the eighteenth. He
introduced the new era of paper money and shares. The initial success of his system was such that it prompted Britain to also adopt it in order not to be left behind during an era that has seen many wars between France and Britain. An avid gambler prior to going in exile to escape British justice, Law, started a new life in France first as a bookmaker then in banking (Murphy, 2005).

Law, engaging into trips to different countries, was able to find inspiration in the superior banking systems of lands such as Italy and the Netherlands. Although the Bank of England was a first innovation, due to the arrival of the Dutch William of Orange to the throne of England in 1688, Law was convinced there were room for more (Murphy, 2005). He therefore wrote in 1704 the *Essay on Land bank*, which was rejected by Lord Godolphin to whom it was directed (Murphy, 2005).

It is worth noting that throughout history, Law has been criticised by many economist, from Richard Cantillon to Anne-Robert-Jacques Turgot, not forgetting Adam Smith, Karl Marx, or Alfred Marshall. The criticisms he received were in spite of the debate the Essay and his other published work *Money and trade considered with a proposal for supplying the Nation with Money*, were raising. John Law was the “first to use the term demand consistently in economic discourse, and he was the first to combine it explicitly with supply – what he called quantity – to produce a theory of price behaviour. Law was the first writer to present the water/diamonds paradox, later to be borrowed without acknowledgement by Adam Smith, in his attempt to determine the determinants of value” (Murphy, 2005). This somewhat lack of consideration towards Law may perhaps find source in the reports of the financial catastrophes the South Sea and Mississippi Company have caused.

Not only is he the first one to mention the theory of demand and supply, he is also the first one to apply that theory to monetary theory and analysis. In fact, in Law's opinion, the demand for
money was “proportional to people, land or product” (Law, 1980: p. 100). The lead he had over economists of his time was so considerable that even then, he also believed in the existence of a "product of the nation" and that the demand for money was functionally related to it: \( M_c = f(Y) \). This concept of product of the nation is equivalent to a concept that came much later known as Gross Domestic Product (Murphy, 2005).

According to Law (1994), a disproportionate relationship between money supply and its demand always bears implications for the overall level of prices. In this way, according to Murphy (2005) Law shows in Essay on a Land Bank, that when the supply of money was unequal to the demand for money, prices would change and have a “redistributive effect on creditors and debtors”. As supporting evidence, Law is quoted saying, in a passage reminding of the law of supply and demand, that:

> “Though Parliament could give money to the nation in as great quantity as there was occasion for the Parliament could not justly know what sum would serve the nation for the demand changes. If the quantity is less than the demand for it the landed man who owes money and has his rent paid in the product of the ground is wronged, for money being more valuable it will cost him a greater quantity of his goods to pay the debt he owes. If the quantity of money is greater than the demand for it the moneyed man is wronged for money being less valuable £100 will not buy him the same quantity of goods £100 bought before” (Law, 1994: p.77).

Law also showed in *Money and Trade* the inflationary consequences throughout Europe an overall expansion in the European money supply, due to an influx of precious metals from South America, would have. He depicts the consequence of quantitative easing on the value of money.
“If the money of any particular country should increase beyond the proportion that country bears to Europe; it would undervalue money there, or, according to the way of speaking, it would raise goods: But as money would be undervalued everywhere the same, or near to what it were there; it would be of great advantage to that country, though thereby money were less valuable: For that country could have the whole benefit of the greater quantity, and only bear a share of the lesser value, according to the proposition its money had to the money of Europe. When the Spaniards bring money or bullion into Europe, they lessen it value, but gain by bringing it; because they have the whole benefit of the greater quantity and only bear share of the lesser value” (Law, 1705: p. 104)

These words, from a man that was very much ahead of his epoch, were the reasons why Murphy (2005) affirmed that Law had already established the foundations of the modern quantity theory of money; and he did so with the conceptualisation of the demand for money and the explanations of how prices change when the demand for, and supply of money are not at “equilibrium”. These foundations were laid more than two and a half century before Milton Friedman stated: “the quantity theory is in the first instance a theory of demand for money. It is not a theory of output, or of money income, or of the price level. Any statement about these variables requires combining the quantity theory with some specifications about the conditions of supply of money.” (Friedman, 1956: p.4). All among the goals Law set himself was to portray the “symbiotic relationship” money and trade (output) had, with money being the independent variable influencing trade (Murphy, 2005). However to prove his theories were right, Law needed to apply and test them on economies.
4.1. Mississippi Company

France represented, in Law’s eyes, the best opportunity to do so, as similar to Scotland, France had unemployment problems as well as underutilisation of resources allegedly due to shortage of money. Consequently to demonstrate the positive effect of increasing supply of money in those two countries, Law proposed what would later be the foundations of the circular flow of income, a theory which, according to Murphy (2005), Richard Cantillon (1755), his counterpart in economy, would later formulate and which Francois Quesnay would subsequently present in diagrammatic format in the *Tableau Economique*. Law identified money as playing a critical role in macroeconomic systems. It was not a veil as many in his time saw it; rather, it was an indispensable element in exchange and also in production (Murphy, 2005). And it is because he saw fit to expose that role that he opted for a representation of the macroeconomic system in the form of” a circular flow of income process” according to Murphy (2005). One of the main issues Law had to address for his theories to work was the excessive reliance economic systems were believed to have on the metallic monetary system. Economic systems had to be freed from these notions. His way to solve that problem was to replace it with a credit-creating paper money system. Law advocated for a complete removal of the gold and silver from the monetary system (Murphy, 2005). Money, as a physical mean of exchange did not have to have an intrinsic value. It did not have to be valuable on its own as an end, as gold or silver were. Rather it could, on the form of it, only be a worthless piece of paper, as long as, through the content inscribed on it, it gave access to goods that offer to the bearer a fair value. “Money was not the value for which goods were exchanged but the value by which they were exchanged” Murphy (2005). The fact that money could be on the physical front nothing but paper with inscriptions that created value, opened the monetary system to many more possibilities in terms of what could be considered money. Indeed, Murphy (2005) confirms that Law subsequently considered other financial instruments to be as good as banknotes when regarded as money.
Despite the fact that through time their value would change, Law knew from his experiences at Exchange Alley, that shares could be used as money; solely because at the time of the exchange, their value would be known.

With interest in the media-of-exchange qualities of financial instruments, Law was prepared to categorise, as early as 1704 the shares of the Bank of England and the East India Company as media-of-exchange money. This vision of financial instruments being used as media of exchange, “later led him to consider the share of the Mississippi Company as a type of money and, furthermore, to monetize these shares at a guaranteed price of 9,000 livres a share in the spring of 1720” (Murphy, 2005).

John Law was able to implement his revolutionary theories in France due to a financial vacuum created by the French Chambre de Justice activities which obliged traditional financiers to keep a low profile out of fear of being imprisoned, sent to the galleys, fined or even executed. In France, Law faced an uphill task, not only were they prey to a shortage of money that created underemployment and underutilisation of resources, they were also very much in financial crisis (Law, 1980)

With the establishment of the General Bank in 1716 Law laid the foundations of the Mississippi Company. The General Bank enabled Law to address the financial crisis with a better management of the national debt. That alone, inspired him to restructure the country’s financial situation by converting the national debt into the equity of powerful conglomerate trading company. Law strategy, to come up with that company, was to make General Bank nothing but the first in a series of interlocking blocks, which will inevitably lead to the Mississippi Company, a trading company similar to other British trading companies such as the East India Company and the South Sea Company.
With the *Chambre de Justice* acting in his favours, Law took over the *Compagnie d’Occident* in 1717 which had been given the monopoly trading right over French Louisiana which “constituted half of the land mass” of the current USA minus Alaska (Murphy, 2005). In exchange of those trading rights, the company took over part of the state’s short-term debt, the *billets d’états*. This deal meant part of the crown’s short term interest was taken off the market and the rate of interest on it was also lowered. This reduction in the rate played the role of a revenue stream for the company to finance its activities in Louisiana. And for the crown it was a way to reduce the debt burden as well as to fund it. Law’s plan was to develop the agricultural and mineral wealth of the land in order to create a huge income stream that will allow an increase in the dividend payment on the share. To become shareholders, transactors exchanged their short-term government debts for shares in the company. In this way they were able to buy share with a nominal value of 500 livres with government securities that were valued at around 150 livres (Murphy, 2005).

At the time, the income stream from the converted debt, deemed too small to finance the development of French Louisiana; and the shares capped at 500 livres, were quoted at a huge discount for more than a year after their establishment even as the shares were rising. Law decided therefore to grow the company by acquisition of other company and profitable monopoly ventures such as the *Compagnie du Senegal*, the Company of the East Indies, the *Compagnie des Indes*… to such an extent that the resulting of all those companies, the Mississippi Company owned all of the overseas trading Companies (Murphy, 2005). Looking back to that history, we can today wonder whether the Mississippi Company was not one of the first if not the first truly Too Big To Fail venture. Yet things were only going to get bigger.

Due to the amount of financing required, Law decided to use the General Banks to test his expansionist plans and succeeded in convincing rulers to convert that General Bank into the
Royal Bank (Banque Royal), which meant private shareholder were bought out to revert ownership to the crown in December 1718 (Murphy, 2005).

The article VII of the Déclaration Du Roy pour convertir la Banque General and Bank Royale, granted the King’s Council the power to determine the bank’s note issue. Other than the decision of the King’s Council, there was no constraint on the issue of banknotes. With Law being able to finance the company and share prices increasing due to their success, Law proposed to transform the company from a trading company to a trading-cum-financial conglomerate, controlling the state finances especially tax collections and debt management (Murphy, 2005). What law failed to realise is the increasing interdependence between the bank and the companies. This relationship was so important that the bank at one point started issuing notes almost at will in order to maintain the share prices. The Royal bank and the Mississippi then were merged formally in February 1720. The share bought at 150 livres called mères, stood at 2750 livres on 1st August 1719, by the 30th they reached 4,100 livres, by September they were at 5000 livres (Murphy, 2005). Before anybody took notice a bubble started to form. One of the major bubbles recorded in history of finance. Other share issued in order to help finance the acquisition and mergers in 1718-1719 called les filles and les petites filles, were at a nominal price respectively of 550 and 1000 livres each. In the autumn 1719 fully paid shares, pari-passu reached 9,000 livres, in December they were quoted at 10,000 (Murphy, 2005). The appearance was that Law realised his vision, the economy was booming, national debt seems under control, interest rates were driven down to two percent and there was money galore in the economy.

This was an illusion as the economy was unable to produce a sufficient growth in commodities to match the monetary expansion, so inflation appeared as well as balance of payment problems. Law took measures from limiting the ownership of species or bullion to 500 livres
to the demonetization of gold and a phased monthly devaluation of silver. However these measures which worked temporarily were to no avail given there were still too much liquidity in the system (Murphy, 2005). On May 1720, an arrêt was published which planned to reduce shares by four-ninths and banknotes by halve between May and December, all in the name of liquidity reduction in the system. However, public pressure revoked the arrêt a couple of days later. Confidence was lost. The financiers, enemies of Law, started criticising his policies. They did everything possible to ensure Law fails, to regain their stature. Prices of shares and the banknotes fell continuously until law was forced to leave (Murphy, 2005).

From the moment a bubble started to form the only certainty was that correction would be witnessed in the prices. This was the case with the Mississippi Company, the south sea bubble which we will briefly cover below and the housing market bubbles in many countries before the 2007 crisis.

4.2. The south sea bubble

According to Napier (2004) there are many lessons to learn from the South Sea Company's bubble and the crash the resulted from it. One of the biggest lessons financiers learned is in relation with the share prices of companies and the fact that they are used as "currency" for higher earnings. In his opinion, the South Sea bubble has proven that such use of shares creates great incentive for companies boost their share price artificially for more value. In its times, the South Sea Company artificially inflated its share price by buying its own shares and lending investors for them to also buy its shares (Napier, 2004). Guinness, in the 1980s, was investigated and has seen its name tarnished for using the same method in its takeover of Distillers (The Takeover Panel, 1989). These manipulative actions that seek to increase sharply share price of the South Sea Company have occurred because the factor of success of the company was based upon the company issuing its own shares to buy other assets. And given
the value of a share normally reflects the prospects and optimism in a company, it would be understandable, if there are no regulatory principles in place, for directors to make all other parties believe that their share, in this case their currency, is worth more than it really is. Consequently, John Law’s earlier suggestion that shares could be used as money is flawed; because such currency would not be controlled by a national bank, rather by individuals, capitalists, whose sole end and ambition is to grow wealthier as time goes by. This suggestion was certainly Law’s cardinal sin; because according to Napier (2004), the impetus created by the “success of one particular equity investment (South Sea Company) often leads to enthusiasm for equities as a whole”, which means even if directors in other companies do not manipulate their share price, they will witness a noticeable growth in it, because investors will be encouraged by what they see with the successful or fraudulent company. This, in Napier (2004)’s opinion, could ultimately lead to high demand for finances to acquire equity; which in turn, could create a situation similar to South Sea Bubble and the US financial crisis in 1929 where the money market becomes much tighter and interest rates increase sharply.

Overall from the causes of the two bubbles here described, history shows us that when individuals in the financial industry have the opportunity to maximise the value of their positions through unethical schemes, such as those implemented in the South Sea Company, they will be likely to do so. Both the bubbles in the prices of the South Sea Company and the Mississippi Company have taken form after prices rose artificially due to actions that violated ethical, financial and monetary principles. Similarly, in more recent history, the subprime lending, also a practice that violates those principles given loans were offered to people who could not afford them, have also sparked a bubble which has caused the 2009 crisis. These cases show that in the financial industry, the behaviour of financiers is under greater influence from the targeted financial gains than it is from ethics or the consequences on stakeholders.
5. Capitalism and Corporate Governance

With share ownership becoming more and more popular from the beginning of the twentieth century, more and more shareholders of companies became less interested in the dividends, instead they were buying share with the expectation of being able to sell them at a higher price in the future. All for capital gains, exactly what De la Vega (1688) warned against. As a matter of fact these shareholders were not as concerned about corporate governance as other shareholder. Their lower level of concern is illustrated by their absenteeism during general meetings of companies. Because of the importance of the issues discussed and voted upon during general meeting, managers were presented to the perfect opportunity to reduce the influence of shareholders in order not to let all the policies being decided upon by the only ones that are present. Given the decisions were not representative of the total number of shareholder, the influence on the company of those who bothered to come to the general meetings had to be reduced. This is an attempt to “shield themselves against the resolutions of the general meeting with the potential to undermine their own position or that of the company with which their interests were aligned.” This created a conflict “between the limited company as governed by the rules of prevailing, positive law and the limited company as required in practice”

Due to that clash many oligarchic clause emerged in the corporate governance landscape. An oligarchic clause is defined by Koole as a:

“provision in the article of association of a public limited company, the purpose of which is to transfer the power that naturally vests with the general meeting of shareholders to a few individuals, members of the management or supervisory board, or preference shareholders”
This transfer of control has occurred in many ways in Europe and US: Antitrust and governance, überfremdung, Revolution in the securities market, companies separate from shareholders, scandals and legislations between the wars, Donner Law, Shareholder or Bondholder, US regulation via securities law, the completion of the" Managerial Revolution", Socialisation of the corporate goal, Separation of share and voting rights, Hellema Committee Report, the eclipse of the shareholder in Europe, the merger wave, pressure for merger rules, the VMF affair, SEC Merger Code (Frentrop, 2003).

For the purpose of this thesis we will only focus on Antitrust and Governance as an example of such transfer of power.

**Antitrust and Governance**

When Theodore Roosevelt Jr. came to office as president of the United States of America in 1901 he set himself two tasks to undertake during his mandate. The first was to wage an international war against terrorism while the second was to engage into a campaign against abuses in the business community, symbolised by Wall Street within which, he affirmed, “real and grave evils” were being perpetrated. The context and reason for this campaign was that in America, businesses were gradually gathering more and more powers and influence in the daily lives of the population. These powers let to a situation where morals in business were gangrened, inspiring Roosevelt to use the word “evil” to make allusion to the bad practices in businesses. These problems have a parallel with the power and influence banks presently have in markets and the wider society.

Back in the times of T. Roosevelt’s presidency, the administration released 45 anti-trust procedures which did not achieve much. They acknowledged the problem, but were not able to bring a term to the matter. Although there was not much success, the issue was becoming more and more important in the political scene. That is how in 1912 the Pujo committee was
appointed to investigate the concentration of power within the business sector. One of the symbols of the exasperation of the population towards businesses was Brandeis’s (1914) book; which is a collection of selected articles of the time that treated on the subject. In his *Other people’s money and How the Bankers Use It*, Brandeis (1914) describes the institutional structure of the financial markets and the way that structure determined control over large enterprises. According to Brandeis (1914), the “interlocking directorates” is the root of much evil and so should be eradicated. He sees the investment banker as the dominant element in the financial oligarchy that prevailed in his time. As the dominant element, the investment banker was said to use associated banks, trust companies, and life insurance companies as tools, while controlled railroads, public services and industrial corporations play the role of subjects at their disposal. As it seemed their great power did not match their position as nothing but middlemen. However, the reality was, in business, the success of a firm would very often depend on the “participation or approval” of investment bankers. Their power resides in Combination. This combination, according to him led:

“Investment bankers, like J.P. Morgan & Co., dealers in bonds, stock and notes, encroached upon the functions of the three other class of corporations with which their business brought them into contact. They became the directing power in railroads, public service and industrial companies through which our great business operations conducted – the makers of bonds and stocks. They became other corporate reservoirs of the people’s savings – the buyer of bonds and stocks. They became the directing power also in banks and trusts companies – the depositories of the quick capital of the country – the lifeblood of business, with which they and others carried their operations.”

This quote shows explicitly how involved investment bankers were in those times in the business landscape. Today theses banks still have as much influence so much so politicians are
calling for a split between retail and investment operations in some of the Too Big To Fail banks following the recommendations of the Independent Commission on Banking led by Sir John Vickers (2011). However, although such a split will, give the governments around the world the option to let the bank fail without losing the deposits of its citizens, the power of investment banks, on their own is similar to that of the early 1900s. As an illustration we can look at the consequences of the bankruptcy of the Lehman Brothers bank which was not rescued by the USA. That failure created such havoc in the markets, that governments subsequently made available all the money required to avoid such a prospect. Even investment banks such as Goldman Sachs have been bailed out, to avoid another shock. The fact of the matter is, as before, the power of the banks resides in their various involvements and a weak governance system, not just on the dual role of commercial and investment bank.

Also, Niall Ferguson’s statements that power nowadays lies in the hand of those who control the bond market conceals another déjà vu given Brandeis’s (1914) mention of dealers in bond as part of the problem and entertaining a great power.

Even when banks have no employee acting as a director in a particular company, it has been accessible for banks to affect director appointments in such a way that an individual who will do their bidding is chosen.

However, Roosevelt seemed to have won his battle when in January 1914 the partners at J.P. Morgan gave up their directorships at 43 companies. By that time the pressure created by the public controversy that had blown up was growing stronger, partly due to the Pujo Committee’s investigation, which had J.P. Morgan under examination. Frentrop (2003) characterises that decision from the J.P Morgan partners as a symbol of “the end of a governance model that was still based on the way which bondholders secured their interests –by appointing a director with the task of keeping an eye on things on behalf of the capital providers.”
Also, in agreement with Brandeis (1914), about the banker’s role as compared to their power, Frentrop (2003) confirms that the sheer size of financial intermediaries is the reason why the old system ceased to work. Those intermediaries controlled on one hand large companies and on the other hand a substantial proportion of private savings. Furthermore the fact that they were often paid in share meant that intermediaries had a huge interest to maintain a public equity market.

Because the system of “financial Capitalism” was now deemed unfit to exert a disciplinary function, the Clayton Act, designed to combat the concentration of power and symbol of the “New Freedom” promised by new President Wilsons came into force in 1914.

In Europe also power concentration in the commercial sector was an issue. Countries that were worried included Germany, where, arguably, the world’s biggest Cartel at the time saw the day: the Rheinisch Westfalischer Kohlen-Syndikat founded in 1894. As a matter of fact, the number of cartels in Germany was in rising rapidly. Between 1889 and the outbreak of the First World War, the number has gone from 100 to 600. They were closely linked with the banks, which had been through their own concentration process, leaving just eight big banks in 1905. Those banks held supervisory board seats in many companies at a time. The bank that had the least number of seats was Luis Hagen of Sal. Oppenheim & Co. which held such seats in 42 companies. The one with the greatest number of seats was Jakob Goldschmidt of Danat Bank with more than 100 supervisory board seats. Despite criticisms, the response was not as combative as in the US (Frentrop, 2003).

All in all we can see that the present governance problem are not a novelty in business or in the banking industry. Rather like the behavioural issues covered earlier in the Mississippi and the South Sea bubbles, they are nothing but reoccurrences reminding us that in the banking
industry there will always be individuals that will make the most of any opportunity for self-interest and capital gain even if it means deceiving the expectations of other stakeholders.
Appendix 4

1. Industry influence on Governments: Lobbying and Donation

Along with other environmental factors such as the economic, social, technological, environmental, ethical and legal factors, government decisions, as a political factor, are widely recognised to have a very strong influence on businesses, their competitiveness, and ultimately, their profitability regardless of the industry. In order to ensure the best interest of the business and often of the shareholders, it is necessary for management teams to control factors that can impact positively or negatively on performances. With this in mind, strategies are put in place by management team including in the banking industry, targeting these environmental factors, in an attempt to maximise factors that have a positive effect and minimise those that have a negative effect. Similar to other external factors, a strategy that is accepted and endorsed by political communities on one side, and business communities on the other, is widely implemented: lobbying. This general endorsement of lobbying by governments is illustrated by the British parliaments which defines lobbying as the “practice of individuals and organisations trying to influence the opinions of MPs and Lords” (UK Parliament, 2014). As a mean to influence the opinions of elected representatives and switch their positions to one that is more favourable to the lobbyist, lobbying has many points in common with the illegal practice that is corruption. This has made many brand lobbying as a political correct term for corruption.

According to Cutlip, et al. (1985) and Jaatinen (1998) the basis in lobbying is forging and maintaining strong ties with decision makers especially in the political environment. This affirmation is consistent with Milyo (2014: p. 31)’s findings that among the firms that receive the most political favouritism are those with individuals sharing a strong “personal connections to politicians via family, friendship and past employment networks”. Trust is here regarded a
vital ingredient in the relationship between lobbyist and the decision maker. This trust in the case of a relationship that is not based on a family connection could be gained through support during electoral campaigns as according to Glazer (2006) the political decision maker tends, by preference, to listen to the individuals or groups that supported him rather than the people who did not show support.

In a lobbying process, organisations have a variety of manoeuvres they can use in order to influence outcomes. Jaatinen (1998) identify seven manoeuvres that can ensure the success of a lobbying strategy which are:

1. direct contact with the decision makers;
2. campaign contribution;
3. coalition building;
4. media relations and moulding of public opinion;
5. constituency and grass-roots mobilising;
6. competitive tactics; and
7. emergency tactics.

With campaign contribution being one of the most used tactic in lobbying, and with corporations being more interested in “buying influence” (Burris, 2001), many observers in the wider public have compared lobbying to corruption. Krumholz (2013) affirms that there is a clear connection between corruption and lobbying due to the frequent presence of conflict of interest which is inevitable when financial support is involved and more importantly the inability for the public or watchdogs to monitor effectively relationships. However although he recognises similarities between lobbying and corruption, in his comparison of lobbying to corruption, Giovannoni (2011) sees lobbying and corruption as substitutes that have nevertheless have two major differences. The first difference resides in the legal tolerance of
the actions – the illegality of corruption as a mean of seeking influence compared to lobbying which is seen as legitimate –; while the second difference, as suggested by Damania, et al., (2004), and Campos & Giovannoni, (2007 and 2008) is said to reside in the targets of the rent seeking activities – lobbying is seen as an activity that targets rule makers and tries to influence them to align with the interest of the lobbyist, while corruption is targeted at rule enforcer who, if the process is successful, would disregard the rule or law to benefit the one offering the gift. However the downside of any differentiation between corruption and lobbying depending on the target of the practice, as a sole differentiator, rather than the practice itself is that: if lobbying and corruption are looked at as absolute actions viewed independently from other things, there is no clear difference. They become the same, both would be seen as equal and equivalent rent-seeking activities. What make the action corruption is, according to this differentiation, solely the fact that the rule enforcer, and not the rule-maker, is targeted. Put differently, if corruption is equal to lobbying as an absolute action, and if the practice of lobbying the rule enforcer is corruption; then it is possible to say, using the same logic, that the practice of corrupting a politician or rule maker is lobbying. The implication is therefore that rent-seeking targeted to enforcers cannot be legal and rent-seeking targeted to rule makers cannot be illegal. It would therefore be impossible for the rule-maker to be corrupt even if he accept a deal with the same terms as one that could be offered to a rule enforcer who would be charged if he accepted it. The implication of this would be that justice is unbalanced in favour of the rule-maker when it comes to ruling matters related to corruption or lobbying. This, in a democracy, would be hard to justify.

Sole-Olle and Viladecans-Marsal (2013:p. 43) for example found evidence that land developer lobbies had influenced the spanish government with their power and wealth leaving room to question whether their influence did not pose barriers for “appropriate policy response to the growing bubble” prior to the crash of the real estate industry in that country; and those that led
Bhuyan (2000) to the conclusion that corporate political activities are more frequent in industries that are highly concentrated, with a large number of employees, and huge in terms of the size of the revenues and sometimes the debts – this description could be said to fit the current banking industry. However some of the means as listed above through which this success is achieved leave some academics perplexed when it comes to fairness as not all individual in society would have the resources to use tactics such as a significant campaign donation that would attract the attention of the rule maker. Glazer (2006) suggests that for reasons similar to that which sees the decision maker be more prepared to listen to the people that supported him, he is more disposed to listen to the advice of those who contributed financially during the campaign than those who did not.

Yet a straight cash donation to the political party is not the only way to buy influence. Ziobrowski, et al. (2004) focused on identifying abnormal returns from the common stock investments of members of the US Senate. Their findings showed that the portfolios of the members of congress in a consistent manner performed better than the market, hinting that politicians could have benefited from favoured business and insider information in the financial industry on top of the insider information they would have during sessions at the house of commons or parliament debating new laws or regulations affecting the financial markets.

This is supported by Schweizer (2011) who not only affirms that politicians enrich themselves and their entourage that way in exchange of political favours to financial firms, but goes further to confirm the earlier argument about unbalanced justice by affirming that member s of the wider public would be and have been treated as outlaws for the same actions. However according to Milyo (2014), Research from Eggers and Hainmueller (2013) suggest that politician do not systematically perform the market. He further states that evidence gathered form political event study does not support the proposition that campaign contribution buy
political favour. According to him the relationship shared is much more important as mentioned earlier.

Besides campaign contribution and the politicians’ portfolio, another channel through which companies acquire influence through recruitment. As Milyo (2014) stated, trust is crucial in lobbying. This may is justify the practice of companies recruiting key and influential employees such as managers among the staff of the organisation that is being targeted especially if that organisation is a governmental organisation (Décaudin & Malaval, 2008). Reports in the United Kingdom, for instance, have stated that banks frequently used the regulator as a source to recruit staff therefore benefiting not only of their experiences and in-depth understanding of the regulations but also of the network and connections they would still have within the financial watchdog.

Consequently there are different manner in which firms such as banks could influence regulations and create barriers against policies that could protect markets from crashes. The investigation that will be performed will focus on the campaign contributions the party in power in the United Kingdom receives. Bearing in mind the widespread belief that the financial industry is the goose that lays the golden eggs supported by the pro-financial industry attitude of the government as illustrated by the opposition to the regulatory propositions of the European Union, the objective will be to identify the size of contribution the party has received in comparison with the contribution of other industries.

2. Methodology used in research and analysis of the political donations theme

Further to the above a statistical analysis was performed in order to identify the contribution of the financial industry in helping fund political parties.
2.1. Focus of the analysis
This research was focused on one country: the United Kingdom; one party in particular: the Conservative party; and covers a specific period of time: January 2010 – March 2014.

The choice of the United Kingdom was made considering it is home to what is widely viewed as the capital of global finance. As such a reasonable assumption was made which is that many banks, having their headquarters in the country and the city of London being a roundabout for global money transit, will be more tempted to coordinate efforts in association such as the British Bankers Association (BBA) in an attempt to influence the political establishment of the country especially after the financial crisis which has seen many banks in the United Kingdom and around the world being bailed out. Furthermore the United Kingdom As a global leader in finance has also seen general elections taken place shortly after the crisis, suggesting a period of phrenetic political activity between banks and the parties boosted by the main theme of the general election of 2010: Bank regulation.

The choice of the Conservative party was motivated by the traditional link between the party and the financial industry as well as the wealthy segment of the country's population which includes many senior level and influential employees of the financial industry. More importantly, with the party taking the reins of the country along with the Liberal Democrats, the direct influence they gained as rule-makers after winning the elections in 2010 was assumed, based on the literature review of the practice of lobbying, to be greater motive for the financial industry to strengthen their commitments in funding the party.

The period covered in the analysis of the contributions to the conservative party was also made on the premise that performing the analysis in a period when the party that is favoured by the financial industry is in power would be more relevant. Also period 2010-March 2014 was preferred as it provided fresh and up-to-date results of the often repeated analysis seeking to
establish the contributions on the different industries in funding the parties. Finally, strong rhetoric promising and calling for changes in the banking industry were heard during the electoral campaigns from all parties in the running, the period covered allowed to identify the contribution of the financial industry.

2.2. Sources of data

The data on the donations and their origins, used in this analysis, was sourced from the Electoral Commission which is the organisation in the United Kingdom tasked to act as independent election watchdog, as well as election and party finance regulator. The electoral commission has been, over a long period of time, consistently filing the list of donations that parties are required by law to provide. These lists therefore, in the eyes of the law, are considered as an accurate representation of the funds flowing into the parties. For this thesis the lists covering the years 2010, 2011, 2012, 2013, and the first three months of 2014 were used as basis for the analysis.

Nonetheless, although the lists contain the names of the donors and provide the option to feature the address and/or postcode of the donors, they do not identify the profession or sector of activity of the individuals. In order to identify the sector of activity of the donors, sources such as the Parliament’s website – for members of the house of lords –, Company house, the Financial Conduct Authority the websites of the organisations donating, Newspaper reports on donations to the parties and lobbying, the Bureau of Investigative Journalism, and the website of the donors or that of the organisations where the donors works, have all been used as source.

Despite the use of these sources, the sector of many individual donors were not identified with absolute certainty. The donors that were identified often either had a reputation in their industry, or were well established names in the business and political landscape, or were influential in their sectors of activity. Whereas the donors that were not identified were
anonymous names in general. Also, the sector of activity of many donors could not be identified as these donors made their donations under the cover of associations. Consequently even their names are not recorded in the list of donor.

Yet, although in large number, the contribution of these anonymous donors and associations represented only 28% of the total donations against 72% for the identified donors. Consequently it was possible to, first compare the donations of those that were identified as part of the financial sector to the other identified donations; and second, use the contributions of the financial sector once more to compare it to the total donations with the assumption that the financial industry has not had any contribution in the 28% of donations that were unidentified. With these two comparisons the results of the analysis therefore retain great integrity and strength.

2.3. Statistical analysis

Descriptive analysis methods, including charting tools, were used during the analytical process on Microsoft Excel, to compare and contrast the contribution of the financial industry with non-financial industry contributions. Considering the Conservative party has donation policies that makes any donor member of the Leader’s Club and have direct access to the Prime Minister and the Chancellor over casual dinners, as long as the donor contributes with a minimum of £50,000 annually; the research segmented the lists of donors to identify the donors that donated a minimum of £50,000 in particular year, those that donated a minimum of £90,000; ad those with a minimum of 200,000. While the segregation of donations below £50,000 was justified by the policies of the party, the analysis performed on the donations the are equal or above £90,000 and on those equal or above £200,000 was motivated by the aim of ascertaining whether the financial industry’s community of professionals contributes the most in the top
segments in order of value. These segments were analysed in addition to the overall analysis that was performed including those who donated below £50,000.

Each year was coded during the analysis according to the grid below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Code</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
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<tr>
<td>2011</td>
<td>2</td>
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<tr>
<td>2012</td>
<td>3</td>
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<tr>
<td>2013</td>
<td>4</td>
</tr>
<tr>
<td>2014</td>
<td>5</td>
</tr>
</tbody>
</table>

3. Political donations

As established in the review of the literature on lobbying and the influence exerted on governments and political personalities, campaign donation is one of the major tactics available to companies and lobbyists in order to create to gain the esteem and loyalty of politicians especially during the process of law making. Trust and a strong relationships between the lobbyist and the politician are also regarded as crucial ingredients in order to gain and benefit from the loyalty of the rule-makers. As it has been found out this loyalty, trust, and strong relationship can be gained through a demonstration of support over a long period of time which can take the form not of campaign contribution not for one year but for a long period of time. The party wants to retain the financial support of the lobbyist while the lobbyist is looking to maximise profitability through the influence of the political forces on business environment. In this part, the political donations made to the Conservative party in the UK since 2010 – the
year the current government was elected – are analysed and presented. Given they are the party in power, their strong traditional ties with the financial industry and more importantly the recent financial crisis, its scale and the promise during electoral campaigns for change and a tightening of the regulations; the life of this parliament represents a great opportunity to observe and analyse the weight of contribution of the financial industry in the conservative party's coffers. The objective is to evaluate the weight of contribution of the financial sector compared to the other sectors in the contributions received by the party as an indicator of its importance to the party, the strength of the relationship with the politicians of the party.

The origins of the donations for each year were identified and analysed. This part presents the findings of that process of identification and analysis.

3.1. Overview of donations over the period of 2010- March 2014

Since 2010, the year of the general election year in the United Kingdom, which saw the conservative campaign and come first overall in the votes until March 2014, in excess of £80 million pounds have been donated to the Conservatives party.

In 2010 the total donations amounted to £32,133,367.17. In this research, it has been possible to identify the industries where £22,132,234.28 of those £32,133,367.17 originated. The remaining 10,001,132.89 could not be identified. This represents, respectively 69% and 31% of the total donations (figure 24). In 2011, first year after the election and its electoral campaign, the total donations received more than halved as they amounted to £14,419,881.42 with the source of £9,238,624.58 being identified and £5,181,256.84 unidentified, respectively 64% and 36% of the total donations for the year (figure 26). In 2012 the total donations continued its downward trend falling further to £13,949,263.79, with 74% (£10,311,823.25) of the funds’ sources being identified and the remaining 26% (£3,637,440.54) being unidentified (figure 24). The year 2013 represents a change in dynamic as the donations increased to with
the year’s total £15,984,737.97 being the second highest in the period. In that year £11,871,184.56 have identified sources and the remaining £4,113,553.41 being unidentified. This represents around 74% and 26% (figure 26). Finally the first three months of 2014 have seen the party received £6,636,347.75 with £4,881,652.03 (approximatively 74%) of the sum’s origins being identified and the source of the remaining 26% (£1,754,695.72) being unidentified.

The amount that could not be identified was donated either by individuals that could not be identified or by associations or groups with members that could come from different background and industries, making it effectively impossible to identify as in contrast with individual and corporate donations, under the current electoral law, associations do not have to detail the names or professions of their members that donate.

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**Figure 25: Donations identified vs. unidentified period 2010-March 2014**

3.1.1. Proportion of financial industry donations in the total industry-identified donations

Figure 25 exhibits the contribution of the financial industry based on industry-identified donations.
In 2010 53.23% (£11,781,792.84) of the identified donations came from the financial industry. That means the financial industry on its own is responsible for the outright majority of the donations made from sources that were identified. All other industries and sources represented only 46.77% (£10,350,441.44) of the total. In 2011 the size of the financial industry in the industry-identified donations fell to 49.92% (£4,612,377.83) narrowly below half of the industry-identified donations. However, this still shows the huge influence of the financial industry as the remaining 50.08% (£4,626,246.75) is the share of all the donations made by other identified sources and industries put together. The year 2012 also saw a decline of the share of the financial industry in the industry–identified donations. The share of the financial industry was still consequent although it has further retracted to 47.27% (£4,874,787.39) while the other sources and industries put together represented 52.73% (£5,437,035.86). In 2013, the share of the financial industry in the total industry-identified donations saw a very slight increase compared to 2012, therefore comforting the influence of the financial industry in the funding operations of the conservative party. The share of the financial industry on its own was in that particular year 47.54% (£5,643,582.31) leaving the remaining identified sources and
industries only 52.46% (£6,227,602.25) in between them. Finally the first three months of 2014 has seen a strong dominance of the financial industry. Over 67% (£3,298,353.31) of the industry-identified donations made were made by the financial industry that is more than double of the 32.43% (£1,583,298.72) of donations made by other identified sources and industries.

3.1.2. Proportion of financial industry donations based on all donations

The same analysis is applied in this part in order to identify the importance of the financial industry in matters related to funding and keeping the conservatives party one of reference in the political landscape. In this part, the financial industry is assumed not to have contributed to the unidentified donations. Consequently unlike the previous graph, the analysis compares the financial industry donations to the total donations received by the party, including unidentified donations.

In 2010, if it is assumed that the financial industry has not contributed to the unidentified donations, the share of the financial industry compared to the total donations stands at 36.67% (figure 26). Therefore over a 1/3 of the donations were identified as coming from the financial industry. In 2011 the share of the financial industry fell to 31.99%, whereas 2012 and 2013 saw a greater contribution of the financial industry when compared to the total donations with respectively 34.95% and 35.31%. Finally the first three months of 2014 recorded a greater influence of the financial industry with 49.7% of the donations emanating from the industry (figure 26).

Bearing in mind the number of industries and sources the Conservative party could receive funding from, a percentage of around 30%, although low compared to the previous analysis, is considered very high, influential and key to the Party.
Figure 27: Donations from financial industry vs other industries based on total donations

Based on these figures, it is clear that the financial industry is the most important when it comes to funding the party. Given the importance of the finances of a party when campaigning, it is evident, based on this data, that the financial industry has had a massive influence over the covered period on the success of the conservative party. The support to the party is unmatched by other industries, which according to the review of the literature would position the financial industry, the city, as the most loyal supporter, the one with the strongest relationship with the party, which theoretically will lead to a great deal of loyalty from the party and a great level of mutual trust.

3.2. Considering the annual sum donated by donors over the period of 2010- March 2014

Further evidence of the greater support by the financial industry can be found if only we consider the high value-donations to the party. These are the highest amounts given to the party in a year by a single donor. The donations equal or above £50,000, £90,000 and those equal or above £200,000 are therefore examined.
3.2.1. Donors totaling £50,000 or more in a year

In this part only the donations of the segment of the Leaders’ Club – donors that donated £50,000 in the respective year in order to be able to attend private dinners with the Prime minister and the Chancellor – are considered.

In 2010 the sum of donations from that segment was £24,347,312.08. The industries and sources of origin of 78.96% (£19,223,877.91) of that sum have been identified (figure 27). In 2011 the total for the donations of the Leaders’ Club was £9,967,506.69, with the source of 69.81% (£6,958,386.87) of that sum being identified. In 2012 the total from the Leaders’ Club fell further to £9,917,032.15 with the industries of origin of 80.69% (£8,002,303.52) of the donations of that club being identified. In 2013 the donations from the Leaders’ Club increased to £11,894,272.11; of which 83.18% (£9,893,778.11) have had their sources identified. Finally in the first three months of 2014 a total of £5,073,013.00 emanated from the Leaders’ Club. The percentage of donations with identified source for 2014 was 80.12% (£4,064,513.00).

![Figure 28: Identified donations ≥ £50,000 vs unidentified donations ≥ £50,000 period 2010-March 2014](image-url)
Based only on the donations of the Leaders’ Club which had their origins identified, the influence of the financial industry is even greater than if all the donations, including those below £50,000, were considered. Indeed the share of the financial industry for each year as displayed in figure 28 is greater than the share of the financial industry of the equivalent year as displayed in figure 25. In the Leader’s Club the share of the financial industry is 57.32% (£11,018,772.43) of a total of £19,223,877.91 in 2010; 55.93% (£3,891,869.23) of a total of £6,958,386.87 in 2011; 53.51% (£4,281,660.31) of a total of £8,002,303.52 in 2012; 50.49% (£4,995,540.28) of a total of £9,893,778.11 in 2013; and finally 73.55% (£2,989,393.00) of a total of £4,064,513.00 for the first three months of 2014.

![Figure 29: Donations ≥ £50,000 from financial industry vs donations ≥ £50,000 from other industries based on identified donations](image)

Meanwhile, if the donations identified as emanating from the financial industry was compared to the total donations equal or above £50,000 – including donations with unidentified industry origins –, and if it was assumed that the financial industry did not have a contribution in the unidentified donations, the share of funds originating from the financial industry would be falling under half of the total donations equal or above £50,000 in most of the years. Yet compared once again to the share of the financial industry all segments included as displayed
in figure 26, the influence of the financial industry is noticeably greater within the Leaders’ Club (figure 29). In 2010, the £11,018,772.43 identified as the contribution of the financial industry represented 45.26% of the total donations by the Leaders’ Club. In 2011 the £3,891,869.23 donated by the financial industry represented 39.05% of the total donations of the segment. The financial industry’s contribution amounting to £4,281,660.31 in 2012 meanwhile represented 43.17% of that year’s total donations by the Leaders’ Club. Also, the £4,995,540.28 contributed by the financial industry in 2013 represented 42% of the donations by the Leaders’ Club. And finally, the £2,989,393.00 contributed in the first three months of 2014 by the financial industry represented 58.93% of the total donations of the Leaders’ Club in the first quarter of that year.

3.2.2. Donors totalling £90,000 or more a year

In order to identify the influence of the financial industry at the top of the donors’ ranking in terms of total donation per year, the researcher decided to analyse the donors that totalled £90,000 or more in a year. Technically these donors are also part of the Leaders’ Club however as their influence might grow the more they donate, studying the segment of the donors that
totalled £90,000 per year is important in order to have an indication of the most influential and listened to industry.

In 2010, the sum of values of the donations that were equal or above £90,000 totalled £17,325,050.89 while the sum of values of the donations equal or over £90,000 with identified industry of origin totalled £14,891,218.72. This means 85.95% of the donations equal or above £90,000 were identified (figure 30). In 2011, only 64.83% (£3,231,437.23) of the total £4,984,196.93 were traced back to an industry. In 2012, the total donations of the £90,000 and more segment amounted to £6,561,848.14. Of that sum, 80.45% (£5,279,261.14) have an identified industry of origin. In 2013, the total donations of the segment was £9,450,453.08 with 89.73% (£8,479,853.08) of that sum having an identified industry of origin. Finally in the first quarter of 2014, £4,002,390.00 were donated by the segment in question, with 82.55% of those donations coming from an identified industry.

While analysing the full segment of the Leaders’ Club, it has been clear that within that segment the influence of the financial industry is greater compared to its influence on the total donations.
across all categories. This trend continues the higher one goes in the list of the biggest annual donors. Indeed, for each comparable year, the financial industry has greater influence in the segment of donors donating £90,000 and more annually, compared to the segment of donors donating £50,000 or more annually, whether the percentage of the contribution of the financial industry is based on the donations with an identified industry of origin or whether it is based on the total donations.

Based on the sum of donations with an identified industry of origin (figure 31), in 2010 the total of such donations amounted to £14,891,218.72 and 59.69% (£8,888,480.39) of that sum represented the contribution from the financial industry. In 2011, £3,231,437.23 were identified with an industry of origin, with 63.73% (£2,059,457.23) being contributed by the financial industry. In 2012, £5,279,261.14 were identified as coming from a particular industry. Of that amount, 63.37% (£3,450,877.98) represented the share of contribution of the financial industry. In 2013, the total industry-identified donations in the segment represented £8,479,853.08 and 50.21% (£4,258,040.28) of that sum was contributed by the financial industry. Finally in the first quarter of 2014 the total sum of industry-identified donations of £3,303,890.00 included a contribution from the financial industry of 77.7% (£2,567,270.00).
If the total value of the donations equal or above £90,000 (identified + unidentified) was used as basis to calculate the contribution of the financial industry in this category, therefore assuming that none of the unidentified donations were made by the financial industry, the influence of the financiers would still be greater than it is in the £50,000 and above segment (figure 32). This was the case for each of the years within the period covered in the analysis. In 2010, the £8,888,480.39 of the financial industry represented 51.30% of the total donated by the £90,000 and more segment. This percentage fell to 41.32% in 2011, with the financial industry donating £2,059,457.23 of the segment’s total that year. In 2012 the contributions of the financial industry represented 52.59% (£3,450,877.98) of the total of the segment. The year 2013 has seen the financial industry with a contribution of £4,258,040.28, which is 45.06% of the total contribution of the segment. And finally in the first three month of 2014, the financial industry contributed with 64.14% (£2,567,270.00) of the donations of the segment.
The last category or segment of donors that was analysed is that of the donors that totalled donations equal or above £200,000. This represents an even more exclusive group of donors that the ones seen previously.

In 2010, the total donations that were made in this segment was £11,759,630.24, with the industries of origin of 88.21% (£10,373,703.89) of the donations having been identified (figure 33). In 2011, the total donations contributed by this segment was £2,423,753.02. Of this total 47.81% (£1,158,753.02) had their industries of origin identified. In 2012, the total contribution of the category increased to £3,771,232.32 with the industry of origin of 80.11% (£3,021,232.32) of that amount being identified. In 2013, the industry of origin of 89.46% (£6,067,050.80) of the total £6,782,050.80 contribution by this segment, were identified. Finally in the first quarter of 2014, £2,421,500.00 represented the total donations of the segment. In all 91.74% (£2,221,500.00) of the donations have been traced back to the industry of origin.
The weight and importance of the financial industry grows even greater when one considers the category of the donors totalling donations worth or above £200,000. In 2010, based on the donations that were identified which totalled £10,373,703.89, the sum of £6,220,646.56 (59.97%) come from the financial industry (figure 34). In 2011, the total donations that were traced to a particular industry amounted to £1,158,753.02. The contribution of the financial industry in that year was 78.34% (£907,753.02) of that total. In 2012 the total donation with an industry of origin identified was £3,021,232.32 with a contribution of the financial industry representing 91.72% (£2,771,120.32) of that total. In 2013, the financial contribution in this segment fell compared to 2012, as it only represented 56.96% (£3,455,881.00) of the total industry-identified donations in the segment which was £6,067,050.80. Finally from January to March 2014 only donors from the financial industry were part of this segment. Indeed all £2,221,500.00 which represented the donations in this segment with an identified industry of origin, where donated by the financial industry. The contribution of the financial industry during this period shows that for each year the influence of the financial industry is even bigger in this category than it is in the £90,000 and above category.
Similarly, using the total donations equal or above £200,000 as basis and assuming that the financial industry did not contribute to the unidentified donations, the share of the donations from the financial industry grows for each year except in 2011 (figure 35) when compared to the previous categories covered. In 2010 the £6,220,646.56 of the financial industry represented 52.9% of the total donations. In 2011, the financial industry contributed in this category with £907,753.02 which represents 37.45% of the total donations made. In 2012, the contribution of the financial industry increased to 73.48% (£2,771,120.32) of the total donated in this segment. In 2013, the financial industry contributed with 50.96% (£3,455,881.00) just over half of the total donations. Finally in the first quarter of 2014 the financial industry has so far contributed to 91.74% (£2,221,500.00) of the total donations made to the Conservative Party in this category.

Figure 35: Donations ≥ £200,000 from financial industry vs donations ≥ £200,000 from other industries based on identified donations
This categorisation of the donations as applied above gains greater value considering the Conservative Party policy automatically inviting donor that donate £50,000 to dinners with the leaders of the party including the prime minister and chancellor, therefore repaying the support of the donor with an opportunity to access and lobby the chief of government and highest rule makers of the land. Not only does such a policy mean that there is imbalance in the chance for the ordinary citizen to influence policies compared to the more financially secure citizens, but more importantly, the sheer size of the contribution of the financial industry in those categories means that either around half of all those who are at these dinners are financiers therefore benefiting from the influence of their number to lobby the leader of the party; or the financiers are donating even greater sums than £50,000 meaning the headcount would not be as great, however the size of the donations would weight on the rule-makers who would be under pressure to satisfy them or else be sanctioned with a loss their future financial support to a rival party, loss possibly as great as the significant donation received. As the evidence suggests when making an inter-category comparison between the ≥ £50,000, ≥ £90,000, and ≥ £200,000 donations with respective bases, that is either total donations or total industry-identified

<table>
<thead>
<tr>
<th>Year</th>
<th>Finance ≥£200,000</th>
<th>Other ≥£200,000</th>
<th>Total</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014 (UP TO MARCH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>47.1%</td>
<td>52.9%</td>
<td>100%</td>
<td>47.1%</td>
<td>52.9%</td>
<td>26.52%</td>
<td>49.04%</td>
<td>32.65%</td>
</tr>
<tr>
<td>2011</td>
<td>62.55%</td>
<td>37.45%</td>
<td>100%</td>
<td>62.55%</td>
<td>37.45%</td>
<td>73.48%</td>
<td>50.96%</td>
<td>91.74%</td>
</tr>
<tr>
<td>2012</td>
<td>52.9%</td>
<td>47.1%</td>
<td>100%</td>
<td>26.52%</td>
<td>73.48%</td>
<td>50.96%</td>
<td>91.74%</td>
<td>32.65%</td>
</tr>
<tr>
<td>2013</td>
<td>49.04%</td>
<td>50.96%</td>
<td>100%</td>
<td>49.04%</td>
<td>50.96%</td>
<td>50.96%</td>
<td>91.74%</td>
<td>32.65%</td>
</tr>
<tr>
<td>2014</td>
<td>91.74%</td>
<td>8.26%</td>
<td>100%</td>
<td>91.74%</td>
<td>8.26%</td>
<td>91.74%</td>
<td>91.74%</td>
<td>32.65%</td>
</tr>
</tbody>
</table>

*Figure 36: Donations ≥ £200,000 from financial industry vs donations ≥ £200,000 from other industries based on identified donations*
donations, it is clear in all cases that generally the share of contribution and the influence of the financial industry grows as the annual donation considered grows.

**Table 48: Donations to the Conservative Party since 2010**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Donations:</strong></td>
<td>£32,133,367.17</td>
<td>£14,419,881.42</td>
<td>£13,949,263.79</td>
<td>£15,984,737.97</td>
<td>£6,636,347.75</td>
</tr>
<tr>
<td><strong>Total Donations By Industry-identified Donors:</strong></td>
<td>£22,132,234.28</td>
<td>£9,238,624.58</td>
<td>£10,311,823.25</td>
<td>£11,871,184.56</td>
<td>£4,881,652.03</td>
</tr>
<tr>
<td><strong>Total Donations by Donors in the Financial Industry:</strong></td>
<td>£11,781,792.84</td>
<td>£4,612,377.83</td>
<td>£4,874,787.39</td>
<td>£5,643,822.31</td>
<td>£3,298,353.31</td>
</tr>
<tr>
<td><strong>Total Donations 50k and above:</strong></td>
<td>£24,347,312.08</td>
<td>£9,967,506.69</td>
<td>£9,917,032.15</td>
<td>£11,894,272.11</td>
<td>£5,073,013.00</td>
</tr>
<tr>
<td><strong>Total Industry-identified Donations 50k and above:</strong></td>
<td>£19,223,877.91</td>
<td>£6,958,386.87</td>
<td>£8,002,303.52</td>
<td>£9,893,778.11</td>
<td>£4,064,513.00</td>
</tr>
<tr>
<td><strong>Total By Financial donors 50k and above:</strong></td>
<td>£11,018,772.43</td>
<td>£3,891,869.23</td>
<td>£4,281,660.31</td>
<td>£4,995,540.28</td>
<td>£2,989,393.00</td>
</tr>
<tr>
<td><strong>Total Donations 90k and above:</strong></td>
<td>£17,325,050.89</td>
<td>£4,984,196.93</td>
<td>£6,561,848.14</td>
<td>£9,450,453.08</td>
<td>£4,002,390.00</td>
</tr>
<tr>
<td><strong>Total Industry-identified Donations 90k and above:</strong></td>
<td>£14,891,218.72</td>
<td>£3,231,437.23</td>
<td>£5,279,261.14</td>
<td>£8,479,853.08</td>
<td>£3,303,890.00</td>
</tr>
<tr>
<td><strong>Total By Financial donors 90k and above:</strong></td>
<td>£8,888,480.39</td>
<td>£2,059,457.23</td>
<td>£3,450,877.98</td>
<td>£4,258,040.28</td>
<td>£2,567,270.00</td>
</tr>
<tr>
<td><strong>Total Donations 200k and above:</strong></td>
<td>£11,759,630.24</td>
<td>£2,423,753.02</td>
<td>£3,771,232.32</td>
<td>£6,782,050.80</td>
<td>£2,421,500.00</td>
</tr>
<tr>
<td><strong>Total Industry-identified Donations 200k and above:</strong></td>
<td>£10,373,703.89</td>
<td>£1,158,753.02</td>
<td>£3,021,232.32</td>
<td>£6,067,050.80</td>
<td>£2,221,500.00</td>
</tr>
<tr>
<td><strong>Total By Financial donors 200k and above:</strong></td>
<td>£6,220,646.56</td>
<td>£907,753.02</td>
<td>£2,771,120.32</td>
<td>£3,455,881.00</td>
<td>£2,221,500.00</td>
</tr>
</tbody>
</table>

Data compiled from: (The Electoral Comission, 2014)

This analysis does not attempt to prove whether or not politicians are repaying the support of the industry through loose regulation, rather it is to scrutinise that relationship in order to identify any cause for concern in the case of the UK. The financial industry in the UK has for
a long time been considered as the goose that lays the golden eggs, the most important in the UK, the city is tagged as the global capital of finance. With this image it would therefore be understandable that a government seeks to protect an asset due to the benefits it brings to its economy. However the crucial question to ask is whether the resources invested, and the willingness to keep regulation as loose as possible is consistent with the contribution of the industry in the general economy. Whether theses extra efforts are justified by a significant extra contribution in the economy when compared to the other industries. According to the official figures of the 2013 Blue Book of the office for national statistics, which measured the contribution of the different industries in the economy using the Gross Value Added (GVA), between 2004 and 2011, the financial and insurance industry has never been the top contributor in the UK economy. It has always been topped by the industry covering the wholesale, retail, repair of motor vehicles and m/cycles. The financial and insurance industry has only been the second greatest contributor despite the considerations as the greatest financial centre in the world and the unprecedented boom in has experienced before the crash. Consequently the financial industry is not the most important industry to the UK economy in terms of contribution, however as discovered before, it is by far the most important industry by financial contribution in the party that occupies the key positions in the government.

<table>
<thead>
<tr>
<th>£ million</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and insurance</td>
<td>78,597</td>
<td>92,909</td>
<td>102,421</td>
<td>117,702</td>
<td>125,273</td>
<td>137,395</td>
<td>126,695</td>
<td>116,363</td>
</tr>
</tbody>
</table>
Yet with regards to regulations, there is evidence that the regulatory model applied in the financial industry is more inspired from a self regulatory model than a stringent government regulatory model. The process in which the LIBOR, another object of recent scandal, is set is the perfect example of the self regulatory nature of the financial industry. This loose regulatory approach undermines the capability of the government to protect the customers of the industry especially the more vulnerable ones. However a change of perspective does not seem to be in the horizon as Sir John Vickers, the man tasked to head the review into the banking industry after the crash and make regulatory recommendations that would then be implemented, believes that the recommendations made were watered down and therefore not accepted in full (Pratley, 2012) therefore showing reticence to really tighten regulations as per the recommendations; which official members of the coalition government from the Liberal Democrat previously ensured would be accepted in full (BBC, 2011). This reticence to close the gap on significant regulatory loopholes is also observable in the case of the LIBOR as there is no in-depth change in a process that has resulted in one of the biggest market manipulation the world has seen.

In opposition, the industry that has contributed the most to the economy has a regulatory model that seems stricter than that of the financial industry yet is more important in contribution. Regulators in this industry have greater powers to protect the customers while these customers seem happy in those conditions to provide more business to the industry despite the fact that the financial industry is more globalised and attracts more global business while still serving
the customers domestically. This stricter approach can be seen from the most basic regulations such as refund policies to that that are more complex such as recalls etc.

Questions could therefore be asked to understand such divergence. Does strict regulation eat into the profits of businesses? Or does it actually provide a more secured environment for customers to enjoy their experience with guarantees and the confidence that their money and rights are protected; which could convince them to have a greater involvement in the industry, and therefore leading to volumes of business for the firms ultimately causing greater profits? These questions can be reduced to: Is increased investment in security more costly than the loss of business caused by a sentiment of insecurity and high risks among customers who, accordingly, will chose to minimise interactions with the industry to the strict necessity?

4. Summary

The analysis made on the contribution of the financial industry in the Conservative party and evidences in the financial regulatory landscape raises concerns with regards to the transparency in the regulatory model. The amount invested by the financial industry, the fact that one of the greatest tools for lobbyists is the campaign donations, and the reticence to strengthen regulation when in other industry stronger regulations has led to success constitute strong grounds to question that transparency.