

Business culture in banking industry favors dishonest behavior, study shows

November 19 2014



Bank employees are not more dishonest than employees in other industries. However, the business culture in the banking industry implicitly favors dishonest behavior, as an economic study at the University of Zurich indicates. A change in norms would thus be important in order to improve the battered image of the industry.

In the past years, there have often been cases of fraud in the banking industry, which have led to a considerable loss of image for banks. Are bank employees by nature less honest people? Or does the [business culture](#) in the [banking sector](#) favor dishonest behavior? These questions formed the basis for a new study by Alain Cohn, Ernst Fehr, and Michel Maréchal from the Department of Economics at the University of

Zurich. Their results show that bank employees are in principle not more dishonest than their colleagues in other industries. The findings indicate, however, that the business culture in the banking sector implicitly favors dishonest behavior. The results suggest that the implementation of a healthy business culture is of great importance in order to restore trust in the [banking industry](#).

Occupational Norms Implicitly Favor Dishonest Behavior in Bankers

The scientists recruited approximately 200 bank employees, 128 from a large international bank and 80 from other banks. Each person was then randomly assigned to one of two experimental conditions. In the experimental group, the participants were reminded of their occupational role and the associated behavioral norms with appropriate questions. In contrast, the subjects in the control group were reminded of their non-occupational role in their [leisure time](#) and the associated norms. Subsequently, all participants completed a task that would allow them to increase their income by up to two hundred US dollars if they behaved dishonestly. The result was that bank employees in the experimental group, where their occupational role in the banking sector was made salient, behaved significantly more dishonestly.

A very similar study was then conducted with employees from various other industries. In this case as well, either the employees' occupational roles or those associated with leisure time were activated. Unlike the bankers, however, the employees in these other industries were not more dishonest when reminded of their occupational role. "Our results suggest that the social norms in the banking sector tend to be more lenient towards [dishonest behavior](#) and thus contribute to the reputational loss in the industry," says Michel Maréchal, Professor for Experimental Economic Research at the University of Zurich.

A Change in Norms is Needed in the Banking Industry

Social norms that are implicitly more lenient towards dishonesty are problematic, because the people's trust in bank employees' behavior is of great importance for the long-term stability of the financial services industry. Alain Cohn, who recently joined the Booth School of Business at the University of Chicago as a postdoctoral scholar, suggests concrete measures that could counteract the problem: "The banks could encourage honest behavior by changing the industry's implicit [social norms](#). Several experts and supervisory authorities suggest, for example, that bank employees should take a professional oath, similar to the Hippocratic Oath for physicians." If an oath like this were supported with a corresponding training program in ethics and appropriate financial incentives, this could lead bank employees to focus more strongly on the long-term, social effects of their behavior instead of concentrating on their own, short-term gains.

More information: Alain Cohn, Ernst Fehr and Michel André Maréchal. Business culture and dishonesty in the banking industry. *Nature*. November 19, 2014. [DOI: 10.1038/nature13977](https://doi.org/10.1038/nature13977)

Provided by University of Zurich

Citation: Business culture in banking industry favors dishonest behavior, study shows (2014, November 19) retrieved 2 May 2024 from <https://phys.org/news/2014-11-business-culture-banking-industry-favors.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.
