

Values and incentives: what research tells us about banking culture

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Weber's question – the influence of values on economic behaviour – has been taken up by experimental research on the banking sector itself. A study published in 2014 in the journal *Nature* suggested that reminding bank employees of their professional identity could increase their propensity to dishonesty in an experimental game, which reopened the debate on the culture of the sector.¹ These findings have been discussed and qualified by other work, but they helped to place culture at the centre of regulators' concerns.

After the financial crisis of 2008, several authorities did indeed put the emphasis on culture and incentives. Remuneration systems that reward short-term risk-taking, the commercial pressure exerted on advisers and tolerance of misconduct were identified as causes of dysfunction. Rules on remuneration, governance requirements and expectations regarding conduct were introduced in many countries.

For the Geneva financial centre, this work has a practical significance. The values that institutions claim for themselves – prudence, loyalty, discretion, a long-term outlook – only produce their effects if concrete incentives support them. An institution that preaches prudence but pays its staff according to the volume of products sold sends a contradictory message. According to the research, consistency between values and incentives is one of the most reliable determinants of good conduct.

The Calvinist tradition had formulated this requirement in its own way: the institutions of discipline, mutual supervision and the value placed on reputation framed individual behaviour. Contemporary institutions must build their own arrangements, adapted to complex and international organisations. The challenge remains the same: to ensure that proclaimed values are translated into action.

1 Notes

1. Alain Cohn, Ernst Fehr and Michel André Maréchal, “Business culture and dishonesty in the banking industry”, *Nature*, vol. 516, 4 December 2014, pp. 86–89: in a coin-tossing experiment, the employees of a large international bank “behave, on average, honestly in a control condition. However, when their professional identity as bank employees is rendered salient, a significant proportion of them become dishonest”.
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