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How Executive Boards Set the Stage for Unethical Behavior in the Financial Sector

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Abstract: *Unethical behavior in the financial sector is a common and costly phenomenon. The main purpose of this study was to examine how ethical board leadership in the financial sector relates to the ethical climate and incidents of unethical workplace behavior. Surprisingly few studies have examined whether ethical leadership of the top management of organizations relates to lower levels of unethical behavior displayed by organizational members at the work floor. Moreover, the few existing studies have used generic measures of ethical leadership which provide little insight into concrete and visible leadership behaviors that should be displayed by board members to build an ethical climate. Building on Ethical Leadership Theory, Signaling Theory, and the Social Identity Theory of Leadership, we examined whether employees' perceptions of the board's commercial focus, unjustified board pay and the board's focus on consumers' interests related to an instrumental ethical climate in financial organizations, and indirectly to the incidence of observed unethical behavior. The Dutch Authority for the Financial Markets collaborated with the authors of this paper to develop an online survey. At the end of 2018 and the beginning of 2019, the survey was distributed in 18 organizations, which operated in four subsectors of the Dutch financial sector (four banks, four insurance companies, five financial intermediary companies, and five funeral insurance companies). The survey was completed by 4,144 employees in total. We do not think that the Dutch context is unique, although after the financial crisis, Dutch behavioral codes came to the fore which stated that that executive boards are responsible for preventing unethical behavior. The quantitative, correlational data of the survey were used to conduct structural equation modeling. Confirming our research questions, results showed that the board's commercial focus and unjustified board pay related to higher levels of unethical workplace behavior, via a more instrumental climate. Moreover, the board's focus on consumers' interests negatively related to unethical behavior, via a less instrumental climate. Additionally, we performed content analysis of free-format comments in the survey (N= 195). Results revealed that most comments centered around board pay and addressed this in a negative sense. Perceptions of unjustified board pay seemed to lead to lower identification with the board and elicited 'them' (at the top) versus 'us' (at the work floor) thinking among employees. In conclusion, this study in the financial sector indicates that exemplary behavior at the top, regarding board pay and the board's focus on commercial and consumers' interests, shapes ethical climates in organizations and as such can set the stage for unethical behavior, also towards consumers. Future research on the effects of ethical board leadership should strive to use experimental or longitudinal research design and include objective measures of unethical behavior. We also hope to inspire future research on possible additional dimensions of ethical board leadership in the financial and other sectors. For practice, this study provides insight in concrete and visible behaviors that executive boards must (and must not) display when they want to invest in the ethical climate and lower the likelihood of unethical behavior. It is advisable for (financial) organizations to examine how the 'tone from the top' is perceived by employees via anonymous employee surveys and, possibly for board members, to reconsider what kind of 'tone at the top' they want to broadcast regarding consumers, profit and pay.*
Keywords: ethical leadership, ethical climate, board leadership, consumer interests, financial sector, board pay.
JEL Classification: D18, D22, G20, G40, M14.

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How Executive Boards Set the Stage for Unethical Behavior in the Financial Sector

1. Introduction

The most famous example of unethical behaviour in the financial sector happened at Wells Fargo, where thousands of banking employees knowingly sold financial products to consumers who did not need these products and would have trouble paying the costs. Even more so, millions of fraudulent savings and checking accounts were created for consumers without their consent. At Wells Fargo, banking employees were pressured to sell at least eight financial products to each customer via a pay-for-performance sales program, determining employees' compensation and whether they kept their jobs. The 'pressure cooker sales culture' allegedly stemmed from CEO John Stumpf, who communicated the mantra 'eight is great' and kept the pay-for-performance program in place while knowing from the employee satisfaction survey that employees were uncomfortable with the sales targets (McGee, 2016).

Since the global financial crisis that started in 2008, misconduct or unethical behaviour in the financial sector has continued to receive attention in the media and academic literature. Unfortunately, unethical behaviour in the financial sector is a common phenomenon. For example, in the US, 7% of financial advisers were found to have misconduct records, reaching over 15% at some of the largest firms (Egan et al., 2019). Unethical behaviour is also a costly phenomenon, not only for the consumers that are being harmed and for the organisation in question (e.g., fines, reputation damage), but also for society at large as it lowers trust in the financial sector (Van der Cruijsen et al., 2020). When incidents of unethical behaviour come to the fore, regulators and the media alike often hold the organisation's top management responsible for creating an organisational culture in which financial targets are attained over compliance with the law and ethical concerns (Financial Conduct Authority, 2018). Legally, the executive board is responsible for all organisational outcomes. Behavioural codes also convey a felt responsibility at the executive board level of financial organisations to prevent unethical behaviour. The Dutch Banking Code (2010), for example, specifies that: "*The executive board shall ensure that the bank always treats its clients with due care. The executive board shall see to it that the duty of care for the client is embedded in the bank's culture*" (Nederlandse Vereniging voor Banken, 2010). It raises the important question of whether board leadership is related to organisational culture and unethical behaviour employees display. Moreover, if so, what kind of leadership must (or not) board members display to establish an ethical climate and decrease the likelihood of unethical behaviour?

Although there is an abundance of empirical research showing that *lower-level* ethical leadership (i.e., at the work team level) relates to a more ethical climate and less unethical behaviour in organisations, surprisingly scarce research has examined whether *board-level leadership* relates to the ethical climate and unethical workplace behaviour at lower levels in the organisation. Moreover, almost all prior studies have relied on the Ethical Leadership Survey (ELS) developed by Brown and colleagues (2005). This measure has resulted in a rich and valuable literature on ethical leadership. However, this measure has also been criticised for its abstract nature, which provides little insight into concrete. Visible leadership behaviours that board members must display (or avoid) to establish an ethical climate and decrease the likelihood of unethical behaviour (Banks et al., 2021; Frisch et al., 2011; Ko et al., 2018). The present study aims to assess ethical board leadership in the financial sector in a more fine-grained, context-specific manner. It examines how this relates to the ethical climate and incidents of unethical workplace behaviour in financial organisations.

In the remainder of this introduction, we first define ethical climate and give a theoretical overview of prominent psychological theories on ethical leadership, which we then apply to board-level leadership. Second, we review empirical studies that link ethical leadership to ethical climate and unethical workplace behaviour. We also consider prior concerns regarding the generic Ethical Leadership Survey. Third, we detail how we operationalise ethical board leadership in the financial sector. Fourth, we put forward our research questions to examine how ethical board leadership relates to organisations' ethical climate and unethical behaviour. Finally, we summarise the results and practical implications and describe the structure of the paper.

2. Literature Review

2.1 Theories on Ethical Leadership. *The ethical climate* is defined as the set of shared perceptions of procedures and policies, both formal and informal, which shape expectations for ethical behaviour in the organisation (Pagliaro et al., 2018; Victor and Cullen, 1988). It influences how employees think and behave in performing their work. For example, which issues employees recognize as ethical dilemmas, what they regard as 'normal' behaviour towards consumers, and what they judge as 'right' and 'wrong' in their daily work (e.g., Martin and Cullen, 2006; Ehrhart and Raver, 2014; Van Steenbergen and Ellemers, 2021). Ethical climate consists of different dimensions, of which '*instrumental ethical climate'* is a core dimension. A highly instrumental ethical climate is characterized by the conviction that people in the organisation are primarily guided by self-interest and that work-related decisions should serve the economic interests of the organisation (profitability, efficiency) or provide personal benefits (Martin and Cullen, 2006; Pagliaro et al., 2018).

Several prominent psychological theories posit that ethical leadership is crucial for establishing an ethical climate in the organisation and helping to prevent unethical behaviour (Trevino and Nelson, 2017). *Social Learning Theory* (Bandura, 1977; 1986) posits that employees 'learn' what is appreciated and appropriate by observing and copying the behaviour of their leaders because leaders are considered the most successful organisational members (*role modelling*). Moreover, leaders' power to 'punish and reward' (e.g., who gets promoted and who does not?) teaches employees what is truly important to get ahead and be recognised as an organisational member. Although no explicit distinction is made between board-level, higher, middle, and team-level leadership, social learning theory postulates that employees do not need personal experience with a leader. Employees also learn from observing what happens to others in the organisation, which is called *vicarious learning*. For example, when someone from middle management gets promoted while having a reputation for being aggressively focused on increasing financial revenue, employees not only learn that making profits is crucial to getting ahead but also that it is ok to cut corners on the way (Van Steenbergen and Ellemers, 2021).

Ethical Leadership Theory states that ethical leadership consists of two components. First, the 'moral manager' component, which means the leader must *act in an ethical way* in the leadership displayed and the (strategic) decisions that are made (e.g., Brown et al., 2005). Second, it comprises the 'moral person' component. An ethical leader must thus also personally be an ethical person. By generally displaying integrity, justice, trustworthiness, and concern for others, the leader comes across as a moral person (Brown et al., 2005)[1]. Importantly, this implies that ethicality must not only be displayed by the leader but also perceived as such by employees to have a positive impact on the ethical climate in the organisation. In such a way, employees also form perceptions around these two components about their highest leaders, who they do not know.

Signaling Theory (Connelly et al., 2011; Spence, 1973) explains that employees possess little information about their executive leaders and thus use all the various signals that are sent (consciously or unconsciously) by executives to make inferences about the ethicality of the leader (see also Banks et al., 2021). Think of the CEO's strategic decision to keep the pay-for-performance sales program at Wells Fargo. Possibly, employees perceived their CEO as less of a moral manager afterwards. Alternatively, the typical example of employees inferring that the CEO must 'be a good person' because the story goes that this CEO personally buys a present for the secretary's birthday, frequently inquires how the kids are doing, or attends charity events.

Moreover, there is an abundance of research informed by the *Social Identity Theory on Leadership* (Haslam and Reicher, 2016), showing that the impact of leadership behaviours depends on how followers perceive them. According to this theory, leaders can only be successful to the extent that followers identify with their leaders. Thus, only when employees perceive the behaviour of leaders as indicating they are 'one of us' (the *ingroup*) can they successfully lead employees. This theory also assumes that employees do not need personal contact with their leaders as they use signals to form their impression of the leader. For example, when the CEO's pay is very high compared to peers, this is often motivated by arguing that this person would otherwise leave for another company. However, as a result the CEO runs the risk of signaling to

[1] Tan (2023) argued that the two components are interrelated. For example, moral management activities, such as making strategic decisions that come across as ethical help a leader to be viewed as a moral person who demonstrates personal traits such as kindness, integrity, and courage.

employees to act as a self-interested 'outsider', whose presumed lack of loyalty to the company causes employees to disidentify with their leader (Banks et al., 2021; Peters et al., 2019; Steffens et al., 2020). Because disidentification with the leader tends to go hand in hand with disidentification with the organisation, this can lower employees' tendency to act in the organisation's best interests (Steffens et al., 2020) and enhance the likelihood of unethical behaviour at work. In sum, different approaches to leadership theories all indicate that ethical leadership displayed by board members – and perceived by employees − should be related to a less instrumental ethical climate and lower workplace unethical behaviour on the work floor. Below, we discuss empirical research on ethical leadership.

2.2 Empirical Research on Ethical Leadership. A large volume of empirical studies confirms that ethical leadership contributes to an ethical climate and prevents unethical behaviour in employees. An extensive review covering 62 empirical studies on ethical leadership (Ko et al., 2018) shows that employees who rate their managers as ethical leaders are less likely to engage in unethical behaviour. In addition, they are more likely to speak up against unethical behaviour and internally report wrongdoing by others. Similar conclusions emerge from a bibliometric review by Gamarra and Girotto (2022) and a recent study on whistleblowing by Shiyung (2022). In many of these studies, ethical climate mediates the link between ethical leadership and employee outcomes. For example, in a sample of 1,525 employees and their managers working in 300 units in different organisations, ethical leadership was related to a more ethical climate, leading to less employee misconduct (Mayer et al., 2010). There is also a substantial body of research (which has been summarised in meta-analytic reviews) that links organisations' ethical climate to unethical workplace behaviour (e.g., Scholten and Ellemers, 2016; Ehrhart and Raver, 2014; Kish-Gephart et al., 2010).

A few studies have, however, examined ethical board leadership at the top management level. In the review by Ko et al. (2018), only seven out of the 62 empirical studies assessed top managers' ethical leadership. These seven studies seem to suggest that ethical leadership can 'trickle down' from the board level to the rest of the organisation, either by improving the ethical climate in the organisation or by increasing ethical leadership in middle managers. For example, in a US sample of 195 work units in 160 different organisations, ethical CEO leadership related to more ethical leadership of middle managers, which in turn related to higher levels of employee helping behaviour and lower levels of unethical behaviour towards the organisation (Mayer et al., 2010). Additionally, in a German sample of 32 organisations, ethical CEO leadership, together with a strong corporate ethics program in place, related to a more ethical culture and, hence, to objectively higher financial firm performance (Eisenbeiss et al., 2015). Moreover, studies in the Pakistan manufacturing sector (Ullah, 2022) and in Chinese domestic firms (Wu et al., 2015) showed that ethical CEO leadership related to a more ethical culture and, in turn to more organisational Corporate Social Responsibility (CSR) behaviour.

However, an important limitation of this body of empirical knowledge is that in almost all studies, ethical leadership was assessed with the Ethical Leadership Survey (ELS, Brown et al., 2005), which has been criticized for its abstract nature. In this questionnaire, employees rate the extent to which they generally agree with statements such as 'top management talks about the importance of ethics' and 'top management sets an example of how to do things the right way in terms of ethics' (see also Banks et al., for an elaborate description of limitations). Although there is merit in a global assessment of ethical leadership, several calls have been made for scholars to operationalize ethical leadership more specifically, so it reflects more concrete and visible ethical behaviour in a specific context (Frisch et al., 2014; Kalshoven et al., 2011; Ko et al., 2018). Such measures would also be useful for practice. After all, low scores on the current ELS give little guidance for practice besides general advice to 'act more ethically and be more ethical as a person'. The present study responds to these calls by attempting to operationalize ethical board leadership in the financial sector more concretely and fine-grained.

2.3 Ethical Board Leadership in the Financial Sector. What does concrete and visible ethical board leadership in the financial sector entail? The financial sector is unique in several respects, which also partly explains why the financial is more highly regulated than many other sectors. First, the information asymmetry between the company and (potential) consumers in the financial sector is much larger than in other sectors. Financial products, such as mortgages or insurance, are highly complex products. It makes it extremely difficult for consumers to comprehend fully what they are buying or to judge and compare the quality of different products from different organisations. In other words, consumers can be more easily fooled than in other sectors. Second, consumers can judge the quality of tangible products in the here and now or over the timespan of a couple of years (e.g., by checking whether your car drives as economically as promised or whether your phone is still working after three years), it can take decades before the quality of financial products becomes clear to consumers (e.g., is the house paid off in the end, are all costs of the funeral covered as you thought they were?).

Thus, judging and comparing the quality of financial products is difficult for consumers, even more so because many financial products are only bought once or a few times in a lifetime. This makes it difficult for consumers to learn from the experience of trustworthy organisations. These factors result in a larger *conflict of interest* between the customer and the organisation in the financial sector compared to other sectors[2]. Financial advisors should provide advice in the consumers' best interest but are also expected to increase their organisation's profits (e.g., Mullainathan, 2012; Hoechle et al., 2018). In other sectors, serving the interest of consumers is more closely aligned with the organisation's profitability. Take, for example, buying jeans. When customers are happy with the quality of this pair of jeans, they are more likely to return to that brand, which increases that organisation's profitability. Serving the interests of consumers and serving the organisation's commercial interests is often seen as representing an inherent tension for people working in the financial sector (e.g., Mullainathan, 2012; Hoechle et al., 2018). Although more and more executives recognise, believe, and communicate the importance and ethicality of serving the interests of consumers as best as they can (i.e., focusing on all important stakeholders rather than merely focusing on the shareholders), it continuously to be a balancing act (Trevino and Nelson, 2017).

The Dutch context is not unique. However, after the financial crisis, some specific actions were taken in the Netherlands to stimulate serving the interests of consumers and ethically navigating the tension with serving the organisation's commercial interests. Banks collaborated to form the Dutch Banking Code as a form of self-regulation. Large insurance companies undertook a similar initiative. Moreover, the Dutch financial sector oath became legally obliged. Since 2015, employees must swear or promise 'to execute the function ethically, to draw a careful balance between the interests of all parties associated with the business, being the customers, shareholders, employees and the society in which the business operates, and when drawing that balance, making the customer's interests central'. Furthermore, bonuses for banking employees were legally capped at 20% of their base pay (Wbfo, 2015). Executive and high-level leaders were exonerated from this bonus cap.

In sum, ethical board leadership in the financial sector, globally, at least entails zooming in on the exemplary behaviour of the board, displaying how they balance this tension between serving the interests of consumers and serving the commercial interests of the company. Building on Brown's (2005) Ethical Leadership Theory, we posit that operationalising the 'moral manager' component of ethical leadership in the financial sector encompasses employees' perceptions about the board's focus on consumer interest and the board's focus on commercial interests. Do employees perceive that their board members are sincerely focused on serving the interests of consumers and that they set a good example in terms of serving the interests of consumers? Do employees perceive that their decisions result in treating consumers fairly? To what extent do employees perceive that the board is focused on serving the commercial interest of the organisation and that the attainment of commercial targets is prioritised over serving the interest of consumers? When, in the eyes of employees, boards are not really focused on serving the interests of consumers and prioritise serving the commercial interests of the organisation, this will set the stage for a more instrumental climate in the organisation in which organisational members lower in the hierarchy of the organisation will also be more likely focused on profitability, efficiency and self-interest. An instrumental climate, in turn, increases the likelihood of unethical workplace behaviour. In contrast, when employees perceive their board members to be highly focused on serving the interest of consumers, this will lower the changes of an instrumental climate and unethical behaviour.

The current study distinguishes between two forms of unethical behaviour. Unethical behaviour is generally defined as 'any organisational member action that violates widely accepted (societal) moral norms' (Kish-Gephart et al., 2010: 2). The authors distinguish between *unethical behaviour towards consumers* and *unethical behaviour towards the organisation*. The first, for example, is selling financial products not in the consumer's interest or highlighting the possible benefits without explaining the risks. An example that caused public outrage in the US was selling mortgages to consumers who were knowingly not affluent

[2] Carefully serving the interest of consumers is even legally obliged in the financial sector. Financial advisors for example must make sure the consumer fully comprehends a financial product (see the Dutch Financial Supervision Act, article 4.17 − 4.25).

enough to repay ('liar loans'), leading up to the financial crisis (Treviño and Nelson, 2017). The authors expect an instrumental ethical climate to promote unethical behaviours towards consumers and unethical behaviour towards the organisation − also known as counterproductive work behaviour (Bennett and Robinson, 2003). It includes, for example, stealing goods or money from one's company or calling in sick without being ill. These unethical behaviours typically cause less societal upheaval because the organisation is harmed.

This leads to the following Research Questions (RQ), which are visually presented in Figure 1.

Do higher perceptions of the board's commercial focus relate, through higher perceptions of an instrumental ethical climate, to increased unethical behavior towards the organisation (RQ 1a)? In the same vein, do higher perceptions of the board's commercial focus indirectly relate to increased unethical behavior towards consumers (RQ1b)?

Do higher perceptions of the board's consumer focus relate, through lower perceptions of an instrumental ethical climate, to decreased unethical behavior towards the organisation (RQ2a)? In the same vein, do higher perceptions of the board's consumer focus indirectly relate to decreased unethical behavior towards consumers (RQ 2b)?

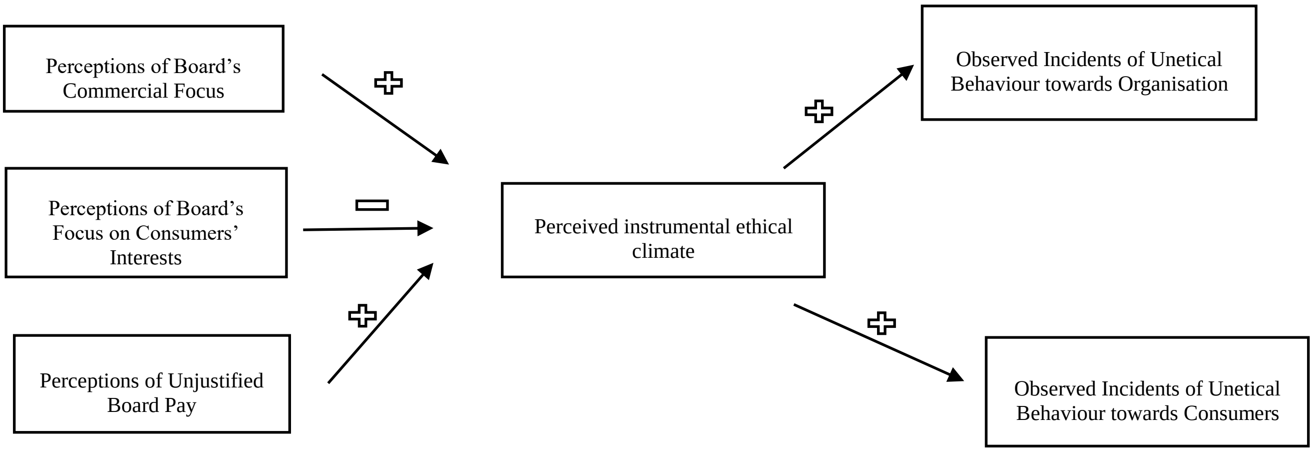


Figure 1. Proposed Model

Source: Compiled by the authors

However, how to examine the 'moral person' component of ethical board leadership in the financial sector? Most employees in large financial organisations (almost) never see board members in person. Building on signaling theory (Connelly, 2011; Banks et al., 2021), we argue that *board pay* is a critical signal that employees in financial organisations use to assess their board members. Board pay is a heavily discussed topic in the media, and statistics about base pay and bonuses regularly cause societal upheaval, especially when bonuses are allocated when the performance of the CEO feels unfair or was questionable (e.g., large profits are made because of lay-offs rounds). For example, the bonus to former banking CEO Ralph Hamers caused a commotion because it was initiated around when ING received the largest fine in Dutch history for doing too little to prevent money laundering (Arnold, 2018).

A recent study based on the Social Identity Theory of Leadership showed that elevated CEO pay can cause employees to perceive the CEO as an outgroup member, a self-interested 'outsider', undermining their feelings of shared identity with the leader (Peters et al., 2019; Steffens et al., 2020). *In this regard, the alleged words of J. P. Morgan, one of the most influential and bespoken figures in the financial sector, are famous. In his view, v*ery high salaries at the top make even high-ranking people in the company see their top management as adversaries rather than as colleagues, which quenches any willingness to say 'we' and to exert oneself except in one's immediate self-interest (p. 14, cited in Haslam, 2001: 90). Along these lines, we expect that unjustified board pay, in employees' eyes, signals exemplary behaviour to employees that a focus on self-interest is normal, thus increasing the chances of an instrumental ethical climate and unethical behaviour. *To our knowledge, no study has empirically tested whether employee perceptions of the unjustified board pay relate to a more instrumental climate or more unethical employee behaviour*.

Therefore, our research question is:

Do perceptions of unjustified board pay indirectly relate to increased unethical behaviour towards the organisation through higher perceptions of an instrumental ethical climate (RG 3a)? Similarly, do perceptions of unjustified board pay indirectly relate to increased unethical behaviour towards consumers (RQ 3b)?

In the remainder of this paper, the authors first detail the study's methodology in 18 financial organisations in the Dutch financial sector. Then, they present findings in the results section. The main findings are:

1. The *board's commercial focus* and perceptions of *the unjustified board may* relate to higher levels of unethical workplace behaviour via a more instrumental climate;
2. *The board's focus on consumers' interests* negatively relates to unethical behaviour via a less instrumental climate;
3. Perceptions of unjustified board pay often correspond with lower identification with the board.

This study provides novel insights for practice regarding concrete and visible behaviours that executive boards should (and should not) display if they want to invest in the ethical climate and lower the likelihood of unethical behaviour. Financial organisations should examine how the 'tone from the top' is perceived by employees to examine and possibly reconsider the 'tone at the top' that is communicated regarding consumers, profit and pay. These and other theoretical and practical implications will be elaborated on in the discussion section.

3.Methodology

3.1 Data Collection. The financial sector is notoriously hard to get access to. We had the unique opportunity to conduct an online survey among 4,144 employees working in 18 organisations in the Dutch financial sector. These 18 organisations operated in four subsectors of the financial sector and included four large banks, four large insurance companies, five financial intermediary companies, and five funeral insurance companies. All employees of the financial intermediary companies and the funeral insurance companies were included in the scope of this research. Because of the size of the banks and insurance companies, this research was scoped only to include employees working in mortgages within banks and employees working in mortgages and damage insurance in the insurance companies.

The Dutch Authority for the Financial Markets (AFM) collaborated with a Dutch university to develop an online survey. This broad survey examined multiple topics such as recognition and rewards, leadership from the board and the direct manager, and work engagement. In the last months of 2018 and the first months of 2019, the AFM sent an email with the link to the survey to contact persons within the organisations in scope. Contact persons further distributed the email, accompanied by a short email.

Prior to sending the survey, contact persons within the 18 organisations were contacted by phone and email to explain that the purpose of the study, namely gaining insight in employees' perceptions regarding remuneration and recognition. Furthermore, in all 18 organisations face-to-face meetings were scheduled to further explain the study. It was also communicated that no regulatory measures could follow from this study. Anonymity and full confidentiality were guaranteed by mentioning that answers could not be traced to individuals. It was also explained that the AFM would publish a general report on the findings, in which organisations would be kept anonymous. Additionally, it was explained that each organisation would receive the findings for their organisation, compared to their anonymized peers in the same subsector and the other subsectors. All 18 organisations participated. At the end of the survey, participants were asked to give permission to use their answers for academic purposes. For this article, only the results of participants who gave permission were used.

3.2 Sample. In total, 5,717 employees participated in the online survey, which equalled a response rate of 67%. Of these participants, 897 were excluded because they only completed part of the survey (N = 897) or completed the survey in less than 3 minutes (N = 3), resulting in a sample of 4,820 employees. Of these employees, only the data of employees who were permitted to use their answers for academic purposes were used, resulting in a final sample of N = 4,144 employees. Of this sample, 39.21% worked at a bank, 29.34% at an insurance company, 20.90% at a financial intermediary company, and 10.55% at a funeral insurance company. To maintain the anonymity of respondents, demographic questions were not asked in the survey, apart from the one item measuring managerial status. Of the 4,144 respondents, 17.28% (n = 716) had a managerial position and 82.72% (n =3,428) had a non-managerial position.

3.3 Research Design. The data were collected via an online survey. The quantitative, correlational data of the survey were used to examine potential differences between subsectors in the study variables and to test the proposed model. The survey also included an open-ended question to understand better how employees perceive board behaviour and the climate within their organisations. These free-format comments helped us interpret the quantitative findings and expand our understanding of the practical and dynamic characteristics of ethical leadership (Ko et al., 2018). We examined whether comments that employees made about the board, the climate and (un)ethical behaviour could indicate one of the variables specified in the model and whether the comments were positive or negative in content.

3.4 Measures. Only the measures that were used for the current study are described below. All items were measured on 7-point Likert scales, ranging from 1 (*totally disagree*), to 7 (*totally agree*), except for observed incidents of unethical behaviour, which was measured on 5-point Likert scales, ranging from 1 (*never*) to 5 (*frequently).*

3.4.1 The Perceived Board's Focus on Consumers' Interests was measured by specifying two items of the ELS ('the board sets a good example in terms of ethics' and 'the board clearly and convincingly communicates the importance of ethics', Brown et al., 2005) to serve the interest of consumers. This was done with the help of four subject matter experts (SME) working at the AFM. The two final items were: '*The board sets a good example in terms of putting the interests of the consumers first'* and '*The board clearly and convincingly communicates the importance of putting the interests of the consumers first'* (r = .78).

3.4.2 Perceived Board's Commercial Focus. One item measured perceptions of the board's commercial focus: *'The board values and rewards the attainment of commercial targets above the interests of consumers.'* The SME explicitly advised assessing the valuing of commercial targets above the interest of consumers because there is 'nothing wrong' with valuing the attainment of commercial targets as such. It is paramount that this happens for the solidity of financial organisations and the financial system.

3.4.3 Perceived Unjustified Board Pay. Two items measured employees' perceptions of unjustified board pay: '*The board's financial compensation seems appropriate to me'* (reverse coded) and '*The board's financial compensation is to high relative to the compensation employees such as myself receive*' (r = .58).

3.4.4 Perceived Instrumental Climate. The existing 5-item scale developed by Pagliaro et al. (2018) was used. This scale strongly resembles the scale of Arnaud (2010), which is also used by Gorsira and colleagues (2018). Examples are: '*In my department, people are mostly out for themselves.*' and '*People in my department protect their interest above other considerations'.* Scoring high on these statements indicates a more instrumental ethical climate (a = .92).

3.4.5 Unethical Behaviour Towards the Organisation. Unethical behaviour is notoriously hard to study. This is because individuals are unwilling to report this socially undesirable behaviour and fear negative consequences. To measure it, scholars have used archival records, self-reports of personal behaviour or reports of observed unethical behaviour by co-workers (Kish-Gephart et al., 2010). The latter methodology, developed to reduce social desirability bias, was used in the present survey. It builds on the notion that respondents are more likely to admit that they observed others' unethical behavior than that they were unethical (Akaah, 1992; Treviño et al., 1998). It asks individuals to report how often they have personally observed (seen or heard) an organisational member showing certain behaviours in the past 12 months. In the current study, participants rated the degree to which they, in the past 12 months, had personally experienced three incidents from a larger list of incidents developed by Treviño and colleagues (1998) and Akaah (1992). We chose the three items that best reflected the possible behaviours of financial services employees and made slight adaptations to match current working situations. The items were: *'In the past 12 months, I have personally seen or have first-hand knowledge of employees or managers ….* (1) *claiming credit for someone else's work',* (2) *'do not give a 100% at work'* and (3) '*were absent from work without a valid reason'* (α = .80).

3.4.6 Unethical Behaviour Towards Consumers. The prevalence of unethical behaviour towards consumers was also measured by letting participants rate the extent to which they had personally experienced three incidents, i.e., '*In the past 12 months, I have personally seen or have first-hand knowledge of employees or managers ….* (1) '*not trying to find out the needs of their consumers',* (2) '*are not interested in the consequences for consumers' (3) 'not give it their best for consumers'* (a = .88).

3.4.7. Open Question. To gain in-dept insight into board leadership, organisational climate, and employee behaviour, we analyzed participants' comments to the following open-ended question at the end of the survey, i.e., '*Do you want to share anything else regarding topics in this survey or other topics?* Participants could use 250 words for their answers. Only the comments that concerned the board, the work climate or unethical behaviour were further considered.

3.5 Empirical Procedures for Data Analysis

3.5.1 Descriptive Statistics. First, the authors descriptively examined our data by calculating the means of and correlations between all study variables. The authors explored whether there were mean level differences in our study variables between participants working in the four subsectors and different organisations. To this end, for each of our six study variables, we graphically depict the z-scores of each organisation. The authors calculated these z-scores for each of our study variables by subtracting the organisation's mean score from the grand mean and dividing this by the variable's standard deviation. Second, several preparatory analyses were conducted before testing the hypotheses. Following the approach of Serrano-Archimi et al. (2018), this included assessing the validity of our measurement model, evaluating the presence of standard method variance and assessing the necessity of conducting multi-level analysis.

3.5.2 Confirmatory Factor Analysis. The authors first assessed the measures' factor structure with confirmatory factor analyses (CFAs). In all models, the items were permitted to load only on the factors they were expected to indicate. They tested a model with all our five study variables that were assessed with multiple items measured on a Likert-type scale: perceived unjustified board pay, perceived board's consumers focus, perceived instrumental climate, perceived unethical behaviour towards organisation, and perceived unethical behaviour towards consumers. This model did not reach acceptable fit, $\chi^2/df = 16.51$, $p < .01$, $df = 125$, RMSEA = .06, CFI = .96. After inspecting the modification indices and the factor loadings, we correlated two pairs of error terms (all indicating the same construct) and excluded three of the items that were originally in the questionnaire (two indicating unethical behaviour towards consumers and one indicating unethical behaviour towards the organisation). This led to the item selections as described in the measures section above. This adapted model provided good fit to the data, $\chi^2/df = 4.93$, $p < .01$, $df = 78$, RMSEA = .03, CFI = .99 (Hu & Bentler, 1999), and was a significant improvement over our initial model, $\Delta\chi^2 = 1679.48$, $\Delta df = 47$, $p < .01$. All items loaded significantly on their respective factors (with all standardized factor loadings exceeding .60).

3.5.3 Common Method Variance Analysis. The authors investigated the possible presence of standard method variance by adding an unmeasured latent factor (Podsakoff et al., 2003) to our measurement model. The model including this latent factor did not significantly improve model fit ($\Delta\chi2 = 176.00$, $\Delta df = 426$, $p = 1.00$), indicating no standard method variance to account for.

3.5.4 Necessity of Multilevel Analysis. Because data were nested (employees were nested within organisations, which in turn were nested within subsectors), the authors assessed the necessity of conducting a multilevel analysis by calculating the intraclass correlation coefficients (ICC1s) and testing the significance of the between-group variance components of our study variables at both the organisational and the subsector level. An ICC1 statistic is the proportion of between-group variance relative to the total variance (Field, 2005). Hence, the ICC1 statistic was calculated by dividing the between-group variance component by the total amount of variance. The ICC1s at the organisational level were board's commercial focus (.054), board's consumer focus (.093), board's pay (.058), institutional culture (.062), unethical behaviour towards own organisation (.050), and unethical behaviour towards consumers (.045). The ICC1s at the subsector level were board's commercial focus (.01), board's consumer focus (.03), board's pay (.02), institutional culture (.00), unethical behaviour towards own organisation (.00) and unethical behaviour towards consumers (.00). The between-group variance components at the organisational level were all significant, whereas those at the subsector level were all non-significant. It implies that in our hypotheses testing, the authors need to control for employees' embeddedness in an organisation but not for the fact that organisations were grouped in subsectors.

3.5.5 Open Questions. The accessible format comments were coded as positive, neutral, or negative. When a statement about the board did not relate to the variables that were specified in the model, the authors coded it as 'other'. Later, the authors examined these comments for emerging themes.

4. Results

4.1 Descriptive Statistics. Table 1 displays the descriptive statistics and correlations of the study variables. On average, employees perceived the board to be more focused on the interests of consumers (M = 4.89) than on commercial interest (M = 3.51, t = -39.52, p < .001; see Figure 2). Perceptions of unjustified board pay averaged around neutral (M = 4.20). As could be expected, perceived board's commercial focus related negatively to perceived board's consumer focus (r = -.27) and unethical behaviour towards the organisation related positively to unethical behaviour towards consumers (r = .56).

Table 1. Means, Standard Deviations and Correlations for all Study Variables

Variable	*M*	*SD*	1.	2.	3.	4.	5.
1. Perceived board's commercial focus[1]	3.51	1.50	-				
2. Perceived board's consumer focus	4.89	1.33	.27**	-			
3. Perceived unjustified board pay	4.20	1.32	.20**	-.44**	-		
4. Perceived instrumental climate	3.41	1.29	.29**	-.32**	.29*	-	
5. Unethical behaviour towards organisation[2]	2.42	.78	.14**	-.32**	.26*	.46**	-
6. Unethical behaviour towards consumers[2]	2.03	.76	.19**	-.33**	.20*	.38**	.56**

Note. [1]*Single-item.* [2]*5-point Likert scale* ***p < .01*

Source: Compiled by the authors

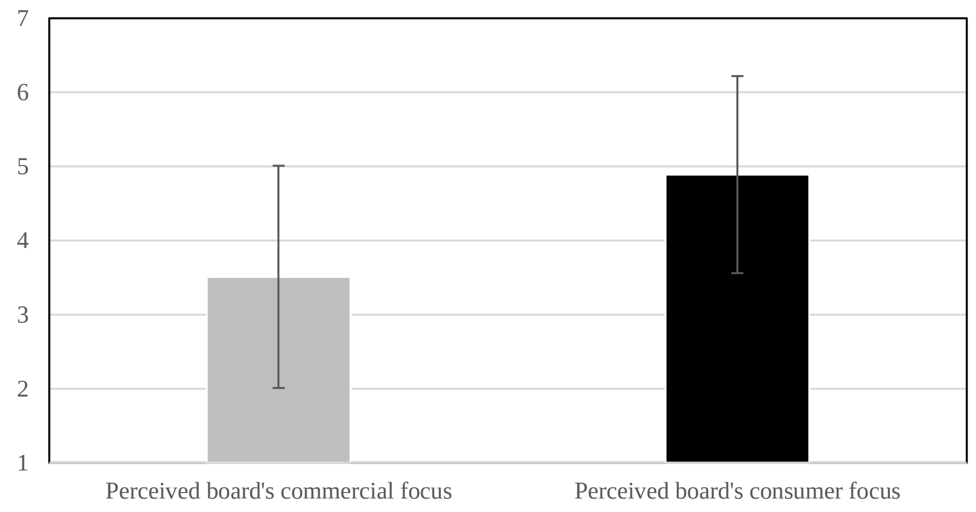
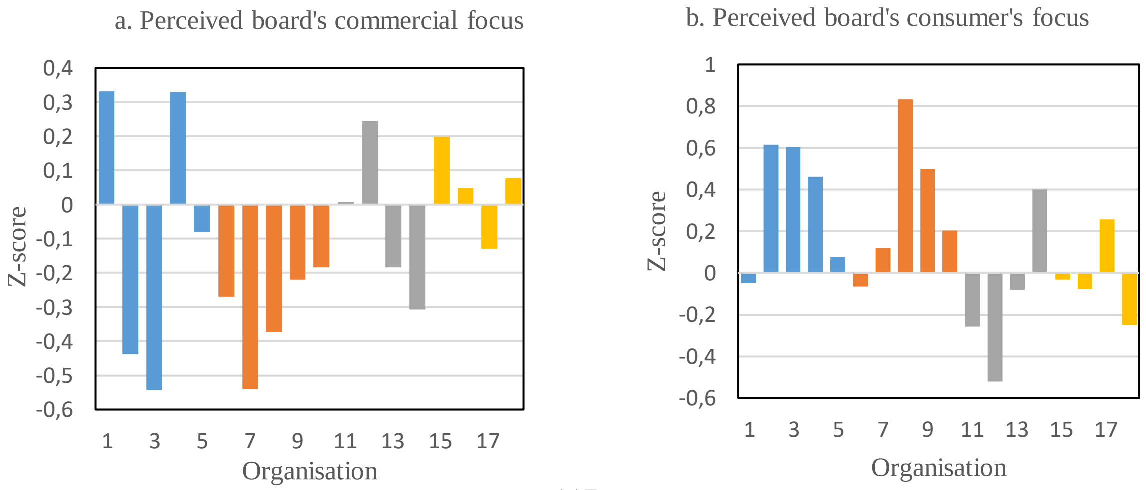
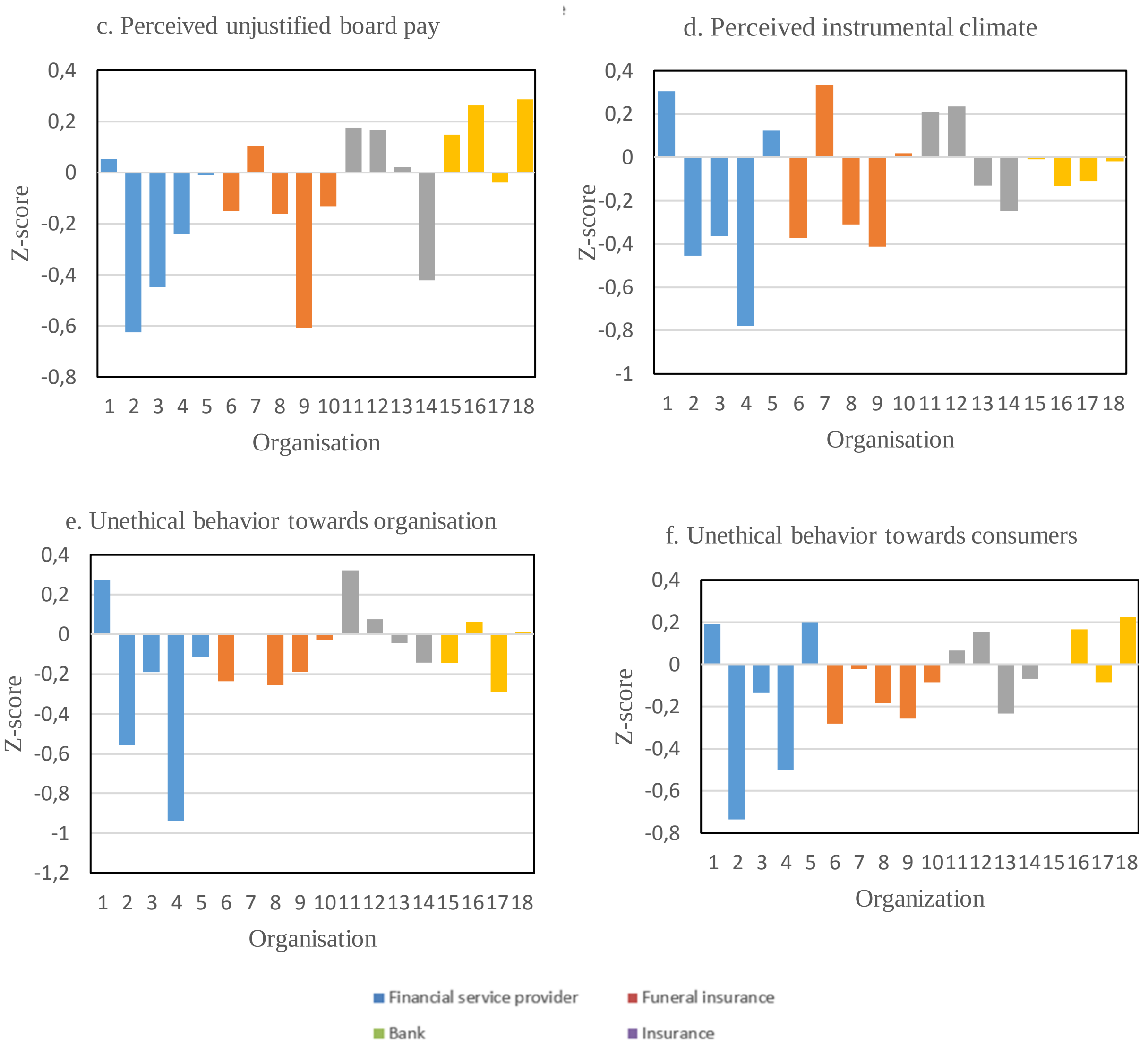


Figure 2. Mean Scores and Standard Deviations of Perceived Board's Commercial Focus and Perceived Board's Consumer Focus

Source: Compiled by the authors

Figures 3a-f display the z-scores for each organisation on our six study variables. The figures illustrate our finding that our study variables have significant between-organisation variance but no significant between-subsector variance. For example, it can be seen in Figure 3a that financial service providers 1 and 4 score higher than the general mean on the board's commercial focus, whereas financial service providers 2 and 3 score lower.





Figures 3a-f. Deviations from the Mean per Organisation

Source: Compiled by the authors

4.2 Estimating the Proposed Model. The authors tested the model by estimating a two-level multilevel random intercept model in Mplus (Muthén and Muthén, 2007), with level 1 referring to the individual level and level 2 referring to the organisational level. All variables were specified as individual level (Level 1) variables. The model provided excellent fit to the data, $\chi^2/df = 0.288$, $p = .591$, $df = 1$, RMSEA = .00, CFI = 1.00, which indicates that the proposed model captures the data well. The estimated model is depicted in Figure 4.

All our research questions were answered affirmatively by the data. Namely, regarding research question (RQ) 1a, we indeed found a positive indirect effect of perceptions of the board's commercial focus on unethical behavior towards the organisation through perceptions of an instrumental organisational climate, $b = .081$, $p < .001$, 95% CI [.063,.094]. In a similar vein, we found (RQ 1b), a positive indirect effect of perceptions of the board's commercial focus on unethical behavior towards consumers through perceptions of an instrumental organisational climate, $b = .061$, $p < .001$, 95% CI [.047,.072].

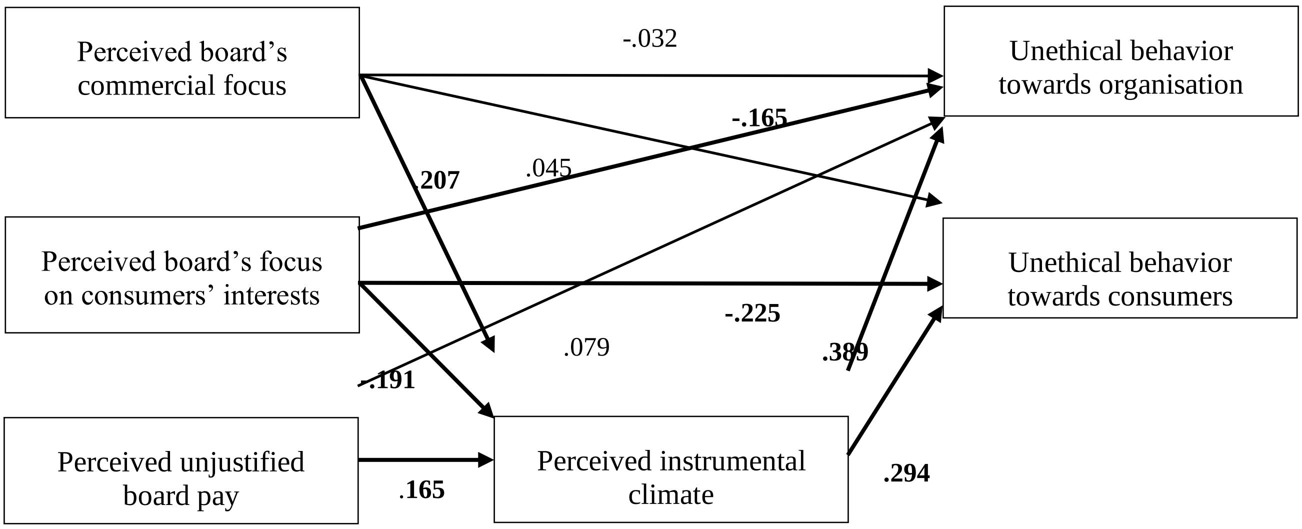


Figure 4. Estimated Multi-Level Structural Equation Model

Note: Standardized estimates are depicted. Estimates above .16 are depicted in bold. All estimates are significant at the .01 significance level

Source: Compiled by the authors

Regarding RQ 2a, the authors indeed found a significant negative indirect effect of perceptions of the board's consumer focus on unethical behaviour towards the organisation through perceptions of an instrumental climate, b = -.074, p < .001, 95% CI [-.095,-.054]. Moreover, we found (RQ 2b) a significant negative indirect effect of perceptions of the board's consumer focus on unethical behaviour towards consumers through perceptions of an instrumental climate, b = -.056, p < .001, 95% CI [-.069,-.042]. As depicted in Figure 2, board consumer focus also had relatively strong direct effects on unethical behaviour towards the organisation and consumers. The three predictors explain 10.66% of the variance in instrumental climate. Instrumental climate explains 15.13% of the variance in unethical behaviour towards the organisation and 8.64% in unethical behaviour towards consumers. The total amount of explained variance per construct is displayed in Table 2. It can be seen that nearly 19% of the variance in unethical behaviour towards the organisation and almost 14% of the variance in unethical behaviour towards consumers is explained by the model.

Table 2. Explained Variance per Construct

Construct	Percentage explained variance
Perceived instrumental climate	10.66
Unethical behavior towards organisation	18.58
Unethical behavior towards consumers	13.91

Source: Compiled by the authors

4.3 Content Analysis of the Free Format Comments. In total, 1126 participants indicated they wanted to share additional thoughts regarding topics in this survey or other topics. Of these, 109 participants gave non-informative answers (e.g., 'I have nothing to add'), and 1017 participants provided informative answers. In many cases, these comments reflected how participants felt about their general renumeration, variable pay or the survey. Of the 1017 participants, 146 made 1, 2 or more comments about their board, the climate or unethical behaviour. This summed up to 195 qualitative data points to be categorized for the current study.

Table 1 in Appendix A summarizes the results and provides characteristic comments for each topic. The most frequent theme in the 195 comments was *board pay*. Almost half of the comments (95) concerned this category. Of these 95 comments, around 63% were negative, for example, about the board's salary and bonuses being 'out of proportion' with the salaries of regular employees and about the board setting 'the wrong example' in this way. Only four comments were positive about board pay, and the rest were neutral (e.g., I do not have an opinion about board pay because I don't know how the board is compensated). There were 14 comments about the *board's commercial focus*, 13 of which were negative, for instance, about the revenue growth having 'convulsive' effects on the organisation because this resulted in unrealistic targets or unrealistic reorganisations. Eleven comments centred around the *board's focus on consumer interests*: seven of these were negative statements mentioning the lack of focus of the board on consumer interests and four were neutral (e.g., about the 'tension' between focusing on commercial interests and consumer interests when working in a company that has shareholders). Additionally, 26 comments were about the *instrumental climate*. Most (around 81%) were negative in that they described a high instrumental climate, e.g., co-workers 'who do not take the rules and regulations seriously advance faster in their careers'. The rest were positive because they mentioned a non-instrumental climate, e.g., 'practising what we preach in putting the interests of all stakeholders central'. Moreover, 11 comments concerned *unethical behaviour towards consumers*. These were unethical or harmful behaviour due to a high workload or target pressure – no comments concerned unethical behaviour towards the organisation.

Finally, 38 comments were about the board but could not be coded as directly falling within the categories of board commercial focus, board consumer focus, or board pay. These were examined for emerging themes. Interestingly, 30 of these comments were made after a negative comment about board pay and reflected workers feeling very different from their executive board *as a group* and undervalued or disrespected. Consistent with the Social Identity Theory of Leadership, we labelled this category as 'disidentification with the board'. For example, employees called themselves 'we, the ground personnel', 'worker bees' or 'ordinary employees' and distanced themselves from the board of directors, referring to 'they' or 'the guys in suits' who are 'the greedy ones' having a different set of 'morals' when it comes to their renumeration. These feelings reflected a lack of recognition for employees and the effort employees put into their work. All these comments were made after a negative comment about (increases in) renumeration of the board and 'pay trends for employees staying behind' and extras such as the Christmas package, a bank holiday, the bonus system, etc., which were 'snatched' from employees.

In sum, these qualitative results paint a vivid picture of the impact of board leadership in the financial sector. Since many of the comments were negative, they provide concrete instances of behaviour board members might want to avoid when aiming to establish an ethical climate and decrease the likelihood of unethical behaviour. They support that the board's managerial decisions to advance commercial targets fiercely can damage the organisation, for example, via unrealistic target setting for employees. Moreover, the many negative comments about board pay seem to support that it is an important moral component for employees to judge their board members on. Consistent with the Social Identity Theory of Leadership and recent findings on board pay (Haslam & Reicher, 2016), comments indicated that perceptions of unjustified board pay could even cause disidentification with the board.

5. Discussion

'Under his leadership, consumer interests almost fully disappeared into the background.'

Former employee Greg Smith said this about CEO Lloyd Blankfein, who led Goldman Sachs from 2006 to 2018. Mr Smith quit working at Goldman because of the 'toxic work culture'. In meetings about selling derivatives, how consumers could be helped was not discussed for a minute (Ballegeer, 2020). This study examined whether there is any truth in the claim that a lack of ethical board leadership in the financial sector can translate into a worsened ethical climate and set the stage for unethical workplace behaviour towards consumers and the organisation. Building on the Social Learning Theory, the Social Identity Theory of Leadership, and the Ethical Leadership Theory, we examined whether employees' perceptions of the *board's commercial focus*, *unjustified board pay*, and a lack of *board focus on consumers' interests* would relate to a more *instrumental ethical climate*, and hence a higher incidence of observed unethical behaviour. This research not only responded to the call to study ethical leadership at the level of executive boards but also to study it at a more concrete level. Because a generic measure provides little insight into concrete and visible leadership behaviours that should be displayed (Ko et al., 2018). Moreover, we have done so in the financial sector, which is hard to access for researchers, especially when studying leadership or unethical behaviour.

In a sample of more than 4,000 employees working in 18 different organisations in four subsectors of the financial sector, we found that employees' perceptions of a high commercial focus of the board and unjustified board pay indeed related to higher levels of unethical behaviour via a more instrumental climate. As proposed in our model, perceptions of a high focus on consumers' interests related to a less instrumental climate and less unethical behaviour. Although caution is in order when interpreting cross-sectional data, these findings suggest that exemplary behaviour regarding board pay and the board's focus on commercial and consumer interests indeed have important effects on the rest of the organisation via a more (or less) instrumental climate, and as such can set the stage for more (or less) unethical behaviour. Thus, consistent with the Social Learning Theory (Bandura, 1977, 1986) and Signaling Theory (Connelly et al., 2011), employees' perceptions of their highest leaders shaped expectations for ethical behaviour in the organisation.

The board's focus on consumer interests was the strongest direct and indirect predictor of decreased unethical behaviour towards consumers. It means that it is crucial for board members to clearly (and, of course, sincerely) communicate the importance of serving the interests of consumers and showing exemplary behaviour in this regard (e.g., in strategic decisions that are made). It also means that it is hazardous when employees perceive their board lacks a sincere focus on consumer interests and instead seems primarily engaged with the organisation's commercial interest and pay.

Board pay perceptions are quite novel as a theme in the academic literature. In the media, however, intense debate exists about the 'ethicality' of extreme CEO compensation. Harward (2022) expresses concern for the ever-increasing pay gap between CEO and worker pay in his opinion blog blog,' how CEO pay shapes ethical workplace culture'. In his view, *pay perception issues among employees* will come with serious costs in terms of *employees' perceptions of their company culture, work motivation, and commitment to the organisation. The current findings seem to support his line of reasoning. They are also consistent with the finding of* Steffens et al. (2020) that high CEO pay can undermine identification with the leader and thereby could compromise organisational performance. The current results show that perceptions of unjustified board pay could create an instrumental ethical climate and enhance unethical workplace behaviour. It may seem strange to some to examine board pay as a dimension of ethical board leadership in the financial sector because, formally, the board does not decide about their renumeration. Employees, however, can use this information as signals (Banks et al., 2021) about the ethicality of the leaders. It is probably because it is common knowledge that board members influence their renumeration in practice. Hiring negotiations can be fierce, and new CEOs can often only be 'attracted' with very high pay. Or stories get out, through the grapevine or in the media, about sitting board members who threaten to leave their company and can only be 'maintained' with a bonus or changes in their performance goals. This study confirms that pay perception issues deserve more scholarly attention.

Theoretically, it is notable that ethical leadership theories do not explicitly distinguish between different hierarchical levels of leadership (e.g., executive, higher, middle, and team-level leadership). Social Learning Theory (Bandura, 1977; 1986) only implicitly assumes that employees copy leaders' behaviour irrespective of their hierarchical position, explaining that employees do not need personal experience with the leader to vicariously 'learn' from them. Moreover, Ethical Leadership Theory (Brown et al., 2005) prescribes that leaders must act ethically in their leadership and be ethical (e.g., by displaying integrity) without specifying how ethical leadership behaviours look at different levels of the organisation. The Social Identity Theory of Leadership also only implicitly assumes that the process of categorizing a leader as an ingroup of outgroup members holds for all leadership levels when explaining that employees can use information from personal contact but also general information, such as board pay, to infer what kind of leader it is (Haslam and Reicher, 2016). It seems important to advance theory on the differences and similarities in processes and informational signals that employees use to form their perceptions of the ethicality of a leader at different levels. Possibly, employees closely monitor a team leader's response to (minor) transgressions of team members in the daily work. Board pays, however, is only relevant at the board and higher management levels. More theoretical and empirical research is needed to inform practice on what ethical leadership entails at different levels in the hierarchy.

5.1 Recommendations for Practice. This study provides practical insight into the concrete and visible behaviours that executive boards must (and must not) display when they want to invest in the ethical climate and lower the likelihood of unethical behaviour occurring under their watch. As such, these findings illustrate how the board can 'see to it' that a culture of care for the client is embedded in the organisation's culture, as specified in the Dutch Banking Code (Nederlandse Vereniging voor Banken, 2010). Our findings indicate that it is imperative for board members to not only be aware of their influence but also to (re)consider what kind of 'tone at the top' they want to broadcast regarding consumers, profit and pay. When employees predominantly receive CEO communication about creating revenue growth, strategic decisions which - in their experience – do not benefit consumers, or about increased board pay or bonuses, this can translate into an instrumental climate and more unethical behaviour towards consumers. Notably, ethical board behaviour relates to decreased unethical behaviour towards consumers and reduced chances of unethical behaviour towards the organisation. This could be an additional reason to invest in ethical board behaviour.

This study also offers the important insight that what matters are the employee perceptions of their leaders. It is, therefore, advisable for financial organisations to examine how the 'tone from the top' is perceived by employees via anonymous employee surveys and determine whether there are gaps in how the board perceives itself and how the board would like to be perceived by the employees. This study found no differences between subsectors but significant differences between organisations within the same subsector. This shows that it is not a particular subsector (e.g., banking) that 'dictates' a certain tone from the top, but rather that employees perceive their board more positive in some banks than in others. To stimulate organisations to do better, this paper's first author presented the findings to the boards of participating organisations. Boards received bar graphs in which their results were benchmarked against their anonymized peers. This supervisory strategy of benchmarking seemed a powerful strategy that functioned as an eye-opener for board members. Frequently, there was a gap between how board members perceived themselves and how their employees perceived the board. Possibly, such gap analyses offer a convincing feedback tool for board members to become aware of how they come across among employees, which can stimulate them to invest in a healthier tone from the top.

In the qualitative part of this study, most comments about the board centred around board pay and addressed this negatively. Employees commented about the board showing negative exemplary behaviour by accepting a disproportionally high salary. They expressed unfairness about salary and bonuses at the top being 'out of proportion' and even increasing while lower-level employees' compensation was sobered and stagnated. After negative comments about board pay, employees often used words that reflected 'us vs. them thinking'. For example, 'they at the top' do not care about 'us at the bottom' and feel being treated disrespectfully by their board, rather than seeing board members as prototypical group members and feeling proud of their leaders and organisation. As such, board pay can be divisive in the organisation, making leaders less effective (see also Steffens et al., 2020). The quantitative findings also indicated that employees' perceptions about board pay should be considered seriously in organisational practice as they indirectly relate towards more unethical behaviour towards consumers. In practice, board pay seems primarily a topic for the renumeration committee, as if board pay and the capacity to motivate and lead employees are 'worlds apart'. Our findings indicate that investing in a healthier tone from the top requires a holistic perspective on board pay and board pay perception issues and places board pay as a prominent theme on the HR agenda, at least in the financial sector. Doing so might help to restore trust in the financial sector (Van der Cruijsen et al., 2020).

5.2 Limitations and Directions for Future Research. The current study examined ethical board leadership, ethical climate, and unethical behaviour in the Dutch (European) context. Future research should determine whether similar results are found in different contexts. Other specific dimensions of ethical board leadership may be more important to establish an ethical climate and reduce unethical behaviour. Moreover, the authors argued in this study that examining ethical board leadership in the financial sector at least entails examining board pay and how the board manages the tension between consumer and commercial interests. The authors hope to inspire future researchers to investigate possible additional dimensions of ethical board leadership in the financial and other sectors, for instance, by interviewing groups of different stakeholders. In current times, one could expect various stakeholder groups to mention that today's board leaders should focus on serving the interests of future generations, with fighting climate change being one of the major challenges of our time.

An important limitation of the current study is its cross-sectional design, which hinders making causal inferences. Future research on the effects of ethical board leadership should strive to use experimental or longitudinal research design and include objective measures of unethical behaviour (e.g., records of the organisation of regulator; see also Banks et al., 2021). Moreover, the ethical climate was examined as the only mediating mechanism between ethical board leadership and unethical behaviour. Additional research questions, however, easily come to the fore. Does ethical board leadership, for example, also lower unethical workplace behaviour because it 'trickles down' into more ethical leadership at lower levels (Mayer et al., 2009)? Or because employees identify more with the board and are more highly committed to their organisation? Or because the board orders certain changes in the incentive structure of the organisation's renumeration policy? Finally, an interesting direction for future research is connecting employee perceptions to self-ratings of the board. Such 'gap analyses' could be used as a feedback tool for the board, stimulating board members to become more ethical leaders.

5.3 Conclusion. The board and work floor are often considered 'worlds apart'. This study in the Dutch financial sector indicates they are more connected than they seem. The extent to which boards display ethical leadership in employees' eyes, with respect to board pay and their focus on consumers' and commercial interests, shapes ethical climates in organisations and can either 'set the stage' for or lower the chances of unethical behaviour.

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Data Availability Statement: No publicly archived datasets were analyzed for this study.

Informed Consent Statement: Informed consent was obtained from all subjects involved in the study. The study was approved by Utrecht University's ethical board [FETC18 – 068].

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Appendix A

Table 1. Categorization of Qualitative Comments

Topics in comments *Characteristic comments*	**Number of comments (%)**	**Number in subcategory (%)**
Board Pay	95 (48.72)	
Negative 'The board takes good care of themselves, but the people 'at the bottom' who work very hard and give it their best day by day, don't see their salary increasing. Life gets more costly due to inflation. I can spend less every year. It gives me little hope for the future.' 'There are almost no structural raises anymore which decreases purchasing power of employees year after year. The board of directors does not seem to care. The board demands empathy from employees but does not show exemplary behavior with regards to salary. 'In recent years, the salary increases at the top of the organisation are out of proportion with employees. Employees are asked to austere. However, the top got a one-time number of millions as compensation. That is out of date in my opinion and does not fit with the kind of company they say they want to be' 'Because of the crisis, 'normal employees' in the financial sector had to hand in a lot. What I hate is that the board has used the public opinion on bonusses to abolish profit sharing for employees, whereas they themselves take away huge salary increases again'. 'Diligence, discipline, and the drive to go to the max must come from within the person, not because you will earn much more money then. An organisation must see and propagate that. Especially higher management and the board must give the right example. Please note that the current reward and renumeration at that level gives the wrong example!		60 (63.36)
Positive 'In my opinion, it is alright to reward exceptional effort with a bonus, especially for people in top salary scales.'		4 (4.21)
Neutral 'I don't know how the board is compensated so I cannot judge that' 'I don't have insight in the rewards and renumeration of the board, so I answered 'neutral' in the survey.' 'I would like to see the personal bonusses being changed into a generic bonus system so everyone in the organisation is compensated with the same ratio and lower employees also profit from the results of the company.'		31 (32.63)
Board's commercial focus	14 (7.18)	
Negative 'The board regularly takes measures that advantage financial targets, which are not in the interests of consumers.' 'I have the impression that [name organisation] attaches immense value to creating shareholder value. The revenue growth that is sought is convulsive (unrealistic targets, unrealistic reorganisations).'		13 (92.9)
Positive 'Rewards and recognition are reasonably balanced with serving consumers' interests and commercial targets.'		
Board's focus on consumers' interests	11 (5.64)	
Negative 'In our department there is a lot of recognition […..elaboration excluded], people work hard in the best interest of the consumer. This is different when you go a few layers up in the organisation. There the interests of consumers mean next to nothing.		7 (63.64)
Positive		0
Neutral 'It is a company with shareholders. Putting the interests of consumers first is not in the interests of shareholders. There will always be this tension'.		4 (36.46)
Emerging topics in comments about the board	38 (19.49)	

Disidentification with the board (underlined) – always connected to negative comments about board pay 'In recent years, almost everything is snatched from ground personnel (Christmas package, a bank holiday, bonus system etc.). The top however finds creative ways to benefit themselves such as a maximum raise in base pay to compensate lowered bonusses. We, the hard workers, are not the greedy ones, it's the 'guys in suits'. Unfortunately, society sees us as one group.' Renumeration and recognition for the 'worker bees' stay greatly behind the general pay trends, whereas the bonusses for managers are going up again. This on top of high work pressure and stress does not motivate. More and more employees become a means of production, one is hardly seen as a human being anymore' 'In this organisation, the board threatens with the message that our CEO will leave abroad when there is no change in his renumeration. They do not have the slightest idea what kind of effort 'ordinary employees' put into realizing their daily work and the kind of stress that goes with it.' The board of directors takes good care of their own rewards, but when it comes to the employees, they have different morals.		30 (78.95)
Other comments about the board		
'Higher management has little to no insight in what goes on at the work floor'.		8 (21.05)
Instrumental climate	26 (13.33)	
Negative 'Dealing with daily targets that become tighter and tighter is a problem. Personal contact with colleagues is almost gone. The fun of giving it your best as a team is replaced by who makes the target and who does not. Culture is changing anyway. More and more, you must work at your image as an employee. Modest of introvert people don't get enough recognition because of it'. 'I see that the wrong people take credit for work that is done by others. There is a culture of getting ahead by not playing it that nicely'. 'People that cut corners and not take the rules and regulation seriously get more reward and recognition than the people than people that 'let themselves be slowed down' by it.'		21 (80.77)
Positive (non-instrumental climate) 'I believe in the core values of our company and think we live by them. We practice what we preach: consumer, community, and employee are put central'.		5 (19.23)
Unethical / harmful behavior towards consumers	11 (5.64)	
Negative 'Regularly mortgages are given that are irresponsible because targets need to be reached and business relations need to be kept.' 'The workload is extremely high, and employees are being pushed to do lots of work in little time. This contributes to inaccurate, incomplete, or careless handling of the inquiries of our consumers'.		11 (100)
Unethical / harmful behavior towards own organisation		0
Total number of comments	**195** (100%)	

Note: When < 10 comments are made in a category 1 example is provided. When 10-20 comments are made in a category 2 examples are provided. When 20-30 comments are made in a category 3 examples are provided. When 30- 40 comments are made in a category 4 examples are provided. When > 40 comments are made in a category 5 examples are provided.

Source: Compiled by the authors