



Dishonest or professional behavior? Can we tell? A comment on: Cohn et al. 2014, Nature 516, 86–89, “Business culture and dishonesty in the banking industry”[☆]



Thomas Stöckl^{*}

Department of Banking and Finance, University of Innsbruck, Universitaetsstrasse 15, 6020 Innsbruck, Austria
MCI Management Center Innsbruck, Business Administration Online, Universitaetsstrasse 15, 6020 Innsbruck, Austria

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ABSTRACT

By means of a coin tossing experiment Cohn et al. (2014) study business culture in the banking industry and report that employees of a large, international bank behave honestly in a control condition while a significant proportion of them becomes dishonest when their professional identity as bank employees is rendered salient. The authors conclude that the business culture in the banking industry weakens and undermines the honesty norm. We argue that the data allows for an alternative interpretation based on so far unrecognized dynamics in the experimental design. This interpretation classifies bankers' behavior in the treatment condition to be in accordance with the professional requirements of the banking industry. The two competing interpretations cannot be flawlessly separated and, consequently, bankers' behavior cannot reliably be classified as resulting from a problematic business culture.

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1. Introduction

Recruiting employees from a large, international bank as participants in a coin tossing experiment Cohn et al. (2014, *Nature* 516, 86–89, <http://dx.doi.org/10.1038/nature13977>) study business culture in the banking industry. As their main finding, the authors report that bank employees, when their professional identity is rendered salient, report a significantly higher fraction of successful coin flips (58.2%) compared to the control condition (51.6%). This result is interpreted as bankers behaving honestly in the control condition while a significant proportion

of them becomes dishonest when their professional identity is rendered salient. The authors conclude that the prevailing business culture in the banking industry weakens and undermines the honesty norm implying the need to implement measures aiming to restore an honesty culture in the banking industry.

In this comment we analyze the design of the experiment and, based on our analysis, question the appropriateness of the authors' interpretation (Section 2). The experimental design implemented in Cohn et al. (2014) is a modified version of a design used in earlier studies (Buccioli and Piovesan, 2011; Houser et al., 2012; Fischbacher and Föllmi-Heusi, 2013) to explore dishonest behavior in the laboratory. We argue that the modification in the experimental design creates an entirely different decision environment that allows for an alternative interpretation of the observed treatment effect. Bankers in the professional identity condition, rather than breaching an honesty norm,

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^{*} Tel.: +43 0 512 2070 4232; fax: +43 0 512 2070 4299.

E-mail address: thomas.stoeckl@mci.edu.

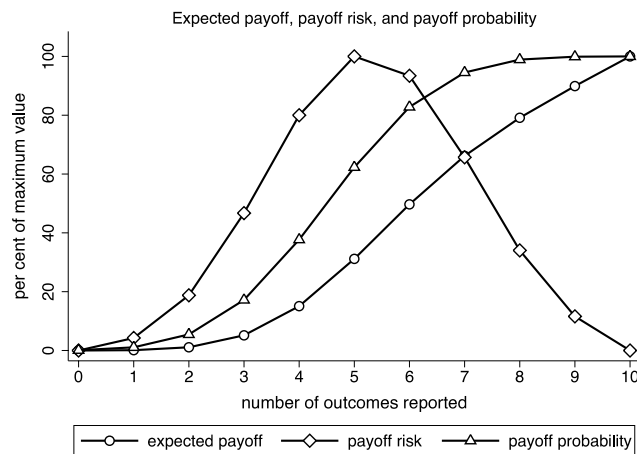


Fig. 1. Expected payoffs (black line with circles), payoff risks (measured by the standard deviation of expected payoff, black line with diamonds), and payoff probabilities (black line with triangles) in the experiment conditional on the number of reported positive outcomes. Note that payoff probability equals the cumulative probabilities of the binomial distribution. We assume honest (unbiased) reporting in the calculation. For comparability reasons, numbers are scaled by the maximum realization (maximum expected payoff equals \$200; maximum payoff risk equals \$48.46).

behave in accordance with a basic competence required in their industry.

In Section 3, we consider various arguments that would allow us to favor one of the two competing interpretation above the other. Moreover, we discuss the robustness of our interpretation in light of additional experimental treatments provided in Cohn et al. (2014). However, we cannot eliminate one of the two potential interpretations and, consequently, bankers' behavior cannot be flawlessly classified as resulting from a problematic business culture. We simply cannot tell whether the observed behavior is dishonest or professional behavior. Most importantly, the available data is not sufficiently clear to call for changes in the business culture of the banking industry. Section 4 summarizes and concludes.

2. Experimental design analysis

The experimental design implemented in Cohn et al. (2014) builds on previous studies (Buccioli and Piovesan, 2011; Houser et al., 2012; Fischbacher and Föllmi-Heusi, 2013) aiming to explore dishonest behavior in the laboratory. In these experiments subjects are asked to toss a fair coin (once or several times) and report the outcome, i.e., the side of the coin that landed on top.¹ Usually, reporting the outcome of one specific side yields a higher payoff than reporting the other side and privacy in tossing the coin eliminates detection risk, creating incentives to cheat about the actually observed (number of) outcome(s). This game can be characterized (among others) by two features. First, the game is non-strategic as subjects' payoffs are independent of any other subjects' decision. Second, decisions are made under certainty, implying that subjects earn their payoffs with certainty once they made their decision. Basically, subjects participating in this game have to solve the conflict between reporting honestly and optimizing on their risk-free earnings.

Cohn et al. (2014) task employees of a large, international bank with a modified version of the game. Specifically, subjects toss a coin ten times in private and report the outcomes. For each reported positive outcome (heads or tails, whatever requested by the experimenter) they could win an amount equal to approximately US\$20 (as opposed to \$0). Now, the authors add an additional feature to mimic one characteristic of the banking industry, namely its competitive nature. Specifically, subjects only earn money if the reported total earnings from the ten coin tosses are higher or equal to those of a randomly drawn subject from a pilot study. This modification in the incentive structure of the game, however, implies substantial changes. This game can be characterized (among others) by two features. First, subjects now participate in a strategic game as they have to consider how decisions by other subjects influence their own payoffs. Second, subjects' payoffs are risky as each reported outcome is associated with an expected payoff and a risk of earning nothing. Thus, subjects participate in a strategic game facing a decision under risk. Fig. 1 illustrates the implications of the experiment's basic features by plotting expected payoffs, payoff risks (measured by the standard deviation of expected payoffs), and payoff probabilities conditional on the number of reported outcomes. We assume honest, i.e., unbiased, reporting in the calculations and scale values by their highest realization. Fig. 1 reveals that payoff probabilities as well as expected payoffs strictly increase in the number of reported positive outcomes. Payoff risk, however, exhibits an inverted U-shape, indicating increasing payoff risk up to five reported outcomes and decreasing payoff risk thereafter. For instance, expected payoff increases by 33.2% when reporting seven instead of six successful outcomes (out of ten coin flips) while at the same time payoff risk decreases by 29.7%. Subjects reporting ten successful outcomes earn \$200 with certainty. In this framework subjects have to solve the conflict between reporting honestly and optimizing on their risky earnings. The latter part requires subjects to recognize the experiments' inherent dynamics between expected payoff and payoff risk created by its strategic character.

¹ Either real coins, showing heads and tail, or artificial coins, showing different colors on each side, are used to determine the outcome.

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