Rethinking remuneration and recognition

A call to the sector based on research at banks, insurers and financial service providers

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The Dutch Authority for the Financial Markets (AFM)

The AFM is committed to promoting fair and transparent financial markets.

As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

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1. Summary

Financial companies are legally obliged to have a controlled remuneration policy. Among other things, this means that they have to identify the financial and non-financial risks associated with the remuneration policy they apply. This involves consideration of the financial (monetary) remuneration that employees receive as well as non-financial (non-monetary) remuneration.

The remuneration policy in force affects employee behaviour (conduct). The remuneration policy therefore also affects the degree to which employees display behaviour that is in the customers' interests. This makes the remuneration policy an important focus of attention for the AFM.

The AFM has conducted research into remuneration and recognition in practice. The aim of the study was to gain insight into the elements that drive employee behaviour, and are therefore important for companies to include in their risk inventory. We examined how employees perceive what is rewarded and recognised within their company. Specifically, how they view (1) the example set by top management, (2) their line manager, (3) the remuneration policy, (4) their own financial remuneration, (5) the degree of commercial pressure and (6) pressure to achieve targets. The study consisted of a survey of 4,820 employees and interviews with 197 employees from 18 companies in four different segments of the financial sector.

Line management, top management and pressure to meet (commercial) targets are key drivers of employee behaviour. A cooperative culture is more likely to exist when line managers give priority to customer interests and assess their employees fairly, where top management gives priority to customer interests and sets an example with respect to their own remuneration *and* if the pressure on employees to achieve sales and targets is experienced as limited. Aiming for a cooperative culture pays off. In such a culture, there is less harmful behaviour and employees are more engaged. If line managers and top management fail to set a positive example and employees feel they are under pressure to meet targets, the culture will deteriorate, employee engagement may suffer and the risk of harmful behaviour will increase.

The AFM urges financial companies to include an assessment of how financial and non-financial incentives (remuneration and recognition) are experienced by employees in the risk inventory of their remuneration policy, and to design this policy in such a way as to ensure that employees are able to treat customers fairly. Managers, Compliance and HR employees, as well as the Board of Directors and the Supervisory Board, are urged to handle remuneration and recognition thoughtfully, in the interests of their customers, their employees and their company.

2. Introduction

2.1 Adoption of the Remuneration Policy (Financial Enterprises) Act (Wbfo)

Since the financial crisis in 2008, there has been a significant increase in the political and social attention paid to remuneration in the financial sector. A culture geared towards short-term profit and excessive sales-related bonuses have been cited by regulators, central banks, policymakers and academics around the world as one of the underlying causes of the financial and economic crisis[1]. The issue of remuneration remains just as sensitive in the present coronavirus crisis, both inside and outside the financial sector.

The Remuneration Policy (Financial Enterprises) Act (*Wet beloningsbeleid financiële ondernemingen*, hereinafter 'the Wbfo') was adopted in 2015. The regulations pursuant to the Wbfo are laid down in Section 1.7 of the Financial Supervision Act (*Wet op het financieel toezicht*, Wft). This Act states that a financial company must pursue a controlled remuneration policy. Remuneration here is defined as the financial and non-financial benefits received directly or indirectly by employees[2]. The remuneration policy has to reflect the business strategy, objectives, values and long-term interests of the company and also contribute to sound and effective risk management. The risks inherent in a remuneration policy must be analysed and managed. A further basic principle is that a variable remuneration must be capped at 20% of fixed salary (bonus cap). The aim of the Wbfo is to prevent perverse incentives that could lead to undesirable and irresponsible risks for the soundness of the company or for treating customers fairly. The Act is intended to contribute to financial stability, a cultural change (towards a sustainable sector that serves the interests of its customers) and confidence in the financial sector as a whole[3]. Other self-regulatory codes, such as the Banking Code and the Code of Conduct for Insurers, share this aim[4].

2.2 Attention to remuneration and recognition incentives

The statutory obligation to pursue a controlled remuneration policy means that companies must identify and manage the financial and non-financial risks associated with the remuneration policy they apply. This means that non-monetary aspects that drive employee behaviour have to be considered as well as monetary remuneration. *In this report, 'remuneration' refers to the monetary aspects and 'recognition' to the non-monetary aspects.* Academic research shows that employees are more likely to demonstrate behaviour that is rewarded or recognised

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[1] House of Representatives of the States General, Explanatory Memorandum to the Wbfo, 33 964; Report on the evaluation of the Remuneration Policy (Financial Enterprises) Act (2018), Bebchuk & Spamann (2010); Fahlenbrach, R. & Stulz, R. (2011); FCA (2018).

[2] Explanatory Memorandum to the Wbfo, 33 964, Section 1:111.

[3] Explanatory Memorandum to the Wbfo, 33 964, General.

[4] For example: 'The Board of Directors promotes responsible behaviour and a healthy culture, both among the bank's senior management and throughout the organisation. In so doing, the Board takes account of the interests of the bank's customers and its other stakeholders.' (Banking Code).

within their company[5]. If the achievement of commercial targets is rewarded (with a bonus or promotion to a higher level) or recognised by a company's top and line management (for instance with compliments, status, opportunities for development), employees will devote greater attention to achieving this. This means it is important for a company to devote attention to how its employees experience remuneration and recognition incentives, and the risks associated with these incentives. What kind of performance will win promotion? What sort of behaviour will win compliments from a manager or the chance to work on an interesting project? What type of behaviour is encouraged by targets and which targets are considered to be the most important to achieve? In preparation for this research, the AFM reviewed remuneration policy documents from the companies that participated in the study. This showed that little attention is paid to the effects and risks of recognition incentives.

2.3 A call to the sector

The AFM urges financial companies to assess how financial and non-financial incentives (remuneration and recognition) are experienced by employees and to design these incentives so that customers will be treated fairly. The AFM expects financial companies to devote thoughtful attention to remuneration and recognition in order to stimulate fair treatment of customers fairly and long-term value creation for the company. The AFM will continue dialogue with the sector on this issue.

Among other things, this means that in their risk inventory, companies need to consider which remuneration and recognition incentives support treating customers fairly or indeed present an obstacle to this approach. Companies need to be aware that the root causes of harmful behaviour may lie in undesirable and irresponsible remuneration or recognition incentives, with specific attention to the example set by line managers and the Board of Directors with respect to treating customers fairly and a fair and respectful assessment of employee performance, as well as commercial and target pressure experienced by employees and how this affects their behaviour.

Companies would be well advised to identify risks both generally across the organisation and specifically with respect to each department or team. Awareness of differences between departments (with respect to target pressure or perceived leadership, for example) enables targeted mitigation of risks. How this review of remuneration and recognition incentives should be conducted is for companies themselves to decide. The AFM is sharing its methodology for this study (a questionnaire and interviews[6]) as inspiration. These methods can be used to examine, for example, how (top)management is perceived and the degree of target pressure that is experienced by employees. This can also be accomplished by means of other methods and with a focus on other company-specific remuneration and recognition incentives.

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[5] For example: Heres (2015); Pagliaro et al. (2018); Steffens et al. (2019); Treviño and Nelson (2011).

[6] If you would like details of this methodology, please send an email to gedragcultuur@afm.nl.

3. Key findings for Board of Directors, managers, policymakers and compliance officers

3.1 AFM research into remuneration and recognition

The AFM conducted research into remuneration and recognition with the aim of offering direction to companies with respect to the risk assessment of their remuneration policy and the opportunities for improvement that this can offer. The research, which took place in late 2018 and early 2019, involved 18 companies from four different segments of the financial sector: four banks (scope: mortgages), four insurers (scope: mortgages and non-life insurance), five funeral insurers and five financial service providers (scope: company-wide). The research consisted of an academic survey organised in collaboration with Utrecht University completed by a total of 4,820 employees, as well as interviews with 197 employees. This remuneration and recognition research was part of the AFM's research into the organisational culture at financial companies. As the culture at an organisation influences the behaviour of its employees, including the treatment of customers, the AFM has been researching the organisational culture at financial companies since 2016.

What is rewarded and recognised within the company according to employees? Specifically, we looked at how employees view the following drivers: (1) the example set by top management, (2) their line manager, (3) the remuneration policy, (4) their own financial remuneration, (5) the degree of commercial pressure and (6) pressure to achieve targets. Subsequently, we looked at how these six drivers were related to the culture experienced by employees in their immediate working environment – is the guiding principle and main effort directed towards the collective interest and the interests of customers (cooperative orientation), or are people mainly concerned with their own interests (egoistic orientation) – and to the results for harmful behaviour and engagement.

Minimising harmful behaviour and encouraging engagement are better for customers, for the company and for its employees

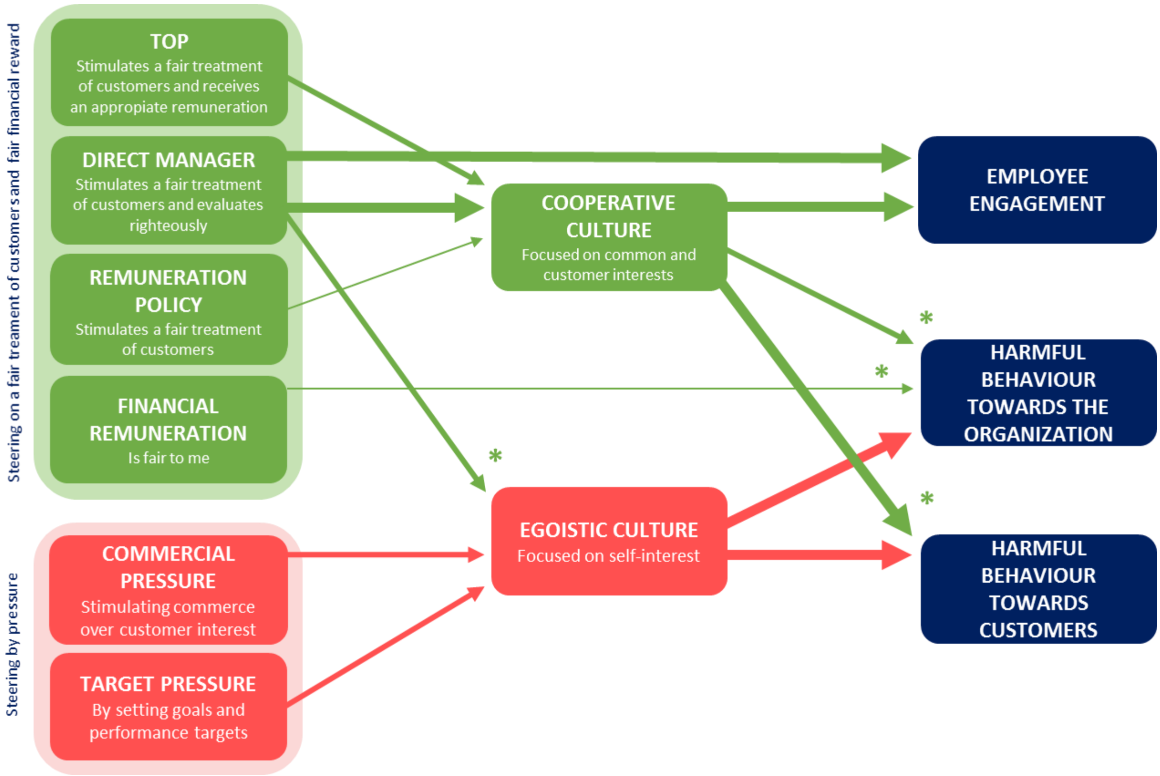
Minimising harmful behaviour is in every company's own interest. Harmful behaviour towards one's own company (such as unauthorised use of resources or services) and towards customers (such as intentional lack of clarity regarding the potential negative consequences of products or services) are financially expensive for the company and can cause reputational damage. Moreover, both forms of harmful behaviour conflict with the core values of probably every company.

Encouraging work engagement (i.e. motivation) is in the interests of both employees and the company. Engaged employees are healthier, both mentally and physically. Academic research shows that they take sick leave less often, they work for the company for longer and they perform better (Schaufeli, 2020).

The key drivers of employee behaviour are the line manager, top management and pressure to meet (commercial) performance targets.

- **If a manager encourages treating customers fairly and is fair in the evaluation of employee performance, this promotes a cooperative culture. This then leads to less harmful behaviour towards the company, less harmful behaviour towards customers and greater engagement.**
- **If top management encourages treating customers fairly and sets a good example, this promotes a more cooperative culture, leading to less harmful behaviour and greater engagement.**
- **Keeping commercial and target pressure limited, fosters a less egoistic culture, leading to less harmful behaviour.**

The findings are presented in more detail in Model 1 and below. Appendix 1 describes the research methodology and Appendix 2 lists the limitations.

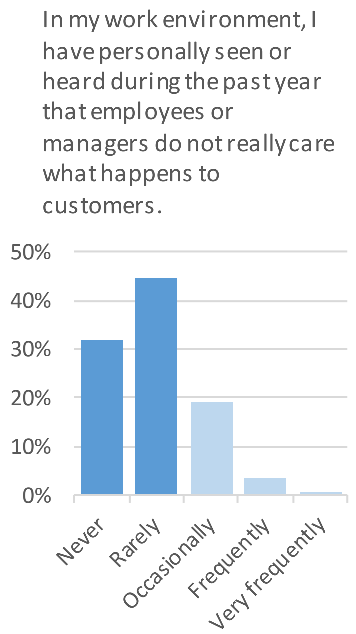


Model 1. The links between management drivers, culture, engagement and harmful behaviour, *N*=4,820.
The thickness of the arrows indicates the strength of the correlation. The asterisks (*) represents a negative correlation with the following element.

Example: if a manager encourages treating customers fairly and evaluates the employees fairly, this encourages a cooperative culture, which in turn leads to greater engagement and less harmful behaviour. High target pressure, on the other hand, promotes a egoistic culture and therefore harmful behaviour. Companies would therefore be well advised to score highly on the green drivers and to achieve a low score on the red drivers.

3.2 Less harmful behaviour and greater engagement in a cooperative culture

To what extent does harmful behaviour occur? Most of the employees reported in the survey that they had never or very rarely experienced harmful behaviour in their working environment. However, there were significant variations from one company to another in each segment. By way of illustration, Histogram 1 shows one of the statements with reference to harmful behaviour towards customers. This shows that the majority of all the employees in the survey had never or very rarely experienced this type of behaviour. However, looking at the *insurers* segment, we see that 43% of the employees experienced harmful behaviour at Insurer IV (ranging from occasionally to frequently or very frequently), while for Insurer II only one in four employees reported to have experienced this. If your company has a score similar to that of Insurer IV, this suggests you need to take action. Investigating the underlying causes of this, establishing which departments are affected in particular and taking targeted action is necessary to ensure that customers are treated with due care and incidents are prevented. Appendix 3 gives an overview of the variation in the scores for all 18 companies.



Highlighted	Never-rarely	Occasionally-(very) frequently
Insurer I	72%	28%
Insurer II	75%	25%
Insurer III	67%	33%
Insurer IV	57%	43%

Histogram 1 (N=4,820), table (N=1,422), measured on a five-point scale (percentages rounded)

These findings furthermore reveal: the more cooperative a culture, the less frequently harmful behaviour occurs and the more engaged employees are. However, a more egoistic culture is associated with more harmful behaviour towards the company and its customers (see Model 1). In a cooperative culture, employees experience a collective mindset, based on a common interest and treating customers fairly. An egoistic culture, on the other hand, features an 'everyone for themselves' mentality and people think mainly of their own interests[7].

Harmful behaviour and engagement vary according to how cooperative and egoistic the culture is. If employees experience a cooperative and non-egoistic culture in their department, they report 20% less harmful behaviour *within their own company* compared to employees who experience their working culture as uncooperative and egoistic. This difference for harmful behaviour *towards customers* is 19% less. In addition, employee engagement in a cooperative and non-egoistic culture is 18% higher; see Appendix 4.

Creating a cooperative and non-egoistic culture is an important challenge for a financial company. How can an organization achieve this? The drivers *line manager*, *top management*, *commercial pressure* and *target pressure* are most strongly related to culture. They are explained in more detail below. The drivers *remuneration policy* (do employees perceive the remuneration policy as encouraging them to act in the customer's interests?) and *remuneration* (do employees perceive their financial remuneration as fair?) have a less direct relationship with culture in this research (see Model 1). This does not mean that these drivers are unimportant for a company to consider. It does, however, mean that the promotion of a cooperative and non-egoistic culture will most likely be more successful if a good example is set by line managers and top management and when target pressure is limited.

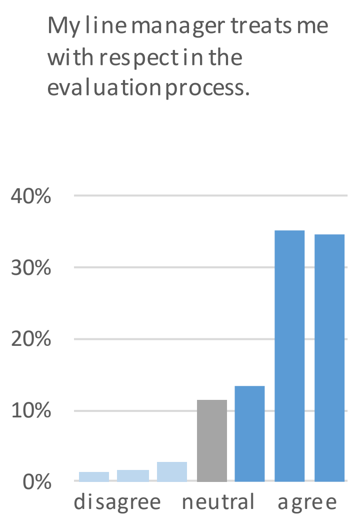
3.3 Management should promote acting in the customer's interest and evaluate their employees with respect

Line managers have the greatest influence on culture and behaviour. This is shown by both the survey (Model 1) and the interviews, in which the role of the line manager was clearly featured. If a manager encourages treating customers fairly, sets an example in this regard and is fair and respectful in the evaluation of the performance of their employees, this has a positive effect on culture. It also benefits employee engagement and there is, according to employees, less harmful behaviour in the working environment. This important influence from management (both line, middle and top management) on culture and behaviour at companies has been extensively described in the academic literature. By observing each other, employees learn what is considered to be appropriate or desirable (or in appropriate and undesirable) behaviour at their company. Employees look mainly to the behaviour of management, which has after all proved to be successful. Consciously or unconsciously, the behaviour shown by a manager sets an example for employees. Also, the employees that the manager promotes or cites as a good example serve to demonstrate the behaviour considered to be desirable at the company. If employees see a

[7] This research used the well-known Ethical Climate Questionnaire (Victor & Cullen, 1988; Arnaud, 2010). The extent to which employees experience an ethical climate is measured in two dimensions: cooperative (or collaborative) and egoistic (or instrumental). Previous research with this scale shows that high scores on 'cooperativeness' are associated with less unethical behaviour, while high scores on 'self-centredness' are associated with more unethical behaviour. See Gorsira et al. (2018); Pagliaro et al. (2018)

colleague who seems to be focused primarily on sales receive a promotion, this sends the message that this kind of behaviour is considered desirable. [8]

Employees are generally positive about their line-managers in the survey. For example, 75% agreed with the statement *'My line manager encourages me to give central priority to the customer's interests'.* Employees are also positive about the way in which they are evaluated by their managers. 83% of employees agreed with the statement '*My line manager treats me with respect in the evaluation process*'; see Histogram 2 below (and Appendix 3 for an overview of the other segments). While employees are positive on average, there are differences from one company to another and there may also be differences between departments and teams within the same company (as these are obviously managed by different people). It would therefore be useful for a company to review how line managers are perceived in order to implement targeted improvements.



Highlighted	Disagree	Neutral	Agree
Funeral insurer I	3%	7%	91%
Funeral insurer II	1%	3%	96%
Funeral insurer III	8%	5%	86%
Funeral insurer IV	1%	4%	95%
Funeral insurer V	6%	11%	83%

Histogram 2 (N=4,820), table (N=511), measured on a seven-point scale (percentages rounded)

Many employees stated in the interviews the importance of being addresses by their manager as a person. Employees appreciate it if their manager is critical regarding the content of their work and sets an example in terms of customer service. Nevertheless, they also value it if their manager gives compliments, celebrates successes and provides room for development, making mistakes and taking responsibility. Many employees see this kind of recognition as just as important as their financial remuneration.

'I know better than to suggest a plan to her that is not good for customers. And if you forget to include the customer's interests in a proposal, she will tell you. She is also very closely involved in difficult cases and shows that she really tries to do things that will help customers.'

'He sees you as a person and supports you in what you want to achieve. He has a human side. Not all managers have this, and I appreciate it. He is critical CONTENT OF THE WORK?, but he treats you as a person.'

[8] Brown, Trevino, and Harrison (2005); Trevino and Nelson (2001); Mayer et al. (2010); Van Steenbergen & Ellemers (in press).

'He can also give real compliments. Once time, we had worked overtime. He sent us a really nice personal email to tell us he was proud of us. We also have a compliments book in the department, so you can enter a compliment if you see one of your colleagues do something nice.'

Both this research and the literature show that line managers significantly influence culture and behaviour. This is actually the most influential of all the management drivers in this research. It is therefore important for companies to consider how they (and their departments and teams) are performing in terms of leadership. This provides important information on what a company wishes to retain and what it wishes to change, for instance when training managers and in its recruitment and selection process.

3.4 Top management should promote treating customers fairly and set an example

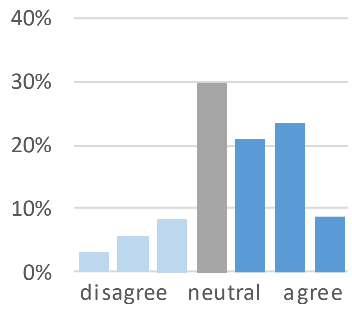
If – in the opinion of the employees – top management sets a good example, this encourages a cooperative culture, which in turn helps to prevent harmful behaviour towards the company and its customers. This research looked at how employees perceive the example set by top management (the Board of Directors) with regard to treating customers fairly and the financial remuneration they receive.

Employee perception regarding the example set by top management varies widely from one company to another. For example, only 24% of employees agreed with the statement '*The remuneration received by the Board of Directors seems appropriate to me'*, while 51% chose 'neutral' as their response and 26% disagreed. This suggests that the majority of employees have difficulty in assessing how top management are rewarded and that opinions vary. In addition, only 53% of employees agreed with the statement *'The Board of Directors sets a good example with respect to treating customers fairly*'; see Histogram 3.

Wide variations between companies are also apparent in the following table, which gives details for the *banks* segment (see Appendix 3 for the other segments). At Bank III, approximately seven out of 10 employees (68%) said that a good example was set with regard to treating customers fairly. At Bank II, only one in three employees (32%) took this view. The study shows that there is room for improvement regarding the example set by the top management of most companies. Every company needs to consider how it is doing in this respect and then to answer the question of why such exemplary behaviour is not visible to its employees. Is it actually shown? Is it sufficiently visible to the employees?

The Board of Directors sets a good example with respect to treating customers fairly.

Highlighted	Disagree	Neutral	Agree
Bank I	24%	35%	42%
Bank II	39%	29%	32%
Bank III	7%	25%	68%
Bank IV	18%	27%	55%



Histogram 3 (N=4,820), table (N=1,873), measured on a seven-point scale (percentages rounded)

The interviewees were much concerned with the current theme of top management remuneration. It was notable that many employees were not aware of the exact remuneration earned by the Board of Directors, but nonetheless had an impression that this was justifiable (or not) and considered this to be appropriate (or not). On the one hand, a high salary for the company's top management was seen as appropriate in many cases due to the degree of commitment and responsibility involved. On the other, this appears to be an issue that figuratively increases the divide between top management and the work floor. Some employees questioned whether the differences in pay were justified. Employees mostly considered sharp increases in top management pay unfair if there was little or no increase in their own salaries at the same time. It was also notable that employees at nearly all 18 participating companies said they were 'irritated' by the media attention and commotion regarding top management pay.[9] Employees had to explain how the top management at their company is rewarded to their customers. They expressed frustration at the damage this kind of commotion does to confidence in the financial sector, while they were doing their best to help customers. At some companies, employees expressed a degree of pride that their top management was not among the highest paid in the market.

Behaviour by top management that reduces the distance to the work floor is highly appreciated by employees. For example: a director who gets involved in an advertising campaign at operational level, helps out with calling customers during busy periods or is happy to chat to employees in the elevator. These contacts with top management do not have to be personal – for instance, in the case of employees who hear about a director calling customers from a colleague or read about it on the intranet.

[9] At the time of the survey, there was increased attention in political circles and the media to pay increases for top managers at banks and insurers.

'People work hard here [at the work floor] to serve our customers' interests, but it's not like that if you go a couple of layers higher. Up there, they pay no very little attention to treating customers fairly and the rewards are huge.'

'We haven't had a salary increase in two years, while top management received huge bonuses. That doesn't play well.'

'I have a feeling that things are changing. Top management are thinking more about the social aspects, also with respect to sustainability.'

'The CEO came to sit with us during an event. It was good to see him getting involved! We really appreciated his coming to sit and chat with all of us.'

The effect of the example set by the Board of Directors with regard to treating customers fairly and the financial remuneration received by them should not be underestimated. What the Board of Directors values is reflected throughout the organisation, and thus translates into the daily employee behaviour. This makes it a key element in the risk inventory.

3.5 Limit commercial and target pressure

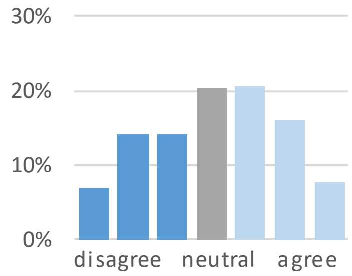
As employees experience higher levels of commercial and target pressure, the more egoistic the culture will become and the more harmful behaviour will be displayed towards customers and the company itself. This is why it is important to limit the extent to which employees experience commercial and target pressure. In the survey, employees were asked about how much stress they experienced as a result of the targets and objectives they were expected to meet. The question concerned targets and objectives in general, not necessarily only those that were financial in nature. Were these targets and objectives realistic? Employees were also asked whether they felt that commercial interests were given priority over treating customers fairly at their company. There is extensive attention in the literature to the consequences of work pressure on employee welfare (such as the increased likelihood of burn-out and absenteeism)[10]. Recent literature also shows that high pressure to meet targets can presage harmful behaviour. If employees see their targets as unrealistic, but are still put under pressure to meet them, there is a greater tendency to cut corners[11]. Nobody wants to be seen as incapable of doing their job.

A large proportion of employees experience high pressure to meet targets. For example, 44% of the employees agreed with the statement '*In my department, there is high pressure to meet targets/deliv an outstanding performance*'; see Histogram 4. The degree to which pressure is experienced varies from company to company. The table below shows that at Financial Service Provider II, only one in six employees (16%) said they felt they were under high pressure, while at Financial Service Provider I this was experienced by more than half (51%) of the employees (see Appendix 3 for the other segments). It is also likely that this varies within a company, from one department to another. It would therefore be useful for a company to look at where target

[10] Schaufeli et al (2013).
[11] Park (2020), Van Rooij and Fine (2018), Van Yperen et al. (2011)

pressure is an issue in order to implement targeted improvements. It would also be beneficial to consider the extent to which the targets and objectives are realistic. In this research, one in four (27%) of the employees found that the targets and objectives they were expected to meet were not realistic.

In my department, there is high pressure on meeting targets/deliver an outstanding performance.



Highlighted	Disagree	Neutral	Agree
Fin. Service provider I	21%	27%	51%
Fin. Service provider II	72%	13%	16%
Fin. Service Provider III	35%	40%	26%
Fin. Service Provider IV	40%	23%	38%
Fin. Service Provider V	42%	21%	37%

Histogram 4 (N=4,820), table (N=1,014), measured on a seven-point scale (percentages rounded)

Despite their understanding that the use of targets and objectives is logical, employees say that an excessively target-driven approach increases the risk of errors and ignoring the customer's interests. The interviews showed that this can lead to a culture focused on output and the short term. Employees appreciate being given the space to serve their customers as well as possible and not having the feeling that they have to settle cases as quickly as possible. It is important that employees understand how targets are established and that they are not afraid to speak up if these are unrealistic[12]. In some cases, employees are openly compared with each other on the basis of their output. Such comparisons do not take account of specific factors like complex or priority cases and can lead to additional pressure.

'There is little attention to treating customers fairly at [name of department]. Work pressure is huge and employees are put under pressure to do as much work as possible in as little time as possible. This leads to customer requests being dealt with wrongly, incompletely or carelessly, or not being dealt with at all.'

'The management says that "target" is a dirty word, but they are always talking about that and I have to complete a list on a weekly basis. Then you get an email showing the performance of all your colleagues. They say it's no longer part of our culture, but this creates pressure. Otherwise, why do we record this and communicate it every week?'

'We started an internal project to investigate work pressure. It will be completed next Thursday. However, we are struggling to complete the project due to work pressure.'

[12] Possibly the worst example was Wells Fargo, where employees were under heavy pressure to sell eight financial products a day ('The Great 8'), despite several indications that this was not realistic. Many employees were afraid to question this due to fear of receiving a negative assessment and losing their job. (Reckard, 2013).

The targets and objectives a company sets drive employee behaviour. Excessive target pressure or unrealistic objectives can lead to harmful behaviour towards the company itself or towards customers. It is therefore important to consider potential commercial and target pressure experienced by employees and how this affects their behaviour.

4. Conclusions and actions

This study stresses the importance for financial organisations to deal thoughtfully with both remuneration and recognition. Employee behaviour is not driven solely by the salary they receive. Non-financial incentives such as recognition on the part of top or line managers in the form of compliments, status and involvement in interesting projects are also a factor. It is important that top and line managers are aware of how the way in which they manage influences employee motivation and behaviour. And that remuneration and recognition can include both responsible and perverse incentives. The use of financial incentives in the financial sector (such as bonuses or large differentiation in a salary group) is diminishing. Self-management is also becoming popular, whereby employees organise their own work themselves as much as possible and take personal responsibility. In addition, they are encouraged to give each other compliments. However, this study stresses that top and line managers have an important role that should not be underestimated. The direction they give, the recognition they express in daily practice (for instance the focus of their communication) and the example they set are all influential factors. We noted during the study that many of the participating companies were already engaged in amending their remuneration policies. However, most attention seemed to be devoted to financial remunerations with little to no attention for non-financial aspects (recognition). This is in spite of the fact that there are also risks and opportunities in this area.

Three specific management drivers emerged as important factors for encouraging employee engagement and reducing harmful behaviour. First, managers steer on serving customers' interests and assess their employees fairly. Second, top management stresses the importance of treating customers fairly by setting an example for their employees in this regard, and by receiving an appropriate remuneration themselves. Third, by limiting the pressure experienced by employees to meet commercial targets. It is important to establish and maintain an open dialogue between managers and employees in which the employees feel comfortable in speaking their mind, for example if the targets are not realistic or conflict with other issues, such as the customer's interests.

Taking action

The AFM expects the companies under AFM supervision to devote thoughtful attention to remuneration and recognition in order to encourage behaviour that treats customers fairly and long-term value creation for the company concerned. Incentives that could discourage such behaviour should be removed. The AFM intends to continue the dialogue with companies regarding how they deal with remuneration and recognition.

In practice, rethinking remuneration and recognition means first of all that a company will investigate the remuneration and recognition incentives as they are perceived by employees. It is important for a company to monitor this and be aware of differences between departments, clusters and teams. Just because employees in the organisation are positive on average regarding their manager or feel little pressure to meet targets, this is not necessarily true for all departments or teams. A detailed and specified understanding of where the risks are offers opportunities to mitigate these risks.

Secondly, it is important that a company redesigns and structures its policy so that fair treatment of customers is ensured. This concerns both financial and non-financial remuneration, because paying attention to the non-monetary aspects that drive employee behaviour is equally important as monetary remuneration. Specific attention should be paid to the role of managers and top management and to target pressure in the company.

Lastly, it is important that policies are evaluated to uncover whether the aims are being met and whether they lead to the desired outcome in practice. Managers, Compliance and HR employees, as well as the Board of Directors and the Supervisory Board, are urged to handle remuneration and recognition thoughtfully, in the interests of their customers, their employees and their company.

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Appendix 1. Methodology

The study was conducted in late 2018 and early 2019 and involved 18 companies, which are kept anonymous in this report. It involved four banks (scope: mortgages), four insurers (scope: mortgages and non-life insurance), five funeral insurers (scope: company-wide) and five financial service providers (scope: company-wide).

Research methodology	Total
Online survey	N = 4,820 Response rate: 63%
Interviews (individual and group)	197 employees
Document study	360 documents
Observations	20 meetings attended

The survey was completed by 4,820 employees. The average response rate was 63%, but this varied from one company to another. Since a response rate of at least one third was achieved at each company, these findings can be considered to be representative for the company population surveyed.

197 semi-structured interviews were conducted, both with individuals and in groups. The employees interviewed were selected randomly as much as possible (only positions not relevant to this study were excluded). In addition, relevant documentation regarding the remuneration policy at all companies was studied and one or two work meetings or stand-ups were observed at each company. The study of the documentation and the observations provided background information that is not presented in this report.

The survey measured various constructs (or elements). A construct is a series of related questions (items) that collectively form a meaningful whole. The remuneration policy is an example of a construct consisting of 3 questions. A Cronbach's alpha (α) of >.70 means that the construct was measured reliably. All constructs turned out to be reliable. The slightly lower reliability of commercial pressure (α = .68) is also acceptable. Factor analysis shows that the constructs are individually distinguishable.

The survey was developed in collaboration with researchers at Utrecht University. Academically validated scales to measure the constructs were used as far as possible in the development of the survey, and we based the survey on existing academic literature where possible. The entire survey was pilot-tested with employees in the financial sector.

The table below shows one or more sample questions for each construct. It also states whether the statements were measured on a seven-point or five-point scale, the degree of reliability for each construct and what a high or low score on a construct means. Reference to top management is to the relevant Board of Directors of the company in all cases.

Element	Sample questions Scale 1 = ‘completely disagree’ to 7 = ‘completely agree’ (with 4 = ‘neutral’), apart from ‘harmful behaviour’, for which 1 = never, rarely, occasionally, frequently, very frequently	Reliability	Score interpretation
Top management Promotes treating customers fairly and receives an appropriate remuneration	*‘The Board of Directors sets a good example with respect to treating customers fairly’* and *‘The remuneration received by the Board of Directors seems appropriate and fair to me’*	Three questions, α =.80	The higher the score, the more positive employees are about their top management
Line manager (team manager) Promotes treating customers fairly and assesses employees fairly	*‘My line manager encourages me to give central priority to the customer’s interests’* and *‘My line manager treats me with respect in the evaluation process’*	Four questions, α =.90	The higher the score, the more positive employees are about their line manager (team manager)
Remuneration policy Promotes treating customers fairly	*‘The remuneration policy of this organisation encourages employees to sincerely try to do what’s best for the customer’*	Three questions, α =.84	The higher the score, the more positive employees are about the remuneration policy
Remuneration My remuneration is fair	*‘I feel the remuneration I receive is fair if I consider the output I generate with my work’* and *‘I feel the remuneration I receive is fair if I consider the effort I put in my work’*	Four questions, α =.90	The higher the score, the more positive employees are about the remuneration they receive
Commercial pressure In the organisation from top management, the line manager and the remuneration policy	*‘The remuneration at this organisation places a high priority on the extent to which employees meet commercial targets’* and *‘My line manager remuneration and recognises meeting commercial targets more than treating customers fairly’*	Three questions, α =.68	The higher the score, the more employees experience commercial pressure
Target pressure Within departments	*‘In my department, there is high pressure to meet targets/deliver an outstanding performance’* and *‘I frequently experience stress with respect to having to meet targets and objectives’* Four questions for banks and insurers. For the other two segments, only one question was	Four questions, α =.78 or one question.	The higher the score, the more employees experience target pressure

	asked, being the first question cited above.		
Cooperative culture	*In my department people look out for each other's good'* and *'In my department, employees feel a strong sense of responsibility towards society and customers'*	Five questions, α =.75	The higher the score, the more employees perceive the culture as cooperative
Egoistic culture	*'In my department, people protect their own interests above other considerations'*	Five questions, α =.92	The higher the score, the more employees perceive the culture as egoistic
Engagement	*'I am enthusiastic about my job'*	Three questions, α =.87	The higher the score, the more employees are engaged
Harmful behaviour towards the company	*'In my work environment, I have personally seen or heard during the past year that employees or managers make use of materials, resources or services of the organisation without being authorised to do so'*	Four questions, α =.79	The lower the score, the less employees observe harmful behaviour
Harmful behaviour towards customers	*'In my work environment, I have personally seen or heard during the past year that employees or managers do not really care what happens to customers'* and *'are not really concerned about the customer's interests'*	Four questions, α =.86	The lower the score, the less employees observe harmful behaviour

Model 1 in the text reports the findings of a model-based test of the constructs in the statistics program AMOS across all participants (*N* = 4,820). The thicker arrows indicate stronger connections. The fit of the model was good. Testing the model separately for the four segments gave highly comparable results. This shows that the model works equally well in the various segments.

Appendix 2. Study limitations

When drawing conclusions on the basis of this research, it is important to be explicitly aware of the limitations of the study and the reservations thus arising that apply to such conclusions.

1. **This is a correlational study, meaning that no causal connection can be established.** For instance, on the basis of the study it can be said that a higher score for the top management is associated with a more cooperative culture and less harmful behaviour, but not that there is a causal relationship between these elements. Based on the previous literature however, it is likely that causality develops as in the model presented.

2. **This study is not representative of the entire financial sector in the Netherlands.** Since the study was conducted among 4,820 employees at 18 financial organisations, we believe that the insights presented are also relevant for companies in the financial sector that did not participate in the study. Especially because the statistical model applies to all four segments included in the research (banks, insurers, funeral insurers and financial service providers).

3. **The study did not include all employees in the participating companies.** The findings apply to the departments of the companies that were in scope. For the banks, this was the mortgage lending department, and for insurers this was non-life insurance and mortgage lending. For the funeral insurers and financial service providers, the study involved all employees at these companies with direct or indirect customer contact. External employees and supporting staff such as secretaries were not part of the target group.

4. **This study consists of self-reported and interview data.** This means that the study deals with the perceptions and observations of employees. For example, do the employees feel that the top management promotes fair treatment of customers? We have thus studied the behaviour of top management that is visible to employees and how employees perceive this. Harmful behaviour is measured by asking whether employees had personally observed this in their workplace during the past year. It may be that there is harmful behaviour that is not visible to employees, for example harmful behaviour in relation to the design of the ICT environment.

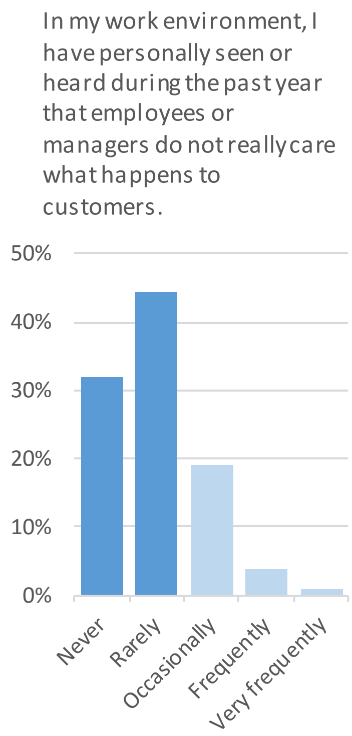
5. **This study presents the experiences of employees at the time.** This is achieved using reliable scales, which means that a company that currently has a low score will most likely have a low score again next year if little has changed at that company. If changes are implemented, with a new CEO or a new line manager, or another approach is used for setting targets, or there is a change in leadership style, this may very well lead to different scores.

6. **Lastly, there may also be other drivers affecting engagement and harmful behaviour.** In this study, we chose to focus on these management drivers and whether the culture is egoistic or cooperative, but other variables may also influence engagement and harmful behaviour.

Appendix 3. Featured questions for each segment

The tables below show how all the participating companies scored on the questions featured in the report. The most notable point is that there are significant differences between the companies. For example, in the first table we can see that for Financial Service Provider III, 91% of the respondents had never or very rarely personally seen or heard that employees or managers did not really care what happened to customers, while for Insurer IV this percentage was only 57%.

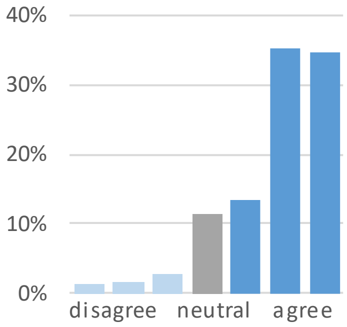
Highlighted question on harmful behaviour *(measured on a five-point scale, percentages rounded)*



Highlighted	Never-rarely	Occasionally-(very) frequently
Bank I	64%	36%
Bank II	63%	37%
Bank III	69%	31%
Bank IV	79%	21%
Insurer I	72%	28%
Insurer II	75%	25%
Insurer III	67%	33%
Insurer IV	57%	43%
Fin. Service provider I	61%	39%
Fin. Service provider II	78%	22%
Fin. Service Provider III	91%	9%
Fin. Service Provider IV	64%	36%
Fin. Service Provider V	89%	11%
Funeral insurer I	78%	22%
Funeral insurer II	67%	33%
Funeral insurer III	78%	22%
Funeral insurer IV	70%	30%
Funeral insurer V	77%	23%

Highlighted question on line manager *(measured on a seven-point scale, completely disagree…completely agree, percentages rounded)*

My line manager treats me with respect in the evaluation process.



Highlighted	Disagree	Neutral	Agree
Bank I	13%	31%	56%
Bank II	9%	12%	79%
Bank III	3%	7%	91%
Bank IV	2%	6%	91%
Insurer I	3%	7%	89%
Insurer II	4%	10%	86%
Insurer III	3%	10%	87%
Insurer IV	7%	8%	85%
Fin. Service provider I	7%	11%	82%
Fin. Service provider II	2%	9%	89%
Fin. Service Provider III	5%	10%	85%
Fin. Service Provider IV	6%	11%	83%
Fin. Service Provider V	0%	11%	89%
Funeral insurer I	3%	7%	91%
Funeral insurer II	1%	3%	96%
Funeral insurer III	8%	5%	86%
Funeral insurer IV	1%	4%	95%
Funeral insurer V	6%	11%	83%

Highlighted question on top management *(measured on a seven-point scale, completely disagree…completely agree, percentages rounded)*

The Board of Directors sets a good example with respect to treating customers fairly.

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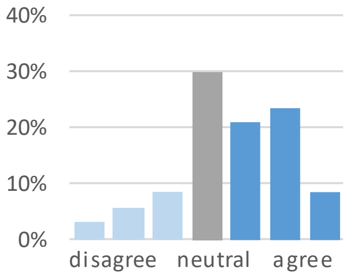
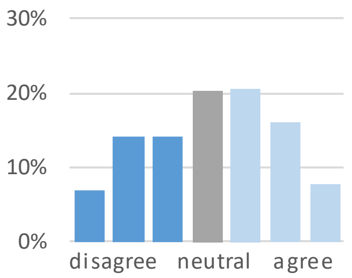


Highlighted	Disagree	Neutral	Agree
Bank I	24%	35%	42%
Bank II	39%	29%	32%
Bank III	7%	25%	68%
Bank IV	18%	27%	55%
Insurer I	13%	39%	48%
Insurer II	8%	31%	61%
Insurer III	13%	39%	49%
Insurer IV	25%	34%	41%
Fin. Service provider I	15%	32%	53%
Fin. Service provider II	3%	14%	83%
Fin. Service Provider III	7%	16%	77%
Fin. Service Provider IV	5%	41%	54%
Fin. Service Provider V	0%	11%	89%
Funeral insurer I	11%	12%	77%
Funeral insurer II	7%	12%	81%
Funeral insurer III	14%	32%	54%
Funeral insurer IV	19%	14%	68%
Funeral insurer V	14%	42%	45%

Highlighted question on target pressure *(measured on a seven-point scale, completely disagree…completely agree, percentages rounded)*

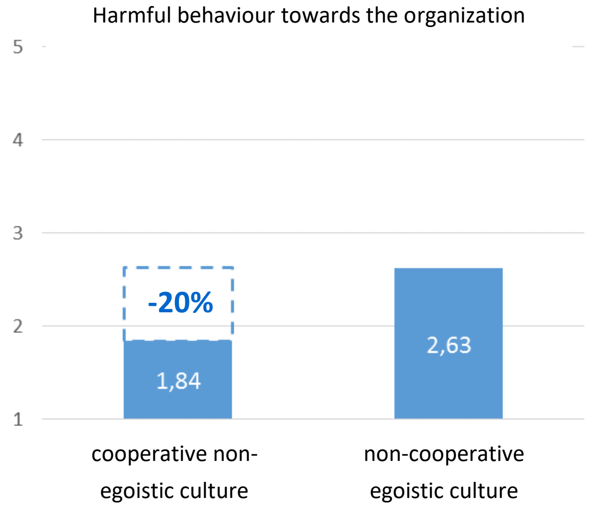
In my department, there is high pressure on meeting targets/deliver an outstanding performance.

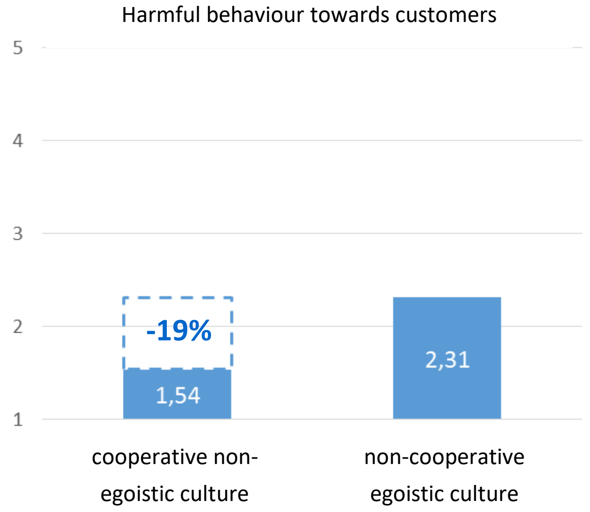


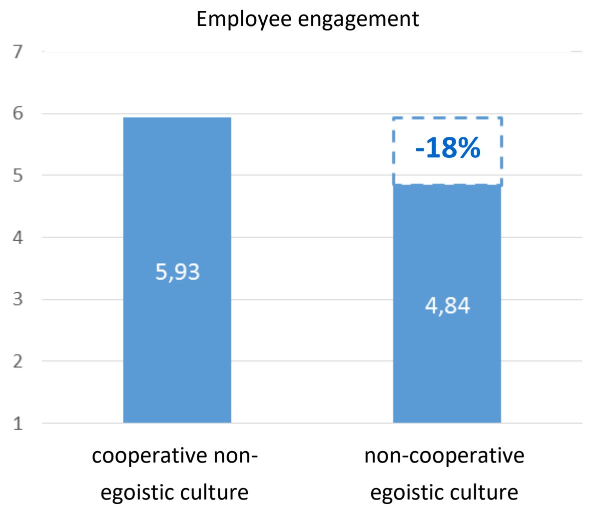
Highlighted	Disagree	Neutral	Agree
Bank I	35%	24%	41%
Bank II	17%	14%	69%
Bank III	47%	19%	34%
Bank IV	48%	16%	37%
Insurer I	27%	15%	57%
Insurer II	39%	20%	41%
Insurer III	49%	17%	34%
Insurer IV	34%	20%	46%
Fin. Service provider I	21%	27%	51%
Fin. Service provider II	72%	13%	16%
Fin. Service Provider III	35%	40%	26%
Fin. Service Provider IV	40%	23%	38%
Fin. Service Provider V	42%	21%	37%
Funeral insurer I	42%	18%	40%
Funeral insurer II	55%	13%	32%
Funeral insurer III	54%	32%	14%
Funeral insurer IV	40%	23%	38%
Funeral insurer V	48%	25%	28%

Appendix 4. Differences in harmful behaviour and engagement depend on culture

The scores on harmful behaviour and engagement are shown below in relation to the extent that the culture is cooperative or egoistic. The scores are calculated by taking for a cooperative and non-egoistic culture: 1 SD (standard deviation) above the average score for cooperative culture and 1 SD below the average for egoistic culture. For a non-cooperative and egoistic culture: 1 SD below the average for cooperative culture and 1 SD above the average for egoistic culture. It can be seen that there is 20% less harmful behaviour in cooperative and non-egoistic culture than in a non-cooperative and egoistic culture. Harmful behaviour towards customers is 19% lower, and engagement is 18% higher in a cooperative and non-egoistic culture.






Employee engagement
7
6
5
4
3
2
1
5,93
-18%
4,84
cooperative non-egoistic culture
non-cooperative egoistic culture

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