Bachelor Thesis

Leadership Styles in Traditional Financial Service Providers and FinTechs – Which Organization Provides the More Favorable Conditions for the Development of an Ethical Corporate Culture?

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Abstract

After the Global Financial Crisis two important developments have come up in the financial service industry. First, the general public, the clients and the regulators expect the financial players to operate in a more ethical way. Second, a new form of financial service provider, named FinTech, developed and gained much of attention due to high sums of invested capital into the business.

As a result of the two developments, the interesting question can be raised: Are the new market entrants eventually more capable of operating in an ethical way than their traditional market competitors?

The basic requirement for a company to operate ethically is an ethical corporate culture. This culture in turn only develops if the leaders, especially those on top of the organization are intrinsically motivated to lead in an ethical way. They need to have an ethical leadership style. Objective of this thesis was therefore to examine which leaders; those of FinTechs or those of traditional financial service providers have higher ethical leadership characteristics. Moreover, it was analyzed how the organizations' sizes and development stages determine the ability of the ethical leaders to influence the organizational culture.

As the term "development" includes the implementation as well as the maintenance process of the ethical culture, both aspects were analyzed within this thesis. Thereby, the empirical research study revealed that both, FinTech and traditional financial service provider executives have medium to high ethical leadership styles, whereby the FinTech executives have the slightly higher ethical leadership style. Furthermore, most of the evaluated companies in the study showed first characteristics of an ethical culture.

By considering the results from the research study as well as the theoretical implications, this thesis comes to the conclusion that FinTechs provide the more favorable conditions for the implementation and equal conditions for the maintenance of an ethical corporate culture.

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List of Abbreviations

ELS. Ethical Leadership Scale

1. Introduction

A new form of financial service providers recently gained much of attention in the media and business world – FinTechs. The technology based start-ups head of to disrupt and to change the financial industry fundamentally. A turning point of the FinTech development is the Global Financial Crisis in 2007. In its aftermath, several favorable conditions led to the launch of an ever faster growing FinTech movement.

Co-responsible for the development are the lost of trust in the traditional financial service providers as well as the stricter regulations (e.g. Basel III, Dodd-Frank-Act) imposed on traditional financial institutions such as banks. The population spoke ill of bankers and accused them being unmoral and greedy. Bankers were made responsible of the vast economic downturn following the financial crisis. Already before the finical crisis the public discussed ethical behavior in business, "concerns about ethics and leadership have dominated recent headlines about business and shaken public confidence in many organizations" (Brown, Trevino & Harrison 2005: 132).

Studies, such as the "World Retail Banking Report 2016" and the "Edelman Trust Barometer 2016" indicate, the financial industry is worldwide the least trusted sector among all sectors. The situation is even worse in Germany where only 32% of the mass population trusts the financial service providers. However, the industry was able to restore trust in 2016 by 8% points compared to 2015 and a bright spot is the mobile payment sector representing the most trusted subsector in the financial industry with 63%. The "World Retail Banking Report 2016" supports this development. Worldwide already 63% of the bank costumers also use the services of FinTechs. In Germany, even 66% do it. Again 66% of them would rather recommend their FinTech than their bank (44%) to friends and family.

The technology sector and mobile payments, mostly provided by FinTechs are among the most trusted (sub-) sectors. The majority of the population obviously thinks of them as more trustworthy firms, treating their customers in a more ethically correct manner than firms operating in other (sub-) sectors do. This raises the question if FinTechs are actually more concerned with the public good, respectively behave ethically and second, if they generally provide the better conditions for their members to behave in an ethical correct manner.

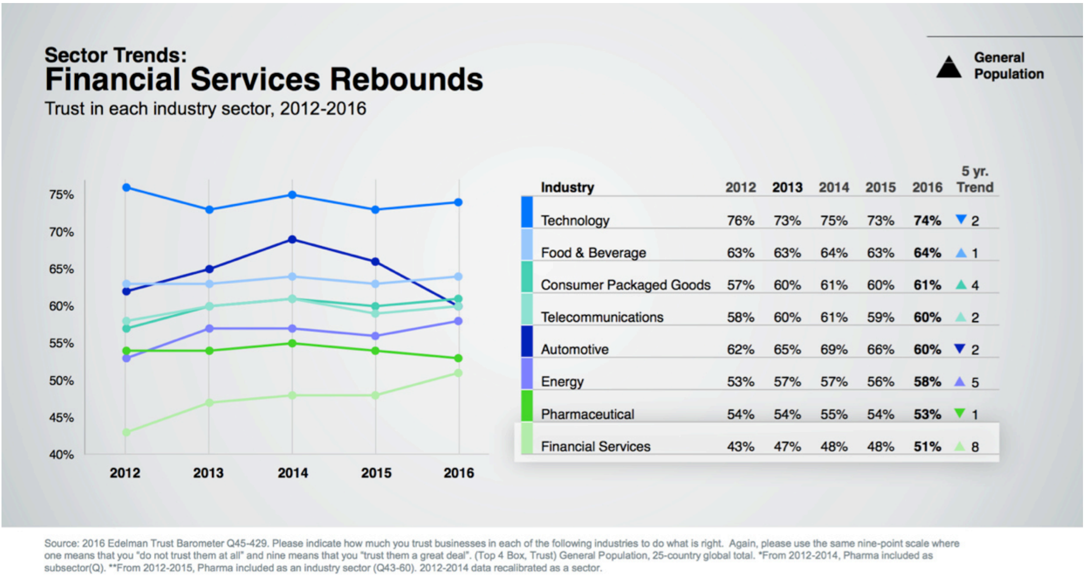


Figure 1 – Sector Trends: Financial Services Rebounds (Edelman – 2016 Edelman Trust Barometer Financial Services 2016)

As a firm operating in the interest of all stakeholders and being seen as a firm combining its objective to make profit with operating in the interest of the public good becomes more and more important for firms across all sectors. The demand of customers regarding the ethically correct behavior of firms has greatly increased in the last decade. Customers are more widely concerned with and sensitive to topics such as corporate governance, corporate social responsibly and business ethics and expect firms to combine these with their objective to earn profit.

Based on this development, the objective of this thesis is to examine whether FinTechs or traditional financial institutions provide the more favorable conditions for developing an ethical corporate culture. This also provides information about which type of organization is better able to compete in the market.

As the executives and leaders in a company have the greatest impact on the overall company culture, special focus is on the leadership styles present in FinTechs and in traditional financial service providers. Therefore, the degree to which the leaders in the corporation care about ethical behavior indicates the firm's capacity to build up an ethical corporate culture. If FinTech or traditional financial service providers have the leaders employed who are more concerned with ethics is examined in this thesis.

The theoretical part of the thesis covers all relevant aspects that must be considered to answer the thesis question. In the first section of this thesis, the FinTech development is explained, helping to understand its characteristics and the reasons for its evolvement. The second part is about the concept of organizational culture and its characteristics. The conditions shaping organizational culture are presented, building a main part for the normative analysis. Also, the general characteristics of a culture making the organization compete successfully in the market are presented. The relationship between leadership and corporate culture will be examined in the third part. It will be formulated how leaders influence and manage the development of an organizational culture and how they can intentionally change the organizational culture in the various stages of organizational development. The fourth part focuses on the special importance of the ethical corporate culture and in the fifth section it is explained how the ethical leadership can build up an ethical corporate culture. At the end of the thesis, the empirical research study is presented, the analysis answering the thesis question, its limitations and practical as well as theoretical implications are presented.

2. The FinTech Movement

This extra section covers the "FinTech" movement due to its recentness FinTech and the few scientific studies that covered the thematic. On the other hand, no extra section explains the characteristics of traditional financial service providers in greater detail. This thesis works with the broad concept referring to traditional financial service providers as companies operating in the financial sector for a relatively long period of time, employing hundreds or thousands of people and maintaining several departments.

To understand why the phenomenon "FinTech" is extensively covered in the business world, politics and media, this thesis gives a definition, investigates the reasons for its development, briefly shows the business fields in which FinTechs operate and explains the FinTechs' business models.

2.1 Definition

Since FinTechs are rather a recent phenomenon, not much scientific research has covered the topic so far. As a result, no consistent scientific definition of the term "FinTech" can be found but many approaches in the internet. Some of the few researchers covering the FinTech phenomenon in scientific works, Gimpel, Rau and Röglinger (2016: 39) define FinTechs as start-ups in the financial industry, which provide financial services on the basis of technology and data. Thereby, the term FinTech represents a combination of "financial services" and "technology".

2.2 Statistics

The investments and foundations of FinTechs have risen enormously over the last six years due to the expectation of investors that FinTech will play a major role in the future financial industry.

According to an analysis performed by the consultancy firm Accenture, worldwide investments in FinTechs have climbed to 22,265 billion US dollars in 2015, which represents a growth rate of 67% compared to 2014. One highlight is Germany where the total investments have risen by 840% from 2014 to 2015, climbing to 770 million US dollars of investments.

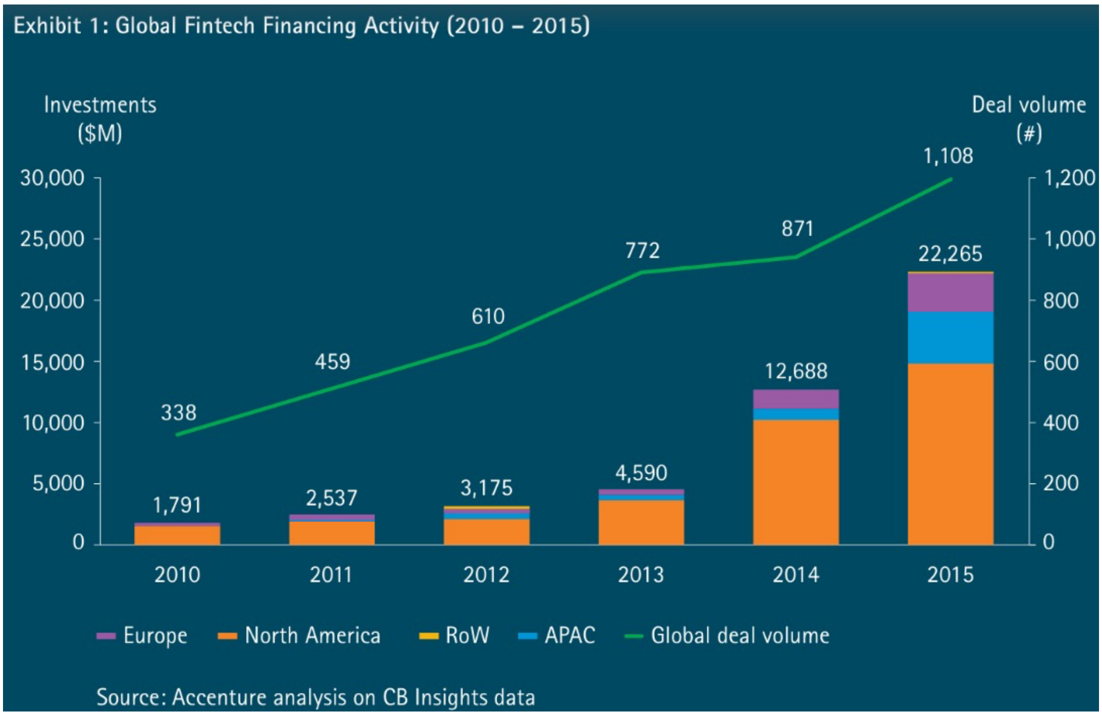


Figure 2 – Global FinTech Financing Activity (2010 – 2015) (Accenture – FinTech and the evolving landscape: landing points for the industry 2016)

2.3 The FinTech Development and its Reasons

The financial industry is one of the most heavily regulated sectors making the entrance for new market players difficult and deterrent. Innovation besides new financial products was a rarity. In the aftermath of the recent global financial crisis several beneficial conditions evolved, supporting the beginning of the FinTech movement. A "perfect storm" was created (Aner, Barberis and Buckley 2015: 18). Therefore, the Global Financial Crisis 2007-2009 represents the major turning point for the development of FinTechs and the flood of technological innovation in the financial sector.

As a direct result of the financial and economic crisis many high-skilled employees in the financial sector lost their jobs and high-educated graduates were facing difficult job market conditions (Aner, Barberis and Buckley 2015: 16). Moreover, governments imposed stricter regulations

(Dodd Frank Act, Basel III) on banks after bailing them out. Also, the public considered the financial industry as unethical and untrustworthy.

Due to the stricter regulations banks were and still are concerned with satisfying capital requirements and implementing adequate risk management systems. This made them unconcerned with digital innovation and restricted their capacity to compete with the new market players. Banks business models were sustainably altered by the new regulations and supervisory standards. Founders of FinTechs made use of this gap in the market and developed services based on the latest information technology and digital technology. Nowadays, regulations are market barriers protecting FinTechs from traditional financial players entering the market due to their lacking flexibility and the need to fulfill stricter requirements.

Furthermore, the lower earning and difficult job market conditions made the establishment of a self-owned company and working in the FinTech subsector more attractive to graduates and ex-bankers. Knowledge about financial markets and technology were combined and many of the highest-skilled people have joined the FinTech movement. On the other hand, traditional financial institutes lost human capital and competitive advantage (Aner, Barberis and Buckley 2015: 16).

The so-called "Millennials" are not only pushing into the job market but also represent an increasing share of the overall consumers. They are especially tech affine and demanding regarding digital end-user friendly services and products. FinTechs offering these kinds of services take advantage of the demographic development and attract these customers more than banks. An empirical research conducted by Transferwise indicates, over 75% of consumers predict themselves using FinTech services on day-to-day basis in ten years.

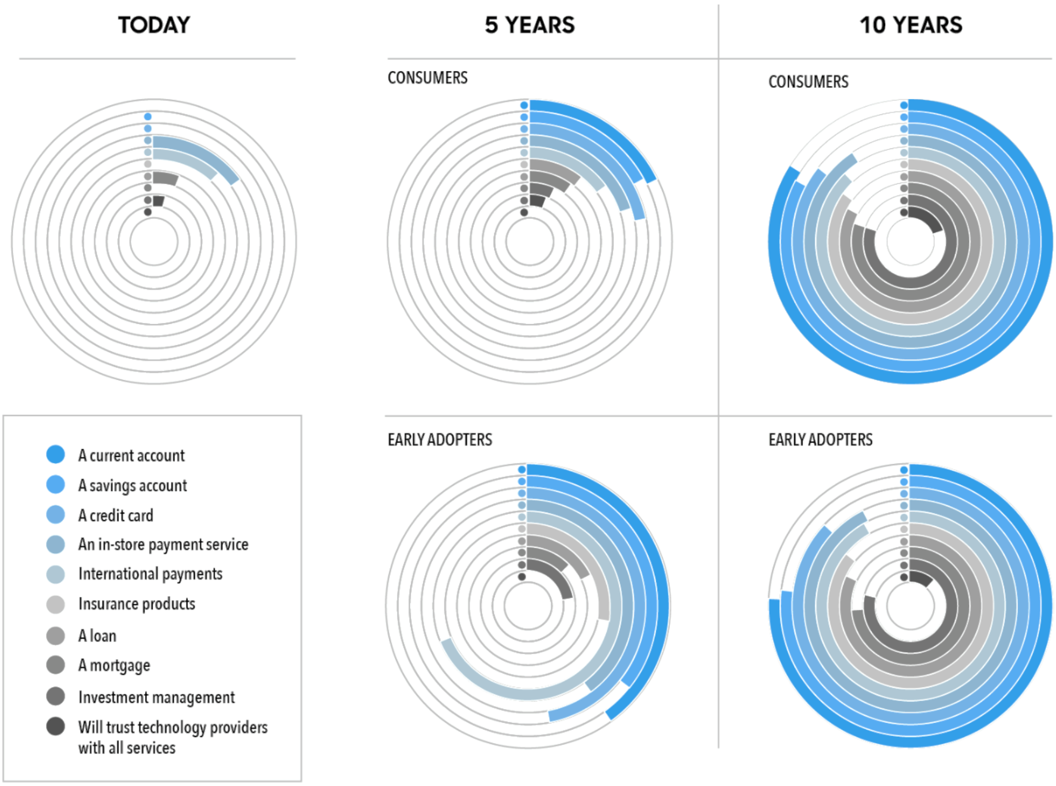


Figure 3 – Consumers' predictions over their own uptake of FinTechs over the next 10 years (Transferwise – The Future of Banking 2016)

Last but not least, the greater distrust in banks' activities has resulted in regarding FinTechs as an adequate alternative, which provide better customer service and more convenient ways conducting private banking on top. Again, banks have lost integrity and trustworthiness, which have always been their traditional fields of competitive advantage.

2.4 FinTechs in Germany

FinTechs are not operating in one branch; in fact they offer many different technological services specializing on different branches. A study of the accountant firm Ernest & Young gives an overview of all different branches in which German FinTechs operate. Thereby, the branches of traditional financial service providers and FinTechs are mostly overlapping. There also exist branches such as eMarketplaces within which only FinTechs operate while there also exist branches like M&A

within which only traditional financial service institutes operate. According to the study of E&Y, FinTechs can be divided into eight different clusters:

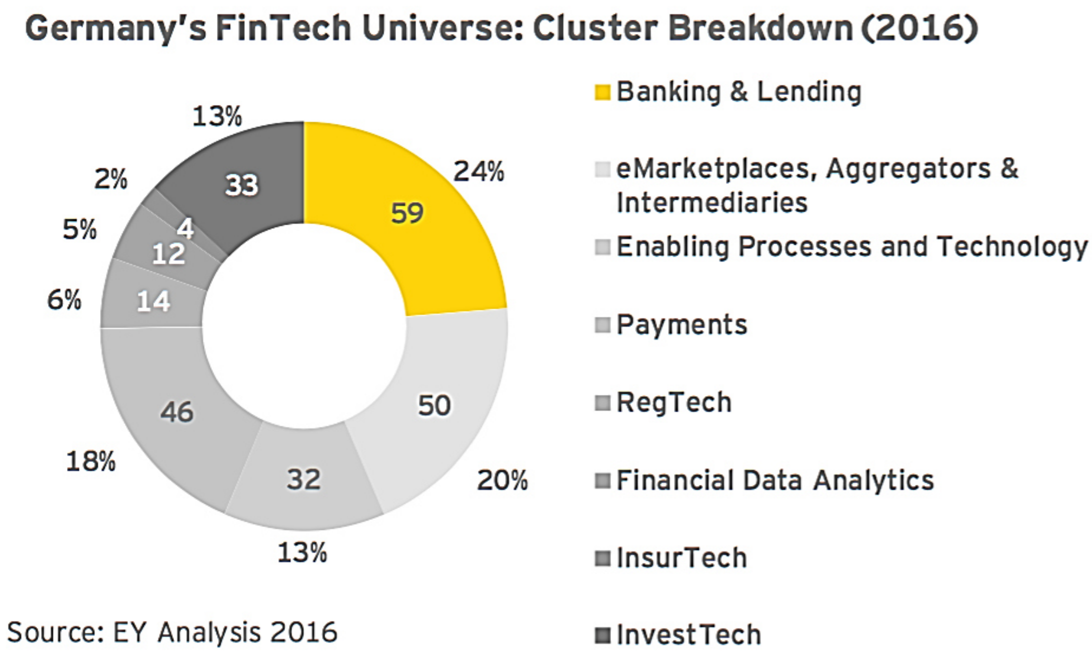


Figure 4 – Germany's FinTech Universe: Cluster Breakdown (Ernest & Young – German FinTech landscape: opportunity for Rhein-Main-Neckar 2016)

Banking & Lending: FinTechs offering standard bank services, including lending services and products, as well as alternative financing like crowdfunding (B2B, B2C and P2P) and account management.

eMarketplaces, Aggregators & Intermediaries: eMarketplaces are FinTechs enabling direct purchases of financial services or products. Aggregators and intermediaries are platforms providing third-party products and generating fee income (B2B and B2C).

Enabling Processes & Technology: FinTechs, which provide a new or different financial infrastructure to enable products and processes. They also provide services, such as optimization of process management or financial software improving processes and functions.

Payments: FinTechs providing alternative payment solutions, such as alternative payments infrastructure, virtual currencies, online and mobile payment.

RegTech: FinTechs offering solutions to other financial service providers helping them to comply with regulatory requirements and manage risk. This also includes user authentication and security applications.

Financial Data Analytics: FinTech supplying ways of data analysis, as well as "data enrichment services", where several data sources are combined to make greater use of the available data.

InsurTech: FinTechs operating in the insurance sector offering innovative (digital) insurance products.

InvestTech: FinTechs offering trading activities as well as portfolio management (e.g. analytics for decision-making) services to both business and institutional investors.

2.5 FinTech Business Models

Although the branches of trade in which FinTechs and traditional financial service providers are active resemble each other to a great extent, their business models differ greatly. Traditional financial service providers, e.g. banks generate profit with the transformation of short-term liabilities with low interest rates into longer-term assets with higher-interest rates or provisions paid for financial services (investment banks). Gimpel, Rau and Röglinger (2016) have investigated the different business models of FinTechs operating in Germany and developed an analytical framework.

The 120 FinTechs operating in the business-to-consumers market that have been analyzed sell the obtained data from their customers in 82% of the cases. Only 22% of the FinTechs analyze it them-selves. Furthermore, in most cases the offered service is free and the user pays with his data or has to conduct a one-time payment. Often, in about 50% of the cases, business partners work with the FinTech. They then pay the FinTech for the service offered to the private customers, for example because the FinTech sells their data to the business partner or because the service of the business partner is offered on the platform provided by the FinTech.

The study indicates, the FinTechs want to generate profit by the usage and sale of data or by getting paid for the service they offer. This is different to most traditional financial service providers as they either generate provisions for their service or earn interest rate.

3. Organizational Culture

In this section, the concept of organizational culture used within this thesis is presented. This is crucial because of the field's complexity and the many different understandings people have about organizational culture. Moreover, it is important for the later analysis to know the factors that shape and conditions that influence organizational culture.

Organizational culture is a widely examined field by researchers. Many different concepts and approaches, e.g. by Schein 1985, Hofstede, Neuijen, Ohayv and Sanders 1990, and Hatch 1993 have been developed. This can be explained by the field's size, its complexity and the missing universal definition of culture and organizational culture (Denison & Mishra 1995: 205; Steinmetz 1999: 5). However, the wide research that has been done around organizational culture also represents its importance for the overall organizational performance.

In the following, two concepts of organizational culture considered as most valuable for this thesis are presented. The concepts are first, a fundamental concept developed by the American psychologist Edgar H. Schein (1985) and second, an extension to Schein's original model developed by Mary Jo Hatch (1993).

Both concepts are valuable due to their high abstraction and guidance for following researchers. This is especially true for the concept developed by Schein (1985) who enjoys great popularity in the particular research field (Dauber, Fink, Yolles 2012: 4; Homma, Bauschke, Hofmann 2014: 4).

3.1 Definition

Edgar H. Schein, a pioneer who conducted much of fundamental research about organizational culture and its relation to leadership defines culture as follows:

> "The culture of a group can now be defined as a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (Schein 1983: 14; 2010: 18).

His definition of culture is based on the evolutionary perspective and refers to culture as a product of social learning. Any group with relatively stable membership, spending a certain period of time together and sharing a unique history, develops some level of culture. The group members share common experiences and learning, which has helped them mastering challenges, being successful and survive as a community. The behavior and actions, which helped them to successfully overcome those challenges, are the substance of what they have learned as a group and what the members consider as the right type of behavior. These actions refer to their dealing with relationships, hierarchy, power and all other aspects helping them to successfully function as a group and to master the challenges of the environment outside the group (Schein 2010: 18).

As included in the definition, the two major problems of groups are their need of external adaptation and internal integration. The first refers to the group's necessity to adapt on changing environmental conditions in order to survive. The second is linked to the need of defining the group's barriers, developing procedures inside the group to get along with each other and to function effectively. These procedures can be summarized as a set of relationship rules (Schein 2010: 18).

3.2 Distinction "Organizational Culture" and "Organizational Climate"

In the literature two concepts, dealing with the human part of organizations, have developed: organizational culture and organizational climate. Thereby, the two concepts are highly related, also partially overlapping but also have characteristics that allow the distinction between the two. Therefore, the content of the two is shortly explained in order to distinguish between the two concepts. According to Denison (1996: 644) organizational culture is the product of the characterizing and permanent values, attitudes and behavior patterns of an organization, whereas organizational climate is the current and temporary atmosphere in an organization.

3.3 Concepts of Organizational Culture

As stated, many different approaches about organizational culture with various primary focuses were developed in the last decades (e.g. Allaire & Firsirotu 1984; Schein 1985; Hofstede, Neuijen, Ohayv & Sanders 1990; Chatterjee, Lubatkin, Schweiger & Weber 1992; Cartwright & Cooper 1993; Hatch 1993; Homburg & Pflesser 2000; Sagiv and Schwartz 2007). Due to the reasons named above and the fact that an important research study and model explaining how ethical leadership influences the organizational culture toward an ethical organizational culture is based on Schein's theoretical framework (Schaubroeck, Hannah, Avolio, Kozlowski, Lord, Trevino, Dimotakis & Peng 2012: 1054), this thesis exemplarily covers the models of Schein (1985) and Hatch (1993).

3.3.1 Three Levels of Organizational Culture

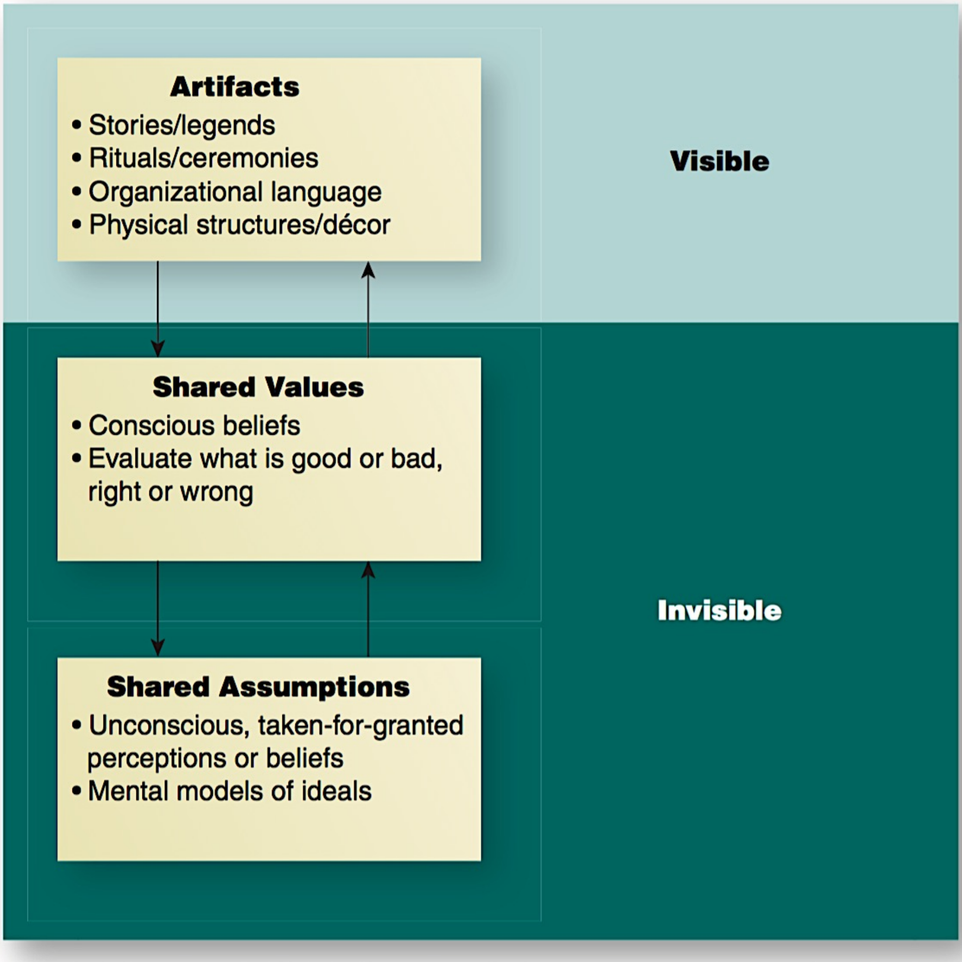
Schein's model is highly useful because it reduces the complexity of cultural concept. So, many researchers have used Schein's model to explain organizational culture and used it as their basis for further research (e.g. Sackmann 2006a: 4). His model has also been criticized because it is not only a model of organizational culture but of culture in general. Therefore, no explanation can be given for independencies with other aspects of organizations (e.g. their strategies) (Dauber et al. 2012: 4).

Schein's model uses the term "level" or "layer" to explain the degree to which characteristics of a respective culture are visible to outsiders. A part of culture is visible to outsiders whereas the major part is not accessible. Schein identified three levels any culture posses, "Artifacts", "Espoused Beliefs and Values" and "Basic Underlying Assumptions".

The "Artifacts" of a culture are the first level. They are visible, most easily to observe and the least abstract. However, an outsider cannot identify the meaning of these visible structures and processes, it has for the members of the respective culture. The underlying causes for their shape are unapparent. Artifacts include aspects like, symbols, buildings, language, history, rituals and ceremonies.

The "Espoused Beliefs and Values" of an organization refer to its ideals, goals, values and aspirations. These rules and regulations help the members of the organization to distinguish between the right and wrong behavior of individual members from the normative point of view of the group. They are guidance and orientation for the members.

The level of "Basic Underlying Assumptions" is the deepest level of any culture. They refer to the beliefs and values, which are nonnegotiable and taken for granted by the members of the group. They represent the core of the culture and influence all other aspects of the culture. The "Basic Underlying Assumptions" are the modes of though and action, often applied without thinking by the group members. Over time the members of a group develop identical patterns of approaching problems, which results in fewer conflicts and making the coexistence more pleasant (Schein 2010: 23-33).



Source: Based on information in E.H. Schein, *Organizational Culture and Leadership: A Dynamic View* (San Francisco: Jossey-Bass, 1985).

Figure 5 – Levels of Organizational Culture (McShane & Von Glinow 2008: 461)

3.3.2 Cultural Dynamics

Mary Jo Hatch extended Schein's original model of organizational culture and includes dynamism. The model focuses more on the processes of cultural change and evolution. She identifies and examines four processes: manifestation, realization, symbolization, and interpretation (Hatch 1993: 658). Schein includes the dynamic aspect of culture in his model by referring to the social learning theory as group learning but does not explain how the three levels influence each other over time (Hatch 1993: 659). So, Hatch's model captures a main point of criticism. Moreover, she adds a symbolic component. Thereby the members of the organization use the process of symbolization to support their behavior or statements. In addition, the artifacts of the organization further clarify them (Wien & Franzke 2014: 32).

The model "reaches beyond them [Schein interests] toward a more complex, process-based understanding of organizational culture" (Hatch 1993: 661). Focus is on the dynamics and processes changing culture and making cultural change possible. There is no linear development of culture but a dynamic (Hatch 1993: 661). This consideration is important as the thesis analyses the change and development of (ethical) culture.

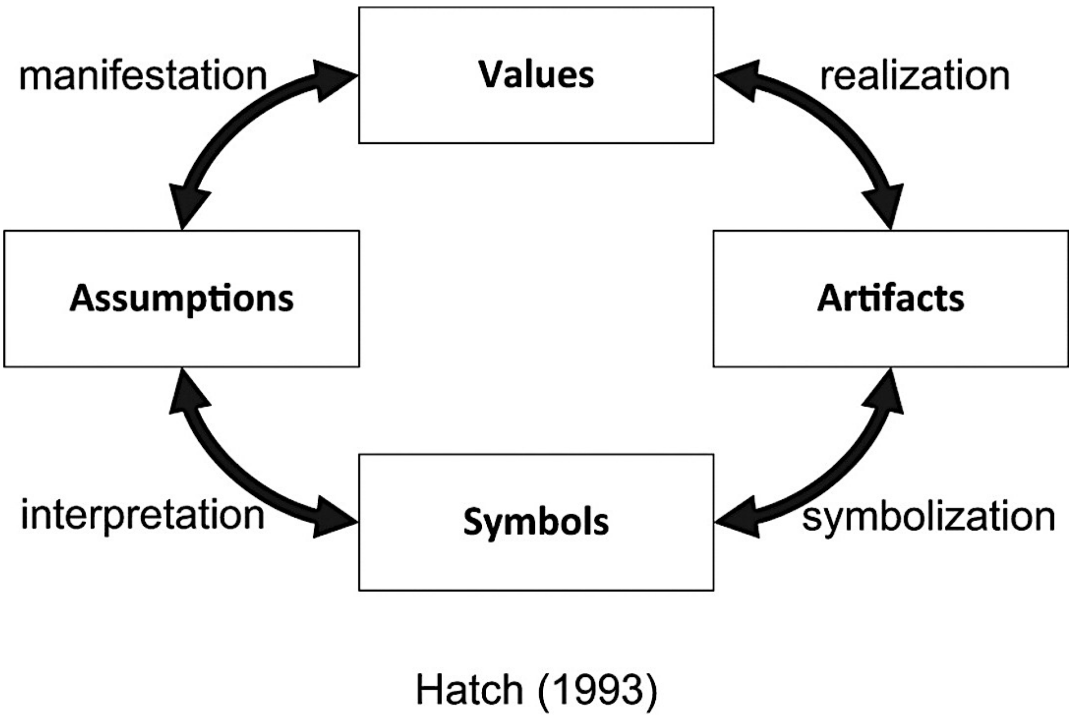


Figure 6 – The Dynamics of Culture (Dauber et al. 2012: 4)

Hatch argues, processes changing and developing organizational culture operate more or less continuously and simultaneously. The beginning of another process of change can be at any point of the circle and can move in either direction. No operating process occurs isolated and the reformation of culture can only be explained by the collaboration of different processes (Hatch 1993: 661). Unfortunately it is not clear which external factors influence these processes and which factors are determining the direction of the processes (Dauber et al. 2012: 3)

3.4 The Context of Organizational Culture

Culture	*Category*
Macrocultures	Nations, ethnic and religious groups, occupations that exist globally
Organizational cultures	Private, public, nonprofit, government organizations
Subcultures	Occupational groups within organizations
Microcultures	Microsystems within or outside organizations

Figure 7 – Categories of Culture (Schein 2010: 2)

Organizational culture is not the only culture that exists; in fact there exists many kinds of cultures. The different cultures can be clustered into four types – Macrocultures, Organizational Cultures, Subcultures and Microcultures. Each type again can be divided into several categories (Schein 2010: 55-67).

Macrocultures represent the first level: they form in large geographical regions and systems (e.g. states), ethical groups or religious groups and normally have high numbers of members who share the culture. Organizational cultures represent the second level. They develop within a specific macroculture. Organizational cultures form in private, public and government organizations. The level thereafter, is considered as the subculture level. Subcultures form within organizations, often around functional units or hierarchical levels (Sackmann 1992: 147-148; Schein 2010: 57). Microcultures again form within the subcultures and are small groups that share a common history and fulfill about the same tasks.

The macroculture represents the cultural context within which the individual organization operates. Although the macro environment has great influence on the culture of organization, substantial differences exist between the culture of an organization and the macroculture within it operates (Hofstede et al. 1990: 301; Dauber et al. 2012: 4). For example, Chinese and American companies have often fundamentally different organizational cultures, already because their members grow up in different macrocultural environments and are highly influenced by their national culture. Nevertheless, great differences can also be experienced within the group of American companies and the group of Chinese companies although their members are mostly influenced by the same macroculture.

Within the organization, the organizational culture can be seen as the dominant culture prevailing in the organization (McShane & Von Glinow 2008: 463). Not only the macroculture influences the organizational culture but also the subcultures that form within the organization and especially their interplays (Schein 2010: 60). The members of a respective subculture often share specific educational backgrounds or courses of life. The subcultures may even form worldwide since engineers, bankers or doctors underwent a similar education and often have developed particular "Basic Shared Assumptions" about their way of thinking, approaching problems and their view about the world (Schein 2010: 57). On the one hand side, the subcultures create problems and are sources of conflicts within the organization due to their differing assumptions to the dominant organizational culture. Thereby, especially the "countercultures" can be a source of conflict, since their assumptions even oppose the core organizational culture. On the other hand side, subcultures have two important functions within organizations (Boisnier & Chatman 2002: 99). Trough their critique and in parts opposition to the main culture they represent a form of surveillance and control, making sure that organizational members are not "blindly following one set of values" (McShane & Von Glinow 2008: 463). Secondly, subcultures make sure that the organization adopts on the changing environment and ensure that the customers' needs are met furthermore. If the organizational culture was too dominant the organization may loose the feeling for the needs of their customers and other stakeholders. The company may lose a successful organization's core strength - recognizing the environmental developments and adjusting its products (Boisnier & Chatman 2002: 90; McShane & Von Glinow 2008: 463). Objective of any organization is therefore finding the right balance of the subcultures benefits and disadvantages in order function effectively.

3.5 The Content of Organizational Culture

The content of organizational culture is the learned material since the group's foundation, thus its "Basic Shared Assumptions". Thereby, the process of cultural formation proceeds simultaneously to the process of group formation.

Things, groups have learned about, or differently expressed, have build up "Basic Shared Assumptions", can be divided into the two major fields of problems any group has to deal with – external adaptation and internal integration.

The first problem is the group's need to preserve its ability to adapt, grow and survive in the external environment. The second is about each group's necessity to take care of its internal integration, internal procedures and rules allowing the functioning of the group itself.

Assumptions that have to be developed by group in order to adapt on the external environment include a common understanding of the organization's core mission, the concrete goals translated from the core mission and the corporation's way of pursuing these goals, measuring them and taking corrective action (Schein 2010: 74).

Moreover, the group has to develop and obtain a common understanding of its communication, dealing with power and hierarchy and how the groups sets its boundaries of membership, which resemble issues of internal integration. This is necessary in order to work effectively and to get along with each other without much conflict.

The deeper cultural assumptions are the basis for any group's assumptions about external adaptation and internal integration. These deeper assumptions refer to issues about general abstract concerns.

Generally, individuals must agree on issues like measuring time and determining truth and falsity in order to be able to live in societies.

However, different cultures all over the world have developed different answers to these kinds of questions, which directly influences the organizations evolving in these larger macrocultures. These deeper assumptions of macrocultures can be divided into four major categories societies have to agree on: Assumptions about the nature of reality and truth, the nature of time, the nature of space and the nature of human nature, human activity, and human relationships.

3.6 The Importance of Organizational Culture

Not only have many researchers examined organizational culture generally but also the link between organizational culture and corporate success (e.g. Peters & Waterman 1982; Denison 1984; Saffold 1988; Gordon & DiTomaso 1992; Kotter & Heskett 1992; Dension & Mishra 1995). Thereby, the organizations performance is measured by financial figures such as ROA or sales growth (e.g. Denison & Mishra 1995: 218).

Schein's theoretical framework considers the organization's ability to master the two main challenges of organizations – internal integration and external adaption – as the key for a successful organization (Schein 2010: 73).

Denison and Mishra (1995) went further and identified four traits representing a "(…) summary of characteristics of an organization's culture and the processes by which culture may have an impact on effectiveness" (Denison & Mishra 1995: 220). The traits identified overlap with Schein's theory about organizational culture - the company's involvement, consistency, adaptability and sense of mission (Denison & Mishra 1995: 204). To investigate the relationship the researchers selected a combination of qualitative and quantitative research examining the correlation of these traits with organizational effectiveness. By doing so, Denison and Mishra (1995) compared organizations having a weak manifestation of these traits with companies having a strong manifestation.

The organization’s ability to have a mission or long-term vision is one of the core characteristics a successful organization must posses. The long-term vision’s importance is related to non-economic reasons why the organization exists and why its work is meaningful (Denison & Mishra 1995: 220). Organizations experienced the greatest crisis when its core mission was questioned (Denison & Mishra 1995: 216). As Schein (2010: 93) described, members of organizations must develop “Basic Shared Assumptions” about internal integration, such as the organization’s core mission. Moreover, the organizations adaptability described as the ability to adapt internal procedures on the changing external environment was identified as a major characteristic of organizations (Denison & Mishra 1995: 215).

Involvement on the other hand describes the degree to which members of the organization have sense of ownership (Denison & Mishra 1995: 214). The last trait is consistency, the degree to which members of the organization share identical assumptions (Denison & Mishra 1995: 215).

All four traits have a positive correlation with organizational effectiveness (Denison & Mishra 1995: 220). Moreover, Denison and Mishra propose higher levels of these traits result in higher organizational effectiveness (2014: 214). The studies performed by Kotter and Heskett (1992), and Gordon and DiTomaso (1992: 783) support this result. In detail, Kotter and Heskett (1992: 11) found out firms having a relatively strong culture were able to raise their revenue by 682% on average over the time of the study. On the other hand, firms with a relatively weak organizational culture increased their revenue by 166%. Furthermore, strong culture firms increased their value per share by 901% and their net profit by 756%. Weak culture firms increased their value per share by 74% und their net profits by 1% (Kotter & Heskett 1992: 11).

However, already 1988, researchers identified weaknesses of the strong organizational culture and performance link. The studies were oversimplifying the relation (Saffold 1988: 546). Furthermore, these early studies predominantly identify a strong correlation between a strong culture and performance in the short run (Gordon & DiTomaso 1992: 783; Sackmann 2006: 6).

Also the limited number of cases as stated by the researchers does not allow a generalization (Gordon & DiTomaso 1992: 783). The comparison of the studies is also difficult due to the different parameters and interrogations used (Sackmann 2006: 6). Homma et al. (2014: 11) acknowledge, the valuation of a particular culture can only be done by taking its context and tasks into account, thus its internal and external challenges. As a result, the organization will be in trouble if its culture is no longer aligned with the environment within the organization is operating (McShane & Von Glinow 2008: 466-467). Another misleading factor of a strong culture is the suppression of subcultures, which are beneficial for the long-term survival of the organization as noted earlier.

A "strong" culture, here seen as the degree to which members of the organization share the same assumptions, may result in a competitive disadvantage due to its incapability to adapt on the changing environment. "Strong cultures might cause decision makers to overlook or incorrectly define subtle misalignments between the organization's activities and the changing environment" (McShane & Von Glinow 2008: 467).

Thus, an organization must balance the strength of its culture to function effectively while maintaining the flexibility to adapt on the ever-changing external environment.

A factor significantly resulting in organizational success is the firm's capacity to adapt on a changing environment and maintaining an adaptive corporate culture (Kotter & Heskett 1992: 11; Denison & Mishra 1995: 220; McShane & Von Glinow 2008: 467). A firm's adaptive culture comes from its willingness to learn and its openness to the changing environment within it operates (Sackmann 2006a: 10).

In addition, Sackmann (2006a) lists many more cultural characteristics researchers have identified and linked to organizational performance in her review, which cannot be presented within the scope of this thesis. In conclusion, *"(...) würde [heute] niemand mehr die Bedeutung der Unternehmenskultur für die Attraktivität und Leistungsstärke eines Unternehmens ernsthaft infrage stellen*" (Homma et al. 2014: 1).

4. Leadership and Organizational Culture

In the previous section, several important implications for the answer of the thesis questions were presented, including the conditions shaping organizational culture, mainly the problems of external adaptation and internal integration and their characteristics, the importance of subcultures and the characteristics of any organizational culture that benefits organizations.

This section is about the relation between leadership and organizational culture. It is explained why leadership is the most important factor shaping organizational culture and how leaders can change the organizational culture in different phases of organizational development, in which the FinTechs and traditional financial service providers are.

4.1 Definition of Leadership

Peter Northouse developed a common definition of leadership, which describes leadership as follows: "Leadership is a process whereby an individual influences a group of individuals to achieve a common goal." (Northouse 2016: 6). Thus, the leader can be described as a person having a special position within the group. He has the power to influence the group and giving it direction. Thereby the leader does not impose goals or forces the group members to perform a certain task. On the contrary, he only directs the group members toward a goal that the entire group is trying to achieve.

4.2 Distinction "Leadership" and "Management"

"Managers" are primary concerned with the implementation of goals and specifications. Furthermore, they are responsible for the fulfillment of processes and the execution of the organizational strategy. They manage the day-to-day business. "Leaders" on the other hand, have a vision about the future development of the organization and are more concerned with changing the organization, mobilizing employees and creating an atmosphere of departure. Moreover, they provide a perspective with which followers can identify themselves and provide security when business is under pressure. Important to note – leaders exist on any hierarchical level (Homma et al. 2014: 86).

4.3 The Leader's Role in the Evolution of Organizational Culture

The scientific community has agreed on the crucial role leadership is playing for the implementation and change of an organization's culture (e.g. Bass & Avolio 1993: 113; Schein 2004: 223; McShane & Von Glinow 2008: 472; Giberson, Resick, Dickson, Mitchelson & Randall 2009: 133). "An organization's culture begins with its founders and leaders" (McShane & Von Glinow 2008: 472).

In addition, Bass & Avolio (1993: 113) state,

> "There is a constant interplay between culture and leadership. Leaders create mechanisms for cultural development and the reinforcement of norms and behaviors expressed within the boundaries of the culture. Cultural norms arise and change because of what leaders focus their attention on, how they react to crises, the behaviors they role model, and whom they attract to their organizations. The characteristics and qualities of an organization's culture are taught by its leadership and eventually adopted by its followers."

The role of founders during creation of organizational culture, the leaders' role in developing organizational culture and the mechanisms available to leaders changing organizational culture on purpose are presented in the upcoming sections. To understand how leaders can develop organizational culture in its different stages of evolution is crucial since FinTechs and traditional financial service providers are in different stages of the evolutionary process. As a result, different instructions of how to develop an ethical organizational culture must be formulated, fitted to the specific circumstances of FinTechs and traditional financial institutes. Thereby, the phases of transition are floating.

The evolutionary process is thereby, a process by which the members of an organization periodically and continuously question the underlying assumptions of their culture and change them if the conditions make this necessary (Bass & Avolio 1993: 114) and the degree to and way in which organizational culture can be changed depends on the evolutionary stage in which the organization finds itself (Schein 2004: 291).

4.3.1 The Founder's Role – Building an Organizational Culture

According to Schein's framework (2010: 219), which is the main theory this section is based on, organizational culture has three sources. First, the beliefs, the values and the assumptions of the founders of the organization, second, the experiences that the members of an organization make at the very beginning of the organization and, third, the embedded thoughts, values and assumptions of new members and leaders who joined the organization in its early stage. However, the most important role is attributed to the founder(s) of the organization "(…) we cannot overlook the tremendous importance of leadership at the very beginning of any group process" (Schein 2010: 232). Schein explains their importance with the fact, that they determine the organization's core mission, which is the organization's reason for existence (Schein 1983: 17). Bass & Avolio (1993: 114) see founders shaping organizational culture guided by their personal beliefs and the "preconceived culture scheme in their head". Schein (1983: 14) shares this opinion, "(…) [the founders] have a cultural paradigm in their heads, based on their experiences in the culture which they grew up with". Since the founders had the idea to establish the organization, they are also the ones who have a clear vision and a strong perception of how to reach the organizations core mission. Whether the concepts or mission are going to be reached in daily practice is determined by the concrete proposed solutions articulated by the founders and its suitability to solve upcoming problems. Only in problem solving cases the underlying culture of the leader (leader's behavior) is adopted by the members of the organization and embedded in the organizational culture (Schein 1983: 21). If the approach also works for further problems, it will be taken for granted as the right type of behavior and will be taught to newcomers (Schein 1983: 21). Also the selection of these newcomers, a process at the beginning of the organizational existence mostly done by its founders has significant influence on the cultural formation. Most often, their personalities resemble those of the founders (Schein 2004: 261). The degree to which other members of the organization influence culture depends on the quality of the expressed solutions of the founders. If they do not help to solve the problems the young organization is facing, others will formulate solutions, which may better work and as a result shape the organizational culture. Schein describes, from his experience either the organization survives, or grows due to right decisions of the founders or the organization fails due to wrong decisions (Schein 2010: 232). The crisis is the only event that can lead to a radical change of the organizational culture. Then, the founders are discredited and new leaders take over the highest position in the organization (Schein 2004: 294).

4.3.2 The Leaders' Role – Shaping Growing Organizational Culture

After leaving behind the early stage of foundation, which is characterized as a period of time with high insecurity, the founders' approaches to solve the problems of internal integration and external adaptation are embedded in the organizational culture (Schein 2004: 292-293). Newcomers, either employees or leaders will experience a consolidated organizational culture, which has to be taken for granted. The underlying behaviors, approaches to problems, forms of communication and so on are now less likely to be changed. The culture develops in two ways in this stage of the evolutionary process, general evolution and specific evolution (Sahlins & Service 1960: 12). On the one hand side, this means that the entire organization becomes more diversified and complex due to its larger size. On the other hand side, smaller specific parts and departments of the organization develop a culture that varies from the mainstream culture due to their adaptation to the specific environment they operate within (Schein 2004: 295).

Various informal and formal measures are available to leaders in order to strengthen and to emphasize the organizational culture to its members.

Schein (2004: 245) declares charisma as the easiest way to influence the organizational members and to manage organizational culture. However, only a few leaders possess the outstanding power of charisma, and most leaders learned to be leaders (Homma et al. 2014: 82).

The addressed informal and formal measures, describes Schein (2004: 246) as "Primary Embedding Mechanisms" and "Secondary Articulation and Reinforcement Mechanisms". Both of them are applied simultaneously.

Primary Embedding Mechanisms

- What leaders pay attention to, measure, and control on a regular basis
- How leaders react to critical incidents and organizational crises
- How leaders allocate resources
- Deliberate role modeling, teaching, and coaching
- How leaders allocate rewards and status
- How leaders recruit, select, promote, and excommunicate

Secondary Articulation and Reinforcement Mechanisms

- Organizational design and structure
- Organizational systems and procedures
- Rites and rituals of the organization
- Design of physical space, facades, and buildings
- Stories about important events and people
- Formal statements of organizational philosophy, creeds, and charters

Figure 8 - Primary Embedding Mechanisms and Reinforcement Mechanisms (Schein 2004: 246)

Leaders have six potential ways to familiarize the members of the organization with its culture. These embedding mechanisms are continuously and recurrently applied in the daily organizational business life (Schein 2010: 247) with the objective quickly teach the subordinates which behavior is expected and accepted from them. Important is the consistent application of these measures. Since only then, the subordinates will develop exact perceptions of what is required from them. Some of these measures are exemplarily presented in the following.

What leaders pay attention to, measure, and control:

For leaders a very powerful way to communicate their own convictions is to systematically pay attention to what they consider as important. This includes anything they systematically deal with and comment on. This is highly effective because the subordinates will know what their leaders consider as important and pay special attention to. Subordinates will try to perform especially well in the fields the leader emphasizes. However, if the leader's behavior and actions are inconsistent efficiency declines because subordinates will spend greater time with figuring out what the leader really wants.

Emotional Outbursts:

The most powerful way of transmitting values to subordinates and making appropriate behavior clear are emotional outbursts. This is especially the case if his subordinates are violating the leader's values and assumptions. An emotional outburst will have a much deeper impact on the subordinates' behavior because they will try to avoid this emotional tension by taking on desired behavior in the future.

Leader reactions to critical incidents and organizational crisis:

Crises are especially emotional and intense periods of time and therefore important for the development of organizational culture. In order to overcome the crisis, the members of the organization learn a lot. Moreover, successfully overcoming the crisis binds the organization together. Leaders show their true faces and their deep convictions that have not find their way in the organizational culture during the "normal" time periods.

Deliberate role modeling, teaching and coaching:

Another important factor getting assumptions and values across is the visible behavior of leaders. This may include facial expressions, body language and the way of communication.

How leaders allocate rewards and status:

The allocation of rewards and punishments for certain behavior and performance makes clear which behavior is desired by the organization. Leaders are using it to reinforce their focus. It shows the leader's priorities and main interests.

How leaders select promote and excommunicate:

A powerful way of shaping culture is the recruitment of new employees with certain personal characteristics. Founders and leaders hire especially those individuals matching the personalities of the existing workforce.

Reinforcement mechanisms include design, structure, architecture, rituals and stories of an organization. In the early stage of existence these mechanisms support the formation of organizational culture. However, after the organization grew and became more mature, they limit future leaders to shape organizational culture, which has positive and negative side. The reinforcement mechanisms help to formalize and visualize the mostly informal and invisible organizational culture and represent factors helping to maintain the organizational culture. The reinforcement mechanisms cannot work by themselves, only in consistent combination with the primary embedding mechanisms.

4.3.3 The Leader's Role – Managing "Midlife" Organizational Culture

Homma and colleagues (2014: 84) argue that not only the top management level is important for developing organizational culture of a mature organization but also the middle management and the supervisory management. Despite the fact that Giberson and colleagues (2009: 133), as some of the first researchers, found the characteristics of the CEO having substantial influence on the norms of the organization and which behavior is penalized and rewarded, the middle managers play an essential role because they significantly determine the implementation of strategic goals. The middle management represents the central institution between the strategic vision and its actual implementation. In addition, the supervisors to a great degree determine how much the organization reacts on the changing environmental conditions. This connection between the different management levels and their effects on organizational culture are presented in greater detail in the specific section about the relation between ethical leadership and ethical organizational culture (see chapter 7).

With the growing size of the organization it also becomes more diverse, complex and subcultures develop. With the greater size, the organizational culture becomes more impersonal and the degree of formalization rises (Homma et al. 2014: 82). The top management has less direct contact to the basis and has to confine to exert signal effects to the members of the organization and especially to the following leadership levels (Homma et al. 2014: 83).

Main task for top executives becomes the management of the different subcultures. Procedures have to be identified by the top managers to successfully coordinate them (Schein 2004: 274). The subcultures must develop common goals, procedures and ways of communication in order to make the organization as a whole successfully function.

4.4 Cultural Change

This section examines the instruments available to leaders of organizations in the different development stages for generating cultural change. Thereby, no cultural change in the narrower sense can be performed in the first stage of organizational development. As described in the previous section, in the period shortly after the foundation of an organization, cultural formation is still in progress and no established culture has developed so far. As a result, this section begins with shortly introducing the change measures available to leaders, which organizations are in the second stage of organizational development. Afterwards, the measures available to leaders of mature organizations are discussed in greater detail.

4.4.1 Distinction and Definition of "Organizational Development" and "Organizational Transformation"

The literature distinguishes between to types of theories that deal with organizational change, organizational development and organizational transformation. Thereby, theories of organizational development present sets of measures and concepts available to perform planned change and to enhance the effectiveness of the organization (French, Bell & Zawacki 2005: 2-3). Organizational transformation, on the other hand, is an extension of organizational development. It "seeks to create far-reaching changes in an organization's structures, processes, culture, and orientation to its environment" (French, Bell & Zawacki 2005: viii). In conclusion, the theories of organizational development include more superficial measures for generating organizational change. On the other side, the theories of organizational transformation want to demonstrate how fundamental organizational change can be performed, also including radical cultural change. Therefore, the theories of organizational transformation are more relevant in the scope of this thesis.

4.4.2 Strands of Theories about Organizational Change

In the literature, the theories about organizational change are not only divided into organizational development and organizational transformation but in another cluster. Robert Chin and Kenneth Benne (2005: 41) distinguish between three fundamental groups of strategies for generating organizational change. The first, the "empirical-rational" strategies are based on the assumption that individuals are rational and self-interested. If the new state is desirable and generates higher output for the individual, the individual will change in order to reach this new state. The second group of change is called "normative reductive". It also includes the rationality aspect but furthermore includes the aspect of the normative culture (norms) of the surrounding within which the individual lives. Hereby, changing is not only rational but also includes the need to change patterns of behavior, values and normative positions. Theses strategies incorporate the fact that also non-cognitive aspects determine the willingness or resistance to change. It is not longer the rationality of an individual that determines his willingness to change. His willingness of change is also determined by the degree to which he wants to unlearn his current ways behavior. The last group of strategies, called "power-coercive" approaches, has no moral basis. They deal with the use of power for the generation of change. Thereby, people with greater power "push" people with less power to change in their desired direction.

4.4.3 Cultural Change in Organizations in the Second Stage of Organizational Development

In order to generate change, the leader of the organization must change the way he uses primary embedding mechanisms and reinforcement mechanisms. So, he must change what the things he pays attention to, the things he penalizes and the things he rewards. This makes clear which new behavior is expected from the subordinates and emphasizes the leader's new primary focus (Schein 2004: 291). The effort and time needed to change organizational culture in this stage of development is already much higher than in the early time of existence. Furthermore, the members of the organization can generate change collectively if they notice that procedures can be made better. Hereby, the role of the leader is recognizing the need to speak about changing the culture and to manage the process (Schein 2004: 296). The third way of generating change is the systematic promotion of future leaders. They must be members who have developed an understanding of the external environment and the future developments different enough to the core culture. They can move the organization toward a working style that is desired to better adapt on the changing environment. Meanwhile they are a part of the organizational culture, which is helpful for the acceptance of their measures by the other organizational members.

4.4.4 Cultural Change in Mature Organizations

Forces for change in this evolutionary stage may be economic difficulties of the organization or the struggles of departments or internal struggles such as disputes between subcultures (Schein 2014: 302). In this evolutionary stage, leaders have the ability to change the culture toward the desired direction by promoting members of a particular subculture who best represent the characteristics of the overall desired organizational culture. This is rather a conservative measure, promoting slow but steady organizational change. The promotion of outsiders, such as a new CEO, generates faster and more fundamental organizational change (Schein 2004: 308). Another measures for generating fundamental and rapid organizational change is the implementation of a cultural change program (Schein 2004: 303).

The cultural change program is thereby a part of an overall organizational change program. As described above the reason for change is a crisis. The goal of an organizational change program must therefore be the transformation of the operations, the technical structures or the organizational business model in order to increase the organizational effectiveness. Because the program intends to fundamentally change the overall organization also the organizational culture is objective of change.

"It is essential to understand first the general processes of organizational change before managed culture change as such becomes relevant" (Schein 2004: 319).

To several scientists conclusion, organizational change is a top-down approach, whereby the key impulses come from the top executives (Homma et al. 2014: 52). In order to successfully change organizational culture all management levels must be involved and must adopt the new behaviors of the top managers (Bass & Avolio 1993: 115). The necessary steps to perform organizational change are presented in the following section. Within the scope of this thesis, the fundamental ideas developed by the famous social psychologist Kurt Lewin, as one of the many models covering organizational development that have been developed (e.g.

Porras and Silvers 1991) is presented in the section. The main difference of change programs to other concepts of organizational change is that the focus of the organization for this period of time is the change of the organization and its culture. It is the company's top priority. As a result, change is no longer something that proceed besides the operations of the company.

The fundamental works of Kurt Lewin (1947) (Burnes 2004: 995; French et al. 2005: 106; Weisbord 2005: 69; McShane & Von Glinow 2008: 488) analyze social groups, and the change of human systems. Lewin's works are coherent and build up on each other and cannot be considered as separate works (Burnes 2004: 981). Furthermore, Lewin's theory is part of the normative reductive group of strategies, one of the three strands of theories about organizational change. As a result, he does not only include the rationality of people in his models but also their cultural background and habits.

As the model describes change in any human system, it can also be applied on younger organizations, as described in the section before. However, the literature mostly uses Lewin's model to explain change in mature organizations due to their size, which makes it easier to understand the different operating forces.

Lewin's first concept includes the idea that anything happening at a point of time in human system results from opposing forces. His second proposed model is about the generation of change toward a desired condition and how to maintain this condition.

The initial model developed by Lewin (1947) includes three phases. His model build the basis for many more models developed by organizational researchers (e.g. Schein 1985).

4.4.4.1 Lewin's Field Theory and 3-Steps Model

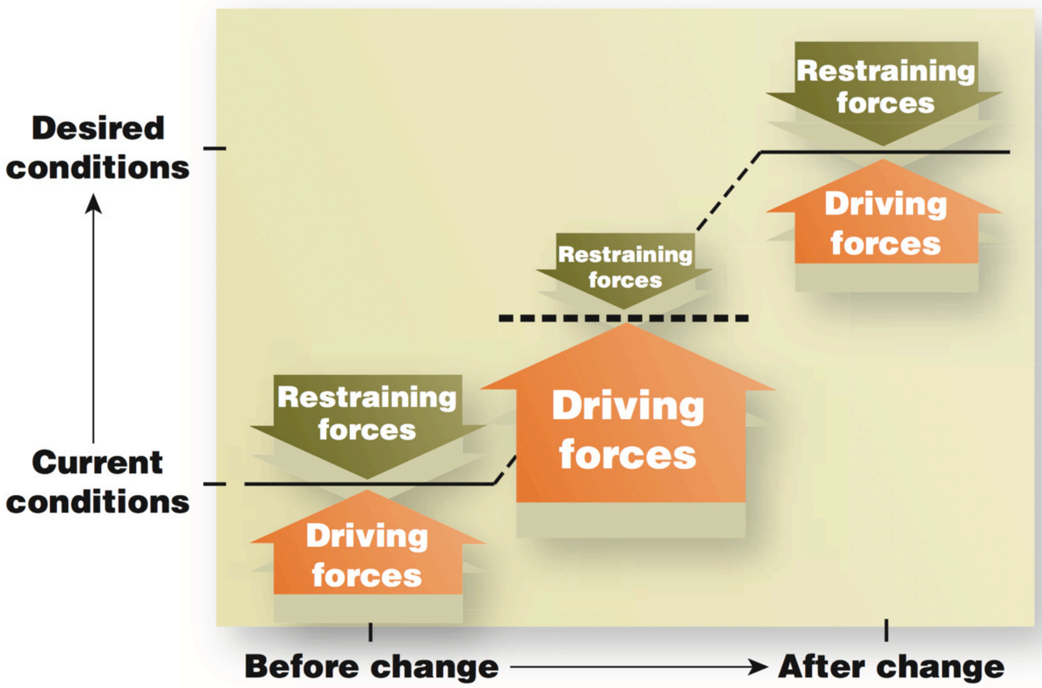


Figure 9 – Field Theory (McShane & Von Glinow 2008: 488)

On the one hand side, driving forces exist pushing towards a new desired condition. On the other hand side, restraining forces are trying to maintain the equilibrium level. The status quo remains, if the forces eliminate each other (Lewin 1943: 172). Thus, either the restraining forces must be reduced, the driving forces must strengthen or both in order to generate change. How planned change can be successfully conducted shows Lewin's 3-steps model.

The first step: Unfreezing. Lewin argues that the "quasi-stationary" equilibrium, resulting from complex restraining and driving forces must be "unfrozen" or destabilized. This is the precondition for unlearning dysfunctional behavior and adopting new and more effective styles of behavior. Schein (1996: 27) extents the original model and identifies three conditions necessary to unfreeze the equilibrium. Unfreezing can be done either by sparking guilt or survival anxiety, disconfirming the validity of the status quo, or creating enough psychological safety. In addition, McShane and Von Glinow (2008: 492) identified the need to create urgency for change. Task of the leaders is to explain why it is necessary to change. The last factor refers to psychological safety that must exist in order to be mentally prepared to unlearn certain things while maintaining cultural identity. Therefore,

> "(…) the key to understanding resistance to change is to recognize that some behavior that has become dysfunctional for us may nevertheless be difficult to give up because this might make us lose group membership or may violate some aspect of our identity" (Schein 2004: 321).

Disconfirming the status quo refers to the process whereby the members of the organization realize that some of the organization's goals, e.g. sales, are not realized and thus something must change. This may be one factor resulting into survival anxiety – the fear that something bad could happen unless the organization changes (Schein 2004: 322).

Causes of resistance to change may be the consequences of change, fear of the unknown or the change process itself (McShane & Von Glinow 2008: 491). Often harder pushing toward change results in greater pushing back by the restraining forces (McShane & Von Glinow 2008: 492).

The second step: Moving. After the motivation to change has been created, the vision that has been created should be put into practice. However, controlling and predicting the direction is difficult due to the complexity of the forces working (Schein 1996: 62). Therefore, Lewin suggests in his original work 1947, to use a trial and error process in order to identify and evaluate all forces working. Based on this, Schein (2004: 328) suggests that the employees can make up their own solutions how to change their behavior to work more effectively. On the other hand, being a role model for the new expected behavior is the alternative for leaders (Schein 2004: 328). This includes all mechanisms available to leaders for influencing organizational culture trough embedding mechanisms and secondary reinforcement mechanisms put into one single program (Schein 2004: 314).

The third step: Refreezing. This last step intends to stabilize the organization at the new quasi-stationary equilibrium. The new behaviors must be preserved and aligned with consistent formal systems, such as the reward and performance system. If the new behaviors and procedures work and lead to success (e.g. economic) they will become ”taken-for-granted” assumptions (Schein 2004: 328).

The early work of the pioneer Kurt Lewin (1947) has also been target of criticism, so do some researchers argue Lewin’s model was to simplistic and his linear change process approach is not possible since organizations change continuously (e.g. Nonaka 1988: 57-58; Garvin 1993: 79). Burnes (2004: 993) replies that,

> "(…) he [Lewin] understood the limits of stability at least as well as his critics. He argued that social settings are in a state of constant change but that, just like a river, the rate varies depending on the environment. He viewed change not as a predictable and planned move from one stable state to another, but as a complex and iterative learning process (…)”.

Meaning that Lewin was aware of the continuous change, however, even for a short period of time forces equalize each other before they change in their characteristics and change is generated. Moreover, the state of refreezing does not mean that the new behaviors are untouchable and should persist until a new change program is implemented but more that the members of the organization should not fall back in previous dysfunctional habits and behaviors (Burnes 2004: 993). Burnes (2004) and others (e.g. Bargal & Bar 2002: 139) consider Lewin’s model as up-to-date with many useful aspects also in modern times and oppose opinions stating Lewin’s mode is dated (Marshak 1993: 393; Dent & Goldberg 1999: 25).

4.4.4.2 Techniques to Deal with the Resistance to Change

As described before, to start the change process, factors resisting the change must be reduced and minimized. Resistance to change is especially then present when the change should be conducted on a fast manner, as it is the case in change programs. Homma and colleagues (2014: 52) find, establishing consensus on all management levels about the need to change and the change program itself is the precondition to roll out the change process in the entire organization. Avolio and Bass (1993: 114) say that it is crucial for the top management to articulate the specific needed changes in the culture, which can be seen as a vision for future desired behavior to make the organization successful again. Afterwards, changes consistent with the vision must be included in the daily practices and the leaders must become symbols and role models for the change (Avolio & Bass 1993: 115). Kotter and Schlesinger (1979: 106) acknowledge "in a rapidly changing world managers need to increase their skills at diagnosing the resistance to change and at choosing the appropriate methods for overcoming it (…), organizations cannot afford not to change."

An early study by Coch and French (1948: 516) indicates, the technical aspect of change, thus the change of procedures or formalities is not so much reason for the resistance of change as the social aspect of organizational change, meaning the established human relationships in the organization. This supports the statement of Schein (2004: 319), cited at the beginning of this section that the cultural aspect of change goes within the overall organizational change. However, the studies indicate that this aspect is predominantly the reason for change. John Kotter and Leonard Schlesinger (1979: 107) illustrate "(…) all people who are affected by change experience some emotional turmoil. (…) for a number of different reasons, individuals or groups can react very differently to change – from passively resisting it, to aggressively trying to undermine it, to sincerely embracing it." Kotter and Schlesinger (1979: 107) find four most prominent reasons people are resisting change: a low tolerance for change, the feeling that the change makes no sense for the organization, the simple misunderstanding of the change and the consequences and as Schein (2004: 321) noted, the fear to lose something of value. To encounter these reasons for resisting change Kotter and Schlesinger (1979: 111) propose various solutions. According to them, leaders should educate and communicate with the affected organizational members beforehand. This helps making the people understand the need for change and the logic for change. This solution is most useful if the lack of information is a cause for resistance. Furthermore, the participation of employees in the change process gives them a sense of responsibility and makes them accountable for the change outcomes. As a result, the change is not something that is simply imposed on them and the employees are given the possibility to affect the change program and its outcomes. The study by Coch and French (1948: 523) supports, involving people in the process of change reduces their resistance to it. Other forms reducing the resistance include the offering of certain incentives or negotiation in exchange for collaboration or even intended manipulation, for example trough proving selective information. This is a very convenient, however risky way and can be applied if other alternatives, such as time, budget and human capital are not available. The last possibility to push people to change is the application of force. This includes the threatening of people and is helpful if change must be implemented quickly. The potential negative long-term consequences are a major drawback.

A last framework presented in this section about how to generate organizational cultural change and how to maintain it, is a practical approach developed by Schneider, Gunnarson and Niles-Jolly (1994). For them the first a crucial step that must be considered by the organizational leaders is to get clear about their most important values and to develop measures reflecting them (Schneider et al. 1994: 23). The framework includes four aspects (Schneider et al. 1994: 26). At first, leaders must develop a new employee recruitment, which reflects the new organizational priorities by selecting new organizational members with certain attributes and personalities. Furthermore the content of formal training programs sends strong messages about the new values that should be emphasized. The third step is the implementation of a formal and informal reward system promoting the desired behaviors. Thereby, rewards must not necessarily be of monetary nature but can also be cars or recognition. At last, the leaders should pay attention to the provision of appropriate resources to make the members able to accomplish the new desired behaviors.

All these measures identified by Schneider and his colleagues (1994) refer to a transactional type of leadership, whereby the leader tries to incentivize the subordinates to follow him by using formal measures. A leadership style involving an exceptional form of influence, having charismatic and visionary aspects and operating on the emotional basis is transformational leadership (Northouse 2016: 161). Another important leadership aspect referring to the social intelligence of leaders is "emotional intelligence", a concept strongly influenced by the psychologist Daniel Goleman. Both leadership styles are especially important for generating change in organizations. The section 8, "Related Leadership Concepts" presents both leadership styles in greater detail. Before, the concept of ethical corporate culture as a sub dimension of organizational culture is introduced, as well as the strongly related leadership concept of ethical leadership.

5. Ethical Corporate Culture

The past chapters were about the special position of leaders in companies and their position to influence and change organizational culture. Also, the difficulties experienced in the different stages of organizational development were covered. All this is important for the terminal examination of the thesis question. As the demands on companies, especially of those operating in the financial sector include ethical aspects as well. Therefore, the next section is not about how to generally implement a successful culture but how to implement an "ethical corporate culture". Objective of this section is the presentation of the concept "ethical corporate culture" and the highly related concept of "ethical leadership". Furthermore, the ethical leaders' options for implementation of such a culture and its benefits are discussed.

5.1 Distinction "Ethics" and "Morality"

First of all, the distinction between the concepts related to ethics and morality is made since the two are different constructs, which Ulf Posé (2016: 95-96) describes as follows. Ethics is a scientific discipline with which we value anything we do. Differently expressed, ethics is the theory of good and bad. Morality on the other hand can be seen as a social catalogue of norms. The catalogue includes the instructions of behavior for the members of a respective society.

Furthermore, there exists not one ethic but many. Aristotle for example developed the ethic "Eudemonia" and Immanuel Kant developed an ethic within which the human and his dignity are central.

In addition, there exist three core ethics categories, dispositional ethics, *Ergebnisethik* and *Handlungsethik*. Thereby, the intention leading to the action is relevant in the first category, the outcome of the action is relevant in the second category and the procedure of the action is the relevant scale in the third category. Thus, dependent on the ethics you follow either your intention to act ethically, independent from the outcome or actual action, or the outcome of your action, or the procedure of your action itself determines if you acted ethically.

5.2 Definition

Researchers who have developed much expertise in the field of ethical corporate culture and ethical leadership is Linda Trevino. She and her colleagues Butterfield and McCabe (1998: 451-452) define ethical corporate culture as follows, "[Ethical corporate culture is] a subset of organizational culture, representing a multidimensional interplay among various 'formal' and 'informal' systems of behavioral control that are capable of promoting either ethical or unethical behavior‟. Trevino and colleagues refer to ethical corporate culture as a part of the overall organizational culture, resulting from the interplay of two systems – the informal and formal system. Thereby, formal ethical culture systems refer to policies, reward systems and ethics training programs (e.g. compliance systems). On the other hand, informal ethical culture elements are for example the peer behavior, ethical communication and norms (Schaubroeck et al. 2012: 1055).

5.3 Distinction "Ethical Corporate Culture" and "Ethical Corporate Climate"

The two concepts are the subsets of organizational culture and organizational climate. Therefore, also these two are related and occasionally overlapping constructs, which have been developed to explain the ethical context in organizations (Trevino et al. 1998: 453, 474). Thereby, ethical climate is defined as the aspects determining what constitutes ethical conduct (Victor & Cullen 1988: 101), whereas ethical culture usually refers to the aspects of corporate culture stimulating ethical conduct (Trevino & Weaver 2003: 232). The construct of ethical climate is the more widely examined research field of the two (e.g. Victor & Cullen 1987, 1988). On the other, the field of ethical corporate culture has attracted increasing attention in the last decades. Unfortunately, many models developed in the field have not been tested empirically and no unified definition has been agreed on. Various researchers even used different terms to describe ethical corporate culture, such as Corporate Ethical Culture (Hunt, Wood & Chonko 1989; Baker, Bealing, Nelson & Staley 2006; Schwartz 2013), Organizational Ethical Culture (Key 1999; Ampofo, Mujtaba, Cavico & Tindall 2004; Huhtala, Kangas, Lamsa & Feldt 2011; Riivari, Lamsa, Kujala & Heiskanen 2012; Jondle, Maines, Burke & Young 2013), Business Ethical Culture (Ardichvili, Mitchell & Jondle 2009; Ardichivili et al. 2014), Perceived Ethical Culture (Sweeney, Arnold & Pierce 2009; LaMontagne 2012) and Ethical Culture (Kaptein 2008; Park & Blenkinsopp 2012; Svanberg & Ohman 2013). Thereby each term refers to a research field having a slightly different focus on the dimension of ethical culture in organizations. For example, perceived ethical culture focuses more on individual ethical decision making in organizations, whereas corporate ethical culture focuses on leadership and how leaders embed their ethical values into the corporate culture (Chadegani & Jari 2016: 53).

5.4 Concepts of Ethical Corporate Culture

Researchers have developed different models trying to explain the phenomenon of ethical corporate culture. Trevino and colleagues (1998) were the first to develop a model explaining ethical culture in organizations and testing it. They acknowledge, "(…) the ethical context of the organization is associated with employee attitudes and behaviors" (Trevino et al. 1998: 470). However, they also proposed "future research should refine the ethical culture measure to make it more applicable" (1998: 472). In the last years four models have attracted greater interest (Chadegani & Jari 2016: 53), three of them are exemplarily presented in the following section.

5.4.1 Corporate Ethical Virtue Model (CEV)

Kaptein (1998, 1999) developed the first model including multiple normative dimensions of ethical culture in organizations (Kaptein 2008: 924). The model has not been tested empirically until the year 2008 (Kaptein 2008: 924). Kaptein's CEV model is mostly based on Solomon's (1992, 1999, 2000, 2004) virtue-based theory of business ethics. According to Solomon, business individuals as well as organizations should possess certain virtues to excel morally. Kaptein (1998) realizes that the virtue of a corporation is determined by the extent to which the members of the corporation are stimulated to behave ethically by the corporation's culture. In the following, he identified seven virtues in a qualitative analysis (Kaptein 2008: 924). The first two virtues of clarity and congruency relate to the self-regulation capacity of an organization, the second two, feasibility and supportability, to its self-providing capacity and the last three, transparency, discuss ability and sanction ability to the self-correcting capacity of an organization (Kaptein 2008: 924). The organizational virtue of clarity captures the fact that the normative expectations about the ethical conduct of employees should be understandable, concrete and comprehensive (Kaptein 2008: 924). In a previous work Kaptein (1998, cited from Kaptein 2008: 925) argues that the more members of an organization have to make ethical decisions on their own moral intuition and without guidance the greater the risk of unethical conduct is. Bird and Waters (1989: 75), Jackson (2000: 367), and Tyler and Blader (2005: 1154) acknowledge, ambiguity of moral expatiations in organizations is one of the main factors resulting in unethical conduct of employees. The second virtue refers to the congruency of the leaders' behavior in line with the expressed normative expectations. Otherwise employees may be confused and follow the "bad" example (Kaptein 2008: 295). The role of leadership will be discussed in greater detail in later sections. The third dimension is the virtue of feasibility. The corporation must create an environment where the employees are able to realize their tasks while complying with the normative expectations; otherwise more unethical conduct will be the result (Kaptein 2008: 295). Trevino (1986: 614) proposes that too much time pressure leads to unethical conduct of managers and Schweitzer, Ordonez and Douma (2004: 422), link the formulation of excessively high targets to unethical behavior in their study. This supports Kaptein's approach.

The virtue of supportability is the fourth dimension of corporate ethical culture. A study performed by Hollinger & Clark (1982: 342) indicates that formal structures only support already existing informal structures that control normative appropriate behavior. Thus, formal structures to behave ethically are ineffective unless informal procedures are in place. In addition, Skarlicki, Folger, and Tesluk (1999: 104) found that employees being dissatisfied and demotivated tend more toward unethical behavior. Also, transparency and the ubiquitous presence of the possible consequences also increases the impression of being caught in case of unethical conduct and limits unethical behavior as a result

(Hollinger & Clark 1883: 414; Trevino, McCab & Butterfield 1996: 461). Hereby, supportability refers to the extent to which an individual member identifies themselves with the organization and its values and how much the organization supports this (Kaptein 2008: 296). Transparency is the firth virtue, which emphasizes the importance of making the consequences for ethical and unethical conducts clear and transparent. Employees may not consider all consequences in their decision making process because they are not transparent to them and thus may behave unethically (Kaptein 2008: 296). However, due to the missing transparency they cannot be made responsible. The organizational virtue of discussability refers to the possibility for members of the organization to discuss about ethical issues (Kaptein 2008: 926). Bird and Waters (1989: 86) also consider the open communication about moral issues as important since unnoticed moral issues lead to moral stress and the impression that normative expectations are not that important as nobody speaks about them. The last virtue of sanction ability emphasizes the importance of actually sanctioning behavior that was against the communicated normative expectations. Unethical conduct that is not penalized is meaningless and undermines the effectiveness of ethical measures (Kaptein 2008: 927). The empirical test of the developed model showed significance for all seven dimensions. Interestingly, the item congruency appeared to have two facets, congruency of supervisors (direct leaders) and congruency of management (senior executives) (Kaptein 2008: 930).

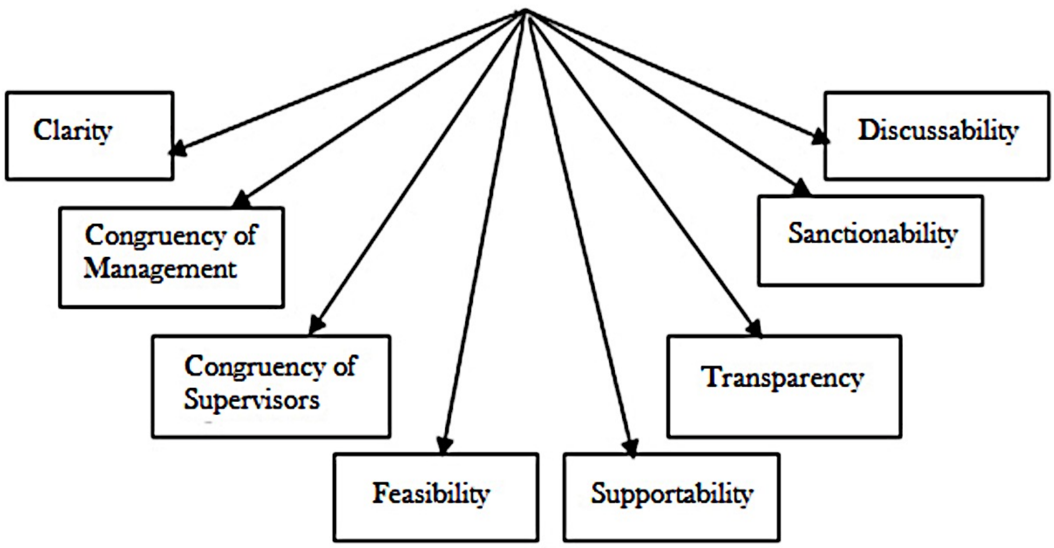


Figure 10 – Dimensions of Corporate Ethical Virtue (Chadegani & Jari 2016: 56)

5.4.2 Center for Business Culture Model (CEBC)

The goal of Ardichivili, Mitchell and Jondle (2009: 448) was the identification of characteristics of ethical organizational cultures. Therefore, they developed a study and in turn a model of ethical corporate culture based on the grounded theory approach (Creswell 1998), which suggest to discover a theory or framework by analyzing collected data from field investigations. The three researchers conducted a qualitative research study by interviewing top-level business executives (Ardichivili et al. 2009: 447). They then clustered the answers and conceptualized objects with similar patterns and characteristics, as suggested by Miles and Huberman (1994: 249). As a result of their study, Ardichivili and colleagues (2009: 448) identified five clusters of ethical cultures: Mission & Value Driven, Stakeholder Balance, Leadership Effectiveness, Process Integrity and Long-Term Perspective. The dimension of mission and value driven was identified as they key stone of the model. „For an organization to both survive and thrive, mission and values must be an integral component of an organization’s strategic focus‟ (Ardichivili et al. 2009: 449). Ethics must become systematical part oft he mission and vision in order to foster a high performance culture (Ardichivili et al. 2009: 449).

Figure 11 – Center for Business Culture Model (Ardichivili et al. 2009: 449)

5.4.3 Ethical Corporate Culture Model (ECC)

Most recently, Schwartz (2013) developed a theoretical framework arguing how to minimize unethical activity within an organization, including three elements, the existence of a set of core ethical values, the establishment of a formal ethics program and the continuous presence of ethical leadership. To date, the model has not been empirically tested.

At first, Schwartz argues in line with other researchers (Brass, Butterfield & Skaggs 1998: 28) that an ethical corporate culture "leads to more appropriate behavior" (Schwartz 2013: 40).

His model is based on the definition of ethical corporate culture by (Brown et al. 2005: 120) and on the fact that employees either behave according to the ethical culture trough a socializing process or trough internalization process (Schwartz 2013: 40). Socializing refers to the impression that the others expect the individual to behave according to the ethical standards whereas internalization and identification with the ethical norms by the individual. Schwartz further argues, it must be the organization's goal to develop a strong culture to direct the employees in the desired direction (Schwartz 2013: 40). Furthermore, the proportion of employees who socialize or adopt the ethical values on their own is around 60 percent of the organization. Of these 60 percent 10 percent behave ethically in any case and have formed strong core values, the other 50 percent will decide in each situation if they will be behave ethically or not This decision is related to factors like the reward system, social pressure and so on. Another 40 percent are either not capable of recognizing the ethical dimension of a problem (Kohlberg 1969) or are not willing to behave ethically correct (Schwartz 2013: 41). Thus "The goal is to identify measures that can help to mitigate or minimize – as opposed to completely eliminate – the extent to which illegal or unethical activity takes place within or on behalf of businesses" (Schwartz 2013: 41).

The first dimension of Schwartz model are core ethical values, being highly important for establishing and maintaining an ethical corporate culture (Hunt, Wood and Chonko 1989: 79), as well as for ethical decision making (O'Fallon & Butterfield 2005: 397). If possible and in order to have the greatest success, these core ethical values should be significant despite the presence of different national and religious cultures in organizations, time and circumstance. Having these characteristics, the core values can also be seen similar to hypernorms, a term defined by Donaldson and Dunfee (1999: 27) as deep moral values. The core ethical values must be found in the firm's policy documents, such as the firm's code of ethics and others such as the annual report or the website (Schwartz 2013: 42-43). Furthermore, these values must be included in the firm's processes, e.g. the hiring process, ethics training and the performance management system (Schwartz 2013: 43). A performance rating system that is inconsistent with the ethical core values will undermine their effectiveness. The internal promotion is another factor where ethical behavior should be taken into account. Third, the ethical values should be included in the practices of the firm, which means that they should be present in all actions of the organizational members.

The second dimension is the establishment of a formal ethics program, including a code of ethics, an ethic officer and a reporting system for unethical behavior. Moreover, regular auditing and monitoring of the effectiveness of the program is suggested by Schwartz (2013: 44).

Ethical leadership represents the third dimension for implementing and maintaining an ethical corporate culture. Many scholars consider the tone of the top, defined by Aquila and Bean (2003: 44) as the level of commitment to integrity leading to the right conducts at all costs regardless of the consequences such conducts might have on financial performance, as the most important factor (e.g. Trevino, Weaver, Gibson & Toffler 1999: 142; Morris 2009: 12). The importance of ethical leadership is covered in great detail in the following sections.

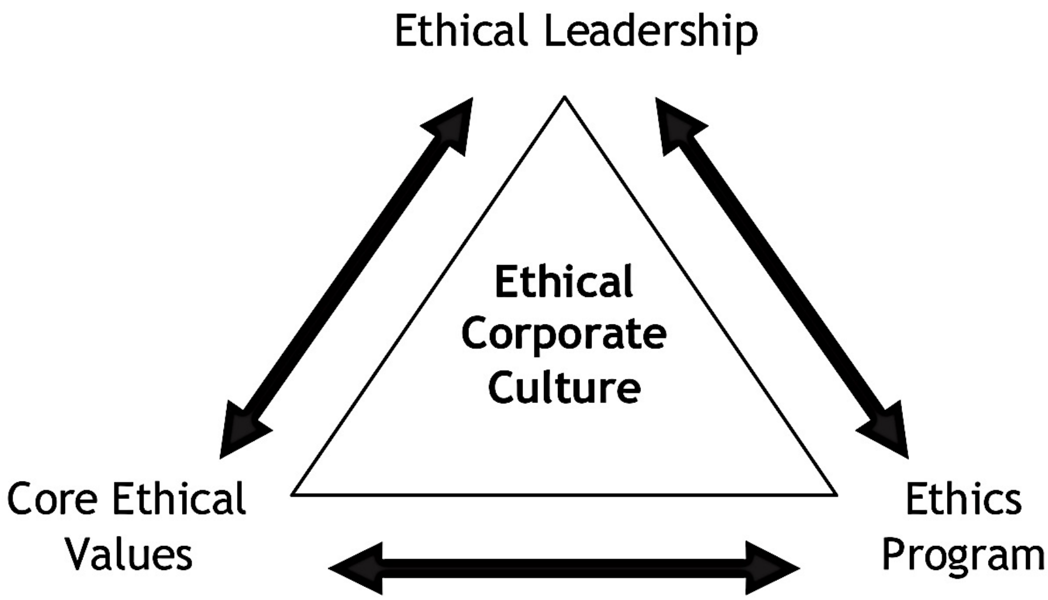


Figure 12 - Ethical Corporate Culture Model (Schwartz 2013: 46)

6. Ethical Leadership

In the previously presented theoretical framework about organizational culture developed by Schein (1985, 2010), the two general factors influencing organizational culture are the internal and external environment. The leaders of the organization then decide how to deal with them. Weaver, Trevino and Cochran (1999: 547-548) performed a study examining the organizations' responses to external pressure of implementing formal corporate ethics programs. The researchers found the way of dealing with the external pressure to behave ethically was crucially determined by the top management's commitment to ethics. The reaction to external ethical pressure are mostly easily decoupled organizational ethics practices, whereas the top managements' commitment to ethics results in integrated ethics practices, which intend to actually make the members of the organization behave ethically. The results suggest, external pressure only results in superficial ethics program that are in good publicity if the top management has no commitment to ethics. On the other hand, ethical top executives implement ethics programs also without the external pressure to do so but simply because they think internal problems can be better solved in this way. As a result, the ethical leadership of an executive is the most important determinant for the development of an ethical corporate culture. Therefore, the next section covers the concept of "Ethical Leadership" in great detail.

Trevino, Brown and Hartman (2000, 2003) conducted one of the first approaches examining the field of ethical leadership. They performed a qualitative research and identified two main dimensions of ethical leaders: moral person and moral manager. The moral person aspect refers to the leader's personality, as being honest, trustworthy and showing a general concern for people. Employees are always welcomed by these leaders as well as fairly and principled treated. These leaders live a moral life personally and represent ethical role models for their subordinates. On the other hand, the moral manager dimension refers to the implementation of a reward system to hold the employees accountable for ethical conduct. Thus, in order to be an ethical leader, the individual must be perceived as a strong oral manager as well as a strong moral manager. They must walk the talk and talk the walk (Trevino et al. 2000: 138). Otherwise they could be perceived as hypocrites failing to apply their teaching and not walking the talk.

Brown, Trevino and Harrison then developed the first concept of Ethical Leadership in 2005. Although their concept is related to several other leadership styles (transformational, charismatic leadership) (Turner, Barling, Epitropaki, Butcher & Milner 2002: 304; Trevino, Brown & Hartman 2003: 21) due to the inclusion of aspects, such as honesty and trustworthiness, related to ethics, in the concept these styles do not include the entire range of characteristics ethical leaders possess (Brown et. al 2005: 117, 119).

As stated above ethical leaders make use of both transformational and transactional leadership, which refers to the ethical leader's role of a moral manager (Brown et. al 2005: 118). "As a moral person, the leader models exemplary behavior and leads in a principled, just, and caring manner" (Schaubroeck et al. 2012: 1057). Transactional leadership includes the usage of formal structures, such as formulated ethical standards, performance measures including ethical aspects and rewards and punishment for ethical conduct or misbehavior. All these measures are made to hold subordinates accountable for ethical conduct (Trevino et al. 2003: 21).

The concept of ethical leadership is based on a social learning perspective (Bandura 1977, 1986), which means "leaders influence the ethical conduct of followers via modeling" (Brown et al. 2005: 119) and social exchange theory (Blau 1964), referring to the voluntary engagement in reciprocate exchanges since "(…) only social exchange tends to engender feelings of personal obligation, gratitude and trust" (Blau 1964: 94).

Thereby, the concept of ethical leadership is also related to the framework developed by Schein (2010) where social learning plays an essential role (Schaubroeck 2012: 1057), based on the fact that most employees look up to other persons for an ethical guidance (Trevino 1986: 602).

Modeling includes "observational learning, imitation, and identification" (Brown et al. 2005: 199). Thus, the subordinates can directly learn on day-to-day basis which kind of behavior is appropriate, rewarded and punished. The effectiveness of influencing people toward a desired behavior is a result of the leader's position in a "prestige hierarchy" and his ability to control the reward structure (Bandura 1986: 207).

Leaders become role models of ethical conduct by behaving normatively appropriately. Leaders must be seen as legitimate, credible and attractive persons who are open, honest and treat subordinates fairly (Trevino et al. 2003: 21). So did Alexander & Ruderman (1987: 177) and Scandura (1997: 58) find out, that justice is a highly important component in the evaluations of organizational leaders and for being seen as a role model by subordinates.

Moreover, their general altruistic motivation and the continuous reinforcement of ethics are essential (Jordan, Brown, Trevino & Finkelstein 2011: 3), for example by using "explicit ethics-related communication" (Brown et al. 2005: 120). The explicit communication of ethics by a leader makes him standing out of the crowd and receiving special attention from his subordinates (Trevino, Brown & Hartman 2003: 5, 30). Due to their special attention to ethics in the daily business environment a social learning process is the result. A factor strengthening this process is the introduction of consistent rewards and punishments as scholars conclude (Arvey & Jones 1985: 367; Von Bergen & Bandow: 48; Trevino 1992: 662). People generally pay great attention to actions and behaviors that are rewarded respectively punished. Thus being seen as ethical leaders, leaders must reward and punish ethical appropriate and inappropriate behavior (Trevino et. al 2003: 28).

Jordan and colleagues found that leaders are considered more as ethical leaders and thus, ethical role models, which is by definition attracting followers' attention, if they are capable of higher moral reasoning (2011: 12). This effect is even higher, respectively maximized the larger the cognitive moral reasoning capacity of the leader and the lower cognitive reasoning capacity of the follower (Jordan et al. 2011: 1). People are generally more attracted by people who have high cognitive moral reasoning capacity, even tough they do not posses the same level of cognitive moral reasoning (Schminke, Ambrose & Neubaum 2005: 144). Interestingly, the three scholars (Schminke, Ambrose & Neubaum 2005: 143) also found that the influence of leaders with high moral reasoning abilities on subordinates is higher in younger organizations than in mature ones. The cognitive moral development theory was developed by Kohlberg (1969) and explains how the capacity of individuals making decisions about ethical issues and solving ethical dilemmas develops. Thereby the different stages range from not recognizing the ethical dimension of a problem to a high awareness of ethical aspects of the problem and the ability to solve them.

All in all, ethical leaders have an agenda like many other leaders have it as well, including enforcement of desired conduct and creating standards of behavior. However, their agenda has an ethical dimension. For them it is not simply performance that manners "(…) but performance that is consistent with a set of ethical values and principles" (Trevino et al. 2003: 21).

Brown and colleagues define ethical leadership as follows, "[ethical leadership is] the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (Brown et al. 2005: 120). The definition includes all aspects facilitating social learning – behaving in a manner, which the subordinates consider as normatively appropriate (context dependent), explicitly talking about ethics, considering ethics in the decision making process (Howell & Avolio 1992: 48) and setting ethical standards which represent guidelines for rewarded and punished behavior (Brown et. al 2005: 120).

A research study performed by Brown and his colleagues (2005: 128) identified the positive relation of ethical leadership to leader honesty, interactional fairness, supervisor effectiveness, satisfaction with supervisor, extra effort respectively job dedication and the employees' willingness to report problems. These results reveal the positive impact of ethical leadership on all kinds of organizational fields. Members of an organization are more open to go an extra mile for the organization, to report ethical misconduct and general problems and acknowledge ethical leaders higher leadership effectiveness.

As described at the beginning of this section, the concept of ethical leadership partially overlaps with transformational leadership. This is supported by the results of the study; ethical leadership is positively related to idealized influence, a dimension of transformational leadership (Brown et al. 2005: 130). Furthermore, a negative correlation to abusive supervision was identified (Brown et al. 2005: 130). More recent research conducted by Piccolo, Greenbaum, den Hartog and Folger (2010: 259) found that ethical leadership results in greater task significance, which again results in improved performance. This result is supported by a study performed by Walumbwa, Mayer, Wang, Wang, Workman and Christensen (2011: 204). They found that ethical leadership is significantly related to employee performance, mediated by LMX, self-efficacy and organizational identification. In another study, performed by Walumbwa, Morrison and Christensen (2012: 953) ethical leadership has been found to be linked to workgroup performance.

Generally much research revealed pro social behaviors of employees working under ethical leaders, such as allowing coworkers to express their opinions, avoiding personal attacks and treating coworkers with respect and fairness (Brown et al. 2005: 117; Detert, Trevino, Burris & Andiappan 2007: 993; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador

2009: 1; Walumbwa & Schaubroeck 2009: 1275; Avey, Palanski, & Walumbwa 2010: 573; Mayer, Aquino, Greenbaum, & Kuenzi 2012: 151). Furthermore, ethical leadership is positively related to organizational reputation (Yan 2014: 335) and innovative climate (Crosley 2014: i).

De Hoogh and den Hartog (2008: 297) found that social responsibility is positively related to ethical leadership. Moreover their results show that ethical leadership is positively related to the perceived effectiveness of the top management team and ethical leadership results in higher optimism of the employees about the future of the organization and their own.

A highlight is the study of Walumbwa and Schaubroeck (2009) who focused on identifying individual traits that influence ethical leadership based on the proposition of Brown and colleagues (2005) that conscientiousness, agreeableness, and neuroticism, three factors of the "five factor personality model", developed by Goldberg (1990) and Costa and McCrae (1987, 1992) may be antecedents of ethical leadership.

Identifying personal traits related to ethical leadership is especially helpful for practice. These personal attributes can help to predict leadership styles since the attributes reflect "deep-seated values and beliefs", which are very constant over time and situations (Walumbwa et al. 2009: 1275). This may help to develop strategies for selecting and training ethical leaders reinforcing ethical values in the corporate culture (Walumbwa et al. 2009: 1275) since employees will consider leaders as ethical leaders only if they consistently behave ethically to a certain degree and over a certain period of time (Walumbwa et al. 2009: 1276).

The results of the performed study by Walumbwa and Schaubroeck (2009: 1282) show a positive influence of agreeableness on ethical leadership. Conscientiousness, which has been found to be positively associated with high levels of moral reasoning (Dollinger & LaMartina 1998: 349) and representing one of the most valuable factors predicting performance (Barrick & Mount 1991: 1), is also positively related to ethical leadership. However, no relation has been found between neuroticism and ethical leadership (Walumbwa et al. 2009: 1282).

7. Ethical Leadership and Ethical Corporate Culture

This section is about how ethical leadership influences the organizational culture towards an ethical organizational culture. There is no question that leaders generally have the greatest impact on organizational culture, as described in section 4, about the influence of leadership on organizational culture based on the theoretical framework of Edgar Schein (1985, 2010). However, there was a debate about whether the ethical leadership of the top management or the supervisors is most influential. Some scholars (e.g. Clinard 1983: 71; Posner & Schmidt 1992: 92; Trevino, Brown & Hartman 2003: 5; Weaver et al. 1999a: 41) argue that the executives create the "tone at the top", shaping the ethical culture of an organization. They engage in planning and strategic decisions. Moreover, they are the ones establishing and communicating the ethical value system and developing new leaders (House & Aditaya 1997: 459; Ireland & Hitt 1999: 71). Since most employees rarely speak to the top executives personally due to the great distance in large corporations (Davis & Rohstein 2006: 407), their perceptions of the ethical dimension of the executive leadership may form indirectly. So argue Davis and Rothstein (2006: 417), Falkenberg and Herremans (1995: 139) and Posner and Schmidt (1984: 213) that supervisors have the greatest impact on subordinates' behavior because they coordinate the daily operations and are responsible for the day-to-day coordination. Furthermore, their role is highly important because they are responsible for the realization of ethical measures and serve as role models if ambiguity of these measures exists (Posner & Schmidt 1984: 212). Supervisors are therefore most likely to serve as ethical role models.

Recent studies indicate, the ethical leadership of the top management indirectly influences organizational culture mediated by supervisory ethical leadership (Mayer et al. 2009; Schaubroeck et al. 2012). The studies are covered in greater detail in the following part.

A large-scale study performed by Schaubroeck and colleagues with help of the US ARMY (2012: 1053) investigated the link between ethical leadership and unit ethical culture and their effects on ethical cognitions and behaviors of lower-level employees. Thereby, the multifactor model takes all kinds of ways into account by which ethical leaders influence the ethical culture of units on different levels: directly, trough contact to immediate followers and indirectly, such as across hierarchical levels or trough the leader's influence on subordinate leaders (Schaubroeck et al. 2012: 1053). Moreover, the study examines the mediating role of ethical culture on the ethical conduct of lower level employees.

The study builds in Schein's (1985, 2010) theoretical framework and is the first study examining the linkage between ethical leadership and ethical culture (Schaubroeck et al. 2012: 1058).

Before this study much empirical leadership research focused on the influence of leadership on the immediate followers, why many scholars were calling for a multifactor model examining the influence of leadership on followers on various levels and the impact of contextual factors (Waldman & Yammarino 1999: 282). Goal of the study was to explain how senior leaders influence the ethical behavior of lower level employees by including their ethical expectations and assumptions into ethical culture (Schaubroeck 2012: 1054).

Trevino, Butterfield, and McCabe (1998: 451-452) define ethical culture as follows, "[ethical culture] is a subset of organizational culture, representing a multidimensional interplay among various formal and informal systems of behavioral control that are capable of promoting either ethical or unethical behavior". They consider ethical corporate culture as a subdimension of the overall corporate culture promoting ethical conduct of the organizational members by informal and formal systems, as described in the section about ethical corporate culture.

In their study, Schaubroeck and colleagues (2012: 1055) consider ethical culture as a culture that varies across the different organizational levels and units. They do not refer to ethical culture as the culture of an entire organization. From their point of view, the different units in an organization have developed a different common understanding of ethical issues and behaviors. To this, Schein declared, "(…) shared understanding means that unit members recognize particular feelings, experience or activity as *common*" (1985: 168; emphasis in original).

Schaubroeck et al. (2012: 1055) found that ethical leadership being positively related to ethical culture on the same hierarchical level. Ethical leaders obviously embed their assumptions about normative appropriate behavior into the culture of their own units. They make use of primary and secondary reinforcement mechanisms (Schein 1985, 2010), as explained in the section of how leaders influence organizational culture.

Thereby they emphasize the importance of normative acceptable, ethical behavior in the group.

For example, ethical leaders may use a critical incident as a lesson to emphasize ethical correct behavior by penalizing unethical conduct of a subordinate. This will teach others to behave normatively correct in order to avoid the penalty and thus facilitates social learning. An example for the use of a secondary embedding mechanism may be the telling of a story, where a subordinate was rewarded for exemplary ethical behavior (Schaubroeck et al. 2012: 1057).

These processes create ethical corporate culture on the various hierarchy levels. However, the strength of the ethical culture depends on how the respective hierarchical leaders value ethical importance.

Furthermore, Schaubroeck and colleagues (2012: 1058) found that ethical leadership is indirectly and positively related to the unit members' moral agency (their belief in their capacity to be effective moral managers), exemplary ethical behavior and their intention to report unethical behavior. It has also been found a negative indirect relation between ethical leadership and to violating ethical conduct. The influence is indirect because it is transmitted by the unit ethical culture.

Ethical leaders directly influence the culture of their unit respectively their hierarchical level, which again influences the thinking and behavior of the subordinates. Therefore, the influence of the ethical leaders on the members of their unit is mediated by the ethical culture of the unit. So, higher-level ethical leadership may be the result of the mediating role of the ethical culture (Schaubroeck 2012: 1073).

As mentioned before, these effects can be explained by the social learning theory (Bandura 1977, 1986), whereby individuals strive to copy the behaviors of the ethical leader and the other group members to be in conformity with the group norms (Mayer et al. 2009: 2). Another measure applied by leaders, rewards and punishment, also facilitates social learning to direct behavior toward desired behavior (Mayer et al. 2009: 2). The influence of ethical leadership can also be explained by social exchange theory (Blau 1964), hereby one partner receives positive behavior in return for beneficial behavior of the other partner, representing an exchange based on reciprocity (Cropanzano & Mitchell 2005: 876).

The effects of ethical leadership and ethical culture across hierarchical levels have also been examined. It has been found that ethical culture at a higher hierarchical level is positively related to ethical culture on a lower level and that higher-level ethical leadership is positively related to ethical culture on lower level. The influence of higher-level ethical culture may be explained by (a) the copying of effective unit cultures at higher levels by lower-level leaders (indirect effect), which will especially be the case if those leaders are rewarded for this measure and (b) by the peer-to-peer contact of higher-level leaders and employees to leaders and employees of lower-levels units reinforcing the core characteristics of the higher-level culture (direct effect) (Schaubroeck et al. 2012: 1058-1059). The direct effect of higher-level ethical leaders on ethical culture of lower hierarchies can be explained by so-called “bypass effects” (Yammarino

1994: 26). Thereby, higher-level leaders interact with and influence lower-level employees by "bypassing" the lower-level leaders (Schaubroeck et al. 2012: 1059).

However, the hypothesis that ethical leaders on a higher level influence ethical conduct on a lower level trough the ethical culture on their own level (high level) is only partially supported (Schaubroeck et al. 2012: 1065). Thus, ethical leaders do not indirectly influence ethical culture on lower-level trough ethical culture on their level.

But, Schaubroeck and his colleagues found evidence that higher-level ethical leaders directly influence ethical leaders on lower level, which in turn embed their assumptions on the lower-level hierarchy. This effect is labeled "cascading effect" or "falling dominoes effect" (Bass, Waldman, Avolio & Bebb 1987: 73) and has been examined in greater detail by Mayer and colleagues (2009) in their trickle-down-model. They found that top management ethical leadership is positively related to supervisory ethical leadership. Furthermore, both leaderships are positively related to group deviance and group organizational citizen behavior, defined as "behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization" (Organ 1988: 4), performed in a group. At last they found supervisory ethical leadership mediating the influence of top management ethical management on group deviance and group "OCB" (Mayer et al. 2009: 7). Mayer and colleagues (2009: 8) conclude "the results suggest that ethical leadership may flow, or cascade, from the top level of management, to immediate supervisors, and ultimately to employees".

Furthermore, Schaubroeck and colleagues (2012) found ethical leadership having a greater impact on the same level unit when there exists a higher level of ethical leadership on superior level. This phenomenon is labeled "leadership enhancer", referring to a higher-level leader's influence fostering the behavior of a subordinate leader.

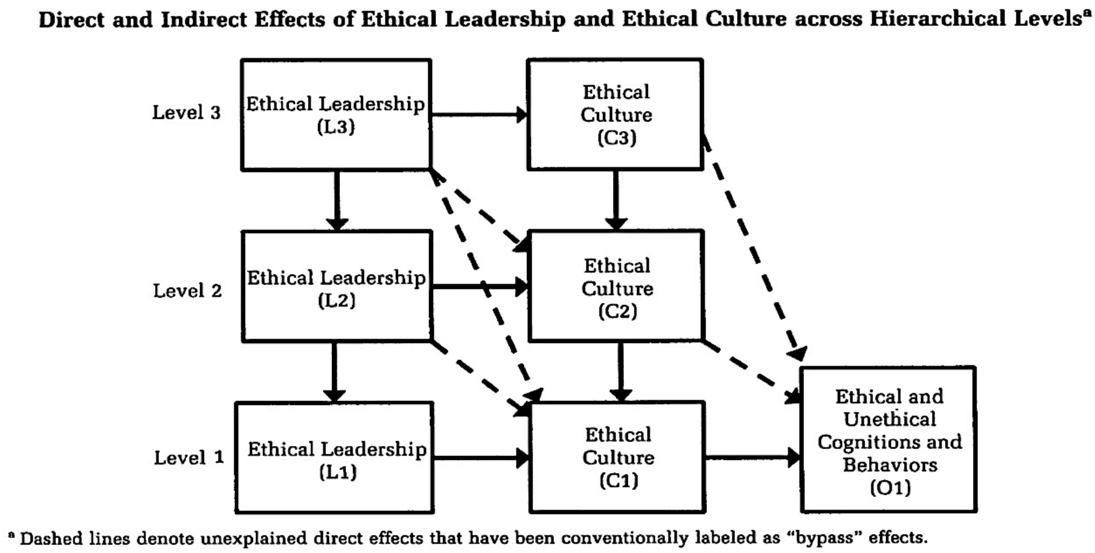


Figure 13 – Direct and Indirect Effects of Ethical Leadership and Ethical Culture across Hierarchical Levels (Schaubroeck et al. 2012: 1055)

The graphic clarifies how ethical leadership works in an organization. On each of the three levels ethical leadership directly influences the ethical unit culture (L3→C3, L2→C2, L1→C1). In addition to that leadership influences the ethical and unethical cogitations and behaviors of lower-level employees trough ethical culture (L1→C1→O1). Furthermore, higher-level ethical culture is positively related to lower level ethical culture (C3→C2, C2→C1, C3→C1), as well as ethical leadership (L3→C2, L2→C1, L3→C1), referring to the so-called "bypass" effects. Ethical leadership also influences the ethical leadership on lower level, which in turn influences the ethical culture on the same level (L3→L2→C2, L2→L1→C1). At last, a high level of ethical leadership on a superior level facilitates the influence of ethical leadership on ethical culture on a lower level (L3*L2→C2, L2*L1→C1).

8. Related Leadership Styles

Two leadership concepts that are important for organizational transformation, transformational leadership and emotional intelligence, are presented in the next section. Transformational leadership is also correlated with ethical leadership, representing another reason to cover this leadership style in greater detail in this thesis.

Emotional intelligence is generally important because it is said to distinguish good from great leaders.

8.1 Transformational and Transactional Leadership

James Downton (1973) developed transformational leadership at first. James McGregor Burns (1978) then was the first who distinguished between transformational and transactional leadership while analyzing biographies of politicians and the emergence of this important leadership concept has started. According to him, transformational leaders develop shared values with their followers who in turn strongly identify with these values and internalize them. Transactional leadership is on a more formal basis and exchange driven, no strong connection between leader and follower is established. Followers led by a transformational leader are considered to look beyond self-interest and act in the good of the group, movement or organization. Burns (1978: 4) defines transformational leadership as a process whereby leaders as well as followers are given rise to higher levels of morality and motivation.

Bernard Bass (1985) then transferred the approach to leadership in organizations and conceptualized transformational leadership.

Transformational leadership changes or even transforms people and is concerned with “emotions, values, ethics, standards, and long-term goals” (Northouse 2016: 161). Transformational leaders try to tap the core motives of the followers, motivating them to reach their fullest potential (Northouse 2016: 162).

The concept transformational leadership developed by Bass (1985, 1990; Bass & Avolio 1993) includes four transformational leadership dimensions: idealized influence (or charismatic leadership), inspirational motivation, individualized consideration and intellectual stimulation. The first dimension "idealized influence" is of special significance in this thesis because the leaders act as strong role models while having high ethical and moral standards (Avolio 1999: 43). Moreover, they enjoy high trust by their followers and provide these with a sense of mission and vision (Northouse 2016: 167). These leader characteristics refer to the role model position of transformational leaders.

The model also includes transactional and laissez-faire (non-) leadership dimensions. Transactional factors include contingent reward and management by exception. Leaders engaging in an exchange process whereby the effort of an employee is traded for a specific reward (contingent reward) or a leader applying passive or active corrective criticism can be labeled as transactional leaders. Corrective criticism has found to be a less effective leadership measure than "contingent reward" and "transformational leadership" (Lowe, Kroeck & Sivasubramaniam 1996: 400).

Generally, the ability to motivate the followers declines with applying transactional leadership or even laissez-faire leadership. Thus, the most powerful way to reach the fullest potential is to stimulate the intrinsic motivation of leader and followers by applying the transformational leadership style.

Despite the very positive side of transformational leadership, it can also have a dark side and thus, can be unethical (Bass 1985: 31). This is the case if transformational leaders are not motivated by altruism but rather by selfishness (Bass & Steidlmeier 1999: 190; Howell 1988: 213; Howell & Avolio 1992: 45; Parry and Proctor-Thomson 2002: 75) and use their power for inappropriate reasons (House & Aditaya 1997: 414). Therefore, Bass (1998) introduced the term pseudo transformational leadership. Pseudo transformational leaders have great inspirational, manipulative talent and operate at the expense of others (Bass & Steidlmeier 1999: 190). Authentic transformational leaders on the other hand are interested in the public good (Bass 1998: 178; Bass & Steidlmeier 1999: 192).

Trevino and colleagues (2003: 7) conclude, "ethical conduct is thought to be essential to transformational leadership". However, also transactional factors play an important role because ethical leaders use these mechanisms to hold their employees accountable for ethical conduct (Brown 2005: 118; Trevino et al. 2003: 22).

Studies linked transformational leadership to perceived leader integrity (Parry & Procter-Thomson 2002: 75) and moral reasoning (Turner, Barling, Epitropaki, Butcher & Milner 2002: 304). Thereby, moral reasoning can be seen as to recognize and to approach issues with moral intensity from different perspectives (May, Chan, Hodges & Avolio 2003: 247). Zhu, Riggio, Avolio, and Sosik (2011: 150) found transformational having a greater impact on the followers' moral identity, the followers' self-perception of being a moral person, than transactional leadership, which has also been found to be positively related.

Several researchers have examined how transformational leadership is correlated across various hierarchical levels (Chun, Yammarino, Dionne, Sosik, & Moon, 2009: 689; Yang, Zhang, & Tsui, 2010: 654). So were Bass and colleagues (1987: 73) able to show that junior supervisors copy the behavior of senior supervisors, as the social learning theory (Bandura 1977, 1986) suggests.

Furthermore, the related leadership concept of charismatic leadership and transformational leadership are positively related with followers' perceptions of trust in fairness in their leaders (Pillai, Schriesheim & Williams 1999: 897) and organizational citizen behaviors (Podanskoff, MacKenzie, Moorman & Fetter 1990: 107). Negative relations to employee aggression (Hepworth & Towler 2004: 176) and workplace deviance (Brown & Trevino 2006: 954) were found as well.

8.2 Emotional Intelligence

Emotional Intelligence is covered in greater detail in this section because this is what distinguishes great leaders from good leaders. The level of emotional intelligence also indicates the ability of a leader to convince people and to carry them along, as it is needed to change organizational culture. Thus, a leader's emotional intelligence is an essential factor determining the successful implementation of an ethical corporate culture and general effective leadership.

Daniel Goleman firstly came up with the term "Emotional Intelligence" in 1995. Thereby, he identified in a large study that leadership qualities, such as intelligence, determination or having a vision are insufficient to explain effective leadership. Highly successful leaders have another quality, which is essential – Emotional Intelligence Emotional Intelligence includes personal characteristic, such as self-awareness, self-regulation, motivation, empathy and social skill (Goleman 2004: 83). More exact, Goleman (2001: 14) defines Emotional Intelligence as "(…) the abilities to recognize and regulate emotions in ourselves and in others". Other factors than determine the performance of individuals, for example their intelligence, are important but no essential elements that make people great leaders (Goleman 2004: 83). In addition, many leadership traits cannot be learned and are innate qualities. Emotional Intelligence on the other hand can be learned (Goleman 2004: 84; Goleman & Boyatzis 2008: 79) and also increases with more experience respectively age (Goleman 2004: 86).

Several studies support the importance of Emotional Intelligence and indicate, groups and companies led by leaders with a high emotional intelligence were generally more successful (see Goleman 2001: 40-41 for a short review).

"Emotional Intelligence proved to be twice as important as the other(s) [factors] for jobs at all level. (…) Emotional intelligence played an increasingly important role at the highest levels of the company" (Goleman 2004: 84).

The first characteristic of emotional intelligence is "self-awareness". People, in particular leaders have a realistic image of themselves, knowing their fears, goals and what drives them have a high self-awareness. They also communicate these feelings openly and are honest to themselves and others. Thus, they create an atmosphere of trust and trustful relationships. Most important these persons know the underlying causes of their behavior (Goleman 2004: 85). "Self-regulation" refers to a person's ability to control their emotions of negative as well as positive nature. This is particularly important because they present to be reasonable, which again creates an atmosphere of trust and fairness (Goleman 2004: 86). The third factor "motivation" is related to the leader's intrinsic motivation to achieve a particular goal and to work for a reason. "Empathy" in this context means including or considering the feelings of affected members of the organization. Both these factors are important in the process of mobilizing people in the organization for cultural change. The last factor "social skill" is also linked to the ability influencing people – it refers to a person's or leader's ability to manage the relationship with others. In particular, it refers to the ability of a leader to "move people in the direction you desire" (Goleman 2004: 90). Leaders having a high social skill are able to quickly establish common grounds with others and finding similarities motivating people to pursue the same goals.

	Self (Personal Competence)	Other (Social Competence)
Recognition	**Self-Awareness** • Emotional self-awareness • Accurate self-assessment • Self-confidence	**Social Awareness** • Empathy • Service orientation • Organizational awareness
Regulation	**Self-Management** • Emotional self-control • Trustworthiness • Conscientiousness • Adaptability • Achievement drive • Initiative	**Relationship Management** • Developing others • Influence • Communication • Conflict management • Visionary leadership • Catalyzing change • Building bonds • Teamwork and collaboration

Figure 14 – Emotional Intelligence (Goleman 2001: 28)

9. Person-Organization Fit

In the previous presented theory scholars emphasize the importance of formal structures, such as ethics programs, as ethical corporate culture is the product of informal and formal ethics measures (Trevino et al. 2005: 120). In this section, the theoretical basis for emphasizing the importance of adequate recruitment is presented. This is based on the idea that a consciously reflected organizational culture can be used as a strategic instrument to influence or even direct the behavior of the organizational members (Homma et al. 2014: 82).

Several studies and theoretical frameworks build the basis for the importance of recruitment in the sense of recruiting people that match the organizational, in this case the ethical corporate culture. Most important is a theoretical framework, named "Person-organization fit", developed by Jennifer Chatman (1989). She defines person-organization fit as "(…) the congruence between the norms and values of organizations and the values of persons" (Chatman 1989: 339). Based on her theoretical framework and study, Ruiz-Palomino and Martinez-Canas

(2014: 95) developed a model explaining the effect of person-organization fit on ethical culture and ethical behavior. They found those employees working an organization with an ethical culture that perceive a higher person-organization fit and having a stronger intent to behave ethically. This means that, given an ethical culture is present in the organization, the intent to behave ethically is higher the more the personal values of the members resemble those of the organization. Thus, the positive relation between ethical corporate culture and the intent to behave ethically and organizational citizenship behavior is mediated by person-organizational fit.

Other studies found greater differences in personal and organizational values concerning ethics positively related to discomfort and interpersonal role conflict (Sims & Keon 2000: 219) and negatively related to organizational commitment (Sims & Kroeck 1994: 939; Ambrose, Arnaud & Schminke 2008: 323; Thorne 2010: 269) and job satisfaction (Sims & Keon 1997: 1095). Furthermore, also the value incongruence within the organization is negatively related to ethical decision-making (Liedtka 1989: 812).

10. Field of Inquiry

In the following sections the research questions are presented, as well as the methods used to derive the information. Furthermore, the findings are presented and analyzed. Thereafter, practical implications, theoretical implications and limitations of the study are discussed.

10.1 Thesis Statement

The overall goal of this thesis is to find out which type of organization, FinTech or traditional financial service provider, has the more favorable conditions to develop an ethical corporate culture. This is a relevant question since the literature and previous empirical evidence indicate: An ethical corporate culture has many beneficial effects. Moreover, being perceived by the public as an ethical organization which can be trusted can be a crucial competitive advantage, especially, in times in which many people have lost trust in the traditional financial service industry.

Now, it is to discover whether FinTechs provide the better conditions to develop and sustain an ethical corporate culture, which they can use as a competitive advantage against the traditional financial players. On the other hand, it is to clarify if traditional financial service providers have the better capability to develop an ethical corporate culture and to maintain it, which in turn can be used for restoring trust and a competitive advantage against their new market competitors named FinTechs.

As described in the previous segments of this thesis, FinTechs were mainly founded by ex-bankers and high potential graduates from university due to their difficult job market conditions and willingness to change the financial industry trough digital innovation. Therefore, it can be assumed that those people share specific personality characteristics, maybe also of ethical nature. This is examined in this thesis. The traditional financial service providers represent the opposite group. They still operate mostly in hierarchical structures and incrementally offer services on the basis of digital technology. Again, it is examined in this thesis whether their executives share specific personality characteristics.

Organizational theory indicates, maintaining a corporate culture that combines effective internal processes with the ability to continuously adapt on the changing external environment raises the performance of an organization. This highlights the importance of organizational culture for organizational success.

In the following, leadership was identified as the most important factor for building up and shaping organizational culture. It has also been explained that different methods are available to leaders in different stages of organizational culture evolution to influence culture. Shaping organizational culture also becomes increasingly difficult with organizational maturity. Executives working for traditional financial service providers must use measures such as entire change programs in order to change culture whereas FinTech executives find themselves at the relative beginning of organizational development and can use less complex strategies to change culture.

As indicated, FinTech and traditional financial service providers are in different evolutionary stages of organizational development. Therefore, the executives must use different measures to change the organization's culture toward an ethical corporate culture.

The concept of ethical leadership explains, it is most important for executives, especially for the top managers, to be ethical leaders and to be perceived as such by their subordinates. Trough social exchange and social learning, people imitate the behaviors of their leaders and learn the behavior that is beneficial for them. At best, they strongly identify with the ethical values represented by the behavior of their leaders and internalize them. At the end of the process, as shown in the model developed by Schaubroeck and colleagues (2012), an ethical corporate culture is installed in the organization.

Important leadership styles, which help to transform people also in the direction of ethical behavior, are transformational leadership and emotional intelligence. Both operate on the emotional level of human relations and try to raise the intrinsic motivation of followers.

10.2 Empirical Research Questions

The following empirical research study takes up the theoretical implications, mainly those of ethical leadership, since the potential of an organization to develop and maintain an ethical organizational culture is determined by the ethical leadership style of their executives. They are the ones influencing their subordinates on the emotional basis (moral person) and those who build up the formal structures, such as the recruitment, compliance and reward systems and trainings, to ensure ethical conduct of the employees and the newcomers (moral manager).

It was not part of this study to detect whether the organizations actually operate ethically. Goal was to examine which organization generally provides the better preconditions to do it in the next future.

The research questions derived are the following:

Research Question 1: *Do FinTech show ethical leadership characteristics?*

Research Question 2: *Do traditional financial service providers show ethical leadership characteristics?*

Research Question 3: *Do FinTechs or traditional financial service providers show the greater ethical leadership characteristics?*

Since the concept of ethical leadership, developed by Brown, Trevino and Harrison (2005), also includes transactional leadership characteristics, goal of this thesis was to find out if FinTechs and traditional financial service providers have implemented adequate formal structures, such as compliance and performance valuation systems, training programs and recruitment systems to ensure ethical conduct of their employees, adopted on the size of their corporation and who did the better job.

The research questions derived are the following:

Research Question 4: *Have FinTechs implemented adequate formal structures, such as a compliance system, a performance evaluation system, training programs and a recruitment system that intent to ensure ethical conduct of the company's employees?*

Research Question 5: *Have traditional financial service providers implemented adequate formal structures, such as a compliance system, a performance evaluation system, training programs and a recruitment system that intent to ensure ethical conduct of the company's employees?*

Research Question 6: *Have FinTechs or traditional financial service providers implemented the more adequate formal structures, such as a compliance system, a performance evaluation system, training programs* *and a recruitment system, that intent to ensure ethical conduct of the company's employees?*

10.3 Method

10.3.1 Sample and Procedure

The empirical research study has a quantitative as well as a qualitative part in order to ensure a comprehensive investigation. The goal for the qualitative part was to gain information from three different resources, executives working for traditional financial service providers, executives working for FinTechs and executives who know the cultures of both FinTechs and traditional financial institutes.

For the quantitative part of the empirical study participations working in the German financial sector were invited per email and face-to-face to take part. The questionnaire (see appendix) was addressed not only to executives but also to employees to avoid an inaccurate self-evaluation by the executives. This procedure is similar to the original research study conducted by Brown and colleagues (2005).

The email as well as the prologue of the questionnaire itself included an introduction. Therein, a short explanation of the intention for the study and the assurance of anonymity of participation were given to the participants.

In the forehand to the context questions, the participants were asked to answer questions about the company they work for, either FinTech or traditional financial service provider and if they hold a leadership position in their company. This enables the analysis of the voting behavior. No questions about gender and age were asked since Brown et al. (2005: 126) found age and gender being uncorrelated with the participant's perception about ethical leadership of the supervisor.

Goal was to minimize the time needed to fill out the questionnaire in order to incentivize more people to participate.

The questionnaire included 17 Forced-Choice-Questions.

In the first part of the context questions, the participants were asked about their perceptions of their recent direct supervisor, regarding his/ her ethical leadership characteristics, i.e. ethical role modeling, promoting ethical conduct. The question intends to find out how much the evaluated manager is perceived as an ethical leader and is therefore able to influence his subordinates to behave ethically (e.g. trough role modeling). Thereafter, the participants were asked to what extent they perceive the overall leadership culture to be ethical. Objective of this question is to check whether the ethical leadership of the evaluated executive is an isolated case and how much the participants consider the other managers and therefore the entire leadership culture as ethical. As a result one can see whether the evaluated manager is a positive or negative exception. The second part was about the presence of formal structures and whether they are implemented to ensure ethical conduct of employees. This helps to examine to which degree formal structures are already present in the company that help to detect unethical behavior and foster ethical behavior. At the very end, the participants were asked how much they perceive the overall corporate culture to be ethical. The intention of this question is to find out whether the participants perceive their overall culture to be ethical. If most of the participants considered their organizational cultures as ethical, one could assume that an ethical organizational culture is already implemented in most of the organizations. In this case, implications of how to maintain the ethical culture should be presented instead of instructions of how to implement an ethical corporate culture.

The questionnaire was sent to around 164 FinTechs and 50 traditional financial service providers. 37 questionnaires were sent back, whereby 3 of them were not accurately filled out. Thus, the total sample consists of 34 participants (FinTechs: 13% return rate; Traditionals: 24% return rate). 22 (64,71%) participants were working for FinTechs. 12 (35,29%)

participants held leadership positions. Furthermore, 2 (5,88%) of the executives were working for traditional financial service providers.

A problem limiting the empirical study were the installed compliance standards in many traditional financial service providers which restrict the participation at such questionnaires and the IT systems blocking the access to the online questionnaire.

For the qualitative research part about 10 executives working for FinTechs and about 10 executives working for traditional financial service providers were asked face-to-face if they are available to perform an interview. One sales executive, working for a traditional financial service provider, agreed on having a personal interview. Moreover, a leadership consultant agreed on having a personal interview. Again, the compliance standards of many and the busy time schedules of many were factors leading to a relatively low participation rate.

The interview with the executive was about the leadership styles in the company and the ethical characteristics, as well as about the formal structures helping to ensure ethical conduct. The interview performed with the consultant was about the differences of the leadership styles in FinTechs and traditional financial service providers, their ethical characteristics and the formal structures helping to ensure ethical conduct. Notes were taken during the interviews in order to put the given answers into writing.

10.3.2 Measures

The ethical role modeling and promotion of ethical conduct of executives, representing characteristics of *ethical leadership* were measures using the 9-item ELS-D (Rowold, Borgmann and Heinitz 2009). This is a validated version for the German language area of the Ethical Leadership Scale developed by Brown and colleagues (2005). Participants were able to signify their perception with a 5-point Likert-Scale ranging from 1 “strongly disagree” to 5, “strongly agree”. Executives generating scores from 0 to 2 are considered as having a strongly negative ethical leadership perspective, from 2 to 3 having an average ethical leadership perspective and from 4 to 5 having a strongly positive ethical leadership perspective.

Ethical role modeling contained four items, for example "Conducts his/ her life in an ethical manner" or "Sets examples of how to do things the right way in terms of ethics". The aspect of promoting ethical conduct included face items, such as "Listens to what employees have to say" or "Makes fair and balanced decisions". The Ethical Leadership at Work Questionnaire developed by Karlshoven, Den Hartog and De Hoogh (2011) validated by Block, Bormann and Rowold for the German language area in 2015 was not used due to its size and the resulting difficult practical application.

The adaptation of the original ethical leadership scale for the German language area, Rowold and colleagues (2009) used a two factor structure, distinguishing between promoting ethical conduct and ethical role modeling whereas the original scale of Brown et al. used a one factor solution. The two factor solution showed a better fit in Germany.

The questions about the leadership culture, the company culture and the formal structures, added to the validated Ethical Leadership Scale are not validated.

The questions about the formal structures implemented to ensure ethical conduct are not validated as well. Therefore, only yes-no questions have been used to collect the information, which also reduced the time needed to answer the questions.

10.4 Results

The following section is divided into three clusters similar to the questionnaire (see appendix): Ethical leadership/ ethical leadership scale, ethical leadership culture and ethical corporate culture, and formal structures. The answers in each of the three categories given by the interviewees and the participants of the questionnaire are presented.

At the beginning, here is some general information: The FinTech executives in the first part "Ethical Leadership" over all nine questions scored 4,09 points out of 5, whereas the executives of traditional financial service providers executives scored 3,61 points.

<u>Cluster One – Ethical Leadership</u>

In this section, first the answers given by the interviewees and second the answers by the participants of the questionnaire about ethical leadership in FinTechs and traditional financial institutes are presented.

The interviews indicate no general distinction can be made between the leadership styles in FinTechs and in traditional financial service providers. There is no distinct main leadership style present in one type of organization. The leadership style strongly depends on the individual executive's personality. Thus, also the ethical dimension of leadership style strongly depends on the executive's personality. Furthermore, the factors driving people to found a FinTech or Start Up generally are rather the striving for power, entrepreneurship, freedom, prestige and for ex-bankers the enjoyment of another working environment with new structures. Ethics is not considered as a main driving factor for founding a FinTech. Therefore, it is unlikely that ethical leaders mainly work for FinTechs and not for their traditional market competitors or the other way around. In both firms are both, unethical and ethical leaders present in about the same proportion.

The interviewed sales executive working for a traditional financial service institution explains, the degree to which one-self is concerned only with selling the products or with giving a highly accurate long term portfolio strategy depends on the degree to which one-self involves with the customers because this determines the type of relationship and emotional connection. This ranges from sales persons maintaining business relations their customers to sales persons who have developed a friendship relation to the initial business client. In addition the executive concludes that especially long-term business relations make sales persons work in the interest of the clients since persons using the position for personal advancement consider the interest of the clients to a smaller extent because they do not build up a more personal relation and are more interested in short-term success. The ordinary case is somewhere in between, many cannot really leave work behind but are not too much involved on the other side. Relating to this, the sales executive told about the many colleagues that strongly suffered during and after the financial crisis 2007 because they were the ones who consulted their clients and who had to declare that they lost a lot of money. The sales men and women felt personally guilty although they sold the standard products, the executive remembers.

Retro perspective, it were not only the employees but also the clients who believed that the growth would go on forever. Such a large financial breakdown was simply unimaginable for many employees as well as clients. Sticking to the own ethical standards was difficult for many when the client put pressure on the financial consultant.

In these concrete situations it is always a mixture of personal convictions and the reward system that influences the decision in one kind of direction. In the personal case, the interviewee even quit the sales department due to the present methods and changed in a different department. The newly implemented business model and reward system made the interviewee come back to his old position; more details about the changed culture later on.

The overall answers given by the participants of the questionnaire in the first part indicate, as written above, FinTech executives scored 4.08 points whereas traditional financial executives scored 3.61 points on the ethical leadership scale. Moreover, FinTechs executives score in any of the nine questions higher than their traditional competitors.

The category in which both organizational types' leaders obtained the highest score is: "Her/ him can be trusted", with an average score of over 4.5 points. The category with the lowest score for FinTech executives is "When making decisions she/ he asks what is the right thing to do?" with

3.64 points. The traditional financial service providers scored lowest in the category "She/ he defines success not just by results but also the way they were obtained", with 2.83 points. Generally one can see that FinTech executives score fewer in the last three questions each less than four points. The traditional executives score lower than four in six categories, the last 4 categories and in category one and four.

Furthermore, FinTech executives score over 4 points in the first six questions whereas the executives working for traditional financial institutes scored over 4 points in three categories, e.g. "She/ he disciplines employees who violate ethical standards" and "She/ he has the best interests of the employees in mind".

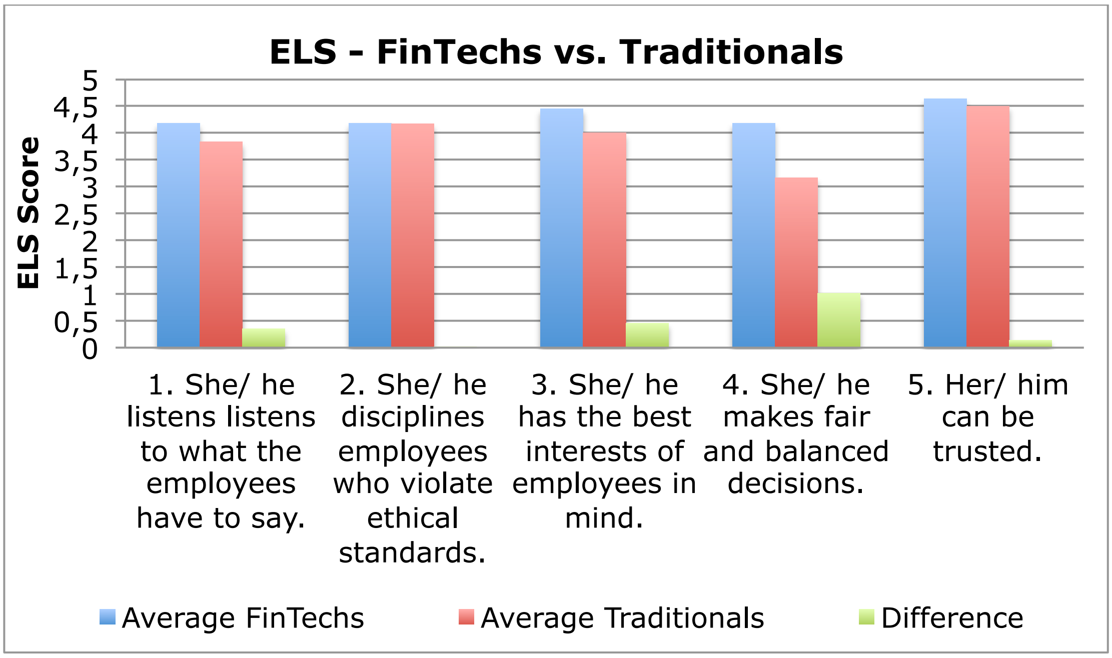


Figure 15 – ELS – FinTechs vs. Traditionals I (Own Interpretation 2016)

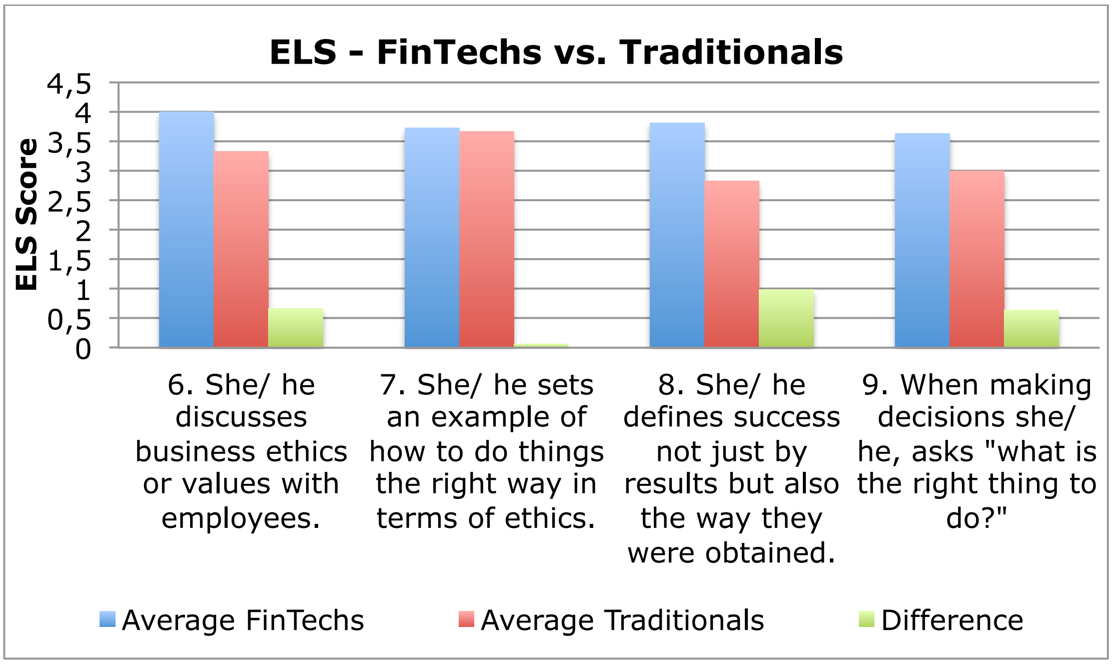


Figure 16 – ELS – FinTechs vs. Traditionals II (Own Interpretation 2016)

The highest differences between the two types of executives are obtained in the two categories "She/ he makes fair and balanced decisions" and "She/ he defines success not just by results but also the way they were obtained". Here, the FinTech executives score around 1 point higher than their traditional market competitors. The smallest difference was obtained in the category "She/ he violates employees who violate ethical standards", with 0.015 points and "She/ he sets examples how to do things the right way in terms of ethics", where FinTech executives score 0.06 points higher.

Interestingly, the answers given by employees within each group, working for FinTechs or working for traditional financial institutes, resemble each other to a great extent; the average difference is 0.2 points. This is the same for the evaluations made by the executives, which differ by 0.27 points in favor of the FinTech executives.

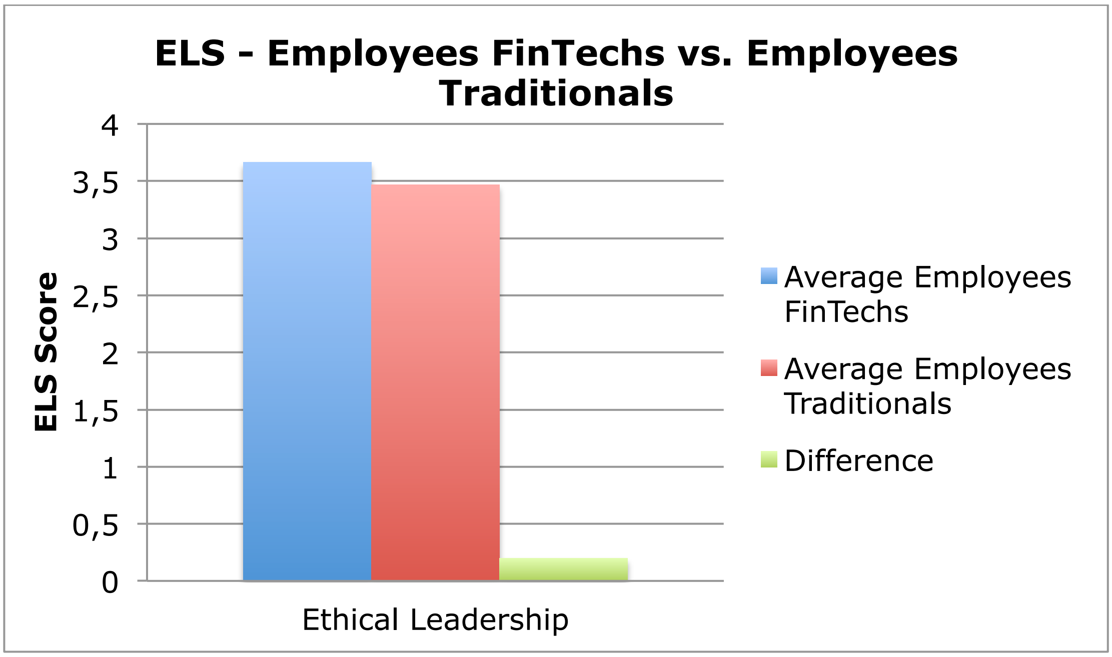


Figure 17 – ELS – Employee FinTechs vs. Employees Traditionals (Own Interpretation 2016)

However, the difference between the answers given by executives and those given by the employees differ on average by 0.98 points. Thus, the executives evaluate each other much higher than the employees evaluate their supervisors. The average score of the answers given by participants in leadership positions is 4.56. On the other hand, the average score of the answers given by employees is 3.58. Only one question "She/ he disciplines employees who violate ethical standards" is slightly higher answered by employees than by executives, all other questions differ to a relatively large degree and a higher evaluated by executives. The answers of executives differ to a smaller extent than those of the employees. Especially the last three questions show a high divergence and the question "She/he makes fair and balanced decisions".

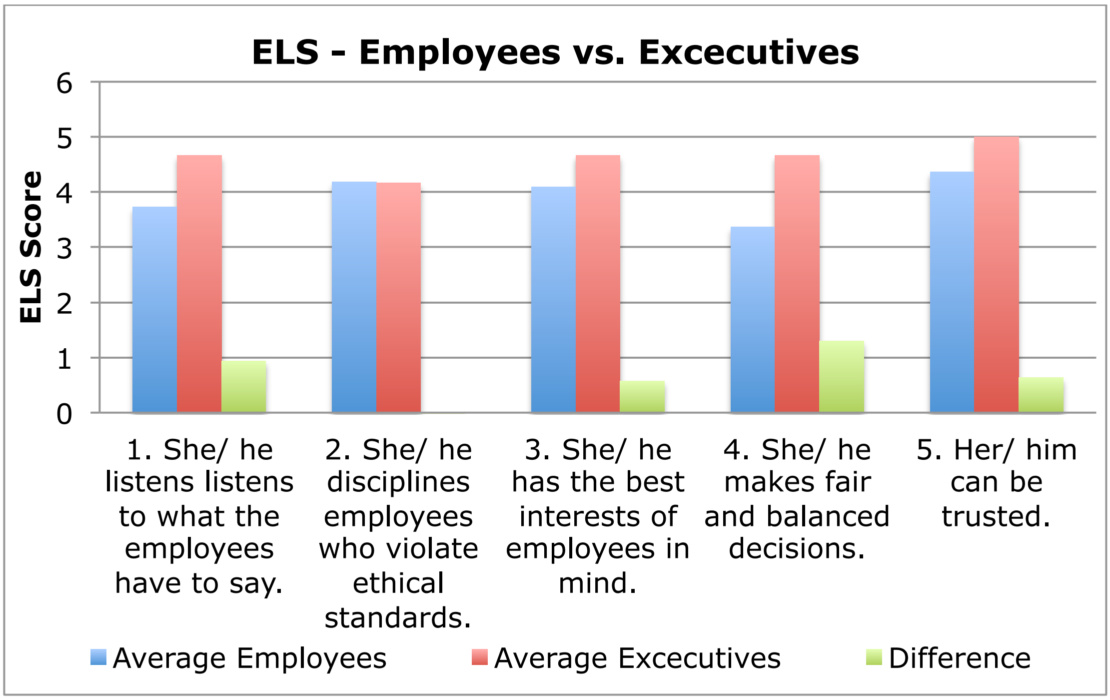


Figure 18 – ELS – Employees vs. Executives I (Own Interpretation 2016)

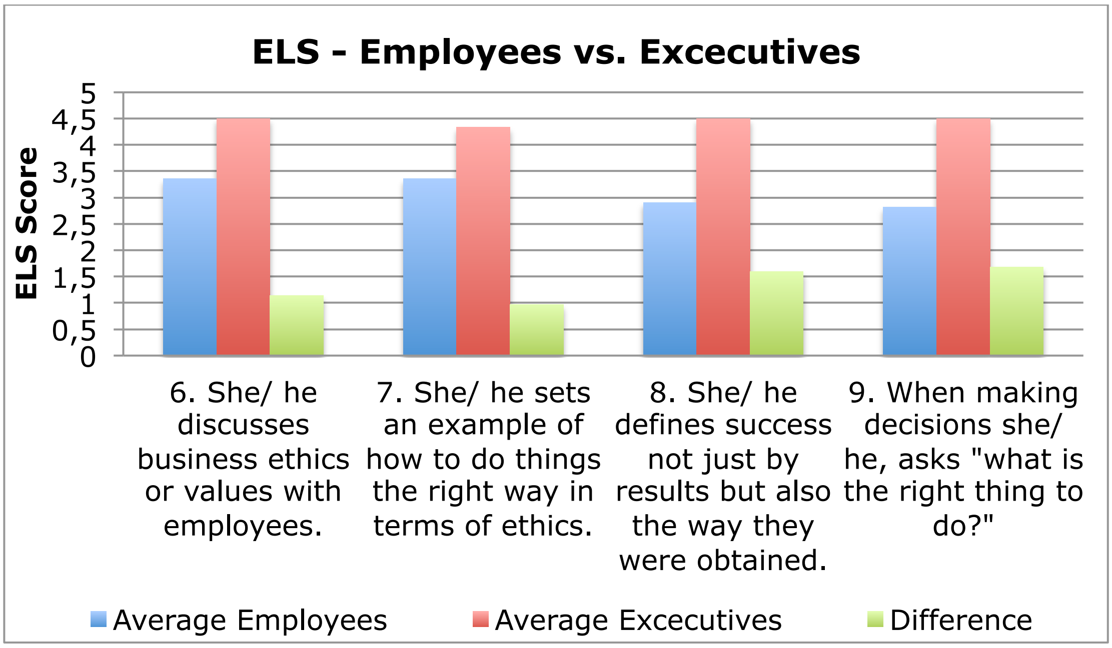


Figure 19 – ELS – Employees vs. Executives II (Own Interpretation 2016)

Both interviewees consider the subcultures in great organizations as highly influential. Large companies cannot be seen as a coherent whole.

Executives from different divisions and professions can differ substantially in their personal cultural values. One should compare the different branches of banks in order to have a more differentiated comparison.

Cluster 2 – Ethical Leadership Culture and Ethical Organizational Culture

In this section, first the answers given by the interviewees and second the answers by the participants of the questionnaire about the ethical leadership culture and the ethical corporate culture in FinTechs and traditional financial institutes are presented.

In the case of the interviewed sales executive most of the middle managers and supervisors come from the headquarters. They strongly identify themselves with the company culture. It is difficult for the top management to have an idea how the daily operational business looks like. Thus, the top management culture differs substantially from those on the subordinated management levels. The top management came up with many valuable ideas and concepts, also regarding ethics.

The leadership culture in FinTechs is less hierarchical, focuses on participation and is open to mistakes. In addition, most FinTechs are strongly learning oriented and solve many problems trough a trial and error process.

The interviewed leadership consultant considers the size of a company as a factor attracting much of attention. Politics, media and the public watch them, which leads to a high level of external pressure to behave ethically. Especially after the financial crisis the financial institutes are under great pressure. Also many regulatory laws have been established that limit the action scope of financial players. The net of regulations prevents unethical behavior. The sales executive explained, "One must have criminal energy in order to circumvent these regulations". Furthermore, the public is sensitized and thus the market conditions changed dramatically. Many external testers check the quality of financial consultation. All in all, the regulatory and the market conditions put much pressure on the traditional financial institutions, which had to change their way of operating and business models.

FinTechs are small in comparison to their traditional market competitors. The individual FinTech is much less in the focus of the public and thus the external pressure to behave ethically is smaller. On the other hand, the way in which external investors and other stakeholders pressure FinTech executives to generate profits has a large influence on their behavior. Thus, even if the founders intended to behave ethically, they may forward the pressure to their employees. This in turn leads to a different leadership culture and organizational culture. Thus, the external environment largely determines the degree to which the companies operate in an ethical manner.

The culture of the traditional financial service provider the sales executive is working for underwent a radical cultural change. In recent years, the company even advertises and highlights the new company culture and its transformed business model. The firm actively accounts for the past and admits the errors made in the past.

For several years, the business model focuses on long-term growth. Goal is to acquire new clients and to advise them carefully in order to build long-term customer relations with them. The client is to be consulted holistically in order to make a risk adjusted consultation possible. If the customer refuses to unfold his entire financial situation, the sales employee refuses to advise him. On the one hand side, this protects the financial consultant from assertions, claiming incorrect advice. On the other hand side, this way of doing business protects the client from abuse and wrong consultation. In addition, institutions as the "*Kundenbeirat*" have been installed fostering the exchange with the financial institution's clients. The customers shall have the possibility to actively shape the system and procedures. Many proposals already have been installed.

Furthermore, the company culture fosters internal job changing. On regular basis the employees and executives are asked if they are interested in changing their job or their geographical region. However, ten to twenty years ago, the members of the firm were more like a family. So were special "*Sozialfonds*" available in order to help when coworkers are in need. Due to the market pressure and dismissals this is no longer the case. However, the company tries to meet the requests of their members concerning children, diseases, etc.

As the graphic below shows, the participants form both organizational types consider their culture as completely ethical or at least as a culture that shows first ethical characteristics.

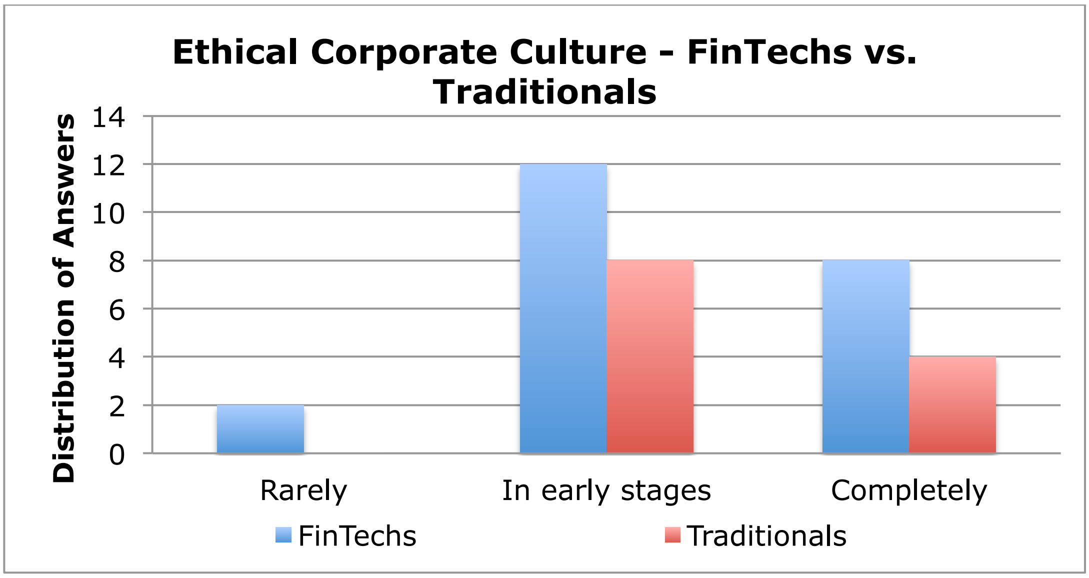


Figure 20 – Ethical Corporate Culture – FinTechs vs. Traditionals (Own Interpretation 2016)

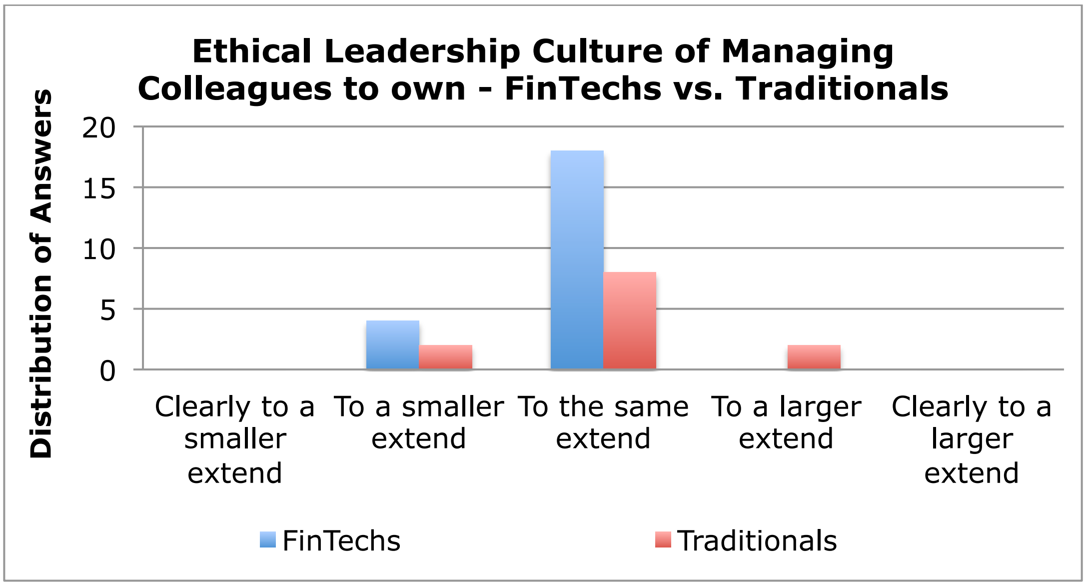


Figure 21 – Ethical Leadership Culture – FinTechs vs. Traditionals (Own Interpretation 2016)

The graphic indicates, most participants attribute the other executives working in the company the same ethical leadership characteristics.

Cluster 3 – Formal Structures

In this section, first the answers given by the interviewees and second the answers by the participants of the questionnaire about the formal structures implemented in FinTechs and traditional financial institutes to incentivize the organizational members to behave ethically are presented.

The interviewees explain, the size of a company results in greater non-transparency, more difficult social control and anonymity. Therefore, the larger a company becomes the more formal systems must replace social control. However, the greatest power influencing the behavior of people is still social control, thus culture. Social control in larger companies takes place in subcultures which culture may differ to the overall organizational culture and thus may not be in line with the desired core culture. The interviewed leadership consultant supposes that the reward systems in the departments drive the actions of employees and executives. If the objectives become independent, the members of the respective subculture may operate against the core mission.

In FinTechs transparency and social control are present to a larger extent. Nevertheless, individual unethical behavior or even criminal activity is possible, especially when the company grows and the structures become more complex.

The thesis that, if the reward systems were the same, the behavior in both traditional financial institutes and FinTechs would be the same, was developed.

For traditional financial service providers the regulatory measures a very high, the internal compliance systems are therefore highly professional and action is taken directly in any case violation of the compliance standards is detected.

In the case of the sales executive, the reward system changed from a minimum net sum that had to be collected from clients to a system where the client satisfaction determines a large amount of the provision. The basis for the provision is no longer the invested capital but the number of client appointments, the amount of new clients and their evaluation of the advice quality. The verbal exchange under colleagues about how they perform their client appointments also allows some degree of social control.

Furthermore, the executives in the company are detailed evaluated in questionnaires concerning their leadership styles. The sales executive says that the leaders after receiving their evaluations change their way of treating coworkers and subordinates but this would take time. In addition, questionnaires are sent to the employees and executives in the different subsidiaries testing if they understand and agree on the group strategy.

For the recruitment mechanisms, the size of a company is a drawback since the top executives are not able to hire the persons themselves that match the desired company culture. To translate company values into tools is difficult. Again, the subculture plays an important role because here supervisors and higher executives can influence the people which people are hired.

The company the sales executive is working for uses assessment centers for internal promotion and the hiring process. From the interviewee's point of view, to disguise one's true nature is impossible due to the length and the different situations that cannot be trained before. In the particular case, the psychologists did not suggest the interviewee for the position, as due to the nature of the character burnout is likely.

The leadership expert explains training, for example with a coach, in order to deal with problems that have an ethical dimension, is not helpful. In fact, the situations in the daily business environment train and sensitize the employees much more. The company of the sales executive largely invested in the interviewee's human capital despite the advanced age, making the person able to work in a completely different department. Generally, all executives and employees are able to consult trainers to all different topics, e.g. fitness, mentality or job training.

The answers given in the questionnaire indicate, all traditional financial institutes have compliance standards and a compliance system. 73% of the FinTechs have compliance standards and 36% have a compliance system. Furthermore, all traditional financial service providers have appointed employees who care about compliance and 67% of the traditional financial institutes also have entire departments, which are concerned with the surveillance of the compliance standards. This is the other way around in FinTechs, 36% of them do have appointees who care about the compliance standards and only 10 % have entire departments that exclusively care about the compliance standards. Finally, ethical aspects are part of the performance evaluation of the members of 73% of the FinTechs, whereas 33% of the traditional financial institutes do not include ethical aspects in the performance evaluations of organizational members. For the calculation of the bonus neither the majority of

FinTechs (18%) nor the majority of traditional financial service providers (17%) takes ethics into account.

10.5 Discussion and Analysis

The overall goal of the empirical study was to investigate which type of organization provides the more favorable conditions for the development of an ethical corporate culture. Thereby, the focus was on the leadership styles in FinTechs and traditional financial service providers.

The theory covered in section three explains, the two major problems any group has to deal with are the problems of internal integration and the problems of external adaptation. Therefore, both of these problems are the forces shaping the culture of the organization. The main group trying to solve the problems of internal integration and external adaptation are the leaders in the organization. They decide how to deal with them. So, the culture of an organization has two sides, first how the people inside the organization deal with each other internally and second, how the people in the organization deal with forces outside the organization. Transferring this concept to the ethical corporate culture means that the ethical corporate culture has two sides. On the one hand side, it determines how ethically the people deal with each other internally and on the other hand side, it determines how the organizational members deal ethically with the external environment, e.g. their clients. Thereby, the ethical leadership style of the executives of the organization largely determines the extent to which the organizational culture shows ethical characteristics.

To conclude, the ethical leadership style in the organization determines how ethically the organization deals with problems of internal integration and external adaptation, which in turn crucially shapes the culture of the organization.

The problems of external adaptation and internal integration faced by FinTechs and traditional financial service providers have different characteristics. This is mainly the result of their different sizes and development stages. The external environment including the governmental regulations, the market conditions and the public attention for traditional financial service providers is a different one than for FinTechs. Also, the internal procedures allowing the company to work effectively are different due to the size of FinTechs and traditional financial institutes.

Therefore, the size and stage of organizational development represent mediating factors for the problems of external adaptation and internal integration. Thereby, they mediate the direct influence of both factors on the organizational culture, as well as the effect of the leadership style on the organizational culture. So, they largely determine the ability of leaders to influence or change the organizational culture. This is illustrated in the figure below.

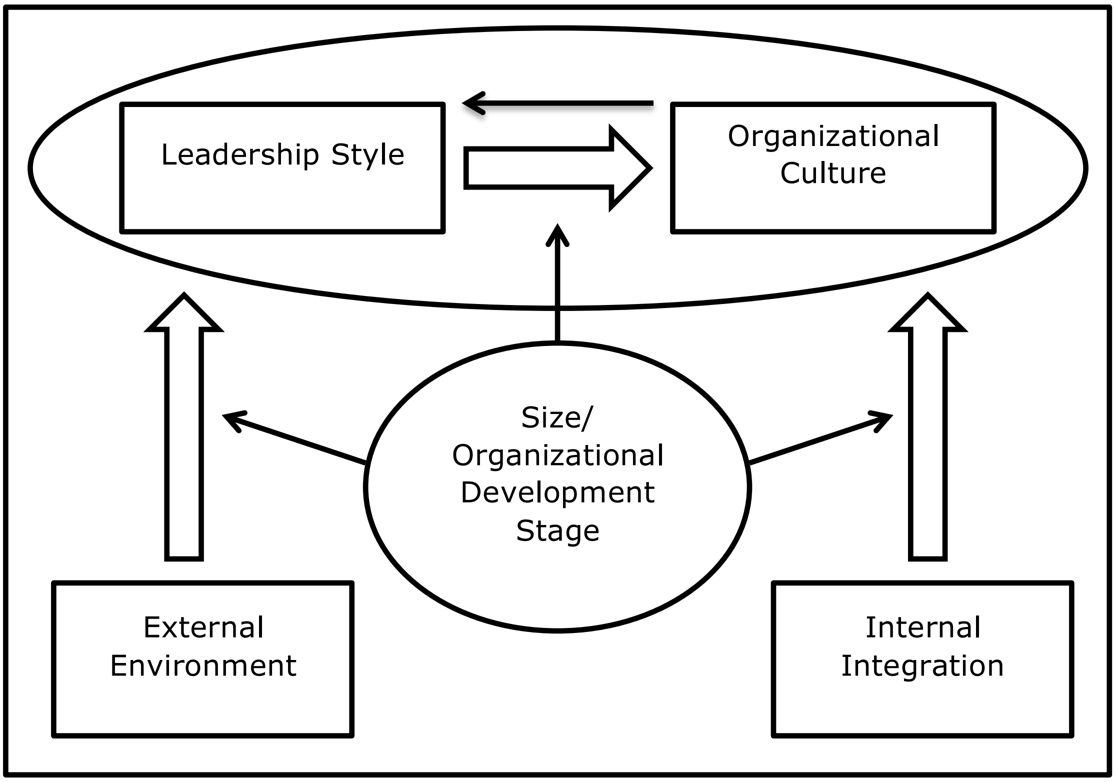


Figure 22 – Factors Influencing Organizational Culture (Own Interpretation 2016)

At last, the leaders do not only influence the organizational culture but the present organizational culture also influences their leadership styles, especially those of the newcomer leaders. They need to adapt their behavior on the existing organizational culture, either trough socializing or trough the internalization of the organizational values.

In order to return to the research question, which includes the term "conditions", it must be clarified what is mend by "conditions". The problems of external adaptation and internal integration represent these "conditions" for the development of the ethical organizational culture because, as explained in the theoretical part, the effective procedures to solve these two problems are embedded into the culture. Since these proposed solutions are mainly articulated by the executives in FinTechs and traditional financial service providers, their leadership style respectively their way of dealing with the problems, shapes organizational culture to the largest extent. This is why this thesis focuses on the leadership styles in FinTechs and traditional financial service providers. Thereby, the external conditions that influence the FinTech and the traditional financial service provider to behave ethically change more rapidly than the internal conditions. The thesis question indirectly implies that the external environment wants any organization to behave ethically. Probably any customer wants to be treated in a fair and ethical manner. Therefore, it seems to be a fair approach to assume that the external environment wants the organizations to operate ethically, especially in the long-term. Which society should be interested in organizations operating unethically? As indicated above, the external environment is mediated by the size and development stage of the organization, therefore the current external conditions that want the FinTechs and the traditional financial service providers to behave ethically have different characteristics in the short-term.

Furthermore, the term "developing", used in the thesis question includes both, the implementation of an ethical culture as well as the maintenance of an ethical culture. Therefore, the objective of this thesis is to analyze which organization is more capable of implementing an ethical corporate culture but also which organization is more capable of maintaining an ethical corporate culture.

In the following sections, the theory presented in the previous sections is applied and the analysis of the organization more capable of implementing an ethical corporate culture, as well as of the organization more capable of maintaining an ethical corporate culture is presented.

The study of Schaubroeck and colleagues (2011) indicates, a top management having an ethical leadership style or not having it, crucially determines whether the organization is able to develop an ethical corporate culture or not. So, most importantly in order to develop an ethical culture any organization needs a top executive with an ethical leadership style. He must be intrinsically motivated to behave ethically otherwise only superficial ethical measures will be implemented (see beginning section 5). Therefore, one objective of the empirical study was to find out whether FinTechs or traditional financial service provider executives are intrinsically motivated to behave ethically and which organization type employs the managers with higher ethical leadership characteristics.

The conditions determining the successful implementation of an ethical culture that must be considered in the analysis are, the degree to which the leaders in FinTechs and traditional financial service providers are intrinsically motivated to behave ethically, the external conditions that want the two organization types to behave ethically and the internal conditions that allow the leadership to implement an ethical culture. Differently stated, the external environment generally wants the organizations to behave ethically, therefore mostly the organizations' leaders that are more intrinsically motivated to behave ethically and the internal factors determine which organization is more able to influence the corporate culture in an ethical way. For the maintenance of the ethical culture, the ability of the two organization types to preserve the implemented ethical culture must be analyzed.

The empirical study revealed, some organizations have executives with ethical leadership characteristics and some do not have ethical leadership characteristics. In addition, some organizations have already implemented an ethical organizational culture and some show only ethical corporate culture characteristics in early stages. Therefore, in the upcoming analysis the current conditions for the implementation and maintenance are taken into account besides the general conditions.

In section two, about the organizational culture, it has been explained that organizations can be divided at least into three organizational stages, in the organizational foundation, the organizational growth and the organizational midlife stage. This is extremely relevant because FinTech per definition are organizations that were relatively recently founded. Therefore, they are either in development stage one or two. Traditional financial service providers on the other hand are in stage three of organizational development because they operate for a long period of time in the financial market. In the following the two comparisons addressed previously are performed.

<u>Comparison 1: The ability of a FinTech and a traditional financial service provider to implement an ethical corporate culture</u>

In the first part of the analysis, the ability to implement an ethical corporate culture of FinTechs and of traditional financial service providers is compared. In the analysis, the impact of the (current) external conditions as well as the internal ones, mediated by the different organizational development stages and sizes, on the ethical leadership style of the executives and the two problems' direct effects on the organizational culture are taken into consideration.

First of all, the reason for companies, in this case for FinTechs and traditional financial institutes, to implement an ethical corporate culture is either because the organization can better solve problems of internal integration and/ or because of the expectations of the external environment to behave ethically, as it happened in these times. In current times, especially the external environment plays an important role. After the Global Financial Crisis 2007, mainly caused by the traditional financial service providers, the customers and the general public expect them to operate more ethically.

Hypothetically, as described in great detail in section four, the ability of a top executive to influence or change the organizational culture declines with organizational maturity.

In the first stage, FinTech founders having ethical leadership characteristics almost entirely decide how to deal with the problems of the external and internal environment because they had the idea for the foundation of the FinTech and developed its core mission. They also have a clear idea of how things should run in the FinTech. If the proposed solutions of the ethical founders actually help to solve the problems, they will be embedded into the culture of the FinTech. Therefore, it is relatively easy to influence the members of the group for an ethical FinTech founder because he selected them, so they mostly resemble his personality and share his ethical values. Furthermore, the moral person or transformational aspect of the founder plays a major role. Due to the small and non-complex organization he is able to influence all organizational members directly. The ethical founder can make great use of his role model position; as a result the subordinates will adopt his way of behavior. This is facilitated by the fact that the FinTech was recently founded and the group has therefore not developed a collective culture. The transactional aspect of ethical leadership plays a minor role because social control and influence are still high. The implementation of a complex compliance system is therefore not necessary in this early stage of existence. Besides, social control influences the behavior of the organizational members much more than formal system. They can only support the already existent ethical corporate culture. To conclude, the influence of an ethical leader in a FinTech in the first development stage is immense because no culture has developed so far and no other member sees himself in the position to decide how to lead the group.

As described earlier, FinTechs can also be in stage two of organizational development. This is the case when they have already operated in the market for a longer period of time. In this section it is assumed that no ethical culture has been in place. This can be the case if the FinTech has not implemented an ethical corporate culture at this point in time. As no ethical culture is in place the only way of starting the implementation process is the recruitment or promotion of a new executive with an ethical leadership style. The ability of the new executive to change the organizational culture is still high, even though lower than in development stage one. He is able to change the organizational culture trough the way he behaves and how he treats his subordinates. This includes the primary embedding mechanisms, such as rewarding, controlling, and paying attention to the desired ethical behavior. These are supported by the implementation of new secondary reinforcement mechanisms. The organizational members are thought the new desired behavior, "unlearn" the old culture and as a result, a new, ethical culture will develop. Hereby, the moral person aspect, including role modeling still plays the major role for influencing the members of the organization. If the new leader has a high emotional intelligence and transformational leadership or even charismatic qualities this further helps to change the way of behavior of the subordinates (see section 8). In addition, in order to change the original organizational members, the leader can hire new members that resemble his ethical personality in order to strengthen the ethical culture. Also, the usage of formal systems, besides the informal behavior, can further incentivize the organizational members to behave ethically.

In both FinTechs stages the ability for an ethical leader to deal with the problems of internal integration in an ethical way and therefore to influence (stage 1) and to change (stage 2) the organizational culture toward an ethical one is great.

Traditional financial service providers have reached the third stage of organizational development. They normally exist for a long period of time, operate in several financial sub branches and have various departments. To solve problems of internal integration becomes more difficult because over the period of time, the different departments and branches have developed strong subcultures. They may not operate in the interest of the entire organization and have cultures often significantly different to the main culture. Therefore, the main objective of the top executives is to make the subcultures effectively work together. Due to the size, the direct contact of the top executives with the ethical leadership style to sub management levels and employees declines. Social control is therefore limited and the moral manager aspect is gaining in importance while the importance of the moral person aspect declines. Furthermore, the organizational members have developed a strong culture, resulting in the great difficulty to change the organizational culture toward an ethical one. The ideal first step is hiring a new CEO or promoting existing managers with ethical leadership characteristics; this is the best way for traditional financial service provider to develop an ethical corporate culture. The new CEO then has two options to change organizational culture, either by using primary embedding and secondary reinforcement mechanisms, resulting in a relatively slow change. On the other hand side, the CEO can implement a change program, to faster and more fundamentally change the organization and its culture. The second way, implementing a change agenda seems to be more appropriate in recent times due to the high external pressure. In both cases, the transformation of the organization is complex process and more difficult than in FinTechs. The organizational members have already developed a culture, representing their way of behavior. Changing these underlying assumptions is difficult for the new top management and takes much effort and time. Normally the people resist the change. As a result, the strategies developed by Kotter and Schlesinger (1979: 111) or Lewin (1947) must be applied (section 4). Furthermore, the power of transformational leadership declines and the more transactional aspect of ethical leadership (moral manager) must be used in order to direct the behavior of the organizational members in the desired direction. Adequate reward system, supporting the cultural change and compliance systems, limiting the probability of unethical behavior, must be implemented. For example, the ability of the top executives to hire employees who match their personalities is also more difficult. At best, they hire other managers they know who then occupy strategic positions in order to roll out the new organizational culture.

In conclusion, hypothetically with an ethical executive/ founder on top of the organization, FinTechs, either in stage one or two, have the greater ability to implement an ethical organizational culture.

In the following it is analyzed whether FinTechs and traditional financial service providers actually have ethical executives and if so who has the higher ethical leadership characteristics. The empirical results indicate, the executives of both organization types evaluated in this particular study can be on average described as ethical leaders (FinTech: 4,09 and Traditional 3,61). This gives the answers to research question one and two, whether the two organization types actually have ethical leadership characteristics. The third question, which of the two organizations has more executives with an ethical leadership style can also be answered. The FinTechs executives scored 4,09 while executives working for traditional financial institutes scored 3,61 on average. Therefore, one can conclude within the scope of this study that the FinTech executives may have higher ethical leadership characteristics than the executives working for the traditional financial market players.

At first glance, the results derived from the questionnaire lead to the conclusion that executives with ethical leadership characteristics are predominantly working for FinTechs. However, the interviewees suggested that the ethical leadership style strongly depends on the individual executive’s personality and that non-ethical leaders and ethical leaders do not predominantly work in one of the two organization types. Other factors than ethical aspects, for example entrepreneurship or freedom, were the factors driving people to found a FinTech.

On closer inspection, the results from the questionnaire lead to the same conclusion, executives of FinTechs and traditional financial service providers do not differ to such a great extent as the questionnaire results suggest. It is suspicious that the participants of the questionnaire holding leadership positions in their companies attribute their co-leaders much greater ethical leadership characteristics than the participating people in employee positions at the questionnaire do.

An example, the participants holding leadership positions answer the category "She/ he makes fair and balanced decisions" on average 1.3 points higher than the participants in employee positions do. This is a 40% higher valuation, suggesting that employees and executives have very different perceptions of how the executives in the firm behave. As a result, the relatively large difference in the evaluation of the ethical leadership characteristics of the executives working for traditional financial service providers and FinTechs of almost 0,5 mainly comes from the different proportions of participants in leadership positions who filled out the questionnaire. Out of 22 FinTech participants, ten participants held leadership positions, making it 46% executives, whereas only two participants out of twelve traditional financial service provider participants were executives, making it 17% executives. If the proportion of executives filling out the questionnaire and employees filling out the questionnaire were the same, the results would resemble each other to a far greater extent. Nevertheless, one can see that the FinTech executives scored higher in terms of their ethical leadership characteristics, also when taking the different proportions of executives and employees answering the questionnaire into account.

In addition, most participants answered that most executives in their firm have the same degree of ethical leadership characteristics. This is an important implication because it shows that the overall leadership cultures in both organization types have ethical characteristics. The evaluated leaders do not seem to be exceptions in their organizations. Therefore, this thesis comes to the conclusion, also after taking the manager and employee participant proportions into account, that the FinTech executives have the slightly higher ethical leadership style.

Another factor that is important for the implementation of an ethical organizational culture are the formal structures (see section 5). Hereby especially the incentives to behave ethically are important. In theory, the ability to control the behavior of the organizational members trough formal measures of both organization types is the same because both can implement adequate structures adapted on their organizational size. The results of the empirical research support this. They indicate that ethical aspects play a role in the individual performance evaluation in 73% of the FinTechs, whereas ethical aspects are considered in only 33% of the traditional financial service providers. Both, FinTechs and traditional financial service providers rarely include ethical aspects in their reward system (FinTechs: 18%; Traditional: 17%). The company of the interviewed sales executive thereby is a great exception. Traditional financial service providers on the other hand have a professional compliance structure, including compliance standards (100%), appointees who survey the compliance standards (100%), departments (67%) and systems (100%). FinTechs do have in 36% of the cases appointees who survey ethics and only 10% have entire departments that take care of it. At least, 36% have a compliance system and 73% have compliance standards. Traditional financial service providers obviously want more to prevent the organizational members to behave unethically instead of setting incentives to behave ethically. FinTechs have implemented more structures that incentivize their members to behave ethically and their focus is not so much on preventing their members from behaving unethically. Because of the FinTechs sizes and their ability to use social control the mostly missing compliance systems are not crucial. The fact that all traditional financial service providers have implemented professional compliance structures is very good. However, both organization types must improve and adapt their reward systems in order to be able to implement an ethical corporate culture. In terms of the formal structures both organization types provide equal conditions for the implementation of an ethical corporate culture.

A factor that has not examined so far is the current external environment of FinTechs and traditional financial service providers. Although the thesis question assumes that both organization types should be behave ethically in the long-term, the qualitative research revealed that FinTechs may even be forced, e.g. by investors, to not behave ethically because they want to see a good investment return in recent times. Hereby, the question can be raised to what extent an ethical leader lets influence himself toward a leadership style that he does not intend to apply. Especially in the first time after the foundation the situation is highly insecure, which may make actual ethical leaders vulnerable and responsive for such pressure. At this point, the question cannot be answered and the extent to which an ethical founder is influenced by non-ethical or even unethical pressure has to be examined in future research. On the other hand side, the traditional financial service providers caused the Global Financial Crisis and contributed much to the worldwide economic downturn. The public, the private customers and the regulatory authorities highly expect the traditional financial service providers to operate ethically; otherwise, they will no longer be able to compete in the market. The external pressure to implement an ethical corporate culture in order to restore trust and to comply with the regulations is immense and in recent times higher than the pressure that FinTechs are exposed to. They are not so much in the focus of the public and the regulatory authorities and they receive premature praise. As described, FinTechs may even feel the pressure from investors to not behave ethically in order to be better able to generate fast profits, but as studies show, an ethical corporate culture is also beneficial for the long-term performance of a company.

Relating to the current external environment, as being examined in the previous section, the executives with an ethical leadership style working for traditional finance institutes have currently the more favorable conditions – in terms of urgency and pressure – to start the implementation of an ethical corporate culture than their colleagues working for FinTechs: The high market and public pressure creates the greater urgency, which supports the effort of the ethical leaders in traditional financial institutes more than in FinTechs. In current times, the FinTechs may not perceive a high pressure to behave ethically, which will certainly change in the long-term.

The overall analysis results in the conclusion that although the traditional financial service providers currently have the greater urgency to change and to start the change process, the FinTechs provide generally the better conditions of the implementation. Hereby, the fact that the external environment expects both to operate ethically in the long-term must be taken into consideration. Generally, the FinTech executives seem to be slightly more intrinsically motivated to do so and due to the size and organizational stage they can easier influence (stage 1) and change (stage 2) the FinTechs culture. As a result, to perform the implementation process is easier. In addition, both organizations provide equal conditions concerning the formal structures to support the implementation process, also in recent times.

Comparison 2: Maintaining the ethical corporate culture in FinTechs and traditional financial service providers

The second case that has to be considered in this analysis is an already existent ethical corporate culture. In the following it is analyzed whether FinTechs or traditional financial service providers provide the better conditions for maintaining it.

In the very first stage of organizational development in which some FinTechs are, no solid culture has developed, as described earlier. Therefore, this stage is not taken into consideration in this part of the analysis.

FinTech in the second stage of organizational development have a solid culture. Thereby, the ethical culture only has to be changed if it no longer helps the members of the organization to deal with problems of external adaptation and internal integration. However, since the FinTech is already in stage two, the ethical corporate culture must have been beneficial for the FinTech in terms of dealing with the two problem types in the past. Therefore, no change is necessary and the priority objective must be to maintain the ethical culture. This is greatly possible due to the small size of FinTechs. The executives still have the ability to interview the job applicants themselves. This insures the proper organizational-personal fit. Moreover, the social control within the FinTech is high and therefore, deviation from the normative appropriate behavior is unlikely. People who do not adapt on the culture must or want to leave the organization.

Traditional financial service providers that have implemented an ethical corporate culture must use mostly formal systems, such as reward and compliance systems and recruitment in order to maintain the ethical organizational culture since the degree of social control declines but the importance of formal structures intending to incentivize the organizational members to behave ethically increases. Generally, the chances to maintain the current organizational culture, in this case the ethical one, are high because it is extremely difficult to change a culture of a mature organization as explained in several sections (e.g. section 3).

The results of the empirical research indicate, that the FinTechs and traditional financial service providers have more or less equal conditions for the maintenance of the ethical corporate culture in current times. Thereby, more FinTechs have included ethical aspects in the performance evaluation whereas more traditional financial service providers have implemented professional compliance systems. Both need to improve the incorporation of ethical aspects in their bonus systems.

In conclusion of this comparison, both types of organizations have the equal capacity to maintain the ethical corporate culture in their organization. Although, the culture of a FinTech can more easily be changed if a new leader is on top, the FinTech has many options available (e.g. social control, personal recruitment) to ensure person-organization fit and to prevent the ethical culture from becoming non- or unethical.

Overall Comparison

The analysis of the two cases shows, FinTechs have the better conditions for the implementation of an ethical organizational culture. First, because their leaders seem to be more intrinsically motivated to lead in an ethical way and second, because they can more easily influence the organizational members. Traditional financial institute executives seem to be slightly less interested in leading ethically and also have the lower ability to influence the organizational members. In order to actually change the organization an entire change program must be rolled out in the ideal case. On the other hand, both organization types have equal opportunities to maintain the ethical culture.

The first case "implementation of an ethical culture" is more important in current times because the empirical study revealed that most organizations have not implemented an ethical culture so far and are just at the beginning of this process. Furthermore, it is interesting, that in current times, the FinTechs feel minor pressure to operate ethically. As a result, a non-ethical founder or leader will not be exchanged for an ethical one and a non-ethical culture will develop. This is different for traditional financial institutes. They feel great pressure to operate ethically, which is only possible with an ethical leader. As result, they must exchange the current CEO for an ethical one. Thus, in this unlikely (most executives seem to have medium to high leadership characteristics) and current case, traditional financial service providers have the better conditions for starting the implementation process, although they have the more difficult conditions to execute it. Nevertheless, the overall result of this thesis is that FinTechs generally provide the more favorable conditions for the development of an ethical organizational culture.

10.6 Strengths and Limitations of the Study and Suggestions for Future Research

This study was one of the few scientific studies that covered the new phenomenon FinTech. Moreover, it was the first that examined and compared the leadership styles in FinTechs and traditional financial service providers in terms of their ethical characteristics. However, the study has several weaknesses.

First of all, in the scope of this bachelor thesis, it was not possible to analyze specific types of FinTechs and traditional financial service providers. "FinTechs" and "traditional financial service providers" had to be treated as homogenous groups, although there may exist differences already within the groups. Taking these differences into account would have allowed a more detailed comparison. Therefore, further research should be conducted on a more detailed level taking specific characteristics, such as the answers given by participants operating in specific regions or in specific branches (e.g. retail banking, mobile payment) into account. This would allow analyzing whether significant differences exist between FinTechs and traditional financial service providers operating in certain branches or geographical regions. Future research should also analyze the influence of the macro environment of nations on the two organization types. This would allow comparing FinTechs and traditional financial service providers worldwide.

Furthermore, the questionnaire used with in this study was highly depended on the self-reporting of the participants. The resources did not allow checking the answers regarding their truthfulness. This could be possible by evaluating the answers about one executive of the employees working in one single department. This prevents having inaccurate perceptions about the supervisor in the sample by having an average evaluation. The subordinates' perceptions about their leaders can differ significantly. For example, it largely depends on the subordinates' positions in the group, such as the in- or out-group (LMX theory).

Another limitation is the low sample size, which does not allow a generalization of the results of this study. The results can only be seen as a first, unrepresentative indication. Future research should be conducted in order to make a more accurate and detailed understanding of the theme possible.

At best, a meta-study should be performed analyzing the social background of the executives working for FinTechs and those working for traditional financial service providers. This would allow investigating whether people with a certain background and thus specific personality characteristics are more interested in working for FinTechs or for traditional financial service providers. This would also allow seeing whether people with a high ethical leadership style predominantly join FinTechs or traditional financial institutes.

Furthermore, future research could analyze whether FinTech leaders who earlier worked for traditional financial institutes changed their job because of ethical reasons. In addition, other mediating factors besides the development stage and size could be taken into consideration for evaluating the ability to develop an ethical culture, e.g. the average age of the employees or the firm’s degree of market orientation.

In addition, future research should examine the degree to which ethical leadership can be learned and trained and the extent to which outside factors influence leaders to behave more ethical or more non-ethical.

10.7 Practical Implications

The empirical results indicate, most organizations have leaders with medium to high ethical leadership characteristics but only very few organizations have already implemented an ethical organizational culture. Here, it is shortly discussed which next steps originating from the empirical results must be taken by these leaders in order to successfully implement the ethical culture. Thereby, the emphasis is put on the formal structures since it has been already much written about the interpersonal influence of ethical leaders.

The traditional financial service providers largely implemented structures that intend to prevent unethical behavior. One hundred percent of the participants said that compliance standards were formulated and a professional compliance system was implemented. This is largely the result of the regulations imposed by the government. However, these measure do not incentivize the people to behave ethically, they simple try to prevent them from behaving unethically. In order to actually implement an ethical culture the executives need to implement a bonus and reward system that incentivizes the organizational members to engage in ethically correct behavior. Only 17% of the traditional financial service providers have implemented such a system so far. The interviewed leadership consultant stated, most importantly, especially in larger companies, the formal reward systems determine the behavior of the employees. A reward system that is inconsistent with the actual goal to behave ethically results in confusion about the direction of the company and the belief that no real actions are taken to change the organizational culture. In current times, the external conditions, especially for banks to compete in the market are highly difficult. High regulations were imposed which result in higher costs and due to the low interest rates they generate low profit. Their business models are ultimately altered. The culture, the business models and the strategy have to be modified soon. This could result in a unique selling point of an individual firm.

FinTechs on the other side have also rarely implemented reward systems that consider ethical aspects but already 70% of them consider ethical aspects in their performance evaluations. This may represent the fact that the ethical leader himself seems to be in the position to influence the organizational members trough social control. As a result, a reward system is not considered as essential. Nevertheless, in order to strengthen and to foster the implementation process formal reward system should be implemented in more FinTechs.

11. Conclusion

This thesis examined the question which organization type, FinTech or traditional financial service provider has the better conditions of internal and external nature, including the leadership styles for the development of an ethical organizational culture. The thesis' question is especially relevant for the financial industry and in recent times. Thereby, the empirical study revealed that the FinTech executives have the slightly higher ethical leadership characteristics and the following analysis indicated that they also have the better chances to implement the addressed culture, among others because of the slightly higher intrinsic motivation to do so. This case is most relevant because the empirical study also revealed that most FinTechs and most of their traditional competitors are at the beginning of the implementation process. Nevertheless, also the ability to maintain the ethical culture, although less relevant in recent times but not minor in general times has been examined. Thereby, the analysis revealed that both organization types have equal conditions. However, despite the fact that the evaluated executives have medium to high ethical leadership characteristics, they still have a long way to go. Many organizations have not implemented ethical reward systems so far, which is an essential aspect of an ethical culture. Most of the participants agree: We are just at the beginning of the implementation process.

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Appendix A: Applied Instructions and Questionnaire

a) General Instructions

Umfrage zur Rolle der Ethik in den Führungskulturen von Unternehmen der Finanzbranche

Sehr geehrte Teilnehmerinnen und Teilnehmer der Umfrage,

diese Umfrage im Rahmen meiner Bachelor Arbeit im Bereich Leadership an der Goethe Universität Frankfurt umfasst 17 Fragen, von denen sechs mit ja oder nein beantwortet werden können. Sie werden nicht länger als zehn Minuten zur Beantwortung dieses Fragebogens benötigen. Die Antworten werden anonym und ausschließlich zu Zwecken dieser Bachelor Arbeit erfasst.

Falls Sie weitere Informationen zu dieser Umfrage wünschen oder Anregungen haben, können Sie gerne eine Email senden an torben.kramp@stud.uni-frankfurt.de.

Ich freue mich sehr, dass Sie mich bei der Erarbeitung meiner Bachelor Arbeit mit der Beantwortung dieses Fragebogens unterstützen, vielen Dank!

Torben Kramp

b) Ethical Leadership

Instructions

Bitte beziehen Sie Ihren Vorgesetzten als Referenz für die Beantwortung der folgenden Fragen heran:

Items (Rowold et al. 2009)

1. Sie/er hört auf das, was Mitarbeiter zu sagen haben.

2. Sie/er führt ihr/sein Leben in einer ethischen Art und Weise.

3. Sie/er denkt an die Interessen der Mitarbeiter.

4. Sie/er trifft faire und ausgewogene Entscheidungen.

5. Ihr/ihm kann vertraut werden.

6. Sie/er diskutiert Geschäftsethiken und –werte mit Mitarbeitern.

7. Sie/er gibt Beispiele, wie Dinge aus ethischer Sicht richtig gemacht werden sollten.

8. Sie/er beurteilt Erfolge nicht nur nach den Ergebnissen, sondern auch danach, wie sie erreicht wurden.

9. Wenn sie/er Entscheidungen fällt fragt sie/er: „Wie kann ich bei dieser Entscheidung das Richtige tun?“

Rating Scale

1: Trifft gar nicht zu – 5: Trifft voll und ganz zu

c) Ethical Organizational Leadership Culture

Instructions

Bitte beziehen Sie nun Ihr komplettes Unternehmen einschließlich aller Führungsebenen für die Beantwortung der folgenden Fragen mit ein:

Item

Gelten die oben gemachten Aussagen ebenso für alle anderen Führungsebnen/ Führungskräfte?

- Kaum
- Weniger
- In gleichem Maße
- Stärker
- Deutlich stärker

d) Compliance Standards

Instructions

Bitte beziehen Sie nun Ihr komplettes Unternehmen einschließlich aller Führungsebenen für die Beantwortung der folgenden Fragen mit ein:

Items

11. Gibt es in Ihrem Unternehmen Standards zum Thema Compliance/ Ethik (formulierte Grundsätze; Wertesystem; Führungsgrundsätze; Leitlinien zu(r)...; Ethical Policy)?

12. Spielen Compliance/ ethische Fragen in Ihren regelmäßigen Leistungs-/ Personalbeurteilungen eine Rolle? Werden Sie und Ihre Führungskräfte auch nach ethischen Grundsätzen/ Compliance Fragen beurteilt?

13. Finden ethische Grundsätze bei der Ziel-/ Bonusvereinbarung Berücksichtigung?

14. Gibt es in Ihrem Unternehmen Beauftragte für Compliance/ ethische Fragen?

15. Gibt es in ihrem Unternehmen Mitarbeiter/ Abteilungen, die sich ausschließlich mit Ethik und Compliance Fragen beschäftigen und die Einhaltung der Standards kontrollieren?

16. Gibt es in Ihrem Unternehmen interne Kontrollsysteme, die auch Compliance/ ethische Standards überwachen?

Rating Scale

Ja – Nein

e) Ethical Corporate Culture

Instructions

*In Anfängen: Es wurden Grundsätze formuliert; es wird versucht nach diesen zu handeln, jedoch gibt es keine systematische Kontrolle; ethisches Verhalten ist kein ständiges Thema im Unternehmen.

*In vollem Umfang: Es gibt formulierte Grundsätze, die auch reflektiert, hinterfragt und systematisch kontrolliert werden; ethische Fragen sind im Bewusstsein der Mitarbeiter; es wird sich gegenseitig an die entwickelten Standards erinnert.

Item

17. Wird in Ihrem Unternehmen Ethik/ Compliance gelebt?

- o Kaum
- o In Anfängen
- o In vollem Umfang