

Pay for performance: the ethical implications

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Abstract

This research describes an answer to the question: What is ethically problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view? The goal is to gain insight into the philosophical foundations on the basis of which it should or should not be judged whether the use of pay for performance structures is ethically objectionable. To answer this question I analyzed three types of sources: newspaper articles, policy documents and interviews. I first identified sensitizing concepts based on extensive literature review to understand pay for performance, utilitarian aspects of it, deontological aspects of it, and virtue ethics aspects of it. I then conducted a template analysis. From utilitarianism it must be argued that pay for performance structures are unethical, because inherently they do not lead to the highest level of utility, when this is not an integral part of the evaluation process. A deontologically ethical implementation of pay for performance structures requires an evaluation of compliance with the five general derived rules. The pay for performance structures as they occur in the present prevent an organizational structure from being virtuous because there is a discrepancy between the desired goals and the actual goals of an organization, it is no longer clear what role the employees and managers play to achieve those goals, and group dynamics become damaged and the structure is therefore no longer able to produce ethical consequences. This research showed that when an organization sets targets, or a government introduces concertized legislation these targets replace the moral compass of the acting person. This research gives insight in the excuses that individuals use to reduce cognitive dissonance.

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Chapter 1: Introduction

1.1 Pay for performance: the concept

Theory about motivation fulfills a central role in organizational sciences. There are several theories about the motivation of people with regard to their salary. One of the conclusions that can be drawn from these theories is that salary plays a major role in the management of Human Resources. It plays an important role in the evaluation of work: employers ought to provide satisfactory payment to employees (Lawler & Hall, 1970; Rousseau, 1989). There are a variety of ways in which these reward systems can be structured of which pay for performance is one. Pay for performance is a payment structure which is characterized by the fact that there are certain goals, targets or outcomes that are desired by the organization, and that a reward of a financial nature is paid, provided these aforementioned goals, targets or outcomes are met (Merriam-Webster, 2003; Nyberg et al., 2016; Odden et al., 2002). The central idea of pay for performance structures is that goal-orientated behavior is rewarded, and therefore the opportunity costs of alternative actions become higher, thus increasing the motivation of employees to behave goal-oriented. Pay for performance structures seem to work, in the sense that organizational targets are significantly more often reached when pay for performance structures are implemented. This is also confirmed in academic research on the subject, since the overall effects of pay for performance in general on the collective outcomes are statistically significant and positive (Frey, 1993; Nyberg et al., 2018; Nyberg et al., 2016).

1.2 Problems with pay for performance

Several problems arise when using pay for performance structures. There are several implications on ethical behavior (Barsky, 2008). Firstly, goal setting makes it harder for employees to recognize ethical issues. This is a problematic issue. If we want organizations to perform in an ethical way, it is important to conclude that ethical violations can't be a result of efficient and effective business operations like goal setting. Secondly, goal setting by the management makes it easier to rationalize unethical behavior. There is an increased likelihood of goal recipients focusing on the achievement of the goals, while potentially disregarding the ethical aspect of the result. This also is problematic since ethical behavior requires recognizing that unethical behavior should not be rationalized (Barsky, 2008). In the following quote the aforementioned problems are clearly illustrated: "Pay for performance schemes [...] can create criminogenic environments that first tempt honest individuals into unethical or illegal behavior, then invite them to adopt looser views about what is unethical or illegal in the first place. It is

sometimes said in the business world that pressure makes diamonds. We should bear in mind it also makes felons” (Stout, 2013, p. 555).

One of the most prominent examples for these problems is the Enron scandal. Enron was an American Energy company, that at its peak was the 7th largest corporation in the United States. In several years accountants at Enron were able to hide billions of dollars in debt that were caused by projects and deals that failed. This was possible through poor financial reporting, special purpose entities and accounting loopholes. The audit committee and the board of directors were misled by some of the figureheads at Enron to cover it all up. In his paper Li (2010, p. 38) stated about the Enron scandal: “[...] that Enron's compensation policies engendered a myopic focus on earnings growth and stock price.’ The compensation system of Enron was highly linked to shareholder value and a substantial part of the pay that employees could receive was dependent on the extent to which targets were reached. In the annual report of Enron can be read that the company was ‘laser-focused’ on earnings per share.

Different and yet very similar is the banking crisis in 2008. The essence of the banking crisis is about excessive risk-taking and fraud around mortgages. The risk-taking was stimulated by unsuitable remuneration policies and forms of incentive pay and these pay for performance structures were the main cause for this excessive risk-taking and fraud (Blundell-Wignall et al., 2009; Coles et al., 2006; Core & Guay, 2002; Jickling, 2009; Mehran & Rosenberg, 2007; Mondello & Ben Ayed, 2020; Rajgopal & Shevlin, 2002). Before 2008 mortgages were evaluated as risk free investment. Banks sold products that were essentially bonds of these mortgages and people believed that these bonds were risk-free and ever-growing financial products. Due to the high demand of these products there was an increased need for mortgages to fill the bonds with, and to ensure their earnings big banks put high-risk mortgages in the bonds. Once interest percentages rose, there was a high number of people that couldn't afford their mortgages anymore, and the price of the bonds dropped to such a massive extend that people realized that the banks that sold these bonds as risk-free, stable products, were actually selling high-risk ‘air’ (Mcilroy, 2008; N Chorafas, 2009; Wilmarth Jr, 2008).

Thus, while pay for performance has many advantages and is widely used (Frey, 1993; Nyberg et al., 2018; Nyberg et al., 2016), there also seem to be a lot of ethical problems regarding the use of these structures. This is in line with academic literature and this has been researched extensively (Barsky, 2008; Blair, 2003; Covey, 2009; Hagerty, 2008; Stout, 2013). For some problems it is also clear what the underlying ethical reasoning is why these situations are ethically problematic. From an utilitarian perspective, for example, the pay for performance incentives used during the banking crisis, seem to have enriched a few, but created high losses for many people who lost their homes. It is known that while using pay for performance

structures unethical behavior occurs, and yet it is unknown what ethical reasoning underlies these problems. Prior research has found that when individuals are presented with ethical dilemmas they tend to change their believe system in such a way that a valid justification exists for their unethical behavior (Stout, 2013). Individuals will base this justification on the aforementioned ethical theories (Granitz & Loewy, 2007). Understanding the justification leads to important insights about possibilities to create incentive payment plans that work without having unethical results. Therefore it is highly relevant to answer the question what is ethically problematic about pay for performance from the three main ethical theories.

1.3 Three types of ethical reasoning

There are three main ethical perspectives that I will take into account in this paper: utilitarianism, deontology and virtue ethics. Whether something should be regarded as unethical depends on the criteria that are used for defining morality, immorality and amorality. The essence of utilitarianism is that the ends justify the means. In order to define whether or not an action is moral, one should make the choice that has the best possible consequences overall (Bentham, 1996; Brown, 1973; Levack et al., 2014). One should opt for saving the many at the cost of the few. Applied to the Enron-fraud case and the banking crisis this means that behavior would be ethical if it leads to the highest amount of happiness. Since only a few were enriched at the expense of many it would seem that there was unethical behavior in these situations. The essence of deontology is that morality is judged on the basis on the compliance of an action on certain predefined implicit or explicit rules. (Kant & Gregor, 1996; Van Staveren, 2007). The rule in the Enron-fraud case and the banking crisis could be that one should not manipulate figures and statistics. The conclusion based on deontological ethics would then be that in both situations the manipulation of numbers was an unethical choice, because the manipulation of numbers is wrong regardless of the circumstances. The difference between virtue ethics and the other ethical theories is that virtue ethics deals with the question how one should be living instead of the question what is ethically just to do in a particular situation. From this follows that to judge what would be right or wrong should been seen in the light of the question whether someone with a virtuous character would have done the same (MacIntyre, 2013; Solomon, 2003; Van Staveren, 2007; Weaver, 2006). Applied to the situations above one could argue that virtuous persons do look out for their own interest, but do not do this in such an excessive way that it is regardless of others. A virtuous person would strive for the virtue in the middle.

The three main ethical perspectives have a very different reasoning to define whether or not something is unethical. For pay for performance the underlying ethical reasoning about the question what is exactly problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view is unknown. This thesis seeks to study why and

in which ways pay for performance can be ethically problematic. The following research question will be central:

What is ethically problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view?

This research question will be answered by analyzing three different types of sources: newspaper articles, policy documents and interviews. The first two sources require a document analysis. What should be regarded as the highest level of utility, the general rule or virtuous character can be researched by using newspaper articles because they enable the researcher to cover many events over a large period of time, with information that is detailed, and without altering the things that are being measured. In addition, policy documents provide important insight into the theoretical plans that precede practical implementation and are therefore valuable to analyze. Performing a document analysis has several advantages: the benefits of *stability*, *exactness* and *coverage* (Bowen, 2009; Merriam, 1988; Yin Robert, 1994). *Stability* means that the information studied is not altered by the researcher present, which prevents the problem that people might state that they behave more ethical than they actually do. *Exactness* means that the use of names, details and events make documents advantageous in the research process. *Coverage* means that documents enable to researcher to cover a relatively large span of time, many events and many settings.

Adding interviews as a data source allows us to take advantage of the benefits that this particular data source has to offer. These interviews were conducted in the form of semi-structured interviews. This has the advantage that the researcher can focus on the respondent, and formulate questions in a more appropriate manner during the interview, so that the maximum amount of data can be extracted. This requires the researcher to have sound knowledge in advance (Galletta, 2013; Kallio et al., 2016). Care has been taken to ensure this. It is important to emphasize that the interviews have a supplementary and verifying character. Conclusions will only be drawn if the other data support this to a sufficient degree.

After this introduction, I will discuss the theoretical background in chapter 2. In this chapter I will define and introduce several concepts that I will be using to analyze the data discussed above. In chapter 3 I will further elaborate on the methodological choices that were made, especially focusing on the sensitizing concepts found and explaining the use of data sources. In chapter 4 I will describe the analysis. Chapter 5 will be the discussion, and in chapter 6 I will conclude this thesis.

Chapter 2: Theoretical background

In chapter 2 I will be discussing the theoretical background. First of all I will be discussing the definition of pay for performance in section 2.1. This is necessary because a clear and demarcated definition is necessary in order to recognize pay for performance structures in the data. In section 2.2 I will be discussing the most prominently used manifestations of pay for performance structures. This further specifies section 2.1 and gives us sensitizing elements in order to recognize pay for performance structures. In order to answer the research question I should also be able to recognize problems that are the results of pay for performance structures. I will define the most prominent emerging problems in section 2.3. The causes of pay for performance leading to these problems will be discussed in section 2.4. I should also define concepts to recognize the three ethical theories that will be discussed. These concepts will be concretized in section 2.5. I will conclude the theory section and introduce the conceptual model in section 2.6.

2.1 The definition of pay for performance

In order to have an idea how financial incentives work, It is necessary to discuss what it exactly is that motivates people. Incentives are financial rewards above regular salary. Taylor (2004) made the theory of scientific management and the use of financial incentives more popular in the late 1800s. He believed that employees engaged in what he called 'systematic soldiering'. This means that he assumes that employees work at the slowest rate possible and deliver at the minimal acceptable level. He believed that financial incentives could be used to motivate people to work better and harder (Taylor, 2004). In the current day and age this theory is nuanced because according to modern authors, Taylor does not take into account what authors call the law of individual differences, which means that people are different in terms of abilities, values and needs. Therefore, people react differently to different incentives (Dessler & Varkkey, 1999).

In order to contribute to the literature regarding pay for performance structures, it is of substantial importance to have a clear and demarcated definition of what is meant by such incentives. In this paper I will be referring to such structures by using the term 'pay for performance'. There are various ways to define pay for performance. First of all, I should remark that there are various terms that are all referring to some kind of goal-driven payment structure, bonus pay, merit pay or any other type of incentive payment. In the table below I illustrate several definitions that are used in academic literature:

Nyberg et al. (2016, p. 1754)	"pay that varies with some measure of individual or organizational performance"
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Odden et al. (2002, p. 59)	“reward for specific behaviors or outcomes at the individual, team, or organizational level”
Merriam-Webster (2003, p. 628)	“something that incites or has a tendency to incite to determination or action.”

FIGURE 1 OVERVIEW DEFINITIONS PAY FOR PERFORMANCE

The common theme which characterizes the idea behind such pay for performance structures is that there are certain goals, targets or outcomes that are desired, and that a reward of a financial nature is paid, provided these aforementioned goals, targets or outcomes are met. The aforementioned definition is the definition that will be used throughout this paper.

2.2 Types of pay for performance

One could think of several types of such a system in which there are certain goals, targets or outcomes that are desired, and that a reward of a financial nature is paid, provided these aforementioned goals, targets or outcomes are met. I will be discussing the most prominent variances in the next paragraphs.

2.2.1 Merit pay

Merit pay is a system that considers how to reward people based on past performance. Employees who perform at higher levels receive rewards that are greater. When speaking about a merit pay system, employees receive a payment adjustment based on an evaluation of their performance. The performance evaluations are used to allocate merit pay increase to the different kinds of employees. Merit pay increases your base pay by a certain percentage per month if certain predetermined targets are achieved, and therefore this merit increase is compounded into the total acquired reward. A fundamental problem with merit pay is that it is a structural increase based on past performance. If performance drops, the salary is still increased because certain targets were met in the past (Murphy, 1999; Nyberg et al., 2016).

2.2.2 Lumpsum bonus pay

Lumpsum bonus pay is also a system that considers how to reward people based on past performance. Contrary to merit pay structures where salary is increased with a certain percentage, lumpsum bonus pay is not rolled into the employee’s salary. Instead it is a one-time payment that is received because certain predefined targets are met. Lumpsum bonus pay structures are often less expensive because the permanent labor costs are not increased (Murphy, 1999; Nyberg et al., 2016).

2.2.3 Piecework performance plan

In contrast to merit pay and lumpsum bonus pay where employees are rewarded based on their past performance levels, piecework performance plans are forward looking because

they reward employees for performance levels in the future. In a piecework performance plan employees receive a part of their salary for every piece they produce or service they provide. An employee might receive one euro for every piece of a certain product he or she produces. The more the employee makes (or provides), the more he or she earns (Fox, 1988).

2.2.4 Profit sharing plan

A profit sharing plan is a system that shares profits of the organization with employees. The main idea is that when the company does well a higher reward is paid. Profit is a good variable to define the financial success of a company. Implementing such a profit sharing plan helps to keep the employees focused on the financial success of the organization, since their reward is increased when the level of financial success of the company is high (Armstrong-Stassen et al., 1993).

2.3 Emerging problems when using pay for performance structures

Although there are a broad variety of types of pay for performance structures (Armstrong-Stassen et al., 1993; Fox, 1988; Murphy, 1999; Nyberg et al., 2016), and they are widely used and seem to be increasing overall performance of organizations (Frey, 1993; Nyberg et al., 2018; Nyberg et al., 2016) there are a lot of problems emerging when using these particular structures (Blair, 2003; Covey, 2009; Hagerty, 2008; Osterloh & Frey, 2002; Stout, 2013). Although the range of problems that emerge is large in this paper I will focus on the implications that rise with regard to pay for performance and ethical behavior. In the next three paragraphs I will discuss several ethical problems that arise when using pay for performance structures.

2.3.1 Short-term thinking

The first problem that emerges is the primacy of short-term thinking over long-term thinking. In academic literature the following example is used (Glassman et al., 2010): A car salesman that is only paid if the metal moves, will be tempted to sell a car, even though this car might not meet the needs of the buyer. In short term this leads to an increased sales rate, whereas in long term this will result in a negative word-of-mouth, which hurts the image of the company, and therefore it's sales. This example illustrates a mechanism that is described often in academic literature (Glassman et al., 2010; He et al., 2021; Manso, 2017). Employees receive a bonus if targets are met. There is a way in which these goals are met, or more goals are met that seems good in the short term, but undermines the long-term goals of organizations. There are also plenty of situations in which the achievements of short-term goals harm society overall in long term (Ahlstrom, 2010; Osterloh & Frey, 2003). It should be

concluded that the following causal model exists (Ahlstrom, 2010; Glassman et al., 2010; He et al., 2021; Manso, 2017; Osterloh & Frey, 2003):

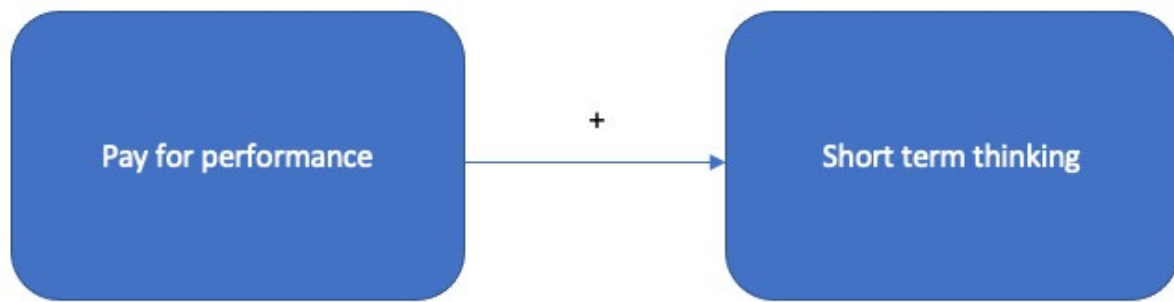


FIGURE 2 RELATION PAY FOR PERFORMANCE ON SHORT TERM THINKING

2.3.2 *Excessive risk-taking*

The second problem that rises is the taking of excessive risks by managers and employees. In pay for performance structures once certain predefined targets are reached a certain predefined reward is being paid. Targets are reached significantly more often when such a structure is used, since managers and employees are more motivated to reach certain targets. Various authors argue that although this system is successful it creates disregard to other interests (Blundell-Wignall et al., 2009; Coles et al., 2006; Core & Guay, 2002; Custer, 2012; Jickling, 2009; Mehran & Rosenberg, 2007; Mondello & Ben Ayed, 2020; Rajgopal & Shevlin, 2002). According to these authors one key factor that led to the financial crisis of 2008 were these perverse incentives. A 'perverse incentive' occurs when a certain policy has the opposite effect of what the policy is trying to achieve (Loh & Misselhorn, 2019). In the financial crisis mortgage brokers received an increased level of payment for lending out more money which had the result that riskier loans were issued, which led to lower profits in the end. These incentives led to something called moral hazard, which means that someone is willing to take more risk, because someone else bears the burden of that risk. It should be concluded that the following causal model exists (Blundell-Wignall et al., 2009; Coles et al., 2006; Core & Guay, 2002; Custer, 2012; Jickling, 2009; Mehran & Rosenberg, 2007; Mondello & Ben Ayed, 2020; Rajgopal & Shevlin, 2002):

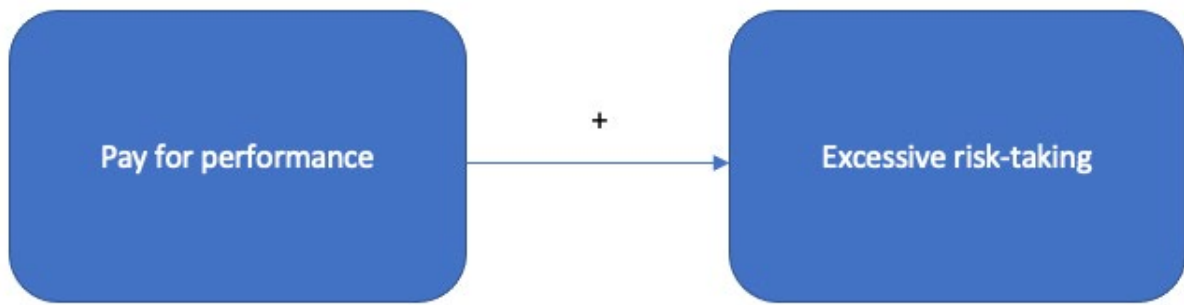


FIGURE 3 RELATION PAY FOR PERFORMANCE ON EXCESSIVE RISK TAKING

2.3.3 Manipulation of numbers

The third problem that emerges is the fact that pay for performance structures lead to manipulation of numbers. Incentive contracts that are based on measurable outcomes that are subject to the managers' or employees' influence, in particular those measurable outcomes that can be falsified or manipulated, create ample opportunities for managers to try to extract wealth through behavior or conduct that poses costs on third parties or the organization itself. If the corporate executives agree to some sort of ex ante incentive payment they inevitably present managers with opportunities to amass wealth through illegal, opportunistic or otherwise undesirable behavior. Within such structures it is almost always possible to gain wealth faster in some sort of unethical or illegal way, than to acquire it through hard work. An important example is the Enron case. In that particular situation the executive stock option grants that were actually meant to maximize shareholder wealth led to the situation in which massive accounting fraud was committed (Hagerty, 2008; Stout, 2013). To conclude, pay for performance leads to the situation where managers are tempted to commit fraud or falsify numbers, because it leads to a greater amount of personal wealth. It should be concluded that the following causal model exist (Hagerty, 2008; Stout, 2013):

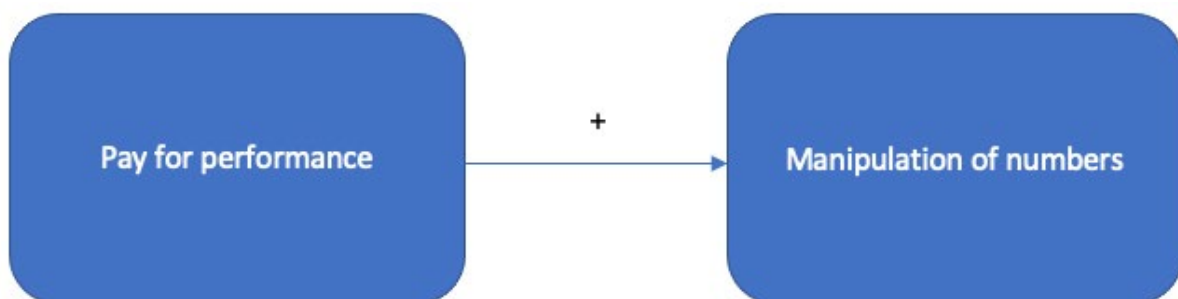


FIGURE 4 RELATION PAY FOR PERFORMANCE ON MANIPULATION OF NUMBERS

2.4 The reason why ethical problems emerge when using pay for performance structures

Problems seem to be emerging, but it is not yet clear why these problems emerge. Pay for performance structures are a fundamental part of goal-setting in organizations. It is important to note that ethical violations should not be regarded as a by-product of a few unwilling and unethical employees, but it should be regarded as a result of setting specific and challenging goals. As already mentioned in the introduction there are two important implications for ethical behavior as a result of this goal-setting (Barsky, 2008).

2.4.1 It becomes harder to recognize ethical issues

The first reason is that pay for performance leads to the situation that it becomes harder to recognize ethical issues (Barsky, 2008; Schroeder & Fishbach, 2015). This is a problematic issue. As a condition for organizations to perform in an ethical way, it is important to conclude that ethical violations can't be a result of efficient and effective business operations like goal setting. Authors argue that this is the case because the use of management by objectives moves the focus from ethical behavior towards the goals that have to be achieved. There is an increased likelihood of goal recipients focusing on the achievement of the goals, while potentially disregarding the ethical aspect of the result. In other words: it moves the focus from the means to the ends. Since there is a greater focus on the achievement of goals, it becomes harder to recognize these ethical issues (Ordóñez et al., 2009).

2.4.2 It becomes easier to rationalize unethical behavior

The second reason is that pay for performance leads to the situation in which it is easier for employees to rationalize unethical behavior. If someone, who otherwise is a honest and ethical person, crosses an ethical or legal line he or she is more likely to cross those lines in the future, and more often (Stout, 2013). In psychology, authors find the cause of this primarily in something they call cognitive dissonance. This means that people want there to be consistency between their behavior and their beliefs. When someone's actual behavior is not in line with their beliefs, rather than changing their behavior people tend to justify their actions by altering their belief system (Covey, 2009). If pay for performance structures tempt employees to behave in an illegal or unethical way, rather than changing their behavior, they change their belief about what conduct should be regarded as illegal or unethical in such a way that they regard their own actions as ethical (Covey, 2009; Stout, 2013).

2.5 The demands for ethical behavior from the three ethical theories

The conclusion from the previous sections is that pay for performance leads to several large problems. In this paper I will focus on three: short-term thinking, excessive risk-taking and manipulation of numbers. Although it is clear that the aforementioned problems exist it is up until now unclear what the underlying ethical reasoning is for judging these problems right

or wrong, and what specific values are directly or indirectly hurt. Whether or not something is ethically problematic depends on the ethical framework that is applied to answer the question whether something is right or wrong (Levack et al., 2014). In this paper I will analyze the problems caused by pay for performance on the basis of the three main ethical theories: utilitarianism, deontology and virtue ethics. In order to do so I will give a description from academic literature in the following paragraphs. I will also elaborate on the demands that can be derived from the ethical theories in order to answer the question what is problematic about pay for performance according to each ethical theory.

2.5.1 Utilitarianism

Utilitarianism (Bentham, 1996; Brown, 1973; Levack et al., 2014) is the view that an action is morally permissible if the result of an action creates at least as much net happiness as every other available action. To put it differently, the more happiness and less suffering results from our actions, the better the action is according to utilitarianism. The right action is the action that contributes to the most optimal balance between happiness over suffering. According to utilitarianism every other action is morally wrong. The utilitarian thesis contains two parts: a theory about what should be regarded as valuable and a theory about what should be regarded as the right action, given what is valuable. According to utilitarianism the only things that should be regarded as valuable are happiness and the absence of suffering. The right action is the action which results in the most of happiness (Bentham, 1996; Brown, 1973; Levack et al., 2014).

In order to judge whether pay for performance is problematic from an utilitarian point of view should first be argued when something in general is unethical from a utilitarian point of view. Something is unethical from an utilitarian point of view in the situation that the chosen action (in this case the use of pay for performance structures) doesn't lead to the highest extent of happiness. In order to examine if this is the case, It should be predefined whether or not the results; excessive risk-taking, short-term thinking and manipulation lead to the highest accumulated happiness or not. I will analyze the data while looking for maximum utility/happiness and minimum suffering to answer the question whether, and to what extent, this is the case.

2.5.2 Deontology

Deontology (Kant & Gregor, 1996; Van Staveren, 2007) is an ethical theory that uses rules to distinguish right from wrong. According to deontology ethical actions follow certain laws and rules that are moral and universal. For example: the rule that one should not steal. From a deontological point of view the rightness of actions should not be judged by the results of an action, but by the question whether or not this action is in accordance with these moral

and universal rules. This means that from a deontological point of view it is not necessary to weigh the costs and benefits of a certain situation, since the only thing that matters is the answer to the question whether or not the action is in accordance with these rules. This eliminates uncertainty and subjectivity from the equation (Kant & Gregor, 1996; Van Staveren, 2007).

In order to judge whether pay for performance is problematic from a deontological point of view should be argued whether or not the use of pay for performance structures is in accordance with moral and universal rules. First should be defined what universal rules are applicable in an organizational -and in particular pay for performance related- context. Then should be defined whether or not the implementation of the aforementioned structures lead to a violation of these set basic rules. I will analyze the data and will be specifically looking for these universal rules and whether or not there are violations of these rules.

2.5.3 Virtue ethics

Unlike the previously discussed moral theories, virtue ethics (MacIntyre, 2007; Solomon, 2003; Van Staveren, 2007; Weaver, 2006) is not prescriptive in a sense that it prescribes what one should do in a particular situation. Instead, virtue ethics is about developing a moral character. Rather than following a particular rule or strive for the situation that leads to the most happiness the assumption is made that if one strives to be a good person the right actions will follow. Developing a virtuous character is always about finding what is called 'the golden mean'. According to virtue ethics any character trait can exist in excess and for every character trait there can be a deficiency. Both, excess and deficiency are called vices. For example: someone who has developed a moral character should be courageous. Courage means the willingness to reasonably put oneself in danger for a good cause. In excess, a person is reckless, that is, willing to put himself in danger without good reason or beyond all reason. The vice in the other case is cowardice, meaning an unwillingness to put oneself in reasonable danger for a good cause. According to virtue ethics a person should develop a character that strives to the golden mean in every particular situation. This is not something that is learned by textbook, but developed through experience. Therefore it is a practical wisdom (MacIntyre, 2007; Solomon, 2003; Van Staveren, 2007; Weaver, 2006).

In the case of virtue ethics it is more difficult to define how it should exactly be applied in an organizational context. I should be aware of the limits to the use of virtue ethics when using it in an organizational context. A significant shortcoming of virtue ethics in this context is that it was developed to describe what it would mean to be a good person, rather than giving a judgement about the 'goodness' of an action. This makes it hard to apply virtue ethics in organizational context because it can be argued that organizations do not possess such a character (Van Staveren, 2007).

The problem that virtue ethics is harder to apply in an organizational context is not insurmountable. Virtue ethics focusses on the development of an ethical character, and is therefore person oriented. This does not inherently mean that the use of a certain business structure, in this case pay for performance, can't be judged as ethical or unethical. An ethical action according to virtue ethics is: "[...] one that a virtuous agent is disposed to make in the circumstances in order to flourish or live well" (Whetstone, 2001, p. 103). Applying the same logic would mean that an ethical structure is a structure that a virtuous organizational designer is disposed to make in the circumstance in order to flourish and live well (Vriens et al., 2018). Furthermore, Vriens et al. (2018) argue that a virtuous structure is a structure that enables individuals to develop and exercise a moral character. Such a structure has three requirements: teleological context, deliberative context and social context. The requirement of teleological context means that the organizational structure enables individuals to gain insight about the goals and output of the organization and how they cohere with the contribution of the organization to society. The requirement of deliberative context means that individuals should be able to see the possible and actual moral consequences of their organizational actions. The third and last requirement, the requirement of social context, means that the organizational structure should enable individuals to be an active part of a social network. If an organizational structure meets these requirements it is a virtuous structure. While analyzing the data I will be specifically looking for the extent to which these requirements are met in the pay for performance structures.

2.6 The research

In the theory section I have defined what pay for performance structures are and which types of pay for performance structures do exist. In order to answer the research question this is necessary to define, because of the need to establish what are the conditions for a certain structure to be a pay for performance structure. I gave an overview of the problems that arose when using pay for performance structures. I established three: short-term thinking, excessive risk-taking and manipulation of numbers. In order to answer the question what is ethically problematic about pay for performance, it was necessary to define what problems arise when using such a structure. I established what the causes are for these problems and finally I concluded with establishing what is demanded of a pay for performance structure in order to be ethical.

The research question is: *What is ethically problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view?* Through researching the answer to this question existing knowledge is extended by deepening our understanding about the ways in which pay for performance can be seen as ethically problematic. It is already known that goal setting in organizations (which is an essential part of pay for performance structures)

leads to the fact that it becomes harder to discover the ethically correct decision (Barsky, 2008; Ordóñez et al., 2009; Schroeder & Fishbach, 2015) and easier to rationalize unethical behavior (Covey, 2009; Stout, 2013). This research adds to this existing literature by extensively considering the consequences of ethical thinking of pay for performance structures. In addition, my research adds depth to the existing literature on the implications of pay for performance structures for ethical behavior (Barsky, 2008; Covey, 2009; Ordóñez et al., 2009; Schroeder & Fishbach, 2015; Stout, 2013). The existing literature focuses primarily on the implications for ethical behavior of pay for performance structures, but do not extensively address the important question of which framework of ethics is used.

A better understanding of this moral reasoning allows us to make a better selection about measures that can be taken in order to develop pay for performance structures in such a way that the aforementioned problems do not, or to a lesser extend emerge. The purpose of this distinction is the creation of a more targeted approach in designing pay for performance structures in a non-problematic way, and deepening the understanding about the problems occurring when using these kinds of structures. The following conceptual model will be central:

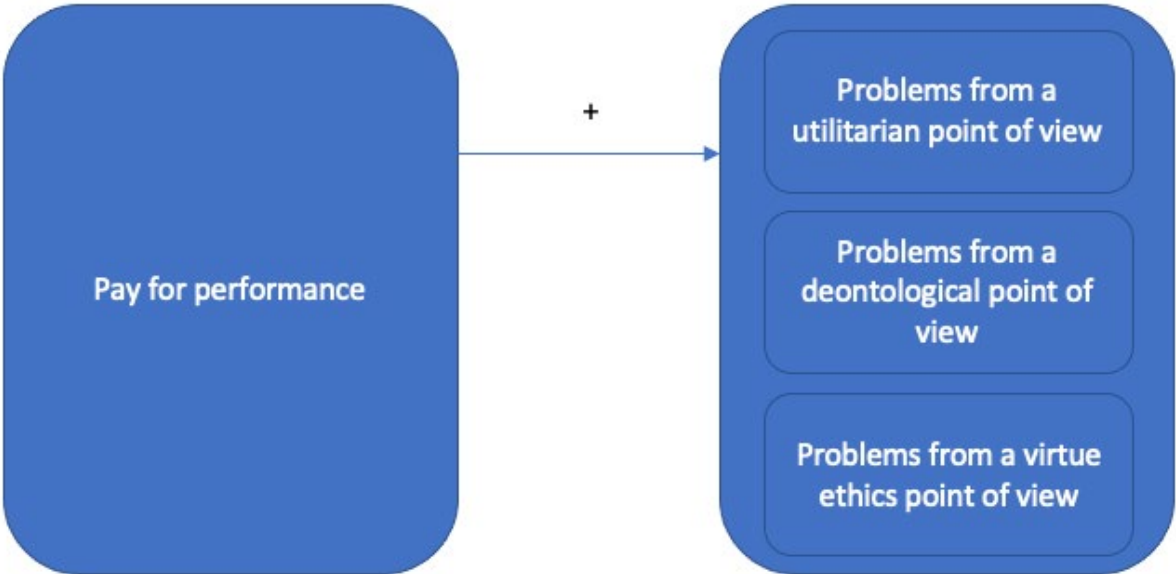


FIGURE 5 CONCEPTUAL MODEL

Chapter 3: Methodology

This chapter outlines the choices that have been made regarding the methodology of this thesis to answer the research question: *"What is ethically problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view?"* First, it will be discussed in section 3.1 how the research was designed and what methods of data collection we used. I will also explain why the different types of data sources were chosen, and give an overview of the data used. Then, in section 3.2, I will explain what exactly the data selection process was like. Then I will elaborate on the development process of the coding template in Section 3.3. In section 3.4 I will discuss how I ensured the quality of research and finally in section 3.5 I will discuss how I ensured the research ethics.

3.1 Research design and data collection

To answer the research question I have chosen a qualitative approach. Qualitative research is a type of research that focusses on the interpreting and collecting of linguistic material, with the goal to make valid statements about a predefined social phenomenon. Since I will be researching what is ethically problematic about pay for performance from a utilitarian, deontological and virtue ethics point of view, the described theory regarding the definition and types of pay for performance (1), the emerging problems and the causes for these problems (2), and the conditions that make something ethical or unethical (3) will be the starting point. Beforehand, I have identified as well as possible when to speak of pay for performance structures, and what is already known about the ethical concerns. So the starting point is partly found in knowledge about existing observations. This knowledge and these observations are currently incomplete and will need to be supplemented with the data found in the empirical part of the research. The template analysis that I have applied (which I will describe later) fits with this research which, based on the above, has both inductive and deductive elements. It is therefore appropriate to speak of an abductive research (Dubois & Gadde, 2002). I contribute to the existing literature about the ways in which pay for performance can be seen as ethically problematic. A qualitative research approach is suitable for such an expansion of theory (Bleijenbergh, 2013).

Several data collection methods can be used while doing qualitative research. Conducting a document analysis involves few costs, but the time of the researcher. Moreover, there are a lot of documents, and these documents are easily accessible and since documents endure over time it allows the researcher to cover a relatively large period of time compared to when using other methods of research. Such documents, especially in case of a research question about a particular phenomenon, like the research question in this paper, are easily found on the internet (Symon & Cassell, 2012).

Hodder (1994, p. 703) defines documents as 'mute evidence ... [which] unlike the spoken word, endures physically and thus can be separated across space and time from its author, producer and user'. This is a valuable definition because it emphasizes the ability to be separated from the author in space and time. For utilitarianism it is important to define what should be regarded as the highest level of utility. In order to answer that question some kind of consensus is needed about what should be regarded as the highest level of utility. In case of deontology general rules that people are ought to live by should be abstracted. There should be deducted some kind of consensus about what these general rules are in society. For virtue ethics there should be found consensus about what should be regarded as a virtuous character. What should be regarded as the highest level of utility, the general rule or virtuous character can be research by using these documents because they enable the researcher to cover many events over a large period of time, with information that is detailed, and without altering the things that are being measured, due to the benefits of *stability*, *exactness* and *coverage* already mentioned in the introduction.

In this study, I analyzed three data sources, including two different types of documents: newspaper articles and policy documents. The third data source consisted of interviews. Newspapers should be considered useful sources per se (Symon & Cassell, 2012). I distilled from these newspaper articles data necessary to answer the question of what is ethically problematic about pay for performance with its benefits of *stability*, *exactness*, and *coverage*. From the policy documents, I have deducted what the prevailing view is of how policies should be conducted. Policy documents provide important insight into the theoretical plans that precede practical implementation and are therefore valuable. The interviews are suitable for deriving the views of different individuals about pay for performance structures and the associated ethical problems. The interviews had the advantage that the questions allowed another level of depth to be reached and the researcher could ask exactly what was needed.

3.1.1 Which newspapers and why

Before I conducted my document analysis I defined what documents I intended to use. I intended to analyze newspapers articles. In order to obtain a quality answer to the research question from the newspaper articles one could argue that it is important that the articles are taken from a quality newspaper. In the Netherlands there are several newspapers that are generally accepted as high quality newspapers. These are: "De Volkskrant", "NRC Handelsblad", "Trouw" and "Het Fd". On the other hand one could argue that in order to abstract popular opinion, popular newspapers regardless of their quality should be used. These are: "De Telegraaf" and "Het Algemeen Dagblad" (Brants & Van Praag, 2000; Manssens & Walgrave, 1998; Schaap & Pleijter, 2012). I have evaluated the motifs to use high quality newspapers and popular newspapers, and came to the conclusions that from both types of

newspapers valuable information can be extracted. Therefore, in this paper I analyzed articles from all the aforementioned newspapers.

3.1.2 Which policy documents and why

First of all I decided to analyze a parliamentary investigation of the government of the Netherlands. The task of parliament in a modern democracy is to represent the people and their vision of a certain specific country. Since this is their constitutionally mandated task, it is a logical consequence that the reports of parliamentary treatment of issues about pay for performance and ethics illustrate ethical norms and values about suitable policy about the subject (Beetham, 2006). Therefore, I have chosen to analyze the parliamentary treatment of issues about pay for performance in order to obtain data in order to answer the research question.

In addition, I felt it was of great importance to also research the policy views of the private sector. After all, they are the ones who actually work with pay for performance structures, and they are the ones who are exposed to its pros and cons. I have therefore also included a policy paper from the Future Banks Advisory Committee, following the 2008 financial crisis.

3.1.3 Interviews

I chose to conduct two interviews as well. I came to this decision late in the process. Initially, it was not my idea to conduct interviews because I assumed that it would be difficult to get a fair picture about ethical problems that would result from pay for performance structures. After all, I assumed that someone working for an organization that uses pay for performance would be reluctant to speak out negatively about it, since people are only very reluctant to speak out about their salaries. During the process I came into contact with an ex-employee of a large Dutch bank, and an employee of a Nijmegen sales company who were willing (under strict anonymity) to cooperate in the research. As this involved only two respondents and did not precede an extensive selection procedure, I was cautious when drawing conclusions. It is therefore important to emphasize that the interviews fulfil a supplementary and verifying function in the research. Conclusions were only drawn in cases where these conclusions were also sufficiently supported in the other data.

3.1.4 Overview of the data

The table below provides an overview of the data found and used. The method of selection will be explained further on.

	Wor ktitel	Full title
Newspaper articles	AD, 1999, #1	Pleidooi ethisch ondernemen: Nieuwe werkgeversvoorzitter: Consument wordt kritischer
	AD, 2006, #1	Bonus Essent-baas niet zomaar goed te prate
	AD, 2009, #1	Soberheid sleutelwoord bij herwinnen vertrouwen klant - Degelijkheid van vroeger als norm
	AD, 2009, #2	Jeugd mag niet de dupe worden
	AD, 2011, #1	Punten zijn het nieuwe goud in het wielrennen
	AD, 2013, #1	Puinhoop bij Imtech is groter dan gedacht
	AD, 2021, #1	Werknemers op straat na overname die gedoemd was te mislukken: 'Philips heeft alle normen en waarden aan de laars gelapt'
	FD, 2010, #1	'Schaf die bonussen nou af'
	FD, 2012, #1	Door de grote bedragen in de financiële sector voelen werknemers zich bijzonder, uitverkoren
	FD, 2016, #1	Jongere ceo heeft minder ethisch besef dan topman van boven de vijftig
	NRC, 1995, #1	Hoe een man 'n bank verspeelde
	NRC, 2004, #1	'He Phil, niemand houdt van je' ; Hoe honderden Shell-managers gevangen raakten in een systeem van loze beloften
	NRC, 2004, #2	'Wel meer productie - helaas alleen water' ; Hoe 'soepel' reserves boeken het structurele verval van de Koninklijke/Shell blootlegt
	NRC, 2008, #1	Ontslag in groepjes van vijf. Er zijn geen tekenen dat het minder erg wordt;
	NRC, 2008, #2	Verlossers tasten de gezondheid aan; Column Johan Schaberg
	NRC, 2009, #1	ING geeft bonus, maar met tegenzin
	NRC, 2009, #1	We denken dat het overwaait
	NRC, 2009, #2	Zó moeilijk is het bankiersvak ook weer niet; Schinkels forum
	NRC, 2009, #3	Hoe Den Haag de banken bediende; onderzoek politiek en kredietcrisis

	NRC, 2009, #4	Oorlog voeren - maar dan met geld; Hoe bankiers de wereld bijna naar de knoppen hielpen; waarom ze dat deden; en wat kunnen ze hieruit leren
	NRC, 2010, #	'Politici kijken alleen wie de grootste heeft'
	NRC, 2011, #1	De verborgen zegen van de kredietcrisis
	NRC, 2013, #1	Wie 2,4 miljoen euro per jaar krijgt klaagt niet, maar het was veel meer
	NRC, 2014, #1	'Freddy kan mij heel dankbaar zijn'
	NRC, 2015, #1	Bankiers leven in een amoreel universum
	Telegraaf, 2011, #1	Bonusregen bankiers wekt opnieuw woede; ING-topman inde 2,6 miljoen
	Telegraaf, 2011, #2	Beren op de weg voor dikbetaald Wall Street; Brit verwacht hogere bonus
	Telegraaf, 2013, #1	Ethiek bij bankensector gaat verder dan bonus
	Telegraaf, 2015, #1	Moreel starterspakket voor topmensen bank
	Trouw, 2008, #1	Een einde aan de tergende lichtzinnigheid; financiële crisis
	Trouw, 2009, #1	Matigheid was ooit een deugd
	Trouw, 2009, #2	Een onvoorstelbaar hoogstandje
	Trouw, 2009, #3	Egoïst! Wie is hier onbaatzuchtig?
	Trouw, 2010, #1	De banaliteit van de manager
	Trouw, 2011, #1	'Er was behoefte aan een leerstoel financiële ethiek'
	Trouw, 2012, #1	Een integere psychopaat; Vertrouwen in banken Essay van bankencrisis naar landencrisis in 10 beslissende data
	Volkskrant, 2009, #1	Manager kan de wereld verbeteren; Bestuurlijke elite 'Hogere maatschappelijke waarden dienen ook de belangen van de aandeelhouders'
	Volkskrant, 2009, #2	Bonuscultuur nog niet gekraakt
	Volkskrant, 2014, #1	We want more
Page numbers		121 pages
Policy documents	Parlementair onderzoek financieel stelsel, 272 pages	
	Adviescommissie toekomst banken, 60 pages	

Interviews	Transcript medewerker grote Nederlandse bank (72 minutes, 18 pages transcript)
	Transcript medewerker Nijmeegs salesbedrijf (38 minutes, 14 pages transcript)

FIGURE 6 OVERVIEW OF THE DATA

3.2 Source selection methods

To find the newspaper articles, an appropriate database was used through Radboud University, called Nexis Uni. The database includes newspaper articles from the newspapers that were selected. To separate the relevant articles from the less relevant and irrelevant articles, a scoping study was conducted as described by Tranfield et al. (2003). This scoping study actually manifested itself in a number of steps. The central keywords 'reward', 'bonus', 'ethics' and 'ethical' were chosen. Primarily these central keywords had to appear in the title, but I soon extended this to the abstract. I first analyzed the articles that came up. Then I used the same strategy, only I let the search engine search the whole text and ranked the results based on the frequency of occurrence of the keywords and the variety of the selected keywords. This gave sufficient results to base solid conclusions upon.

To select the policy documents, I initially determined which organizations I wanted to examine policies of. I then selected the government and the private sector. I initially looked for the most meaningful policy document to come from the government. After thorough research, I found that a parliamentary inquiry, a heavy instrument that can be used by the Dutch parliament to investigate a particular incident, had been held about the most pressing example of pay for performance related problems, namely the European debt crisis. I selected this document because it met the requirements that had been set for policy documents. Secondly, I looked for a policy document related to pay for performance for the private sector. The Advisory Committee on the Future of Banks was mentioned several times in the articles, and there were also several references to it in 'Parlementair onderzoek financieel stelsel'. As a result, this report was also selected as a document.

As indicated earlier, in the middle of the process I decided to supplement the data with interviews. I selected respondents based on availability and took advantage of the limited opportunities available. This posed a challenge from a methodological point of view, but I took care to draw conclusions based on the interviews only if there was sufficient justification for doing so, considering the completeness of the data.

3.3 Data analysis procedure

3.3.1 *Template analysis*

From the newspaper articles, the policy documents and the interviews I extracted a large amount of data. In this thesis it has been necessary to reduce the data that was acquired from the aforementioned sources to useful data with a high pragmatic validity. In order to do so have performed a template analysis. A template analysis is a specific type of analysis that tends to find the balance between flexibility to adapt to the needs of a particular study on the one hand and the high degree of structure in the process of analyzing textual data on the other hand. The development of a coding template was central to this approach. The essence is that the researcher develops a coding template, usually on the basis of a subset of the data, and then applies it on the further data, while revising the template and reapplying it (Symon & Cassell, 2012). Template analysis allows for inductive and deductive coding at the same time. It gives the researcher a lot of freedom when regarding what and how many basic concepts there should be, and how many levels there are in the analysis. I have used it in this research because it provided me with enough room to make certain presumptions based on existing theory, but adjust these assumptions on the way (Symon & Cassell, 2012). To find the relevant codes, the research question and the theoretical concepts were central.

3.3.2 The development process of a coding template

The following overview clearly shows the process of developing the coding template:

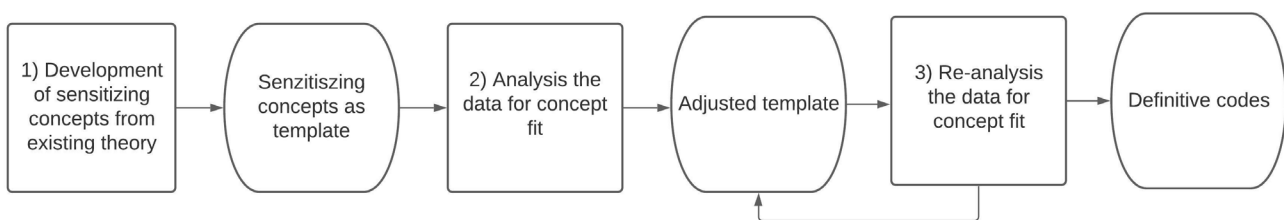


FIGURE 7 OVERVIEW OF THE CODING TEMPLATE DEVELOPMENT PROCES

Step 1. In order to research what is ethically problematic about pay for performance from a utilitarian, deontological and virtue ethics point of view it is important to introduce sensitizing concepts. Sensitizing concepts are concepts that give the user a general understanding and working direction on how to reach a truth-based outcome of this paper. They draw attention to important topics related to social interaction and provide direction for the research in specific settings. The sensitizing concepts possess the ability to be evaluated through the course of the study or if a definitive concept is found and whether or not it is possible to drop the sensitizing concept (Blumer, 1954; Bowen, 2006; Van den Hoonaard, 1997). The development of the sensitizing concepts was the first step in the process. In this paper I have researched what is ethically problematic about pay for performance starting off with five sensitizing concepts:

- Concepts used to recognize pay for performance;

- Concepts used to recognize problems because of pay for performance;
- Concepts used to recognize ethical judgements from a utilitarian point of view;
- Concepts used to recognize ethical judgements from a deontological point of view;
- Concepts used to recognize ethical judgements from a virtue ethics point of view.

They will be structured in the following table:

to recognize pay for performance	<ul style="list-style-type: none"> • Goals/targets/desired outcomes • Reward of a financial nature • Merit pay • Lumpsum bonus pay • Piecework performance plan • Profit sharing plan
to recognize problems because of pay for performance	<ul style="list-style-type: none"> • Excessive risk-taking • Short-term thinking • Manipulation of numbers • (...)
to recognize ethical judgements from a utilitarian point of view	<ul style="list-style-type: none"> • Maximum utility/happiness • Minimum suffering
to recognize ethical judgements from a deontological point of view	<ul style="list-style-type: none"> • General moral rule (maxim) • People used as means
to recognize ethical judgements from a virtue ethics point of view	<ul style="list-style-type: none"> • Virtuous character traits • Vices • Golden mean traits • Teleological context • Deliberative context • Social context

FIGURE 8 OVERVIEW OF THE SENSITIZING CONCEPTS

Step 2. Once the sensitizing concepts were established, I started coding the data. Gradually it became clear that the sensitizing concepts formed a convenient starting point, but that various codes had to be added to the coding template. Because certain passages in the data gave rise to new codes, the final coding template became increasingly elaborate and was revised at certain points.

Step 3. After going through the data completely the first time, a problem arose. The coding of the data analyzed later had been done with a more elaborate coding template than the coding done at the beginning of the analysis process. Therefore, I chose to use the final coding template to analyze the data again so that all the data was finally coded using the same

coding template. This proceeded as an iterative process. Hence the arrow back from 'step 3' to the 'adjusted template'. In the end, all data was coded with the same final coding template shown in the diagram below:

Level 1	Level 2	Level 3
Nature of pay for performance	Positive aspects pay for performance	Reason pay for performance
		Necessity pay for performance
	Defining pay for performance	Reward of a financial nature
		Alternative form of pay for performance
		Standard pay
		Goals/targets/desired outcome
		Merit pay
		Lumpsum bonus pay
		Piecework performance plan
		Profit sharing plan
Nature of ethics	Virtue ethics	Golden mean traits
		Virtuous character traits
		Vices
		Teleological context
		Deliberative context
		Social context
	Definition of ethics	
	Deontology	General moral rule (maxim)
		People used as means
	Utilitarianism	Minimum suffering
Maximum utility/happiness		
Occurrence unethical behavior	Excessive risk-taking	
	Manipulation of numbers	
	Short-term thinking	
	Amorality	
	Moral hazard	
Causes unethical behavior	Problems with regulation because of the lobby	
	Profiling	
	Following algorithms without question	
	Ango-saxon vs Rhineland model	
	Absence of culpability	

	Conflicts of interests	Tension between self-interest and corporate interest
		Tension between self-interest and societal interest
		Tension between shareholder interest and societal interest
		Tension between self-interest and shareholder interest
		Tension between shareholder interest and corporate interest
	Social pressure	
	Focus on shareholder value	
	Causes financial crisis	
	Too many managers	
	Excessive regulation	
Mismatch between knowledge managers and knowledge workforce		
Poor decision making because of high pressure		
Perverse incentive		
Excuses behavior	unethical	Wrong assessment of targets
		Wrong implementation of pay for performance
		Excuses of utilitarian nature
Solutions behavior	unethical	Improving social climate
		Improving circumstances for ethical thinking
		Solution moral hazard
		Solution unethical behavior

FIGURE 9 CODING TEMPLATE

As can be seen from the coding template, I ended up working with six main themes:

1. Nature of pay for performance;
2. Nature of ethics;
3. Occurrence of unethical behavior;
4. Causes of unethical behavior;
5. Excuses unethical behavior;
6. Solutions unethical behavior;

Nature of pay for performance. This main theme includes quotes that answer the question why pay for performance structures are actually used. In addition, I have used this theme to recognize when there are pay for performance structures and in what format and how frequently these structures occur in practice.

Nature of ethics. This main theme includes quotes that answer the question from which ethical framework an answer is formulated about the question what is ethically problematic about pay for performance. These final codes correspond to a large extent to the findings from the sensitizing concepts

Occurrence of unethical behavior. This main theme includes quotes showing how unethical behavior appears in practice. In addition to the negative consequences of pay for performance revealed in the literature, other negative consequences follow from the data. I will discuss these in more detail later.

Causes of unethical behavior. This main theme includes quotes that answer the question why unethical behavior occurs. I also used various codes to further explore the tension that exists between interests. What stands out is that many results of pay for performance structures are the cause of unethical behavior. Again, I will return to this later.

Excuses unethical behavior. Many excuses are used to justify unethical behavior. This main theme includes all quotes that express how this happens.

Solutions unethical behavior. In the data, various solutions are put forward that could be applied to prevent pay for performance structures from leading to unethical behavior.

3.4 Quality of research

There are several ways to refer to the quality of research in the case of qualitative research. In quantitative research, one speaks of the requirements of reliability and validity when evaluating the quality of research. Although many authors (Glaser et al., 1968; Guba & Lincoln, 1989; Leininger & Reynolds, 1991) use other terms to evaluate the quality of qualitative research, the terms validity and reliability are also appropriate for qualitative research (Brink, 1993; van Zwieten & Willems, 2004). In the next two sections, I will reflect on how reliability and validity were ensured in my research.

3.4.1 *Reliability of the research*

According to Brink (1993), four different components can threaten the reliability of qualitative research: the researcher (1), the subject participating in the research (2), the social context (3), and the methods of data collection and analysis (4).

Ensuring reliability and the researcher. There is a risk that because of bias, the researcher may be biased in the research results (Brink, 1993). In order to convince the reader that a possible bias did not stand in the way of doing objective research, I have been as

transparent as possible in describing the data used. In section 3.1.4 I have given an overview of the data on which I have based my conclusions, including their finding places. It is possible to take the raw data and check to what extent the conclusions I have drawn from them can be considered correct. This enhances the reliability. I have also attached the transcripts of the interviews (anonymized) for the sake of transparency. In this way the verifiability of my research is guaranteed.

Ensuring reliability and the subjects participating in the study. The transcripts of the interviews have been added as an appendix for verification.

Ensuring reliability and the social context. At several points in my research, I provided an explicit description of the context in which the effects of pay for performance were described. I also discussed at length the context in which the ethical implications of pay for performance were described in the limitations of research.

Ensuring reliability and methods of data collection. I described why and how I selected the documents. I did a scoping study as described by Tranfield et al. (2003), which is considered an authoritative way to reliably collect and select data that should be considered appropriate. In doing so, I used search terms that fit the research question.

Ensuring reliability and methods of analysis. In section 3.3 I presented the process of analysis in an orderly fashion. This was an iterative process, and the data analysis was not linear, but I described the process as clearly and concisely as possible. This gives the reader the opportunity to assess the process of analysis and therefore determine for themselves the reliability of the conclusions. I have also discussed the coding template in detail, thus providing insight into how I structured the data to ultimately arrive at the conclusions. The quotes and the finding places of the quotes are also documented in detail.

3.4.2 *Validity of the research*

The central question I sought to answer in this study is the following: *What is ethically problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view?* To formulate an answer to this stated question, I analyzed newspaper articles, policy document, and interviews.

Validity of the research methods. To ensure the validity of the research methods, I first made sure that the concepts I used in the study were adequately defined. All terms were carefully defined in chapter 2 and these descriptions were based on thorough literature review. Second, I took care to ensure that all relevant research elements were adequately represented in my study. For instance, I carefully chose sensitizing concepts based on the literature review that preceded the study, and in accordance with the guidelines of template analysis as described by Symon and Cassell (2012). I partially revised these sensitizing concepts, and partially supplemented them. To ensure that the interview questions that were used measure

what they are supposed to measure, the design of a semi-structured interview was chosen. In doing so, I took into account the requirements as revealed by the authoritative literature to ensure its validity (Kallio et al., 2016). To ensure that incorrect conclusions were not drawn due to uniformity of the data collected, I based conclusions only on insights that emerged from both the articles, and the policy documents, and the interviews.

Validity of respondents. Respondents were sought to conduct the interviews with. In the case of this study, interviews were conducted with only 2 respondents. At first glance, that number of respondents seems very small. However, it is important to emphasize that the interviews in this study were only supplemental, and verifying in nature. In the analysis, I explicitly and consciously took into account the different backgrounds of the respondents, and the associated potential coloration of the findings. The results from the interviews were critically examined against the background of the rest of the data, and conclusions were only drawn from the interviews if they were sufficiently supported by the other data sources.

Validity of data collection. To ensure that the data collected met the requirements of sound research, I used data collection methods considered appropriate in the academic literature. I proceeded before and during the search for appropriate documents following the requirements of the scoping study as described by Tranfield et al. (2003).

Validity of data analysis. As already described in chapter 3, I initially worked with sensitizing concepts. According to that literature, this should be considered a suitable way to determine a certain working direction in advance (Blumer, 1954; Bowen, 2006; Van den Hoonaard, 1997). After the sensitizing concepts have been developed and the data collected, coding according to the template analysis is done simultaneously inductively and deductively, which gave us the freedom to code from the starting point of the sensitizing concepts gradually in an increasingly complete way. This led to the final codes described in Chapter 3. Although the final codes I used supplemented the sensitizing concepts to a large extent, the core of the codes still consists of five concepts: concepts used to recognize pay for performance, concepts used to recognize problems because of pay for performance, concepts used to recognize ethical judgments from a utilitarian point of view, concepts used to recognize ethical judgments from a deontological point of view and concepts used to recognize ethical judgments from a virtue ethics point of view. To code the data I systematically followed the requirements set in the literature and used a suitable software program.

3.5 Research ethics

Research ethics should be regarded at the highest level of importance since it could be of circumstantial influence on research decisions and results (Israel & Hay, 2006). In order to make sure that research ethics have been taken into account the guidelines from the Netherlands Code of Conduct for Research Integrity were applied. This code specifies five

basic principles of research integrity that a good research should adhere to. These principles are: honesty, scrupulousness, transparency, independence and responsibility (Bouter, 2020). In this paper I reported accurately about the research process. In order to write a paper that is honest, I used methods that are fit to measure the phenomenon to ensure scrupulousness, I was transparent about the way data was collected and how the results were achieved to ensure transparency, I only based the choice of methods on scientific and scholarly considerations to ensure independence, and I behaved responsible by doing research that is scientifically and practically relevant.

Specifically for this study, it is relevant to note the following about the method of translation. The data sources were exclusively in Dutch, and the paper was written in English. This brings with it the challenge of translating the relevant material, including the quotes, in a way that does not compromise research ethics. With regard to the interviews, there was an additional challenge now that the transcripts are a verbatim representation of what was said by the respondents. To ensure sound research ethics, I imposed two conditions on the translations: 1) The grammatical translation should not deviate from the original text, and 2) the nature and intent of what was translated should not deviate from the original text. I have taken great care to ensure that each translation reproduced in this paper meets the aforementioned requirements.

Chapter 4: Analysis

4.1 Types of pay for performance

In Section 4, I will discuss the analysis of the data. I will begin in Section 4.1 by discussing the basic characteristics of pay for performance structures and discuss in what form, and with what frequency, I encountered these structures in the data. In Section 4.2, I will reflect on the problems that pay for performance causes as evidenced by the data. In sections 4.3, 4.4, and 4.5, I will discuss what the data shows about the extent to which pay for performance is problematic from the perspective of utilitarianism, deontology, and virtue ethics, respectively.

4.1.1 Basic elements of pay for performance structures

In order to speak of pay for performance, there must first be certain goals, targets and desired outcomes. The data initially revealed the following about the nature of these goals. Targets are mostly quantitative. Qualitative elements in targets therefore have less room. It shifts focus from what is unmeasurable to what is measurable. In most cases these are profit and shareholder value. Within the hardness of these numbers, there is no room for ethical issues. This is most clearly expressed in the following quote: *My task is simple, said the interviewees, because I have to make the highest possible profit within the law for the shareholders who own my bank. Discussions about "right" and "wrong" are simply not held, they explained* (Joris Luyendijk, journalist and author of 'Dit kan niet waar zijn', summarizing several interviewed bankers from the London city, NRC, 2015, #1). Yet the data reveal various forms of alternative targets. According to the data, the problem with these targets is their measurability, as reflected in the following quote: *Traditionally, a CEO does nothing more than look after the interests of shareholders, acting legally and ethically right. Other standards show a new way of thinking, but I doubt how radical it is. Does customer satisfaction and sustainability earn you 10,000 euros or 5 tons?* (Boudewijn de Bruin, professor of financial ethics at the University of Groningen, NRC, 2013, #1). What also stands out is the problem that targets are sometimes unrealistic. The demands are constantly being increased and this leads to increased work pressure. For example: *Former Philips sales manager Maurizio says he soon had to deal with unachievable targets for bonus agreements. I had to explain to my people that they had a target of 15 million euros and only 12 million euros worth of products to sell. Even if they sold all of it, a bonus was out of the question* (Former Philips sales manager Maurizio Cappiello, AD, 2021, #1). This work pressure can lead to unethical behavior: *'With that, you come under very great pressure,' said an insider. 'If you pay people for their individual performance, then you're actually paying them to gamble with your money.'* (confidante of

Nicholas Leeson, a banker who was single-handedly responsible for the failure of a major English bank NRC, 1995, #1)

In the vast majority of cases, the assumption that pay for performance manifests itself with the element of a reward of a financial nature is correct. However, there are also various forms of alternative rewards. Examples include: days out, prizes and vacations, as various elements in the data show: *Then the other day there was a challenge... you just had: the more coupons that you wrote, the bigger the prize. The biggest prize was a trip to Ibiza. Then you had to write 32 coupons in 2 weeks I think* (Transcript medewerker Nijmeegs salesbedrijf).

4.1.2 Manifestations of pay for performance in the data

By far the most frequently encountered form of pay for performance is lumpsum bonus pay. As already indicated, one reason for this could be that because of the exorbitant amounts, this form makes most heads turn. After lump-sum bonus pay, forms of profit sharing were most frequently encountered. The following quote to illustrate: *The typical bank employee can count on a thirteenth month and a profit share (and at ABN Amro until recently a fourteenth month) and a discount on financial products. An interest rate discount on the mortgage of 30 percent makes a quick net difference of 3,000 euros on an annual basis for a mortgage of four tons. That is essentially a fifteenth month* (Maarten Schinkel, investigative reporter at NRC, NRC, 2009, #2). Piecework performance plans were often seen in the interviews, but less often found in the newspaper articles and policy documents. An example of the following: *Those were all different items. So it could be that you did get 1 or 2 or 3 items and you got a bonus over that and you didn't get an item, and then you got less bonus. And if you got them all, then you would get paid for all of them* (Transcript medewerker grote Nederlandse bank). In the data I did not find a single instance of merit pay. In the interviews I explicitly asked about it only these forms did not appear there. A possible explanation for the absence of this form in the articles could be that it does not turn as many heads as the amounts paid out in lump sum bonus pay.

The following figure contains a schematic view of the frequency in which the different types of pay for performance occurred:

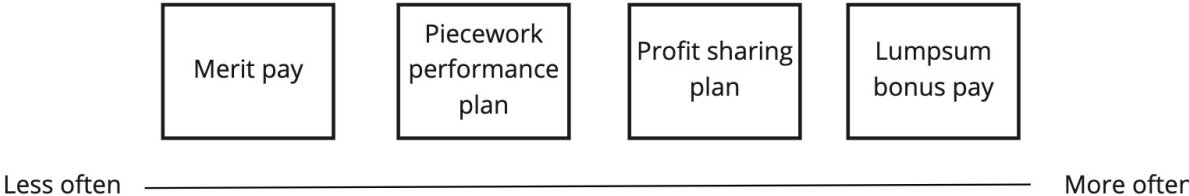


FIGURE 10 OVERVIEW OCCURENCE TYPES OF PAY FOR PERFORMANCE

4.2 Problems because of pay for performance

4.2.1 Excessive risk-taking and moral hazard

It can be seen very clearly that pay for performance leads to excessive risk-taking. The working mechanics of this are very clear from the data. There is a certain chance that negative consequences will occur, but also a chance that positive consequences will occur. If the person does take the risk, he gets a bonus. If he does not take the risk, he gets no bonus. This is regardless of the outcome, because if the negative consequences occur, the risk is borne by someone else. There are several examples of this mechanism in the data: *There is no bonus-malus system in it; it is only bonus. So the system basically has only upward potential. If you toss heads, it means you win. If you toss tails, it means the bank loses* (Van der Meer Mohr, head of staff at ABN AMRO 2006-2008, Parlementair onderzoek financieel stelsel).

In addition, the data also shows the following mechanism: if a manager performs well, he or she receives a bonus. If a manager does not perform well, he or she is fired, but in the banking world it was very common for a so-called "golden handshake" to be given. This is a sum of money that the manager receives when his employment comes to an end. This creates a win-win scenario for the manager. He either gets the bonus or the golden handshake. The degree of risk he takes makes little difference to him. Either the negative consequence occurs, in which case the manager will earn a lot of money, or the negative consequence does not occur, in which case the manager will earn even more money. An example to illustrate this is the following quote: *The biggest perverse incentive of bonus policy is the following. When one performs well, one gets a bonus. That's fine. That doesn't necessarily lead to taking the wrong risks. But if your company is doing badly and you are kicked out as ceo, cfo or chief risk officer, then you get a golden handshake. And that has happened a lot in the past* (Maas, chairman of the Advisory Committee on the Future of Banks and former member of the Executive Board of ING, Parlementair onderzoek financieel stelsel).

Instead of acting carefully, managers start considering the extent to which they can get away with certain forms of high-risk behavior. So the essence shifts from acting ethical towards getting a bonus and getting away with high-risk behavior. To illustrate: *you'll see, regarding those dashes where when in doubt I normally do not overtake, you get the phenomenon: can I get away with it? Yes? Then I count it* (Transcript medewerker grote Nederlandse bank).

Other lines of arguments contain the following: *Economics is not a science, but an art. It is a craft that we have not yet fully mastered. Depending on the context, the outcomes may be different. Modesty would suit us. The people in charge really believed they knew what they were doing* (W.R. White, former economic advisor to the Bank for International Settlements in Basel, Parlementair onderzoek financieel stelsel) and *There are too many people in the financial world who make all kinds of decisions and big statements without realizing how limited their knowledge is. Not that they are deliberately cheating, but they believe themselves too often, and too quickly* (Boudewijn de Bruin, professor of financial ethics at the University of

Groningen, Trouw, 2011, #1). The previous is worth noting. The data shows that it is not only deliberate risk-taking that has caused problems in the past. The data shows sufficient reason to assume that in many cases the risks were not known. That points to culpability on the part of those who set the targets as opposed to unethical behavior on the part of those who try to meet them.

4.2.2 Short-term thinking

The problem that pay for performance structures lead to short-term thinking at the expense of long-term thinking is confirmed by the data. The mechanism operates at two levels. First, there is the individual level. This way of thinking is characterized by the reasoning: if I achieve my goal, I get my bonus. An example of the individual level in the data: *Every manager is only thinking about his bonus," confirms a young banker from a medium-sized bank, "and everything is focused on the short term as a result."* (A young banker of a medium-sized bank, NRC, 2008, #1). Second, there is the group level: people temporarily enjoy greater economic growth, or get mortgages more easily in the short term, but in the long term this system is not sustainable. This is illustrated in the following quote: *The problem is that the homebuyer does benefit in the short term, while all of us are harmed in the long term* (George Möller, former Chairman of the Supervisory Board of the Netherlands Authority for the Financial Markets, FD, 2012, #1). The individual level appears to be expanded through the use of pay for performance structures. A transition can be seen from focus on a group, corporate or societal interest to a focus on individual interest, as is illustrated in the following passage: *If you are in derivatives or bond trading, you are trading as an individual. You just want to make as much money as possible. No one is watching the "big picture," let alone political or social consequences. Such a trader knows two things: 90 percent of his bonus is related to the risk he takes, and his individual contribution to the collapse of the company is perhaps only 2 percent. So what does he do? He focuses on only one thing: Make that profit come to me.* (Sony Kapoor, a former investment banker at Lehman Brothers and others, NRC, 2010, #1).

A form of moral hazard can also be recognized in short-term thinking. The short-term benefit of the bonus is for the employee guilty of short-term thinking, while the long-term consequences are passed on to the organization or society, as illustrated here: *There is no penalty: those who make a profit get their bonus, but if that profit leads to major problems later, then at most there is no, or a smaller, bonus* (Maarten Schinkel, investigative reporter at NRC, NRC, 2009, #2). The short-term consequences for the people who temporarily benefit from the advantages of short-term thinking ultimately do not outweigh the damage they themselves suffer be it directly, be it indirectly. An example of this is people who are granted business loans in the short term, which they ultimately can't afford on the long term: *I've experienced that it was really accepted that a business plan in the form of three sheets of paper was put*

down and so 25 000€ was given away on that, because the system at a certain point, and they knew it, up to 25 000, because we had too much money as a bank at that time, so we could easily extend those business loans, and that went out at 10 or 11%, so that was quite a nice moneymaker for the bank. There were just loans put out, for 25 000€ that I think: sorry.... are we going to get this money... we are never going to see this money again. But yes, you got away with it, and you were being directed at it, because it's 25 again, 25 again, I have to have 10 of these things this three months, because that's when I get my bonus (Transcript medewerker grote Nederlandse bank).

Remarkable in that respect are the findings at the Nijmegen sales company, where explicitly much emphasis is placed on quality. Specifically in that situation, a bonus is only awarded if the quality is high. Specifically in that sales company, that means the following: a client who has registered to receive a certain service may not unsubscribe within two weeks, because then the salesperson will not receive the bonus: *Then you had to write 32 coupons in 2 weeks I think. But then again, your quality must be high, so your dropout rate can't be too high. That is, if you have registered someone, they always have 2 weeks of consideration. And if someone deregisters within those two weeks, then your quality drops (Transcript medewerker Nijmeegs salesbedrijf)*

4.2.3 Manipulation of numbers

The perception that the use of pay for performance structures leads to the manipulation of figures is confirmed by the data. Several variants of this are evident from the data. In some cases the desire to achieve a target actually leads to fraudulent practices, but even more often models are filled in in a rosy way, or an attempt is made to artificially inflate figures, because the way in which the figures are counted is not always unambiguous. A quote that illustrates this is: *But Holtrop sees a great danger, which is later realized. He fears a polluting effect: "Managers are encouraged to make their performance look nicer than reality, because then they got a higher bonus. Dangerous fashion, I said. Dead wrong, said Dijkgraaf. Everyone does that."* (Henk Dijkgraaf, director of Gasunie, former member of Shell's EP board, NRC, 2004, #1). In addition, the situation develops that a person performs certain actions that make the result desirable on paper, but it is already known in advance that this action will not be of real benefit to the organization. An example of this is the opening of an extra bank account, knowingly that the bank account will never be effectively used, and that it will even lead to a negative result for the organization: *The final conclusion is that the organization does end up selling a little more, or on paper selling more, because of course there were a lot of things closed that were not used at all (Transcript medewerker grote Nederlandse bank).*

The same thing happens according to the data when dealing with less measurable targets. In the data there are several examples of situations that through knowledge of the

method of measurement, the results turn out differently because of a certain manipulation of a variable. An example of this is the measuring of valuable product extracted from an oil well: *But when my boss gave a presentation of our work to upper management, he deadpanned that good production results were being achieved, and additional oil had been found. That was simply untrue. More production was achieved - but unfortunately that was only water,"* says De Koning (Willem de Koning, former production technologist at Shell, NRC, 2004, #2).

4.2.4 Amorality

According to the data, setting targets undermines the moral compass of the employee. Because someone else, namely the manager, has already determined what is 'desirable' in a certain situation, the employee no longer takes the trouble to think critically about the correctness of an action. Because targets are set from above, employees assume that these targets are also desirable. According to the data, setting targets has the effect of making people less critical in determining the ethical correctness of actions, because the assumption is that what the target is, is also morally correct. The refusal to think themselves about the ethical correctness of their actions is illustrated by the following quote: *The point is that Arendt puts us on the trail of creeping forms of evil, which stem from a refusal to ask one simple question: 'What am I actually doing?'* (Govert Joan Buijs, professor of political philosophy and philosophy of life at the Vrije Universiteit in Amsterdam, Trouw, 2010, #1).

The same applies to regulations. The data gives rise to the conclusion that because it is assumed that the legislator has already made a fairness assessment the simple following of the legal rules grants moral discharge, as illustrated in this example: *The financial sector is the most regulated sector there. That only leads to people not even having the awareness that they are doing something wrong. The only thing that is considered is whether something is against the rules. The moral is that everything is permitted if it is not forbidden* (George Möller, former Chairman of the Supervisory Board of the Netherlands Authority for the Financial Markets, FD, 2012, #1).

The holistic approach to good employeeism disappears from the scene the moment target enters. Targets must be approached as a management-imposed value judgment about what is important. As a result, they are studied in terms of the interests they represent: profit and shareholder value, and the emphasis of those things that the targets do not emphasize disappears: *He concludes that because of the bonus culture, employees flourish who focus only on meeting targets* (Paraphrase of the doctoral dissertation of former ABN Amro personnel manager Kilian Wawoe by investigative journalist Anne de Groot, FD, 2010, #1).

4.3 Ethical judgements: a utilitarian point of view

As shown in Chapter 2, utilitarianism assumes that something is good when it provides the highest level of utility or happiness, and the lowest level of suffering. Specifically, when applied to pay for performance, the situation would be optimal if the interests of managers and employees coincided with the interests of society.

4.3.1 Ethical problematic elements

According to the data, there are the following conflicts of interest:

1. Tension between self-interest and corporate interest;
2. Tension between self-interest and societal interest;
3. Tension between self-interest and shareholder interest;
4. Tension between shareholder interest and society interest;
5. Tension between shareholder interest and corporate interest.

Tension between self-interest and corporate interest. What is good for the manager or employee is not necessarily what is good for the company. An example of this is illustrated in the following quote: *He gets his bonus even if he does a bad job. In the 1990s, I was reproached by an investment banker that the Amsterdam stock market was deflating. I said to him: do you know why that is? The option packages. In the event of a takeover, the stock price shoots up and a top executive who is not performing well can still cash in at the end of his career. The interest of the top executive and the company then diverge* (George Möller, former Chairman of the Supervisory Board of the Netherlands Authority for the Financial Markets, FD, 2012, #1). In this example the interest of a manager is earning as much money as possible, whereas the interest of the company is sustainable continuity. As illustrated those two interest do not align. Another example of this is illustrated by the following: For example, a manager or employee will present numbers in the short term as nicer than they are. This is good for the manager or employee, but in the long run it can lead to fundamental problems because the accounting is not correct.

Tension between self-interest and society's interest. The manager or employee may make certain decisions because then he will get his bonus, but that may not be the optimal decision at all for the greatest number of people. There are plenty of examples to be found in the data. One example is the following: *After all, chasing high bonuses was one of the causes of the financial crisis of 2008, leaving bank customers and taxpayers with the mess* (Editors, Volkskrant, 2009, #2). 'Taxpayers' here should be interpreted as a synonym for general interest, or societal interest, since it reflects the entire population. The personal interests of managers and employees have led to a situation that is not in the interest of society as a whole. Therefore, this example illustrated that self-interest and societal interest do not align.

Tension between self-interest and shareholder interest. The interests of shareholders are to receive dividends, the rise of the share price, and the associated continuity of the company. Before the banking crisis, risky derivatives were traded at a high profit because it gave the bankers a bonus. Eventually this high risk led to the bankruptcy of the financial institution. Bankruptcy is contrary to shareholder interest, but was caused by self-interest. In the data this can be found in, among others, the following quote: *Top executives have not sufficiently realized that by ignoring higher social interests they also ultimately harm the interests of their shareholders. Those who take a broader view create more long-term shareholder value* (Jaco Luijendijk, former employee in a pharmaceutical wholesaler for developing countries, Volkskrant, 2009, #1).

Tension between shareholder interest and societal interest. Shareholders' interest is in dividends, stock price appreciation and continuity. These interests may not be aligned with the societal interests. The following quote is a recommendation from a committee that evaluated the financial crisis. They came to the following conclusion: *The Committee supports initiatives to achieve sustainable shareholdership, such as loyalty dividend, increased voting rights, etc., aimed at long-term value creation. This will enable shareholders to exercise their rights and duties in a responsible manner* (The Temporary Committee to Investigate the Financial System, Parlementair onderzoek financieel stelsel). From this quote can be deduced that short-term shareholder interest did not align with societal interest, since the recommendation was that shareholder interest and long-term value creation should be aligned to a greater extent.

Tension between shareholder interest and corporate interest. *Finally, shareholders in financial companies have also focused primarily on creating short-term shareholder value. This has ensured that long-term objectives for the financial institution, such as sustainability and continuity, have in practice become of more secondary importance* (The Temporary Committee to Investigate the Financial System, Parlementair onderzoek financieel stelsel). The previous quote is an excellent example of such a contradiction of interests. The interest of shareholders: profit and dividend, does not align with the interests of the company: sustainable continuity.

4.3.2 Utilitarian excuses ethical problems

The ethical issues from a utilitarian perspective can be found in the fact that the use of pay for performance structure do not lead to the highest level of utility. There is evidence of several excuses for unethical behavior present in the data:

The service/product that I offer favors the consumer. The line of reasoning is as follows: The customers are using an inferior service, or they are not using the service at all. Ultimately, the customer benefits from the service I provide, even if that delivery only comes

about because I do unethical things. An example of this from the data is the following: *And with optical fiber, you do sell a better service. And to sell that service, shady or dirty things do happen. But at the end of the day, I think those people, because people actually do it too only if they're going to pay less, which is also 9 times out of 10, and they get a better service* (Transcript medewerker Nijmeegs salesbedrijf)

Bonuses are necessary to attract suitable people. The line of reasoning is as follows. Society as a whole benefits from competent people on the right places. It is needed to take part in the bonus culture to ensure that the competent people are in the right place. This mechanism is shown in the following statement: *ING gives as an argument for the bonuses that it cannot run an international business without high rewards. The annual report even mentions concerns about the competitiveness of the level of executive pay. ING's top executives are said to earn too little compared to other international companies* (Editors paraphrasing annual report, Telegraaf, 2011, #1).

4.3.3 Other excuses ethical problems

In addition to the excuses that are utilitarian in nature, there are also excuses that are general in nature, and do not align with utilitarianism. Those excuses are listed below:

I can't change the system anyway. This excuse can be used as an excuse to receive pay for performance at a level that is regarded as inappropriate. An example of this can be seen in the following statement: *What do you want then, he said. That I refuse my bonus with a grand gesture? That wouldn't change anything about the system as a whole, but it would make me the pariah of my department in one fell swoop* (Anonymous banker from the City of London, NRC, 2015, #1).

I am not responsible for the choices someone else makes. This excuse can be recognized in the following statement: *This righteous anger at the selfishness of bonus-creating bankers reduces the credit crisis to a simple scenario of villains and victims, when it is much more complicated. There was a system of absurd, albeit legal, money-lending constructions in which not only top executives amassed enormous profits, but everyone lower down in the hierarchy also profited. Even the starter on the housing market with a meager salary said 'yes' to easy money* (Beatrijs Ritsema, Dutch columnist and social psychologist, Trouw, 2009, #3). The reasoning that can be deducted from this quote is the following: people have chosen to be benefited from a system that in the end backfired, but they took the risk willingly, and knowingly.

4.3.4 Nuances of ethical problems from a utilitarian point of view

One could argue that several nuances emerge from the data regarding the utilitarian point of view. As already mentioned: what is ethical according to utilitarianism is the thing that delivers the most utility. The data supports evidence that pay for performance is ethical from a utilitarian point of view because two mechanisms have a correcting effect on the situation that the highest amount of utility is not reached, and lead to the situation that the highest level of utility is reached:

The corrective effect of reputational damage. The reasoning is as follows: pay for performance motivates people, and should be regarded as effective to do so. People that work harder lead to a higher level of utility. However, when pay for performance oversteps, and leads to several disadvantages, the reputation of companies suffers, which in turn motivates those companies to moderate pay for performance structures. In this way, employees can be successfully managed and pay for performance is self-regulating. The highest level of utility is reached. To illustrate: *Rabobank and ING (partially) phased out certain activities, as a precaution and also to maintain the good name of the company (mitigating reputation risk)* (The Temporary Committee to Investigate the Financial System, Parlementair onderzoek financieel stelsel).

The corrective effect of numerical manipulation. The reasoning is as follows. Manipulation of numbers will not be beneficial on the long run and will eventually backfire. Therefore it will not be financially beneficial, and will be self-regulatory in the long run. That way the highest level of utility will be reached in the end, although in short term, the use of pay for performance structures will lead to a lower level of utility. To illustrate how manipulation of number leads to loss of profit: *We get a target at office for 100 savings accounts, ow we are at 98. Then I'll write another one to myself, and we'll write another one to you. There will be nothing on that, it costs the bank 80€ to open that account and nothing is ever going to happen to it again, but we did reach that 100, so the office also reached it, so we get the bonus* (Transcript medewerker grote Nederlandse bank).

4.4 Ethical judgements: a deontological point of view

As described in chapter two, deontology endorses that there are general rules that must be followed in order to act ethically. Thus, to formulate an answer to the question of what is problematic about pay for performance from the perspective of deontology, the general rules must first be derived from the data. The following general rules can be identified in the data. From certain value judgments, certain rules per quote were derived. Afterwards these quotes were clustered and then generalized. The following general rules are recognized in the data:

1. One should have social awareness;
2. One should be held accountable to the promised task;

3. One should recognize the role of everyone;
4. One should share in the common responsibility;
5. Adhere to the standards of the profession;

One should have social awareness. In several places in the data one can see examples that illustrate the assumption that acting ethically right means that the acting entity is aware of its role in society. One example is: *It is important for the financial sector to develop a vision for the future of the sector and the social responsibility that goes with it* (The Temporary Committee to Investigate the Financial System, Parlementair onderzoek financieel stelsel). In addition, this can also be deduced from a proposal for a new banker's oath, which explicitly shows this importance of social awareness: *I declare that I will perform my duties as a banker with integrity and care. I will carefully consider all the interests involved in the bank, namely those of the customers, the shareholders, the employees and the society in which the bank operates. In these considerations, I will place the client's interests first and inform the client to the best of my ability. I will comply with the laws, regulations and codes of conduct applicable to me as a banker. I will keep secret what has been entrusted to me. I will not abuse my banking knowledge. I will act in an open and verifiable manner and I know my responsibility to society. I will work to maintain and promote confidence in banking. I will uphold the profession of banking* (Adviescommissie toekomst banken). The previous statement largely overlaps with the teleological context I will discuss later under 'virtuous structures'. The general rule that one will have social awareness leads to the fact that decisions are good when they are in line with the social, or societal interest. Pay for performance structures lead to the situation that the general interest disappears into the background. After all, the social, societal interest often does not correspond to the profit interest, or the interest of shareholders where the emphasis lies, as illustrated in the following quote: *In practice this meant that many banks started to give increasing weight to the interest of shareholders. In doing so they have de facto reduced the importance of their customers and society as a whole* (Adviescommissie toekomst banken). Focusing on certain tasks leads to a blurring of the social interest and is therefore problematic from the point of view of deontology, because the results are violations contrary to the general rule.

One should be held accountable to the promised task. It can be seen from the data that the fact that the person bears the consequences of his own actions is generally accepted as a general rule. This is clearly visible in the following quote: *Bonus structures lead to excessive risk behavior. Because you start thinking: can I get away with it? I do not have to pay it anyway if the bank has to depreciate it later on* (Transcript medewerker grote Nederlandse bank). From this quote, the general rule that a person bears the consequences of his own actions emerges, as the respondent criticizes the mechanism that is set in motion,

when the general rule is not followed. Unethical action in that respect is therefore acting without the consequences being borne by the person acting. This is often the case in pay for performance systems. As described earlier in chapter 4, the data shows that a consequence of pay for performance is that great risks are taken, and that when an adverse consequence occurs it is for the account of others than the one who performs the action. Because pay for performance thus leads to a system of decoupling between the task and the responsibility for the task, it is ethically problematic from a deontological point of view.

One should recognize the role of everyone. This general rule also appears with regularity in the data. In the data, numerous examples can be found of criticism of pay for performance policies, because they allegedly underrecognize the role of other stakeholders, mainly employees, be it because tasks that are necessary but do not directly lead to profit go unnoticed in their implementation (1), be it because although several employees contribute to a large extent to the profit, only personnel at the highest level benefit exorbitantly from pay for performance schemes, and employees located at the more operational level of the organization cannot enjoy the same benefits (2). Both reasons mentioned from which the general rule that one should recognize the role of everyone can be derived manifest themselves in the form of criticism of the outcome of pay for performance structures. An example of the situation where actions that do not directly lead to profit, but are nevertheless indispensable, are underexposed is the following quote: *All sorts of work that are important but do not factor directly into your bonus, or are not measured, become a secondary consideration. Let me say, if you steer on how many dashes are scored or how many products are sold, but then say nothing about how the business should look or how clean it should be, people will focus on what brings in money, and that which is therefore less interesting will no longer be done because, well, I do not get anything for it anyway. And then you notice that there are certain activities, that it is always the same; and then no one goes to get someone else's coffee, because that takes time, and in that time you cannot get your dashes anymore* (Transcript medewerker grote Nederlandse bank). An example of the situation in which a skewed distribution arises between rewards at different levels in the organization is the following quote: *FNV President Ton Heerts calls the Vlerick research figures "good news". We have been insisting for years that bonuses must go down. But the remuneration is still very unevenly distributed. Some top managers get more paid into their bank account in three days than the man on the assembly line in a whole year. So if employers want to talk about pay restraint again, they now know where to turn: to the top* (Ton Heerts, former voorzitter van de FNV, NRC, 2013, #1). Both situations lead to the violation of the commonly derived rule that one should recognize the role of everyone, and are therefore ethically problematic from a deontological point of view.

One should share in the common responsibility. This general rule is an addition to the general rule that one should be held accountable to the promised task. Whereas the rule that one should be held accountable to the promised task specifically refers to the situation that consequences of a risk should be for the account of the agent, the rule that one should share in the common responsibility specifically refers to the situation that when a certain risk occurs causing negative consequences the distribution of the burden should be proportional and fair. The following quote expresses the desire for this proportionate and equitable sharing of burdens: *How do you as a 'top banker' justify on top of your salary of fifteen times modal a raise of a ton or more, while your company was simply bankrupt in 2008 and your job only exists thanks to the tax money of people with incomparably lower incomes* (Joris Luyendijk, journalist and author of 'Dit kan niet waar zijn', NRC, 2015, #1).

Adhere to the standards of the profession. The final general rule that emerges from the data is the general rule that people must adhere to the standards of the profession. This general rule presupposes that there are standards. This is most clearly shown by the banker's statement that must be made, as already discussed under the general rule: one must have social awareness. That statement reads: *I declare that I will perform my duties as a banker with integrity and care. I will carefully consider all the interests involved in the bank, namely those of the clients, the shareholders, the employees and the society in which the bank operates. In these considerations, I will give priority to the client's interests and inform the client to the best of my ability. I comply with the laws, regulations and codes of conduct that apply to me as a banker. I will keep secret what has been entrusted to me. I will not misuse my banking knowledge. I will act in an open and accountable manner and I know my responsibility to society. I will work to maintain and promote confidence in banking. I will uphold the banking profession* (Adviescommissie toekomst banken).

4.4.1 Nuances of ethical problems from a deontological point of view

The violation of general rules is an effect of faulty implementation, not pay for performance as such. It could be argued that the violations of general rules is not directly a result of pay for performance structures as such, but a result of poor implementation of these structures. For example: decoupling between actions and responsibility could be regarded as a result of faulty implementation, rather than as a result of pay for performance. The structures often appear to have become bonus-malus systems without malus, but this need not be the case. The nuance described is evident from the following quote: *The biggest perverse incentive of bonus policies is in the following. If one performs well, one gets a bonus. Fine. That does not necessarily lead to taking the wrong risks. But if your company is doing badly and you are thrown out as ceo, cfo or chief risk officer, you will receive a golden handshake. And that has happened a lot in the past* (Maas, chairman of the Advisory Committee on the

Future of Banks and former member of the Executive Board of ING, Parlementair onderzoek financieel stelsel).

4.5 Ethical judgements: a virtue ethics point of view

4.5.1 *The personal level*

Virtuous character traits. First, I searched the data for virtuous character traits. I looked for expression of character traits that a person exposed to pay for performance structures should ideally possess. In the data, many of these character traits emerge. In this section I will discuss those virtuous character traits that are mentioned in the articles, as well as the policy documents, and as well as the interviews. There are 5 virtuous character traits that meet that strict requirement:

1. Integrity: the person who is exposed to pay for performance structures should stick to their norms and values, even when they are under external pressure.
2. Trustworthy: a person exposed to pay for performance structures should be trustworthy in all cases.
3. Honest: the person exposed to pay for performance structures should act and speak truthfully at all times.
4. Carefulness: a person exposed to pay for performance structures should at all times exercise sufficient attentiveness and care in their actions.
5. Societal aware: a person who is exposed to pay for performance structures must at all times, in carrying out his core activities, take responsibility with regard to the social context and the social consequences.

Vices. Similar to how I worked with virtuous character traits, I also proceeded with vices. With vices, too, it is the case that many character traits are mentioned in the data. Here too, for the sake of the value of the conclusions, I have chosen to discuss only the vices that were discussed in the articles, the policy documents, and the interviews. These character traits are also reducible to 5:

1. Egoism: a person exposed to pay for performance structures may not pursue his own benefit and happiness without limit, neglecting the happiness and benefit of others.
2. Overambition: a person exposed to pay for performance structures should not strive at all costs to be promoted to a higher level in the organization.
3. Recklessness: a person exposed to pay for performance structures must not behave in such a way that their behavior should be considered contrary to carefulness and careful consideration.

4. Greed: a person exposed to pay for performance structures must not indulge in an uncontrolled desire for increase in the acquisition or use of material gain.
5. Dishonesty: a person exposed to pay for performance structures should not act contrary to what may reasonably be expected of him on the basis of integrity and honesty.

It is noteworthy in this regard that the vices align with the virtuous character traits. For instance, recklessness can be viewed as vice of carefulness and dishonesty as vice of honesty or integrity.

4.5.2 *The organizational level*

Teleological context. the requirement of teleological context means that the organizational structure enables individuals to gain insight about the goals and output of the organization and how they cohere with the contribution of the organization to society. In other words, it must be clear to the employees and managers of an organization what the goals of the organization are and how these goals cohere with the contribution of the organization to society. To outline the teleological context within which organizations applying pay for performance operate, it is first necessary to determine what the goals of those organizations are. The goals of the organizations vary. Much of the data deals with the banking sector and so I use the purpose of the banking sector as an example: *the core of the public and social significance of banks is to provide an efficient payment system, to offer the opportunity to deposit current account balances and savings, and to provide financing to businesses and individuals* (Adviescommissie toekomst banken). This description of the organization's purpose is highly relevant as it describes the consensus within the industry organization as to what the purpose of the industry should be. In order to describe the extent to which there is a teleological context that is consistent with virtuous structures, it is necessary to examine the extent to which the image that managers and employees have of the purpose of the organization is consistent with the purpose of the organization. Several quotes from the data show that both employees and managers believe that the primary purpose of the organization is to make a profit, or create shareholder value, and that they believe that the pursuit of these goals is in no way hindered by a sense of function or social responsibility. A quote that illustrates this is the following: *My mission is simple, said the interviewees, namely, I must, within the law, obtain the highest possible profit for the shareholders who are the owners of my bank* (Joris Luyendijk, journalist and author of 'Dit kan niet waar zijn', summarizing several interviewed bankers from the London city NRC, 2015, #1). As described earlier in this chapter, the data supports the assumption that pay for performance structures lead to a shift in focus from different interests, including the purpose of the organization to profit and shareholder

interest. Consequently, pay for performance undermines the desired teleological context and therefore stands in the way of virtuous structures.

Deliberative context. the requirement of deliberative context means that individuals should be able to see the possible and actual moral consequences of their organizational actions. In other words: is it clear what difference I as an employee or as a manager can make. What is striking is that while many managers and employees seem to be aware of the difference they could make, the data reveal several situations where managers and employees believe that the need or basis for making these changes is lacking. This often involves reference to certain quantitative targets having been met or compatibility of their actions with legislation. An example is the following quote: *While we are in the worst financial crisis in living memory, as Bank of England governor Mervyn King recently stated, 89% of bankers expect a bonus. For only three in ten would it be a lower bonus than last year. The main reason bankers expect a bigger year-end bonus is that they have personally performed well, they state themselves* (Correspondent London in response to survey of London bankers, Telegraaf, 2011, #2). The problem lies not so much in the dimension that managers and employees would not know what difference they could make, but in the fact that pay for performance leads to them no longer being motivated to make this difference. In addition, it appears that in various situations employees and managers believe that their role is negligible, because even in the situations where they make the morally right choices, another would make the morally objectionable choice. A recognizable example is the following quote: *Because that's the phenomenon, and I saw it happen more often, whereupon I say: I still use my intellect, even if the system says yes, then I say: no, I'm going to refuse this credit because you're not going to be able to carry it, whereupon my boss became angry with me, because he said: if you do not close it, your colleague will, whereupon I said: well then I think my colleague is a *, because this is a credit which I already know that we can depreciate* (Transcript medewerker grote Nederlandse bank). In summary, the deliberative problem of pay for performance consists of the situation that there is no need or basis for acting on the socially responsible goals of the organization. In addition, it appears that pay for performance leads to the situation that employees and managers think that the difference they can make is negligible.

Social context. the third and last requirement, the requirement of social context, means that the organizational structure should enable individuals to be an active part of a social network. This social context should also be suitable to lead to a virtuous structure. With respect to the social context, there are three things in particular to note. First, according to the data, the pay for performance structures are often organized in such a way that the social pressure to meet personal targets increases enormously. There is a situation where a certain monetary benefit is only provided if all of those in a certain part of the organization have achieved a certain target. If this is not the case, individuals are cut back on their bonuses. This

leads to enormous social pressure and workload. The following quote illustrates this state of affairs: *Besides, actually my whole payment system is also a challenge. Because your first receipt is 20€, your second receipt is 40€, your third receipt is also 40€, but then you have another individual bonus, because you write three receipts. Then you get another 15€ extra, and if your teammate, the other two teammates, also have 3, then you also get another team bonus* (Transcript medewerker Nijmeegs Salesbedrijf). This practice also creates a form of unwanted internal competition that damages the group dynamic. The measurability of performance increases the workload according to the data and that measurability undermines the ethical conduct of those people who were initially prepared to act ethically, which is illustrated in the following quote: *Those who suffer most from the incidents are the directors with integrity and the tens of thousands of employees. They feel like real losers when faced with the fast boys, the flashy sun kings. They can hardly defend themselves against an opinion climate in which market forces, efficiency, targets, win-win situations and other terms familiar from the management bingo are elevated to gospel* (Govert Joan Buijs, professor of political philosophy and philosophy of life at the Vrije Universiteit in Amsterdam, Trouw, 2010, #1). Second, the use of pay for performance structures creates the situation where internal disagreement arises over how certain performances will actually be counted. It leads to the situation where pressure increases in the workplace because different ways of counting, bring different outcomes that lend themselves in different ways to serve individual interests. An example of this is the following: *And you also saw collaborations sometimes. You started getting arguments between colleagues. Yes but I helped that client, yes but I got that contract in the end, who is counting him, are you counting him? Do I count him? Or that you had worked together and then a colleague from preferred banking said: I do not really have time for this, can you handle it? Is he then going to count him or am I going to count him? Because he brought the customer in, but I had to close. That you also said: well half for you and half for me. That you get, that phenomenon. You'll have discussions about the validity of certain items, and who did it? That's not going to help you as an organization of course if you start playing off your colleagues against each other* (Transcript medewerker grote Nederlandse bank). The third remark that needs to be made regarding the social context resulting from pay for performance structures is that, according to the data, the social context does not lend itself to discussing ethical issues, and that this decreases the higher one climbs on the organizational ladder. This can be seen in several places in the data, but the following quote brings it out most clearly: *Atmosphere spoilers, people who have doubts about everything that the others are so optimistic about, about developments in the housing market, about the value of the Facebook company, should not be fired. As a company, you must nurture these contrary thinkers. They are the indispensable counterweight to their overoptimistic colleagues. By initiating discussions and conducting opposition within your organization, you can prevent herd*

behavior and reduce the effects of confirmation bias. This is still done on too small a scale at banks (Prof. Frank Hendriks, Professor of Comparative Public Administration and Research Director at the Tilburg School of Politics and Governance, Tilburg University & Boudewijn de Bruin, Professor of Financial Ethics at the University of Groningen, Trouw, 2012, #1).

In conclusion, one could argue that pay for performance structures are problematic from a virtue ethics perspective because it undermines the social responsibility of organizations, it prevents the proper ethical choices from being made, which could contribute to more ethical behavior of organizations, and because it leads to the creation of a social climate in which it is impossible for organizations to develop into a virtuous organization.

Chapter 5: Discussion

In Section 5.1, I will comprehensively interpret the research findings and reflect on what my research added to the existing literature and answer the main question for each school of thought and discuss overarching themes. In section 5.2 I will reflect on the limitations of my research. In section 5.3, I will reflect on the practical implications generated by my research and in section 5.4, I will make suggestions for future research.

5.1 Interpretation of the results

In my thesis I used literature describing exactly what pay for performance is: this was necessary to identify situations where there were such structures present (Armstrong-Stassen et al., 1993; Fox, 1988; Murphy, 1999; Nyberg et al., 2016; Odden et al., 2002). The literature describes several problems that are already known to be consequences of pay for performance structures: short-term thinking (Ahlstrom, 2010; Glassman et al., 2010; He et al., 2021; Manso, 2017; Osterloh & Frey, 2003), excessive risk taking (Blundell-Wignall et al., 2009; Coles et al., 2006; Core & Guay, 2002; Custer, 2012; Jickling, 2009; Mehran & Rosenberg, 2007; Mondello & Ben Ayed, 2020; Rajgopal & Shevlin, 2002) and manipulation of numbers (Hagerty, 2008; Stout, 2013). The data confirms what was already described in the literature about the causal relationship between the aforementioned forms of behavior and the use of pay for performance structures.

The existing literature has already discussed that quantitative goal setting leads to the consequence that it becomes more difficult to recognize ethical problems, because the focus moves from ethical action, to achieving the target (Barsky, 2008; Ordóñez et al., 2009; Schroeder & Fishbach, 2015). My research adds to this literature in a significant way. Namely, there is not only a shift of focus, but also a substitution of what is seen as morally right by the acting person. First, the data show that when there is a top-down imposed target, this target replaces what the acting person considers morally desirable behavior. Thus, the acting person considers the target not only as professionally desirable, but also as morally right. Second, my research adds that the same process occurs when the government tries to regulate behavior extensively. The government's rules then supersede what the acting person considers morally desirable behavior. Thus, the acting person not only considers following the rules to be in accordance with legislation, but also morally right.

In the existing literature it is also described that by setting quantitative targets it becomes easier to rationalize unethical behavior (Covey, 2009; Stout, 2013). The mechanism described in this literature is that of cognitive dissonance and works as follows: if one acts in a way that is not ethical, one adapts one's belief system so that it is again in line with one's behavior. In my research, I have gained insight into the practical interpretation that individuals

exposed to pay for performance structures give to this. I describe the excuses they use to adjust their belief system in such a way that their actions cannot be considered to be in conflict with what they label as ethical action. It is valuable to add that several of these excuses are utilitarian in nature. In other words, 'the total amount of utility will get higher (or will not get lower) if I act this way.' The concrete excuses are: 'I can't change the system anyway', 'The service/product that I offer favors the consumer', 'I am not responsible for the choices someone else makes' and 'Bonuses are necessary to attract suitable people'.

In addition, my research adds depth to the existing literature about implications of pay for performance structures on ethical behavior (Barsky, 2008; Covey, 2009; Ordóñez et al., 2009; Schroeder & Fishbach, 2015; Stout, 2013). The existing literature mainly focuses on the consequence for ethical conduct of pay for performance structures, but pays little attention to the substantive question of which framework for ethics is used. In the following table I give an overview of the academic contribution that I make per ethical framework. I also add per ethical framework recommendations that are to be made based on my research:

	Concrete implications	Recommendations
Utilitarianism	Pay for performance emphasizes shareholder value and profit. These interests are not consistent with achieving the highest possible overall utility.	Pursuit of the highest possible general utility should be included as a target and level of pay should depend on it.
Deontology	There are 5 general rules that can be derived from the data.	Pay for performance should be implemented in such a way that there is an evaluation of the extent to which the actions of an employee/manager are in compliance with the general rules found.
Virtue ethics	<p><u>Teleological context:</u> Pay for performance structures direct attention from the goals of the organization to shareholder interest and profit.</p> <p><u>Deliberative context:</u> There is no necessity for employees and managers to act ethically. In addition, employees and managers feel that their behavior does not make a difference to the outcome anyway.</p> <p><u>Social context:</u> There is a social pressure to achieve as many</p>	<p><u>Teleological context:</u> Ethical action must become part of evaluating performance.</p> <p><u>Deliberative context:</u> Ethical action must become part of evaluating performance. Unethical actions should lead to actual disadvantage, so that they are discouraged.</p> <p><u>Social context:</u> The space to criticize remuneration policies should be</p>

	<p>targets as possible. This social pressure leads to damaged group dynamics and the disappearance of ethical thinking into the background. Because of the increased pressure, there is no opportunity for a discussion of ethics.</p>	<p>facilitated extensively. Ethical action should become part of evaluating performance.</p>
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FIGURE 11 OVERVIEW OF THE ACADEMIC CONTRIBUTION PER ETHICAL FRAMEWORK

From a utilitarian point of view, it must be concluded that pay for performance is problematic because such structures inherently do not lead to the most utility. The reason for this is that pay for performance structures steer towards the pursuit of shareholder interests and executive self-interest, and in the majority of cases these interests do not correspond to the optimal utility. The pre-existing literature on utilitarianism already establishes that there is an unethical consequence when the most utility is not achieved (Bentham, 1996; Brown, 1973; Levack et al., 2014). My research complements this to an important extent by examining, in the specific context of pay for performance, whether maximum utility is achieved, and if not, why it is that most utility is not achieved. In addition, I examined what excuses are used in the specific context of pay for performance to justify unethical behavior. In addition, my research has shown that the above can be nuanced by stating that the corrective effect of manipulation of numbers and the reputational damage ensure that a utilitarian optimum is achieved to a certain extent.

From a deontological point of view, it must be concluded that pay for performance structures are problematic given that the general rules that can be derived from the data, namely: One should have social awareness, one should be held accountable to the promised task, one should recognize the role of everyone, one should share in the common responsibility, and one should adhere to the standards of the profession, are transgressed. Thus, the ethical problem is given from a deontological point of view. The academic literature already showed that there was unethical behavior from a deontological point of view when general rules were violated (Kant & Gregor, 1996; Van Staveren, 2007), only my research complements that to a significant extent by establishing which general rules apply when pay for performance structures are used. In addition, my research finds that this ethical problem can be nuanced by arguing that the violation of these general rules is the result of a faulty implementation of pay for performance rather than the pay for performance structures as such.

From virtue ethics point of view, it must be concluded that pay for performance structures are not compatible with virtuous organization structures, since from the teleological context the problem arises that there is discrepancy between the factual purpose of the organization and the desired purpose of the organization. From the deliberative context, the problem arises that pay for performance structures lead to lack of need and ground to act in

accordance with the desired goals of the organization. In addition, pay for performance leads to the view that entities within the organization cannot make a difference, at the expense of deliberative context. Finally, with respect to the social context, problems arise: the use of pay for performance structures puts ethical action under pressure because of peer pressure and problematically damages group dynamics. In my research I used the framework of Vriens et al. (2018) to find out to what extent there is a virtuous structure when pay for performance structures are used. Concerning virtue ethics and its relationship with pay for performance, the academic contribution is thus deductive in nature: I used the framework to make statements about pay for performance structures specifically. In addition, I have identified which traits are considered virtuous character traits, and which are considered vices with respect to pay for performance structures, and thereby supplemented the academic literature of MacIntyre (2007), Solomon (2003), Van Staveren (2007) and Weaver (2006).

In conclusion, the similarity between deontology and utilitarianism is that pay for performance structures in the way they appear now should be judged as unethical from both schools of thought. The difference between the two schools of thought lies in the reason why. Deontology assumes that pay for performance is unethical because general rules are violated, while utilitarianism assumes that pay for performance is unethical because it does not lead to the highest level of happiness/utility. From virtue ethics, one does not look at the consequences of pay for performance structures, as with utilitarianism and deontology, but at the nature of the structure itself. The pay for performance structures as they occur in the present prevent an organizational structure from being virtuous because there is a discrepancy between the desired goals and the actual goals of an organization, it is no longer clear what role the employees and managers play to achieve those goals, and group dynamics become damaged and the structure is therefore no longer able to produce ethical consequences.

The question whether pay for performance structures could be organized in such a way that they are ethical, depends on what one sees as the purpose of companies, and what one should understand by ethics. If the Anglo Saxon model is followed, it is assumed that the task of companies is to make profits and serve shareholder value. If the Rhineland model is the starting point, the task of companies is to add value for its stakeholders in a broad way. Within the Anglo-Saxon objective, there is room for ethical thinking only where it is not contrary to profit levels or shareholder interests. Within the Rhineland objective, there is more room for ethical thinking now that the interests of stakeholders will mostly correspond to ethical behavior. For utilitarianism this is certainly true now since most utility can be expected to correspond to the interests of stakeholders. It must therefore be concluded that there could certainly be an ethical aspect to pay for performance, only that in a Rhineland view this aspect plays a much larger role than in the Anglo-Saxon view.

In order to implement pay for performance structures in an ethical manner, it is necessary to make the ethical aspect an integral part of the assessment process. Currently, this is not happening. When assessing whether targets have been met, only the quantitative and monetized goals are considered, with the degree to which ethics have been acted upon not being a part of it. In addition, critics of pay for performance structures must be given the opportunity to discuss their critique. In addition, the pay for performance structures must be set up in such a way that these structures do not lead, or to a much lesser extent, to peer pressure.

5.2 Limitations of the study

While I am very pleased with the results and believe that a truthful picture has emerged on the question of what is problematic about the use of pay for performance structures from the point of view of utilitarianism, deontology and virtue ethics there are a number of valid comments to be made about the limitations of the study. It has been the intention from the beginning to make statements about the use of pay for performance structures as such. What can be noted about the data, however, is that many of the sources found center around organizations in the financial services industry, and how issues in these organizations manifested themselves in the years 2008, 2009 and 2010. It is not unusual that this is the case. The financial crisis is thought to have been largely caused by pay for performance structures directly, or by the consequences of pay for performance structures directly. So it stands to reason that when sources are selected based on relevance this particular sector becomes overrepresented in this particular period. What has been described above does not necessarily stand in the way of the validity or reliability of our research, but it is important in the context of transparency to inform the reader of this.

A second limitation one could describe about the research is the extent to which newspaper articles are a suitable source for making statements about a social scientific phenomenon. After all, newspaper articles to a large extent reflect only the opinion of the journalist, or the person being interviewed, and is not necessarily what descriptive 'is'. Now that many of the quotations come from authoritative persons, and conclusions are only drawn in the event that these conclusions have broad support in the data, this limitation does not necessarily stand in the way of the reliability of the research. Again, however, in the context of transparency it is important to inform the reader.

It is difficult to make a general statement about what could be done differently in follow-up research in order to come up with a more suitable solution for both limitations. I believe that the solution to this problem should be found in transparency about the process, and in informing the reader about the limitations that research on this subject involves.

5.3 Practical implications of the study

In section 5.1 I have already briefly discussed the requirements that pay for performance structures should meet in practice:

Utilitarianism	Utility as part of the evaluation process
Deontology	Conformity to the derived general rules as part of the evaluation process
Virtue ethics	Care must be taken to ensure an undamaged group dynamic
Virtue ethics	There should be room to criticize pay for performance structures

FIGURE 12 REQUIREMENTS PAY FOR PERFORMANCE PER ETHICAL FRAMEWORK

These safeguards should be implemented by three stakeholders:

- a. The government
- b. The private sector
- c. Government-appointed, independent monitoring bodies.

The application of the results of my research implies that the government should make an effort to motivate companies to implement the recommendations described above. This could be done, for example, by introducing legislation. Yet a problem arises here. In my research, I pointed out that legislation leads to the result that a person comes to see acting in accordance with legislation as ethical action per se, and my research shows that this is not a correct conclusion. To counteract this, one could think of a government-imposed obligation of effort. The private sector would then be obliged to make an effort to make the highest level of utility and compliance with the five general rules part of the evaluation process and to ensure a well-functioning group dynamic, but it would retain the freedom to arrange this as it sees fit. I will return to the question of what such legislation should look like in section 5.4.

Private companies must first ask themselves whether they see it as their goal to act ethically. If legislation obliges effort to do so, the private sector would no longer have a choice in the matter. If it is through legislation, albeit because of the teleological awareness that ethics is part of sound business management, companies wish to make an effort, it is important that they find ways to make the achievement of the highest level of utility and compliance with the five general rules an integral part of the personnel evaluation process. In addition, they should structure them in such a way that the group dynamics are not damaged. I will return to the way in which this should be done in section 5.4.

In addition, government-appointed, independent monitoring bodies are an important stakeholder. First of all, the government must make clear what the objectives of such bodies are. This demarcation of authority is indispensable to define the scope. My research makes clear how the consequences of unethically designed pay for performance structures manifest themselves. By paying attention to excessive risk-taking, manipulation of numbers, short-term

thinking, violation of the five general rules, behavior that does not lead to the highest form of utility and the emergence of a damaged group dynamic, unethically designed pay for performance structures can be detected at an early stage and an obligation to improve the design of the structure can be given.

5.4 Suggestions for future research

In follow-up research, the problem described in this study could be broadened. I have focused on three movements in this research: utilitarianism, deontology and virtue ethics. I feel that my research has provided an adequate picture of the ethical issues that arise when pay for performance structures are used from the viewpoint of these different schools of thought. However, I have not in this research given attention to many other ethical philosophical movements, each of which might bring to attention other ethical problems that are practically and scientifically relevant.

In Section 5.3 I drew conclusions regarding practical recommendations. From my research it appears that to ensure ethically designed pay for performance structures it is necessary to come up with legislation that encourages the design of structures in which the highest level of utility and compliance with the five general rules are evaluated as part of the targets. What this legislation should look like is a question that is not within the scope of my research. Nevertheless, answering this question is highly relevant to come up with a good practical implementation of my research results, and therefore a worthwhile suggestion for follow-up research.

In addition to the question of what this legislation should look like, there must also be an answer to the question of what the practical possibilities are for the private sector. How to ensure that the highest level of utility becomes part of an evaluation process? How to ensure that compliance with the five general rules becomes part of the evaluation process? How does one ensure a healthy group dynamic? How does one give critics the space to voice their concerns? So there are still many questions about the practical implementation of the recommendations that follow from this research. Thus, there is a need for practice-based research on how best to shape the recommendations.

Finally, pay for performance structures as they are currently implemented run into enormous ethical limits. This gives rise to a number of important questions. In this research, I have only described the extent to which pay for performance structures are ethically problematic, but have paid little attention to the question of whether pay for performance, viewed in its totality of contexts, is future-proof as a structure, or what can be taken into account in the implementation of pay for performance so as not to jeopardize that future-proofing. This is of practical and scientific importance, but because the research focused on the more fundamental question: what is problematic about pay structures from the point of view of

utilitarianism, deontology, and virtue ethics, these questions were left out of consideration. Follow-up research could look at an overall cost-benefit analysis: do the disadvantages of pay for performance outweigh the benefits.

Chapter 6: Conclusion

In this paper, I formulated an answer to the question: What is ethically problematic about pay for performance from a utilitarian, deontological, and virtue ethics point of view? I supplemented the existing literature with several important insights. First, when an organization sets targets, these targets replace the moral compass of the acting person. When a government introduces concretized legislation, the same thing happens. In addition, my research adds the excuses that individuals use to reduce the cognitive dissonance described in the literature. From utilitarianism it must be argued that pay for performance structures are unethical, because inherently they do not lead to the highest level of utility, when this is not an integral part of the evaluation process. From a deontology perspective, it must be reasoned that pay for performance structures are ethically problematic because the five derived general rules are violated. Therefore, a deontologically ethical implementation of pay for performance structures requires an evaluation of compliance with the general derived rules. The pay for performance structures as they occur in the present prevent an organizational structure from being virtuous because there is a discrepancy between the desired goals and the actual goals of an organization, it is no longer clear what role the employees and managers play to achieve those goals, and group dynamics become damaged and the structure is therefore no longer able to produce ethical consequences.

In the introduction I argued why pay for performance structures are so common. They have a significant positive effect on the frequency with which organizational goals are achieved, but at what cost? In the introduction, I discussed two examples (from the giant selection to choose from) of situations that went completely wrong as a result of pay for performance structures. My research shows that the current implementation of pay for performance is ethically problematic. The Enron scandal and the financial crisis are examples of situations where this unethical nature came to the surface.

Yet there is potential for improvement. My research has identified why pay for performance structures are ethically problematic from the different perspectives, and as a result, several recommendations can be made to implement pay for performance structures ethically. Even though my research focuses on the negative aspects of pay for performance; it takes more than that to completely abandon the principle of pay for performance. As I indicated in the suggestions for future research, my research has established the need for change, but follow-up research needs to be done on the ways in which pay for performance can be implemented ethically, and before pay for performance should be renounced altogether, it is important for follow-up research to comprehensively consider the cost-benefit analysis of whether the benefits of pay for performance outweigh the drawbacks.

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