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Humanising the ‘dungeons’ of the bank

Public-private processes for aligning norms regarding automated protocols in debt relationships between Dutch SMEs and banks’ infirmary departments

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Abstract

This paper reveals how the automatising of protocols ignited a public conflict between Dutch banks and their Small and Medium-sized Enterprise (SME) clients in the years after the Global Financial Crisis. The bank’s “infirmary departments” for Financial Restructuring and Recovery (FR&R) were accused of (mal)treating SMEs. The conflict resulted in no formal regulatory or legal change despite public support. Instead, the banks created self-regulation to improve communication with SMEs, leading to shifts in governing FR&R for SMEs. This way, the banks mitigated significant negative symptoms of automation and solved the conflict with the SMEs while keeping FR&R and ongoing automation intact. The research uses an interdisciplinary analytical framework to understand national financial conflicts in a digitalised (business) world. It contributes to the theory of institutionalising values in discursive contests between action fields. The paper highlights the material and causes of normative conflicts of interest among critical actors in established public-private networks through discourse analysis and process tracing.

Keywords: SMEs-financing, banks, automation, protocols, FR&R, governance, conflict-mediation, state, supervisors, meta-organisations, self-regulation, institutionalisation, public discourse.

1. Introduction

‘Financial Restructuring & Recovery’ is a core bank activity deployed in case of an anticipated higher risk of defaulting debt repayments and, thus, a higher risk of losses in revenues and profits. In such cases, banks act to reduce the risk of losses by moving a customer(s) from regular account management to the department of ‘financial restructuring & recovery’ (FR&R)¹. The banks nickname these departments ‘the infirmary’, but clients also call it the ‘dungeons’ or ‘butchery’ of the bank (Het Financieele Dagblad, 2009, 29 January) of the bank because of the harsh measures taken to protect the bank’s interests. After the financial crisis of 2008 and during the subsequent economic crisis in The

¹ In Dutch: ‘Bijzonder Beheer’ (‘Special Management’).

Netherlands in the years afterwards, angry small and medium-sized enterprises (SMEs) conflicted with banks about (defaulting) lending practices, evolving into a full-blown and intense public dispute on the banks abusing SMEs in FR&R for their gain. The SMEs accused the (big) banks of sacrificing (small) SMEs to solve their short-term balance sheet problems. The media spread the angriness of the SMEs about their treatment in FR&R and was picked up by supervisors and parliament. There were many reasons to worry about this conflict since SME representatives are politically influential and supported by thousands of vocal and entrepreneurial voters. The SME sector² is of crucial importance to the Dutch economy because it is intricately connected to the daily lives of people and comprises more than 99% of all Dutch enterprises, with a wide variety of retail enterprises, like bakeries, plumbers, farmers, hairdressers, (web- and street) shops, fashion, furniture, transport, trading, food, hardware, construction, crafts, consultancy, services in health, tourism, culture, catering, advertising, ICT, trade, finance, industry, sustainability, etc. In 2018, The Netherlands counted 1.2 million SMEs, providing 64% of the total employment opportunities, 1.065-billion-euro turnover, and 62% of the GNP (CBS, 2019). The financing of the Dutch SME sector is more than 95% provided by the four leading Dutch banks, involving around 125 billion euros. About 526,000 SME companies have bank loans, approximately 85% of which are less than 250,000 euros (CBS, 2018; NVB, 2019). The figures illustrate the interdependence between small and medium-sized enterprises (SMEs) and banks, which stems from long-standing relationships between the two sectors. These relationships have both mutually beneficial and conflicting interests embedded within them. SMEs are typically dedicated to their businesses and work hard to remain independent while making a profit.

Between 2013 and 2018, parliament organised debates about the abusive treatment of SMEs in the banks' FR&R departments, like raiding SMEs with higher interest rates or other payment conditions. These debates were accompanied by a growing aversion towards greedy and state-supported 'system' banks, which the financial crisis had fuelled. After 2015, the conflict between banks and SMEs over financing and FR&R was resolved through a set of codes of conduct in the banking sector. These codes of conduct focused on self-regulation, guiding banks in communicating with their clients rather than changing the FR&R practices themselves. This paper examines why self-regulation about communication was used to settle the conflict instead of legislation and looks into the causes of the conflict itself. The paper analyses how SMEs and banks developed discursive claims after 2008 to

² In the definition of the European Commission (Eurostat, 2022), medium-sized companies have fewer than 250 employees, with an annual turnover not exceeding EUR 50 million or an annual balance sheet total less than or equal to EUR 43 million. Small companies have fewer than 50 employees, a net annual turnover not exceeding 10 million euros or a balance sheet total less than or equal to 10 million euros. Finally, micro-companies have fewer than 10 employees and an annual turnover not exceeding EUR 2 million or an annual balance sheet total less than or equal to EUR 2 million. Micro-companies² are the fastest growing category (growth 119% as of 2007), comprising 96% of all SME's (CBS, 2019).

pursue their interests in debtor-creditor relationships and how the state intervened to mediate the conflict on FR&R.

Relationships between banks, SMEs, and governments exist all over the globe. However, this paper studies the relationships within one (Dutch) institutional environment, national culture, and jurisdiction to create focus. National politics, political parties, ideologies about markets, economic situations, and national cultures and elites (e.g., lobbying) are determinants of the governance of companies (Underhill, 2010). Moreover, it provides a political-sociological perspective in which actors make decisions embedded in their dominant habits (Hodgson, 2006).

Following this introduction, the paper proceeds with the conceptual approaches for data analysis in Section 2. Section 3 details the methodology for collecting data to identify and explain the causes and potential solutions for the conflict between SMEs and banks. The empirical findings are then presented in Section 4, followed by the conclusions drawn in Section 5.

2. Conceptual approaches on institutionalising changing norms in debtor-creditor relationships.

This section presents the theoretical concepts for analysing the discursive conflict between actors (small and medium-sized enterprises (SMEs) and banks) and how solutions were institutionalised. The framework is based on theories of changing norms institutionalisation in processes of discursive contests between strategic action fields, particularly meta-organizations, to establish a new balance for justice in their debtor-creditor relationships over time. The framework allows examination of the state intervention in balancing the conflicting interests between SMEs and banks concerning debt that is in danger of defaulting during times of crisis.

Building on pragmatism, this study applies the ontological view of interpreting empirical data as "institutionalisation." Institutions are defined as "humanly devised constraints that structure political, economic and social interactions" (North, 1990, 1991, p.97), in which normative interests are translated into rules, and vice versa (Scott, 1995). As Scott and Hodgson (2015) did afterwards, North describes the constraints as formal rules (constitutions, laws, property rights) and informal restraints (sanctions, taboos, customs, traditions, codes of conduct, protocols, computers), which usually contribute to the perpetuation of order and safety within a market. Institutions are seen as the "rules of the game"; both the (formal) legal rules and (informal) social norms that govern behaviour and structure social relationships and actions (institutional frameworks). This research considers institutionalisation an activity carried out by actors with (discursive) limitations rather than

a noun (Giddens, 1984; March & Olsen, 1984). This perspective enables the study of critical moments during which organisations influence their surroundings through decision-making processes that involve weighing alternatives. This study has identified significant events, such as the onset of public unrest during the post-2007 financial crisis, critical parliamentary debates, and the introduction and execution of codes of conduct concerning FR&R for SMEs.

Institutionalisation as a concept is explained by Fligstein and McAdam (2012) in their “Field Theory” by viewing contesting organisations and their networks as “strategic action fields (SAFs)”. According to them, a strategic action field is a social order created by the actors (individual or collective) who are tuned to and interact with each other based on shared understandings of the field's purposes, relationships, and power dynamics. The contesting action fields in this study are the four leading Dutch banks and SMEs. The actors also understand and agree upon the rules that govern legitimate actions in the field. Field Theory categorises the actors as incumbents, challengers, and governance units, each using specific social skills in the contest. Contests can be caused by or subject to external shocks and field ruptures, leading to episodes of contention followed by settlement (Fligstein & McAdam, 2012). The governance of strategic action fields is based on norms and rules that are jointly determined to regulate individual and group behaviour (Ostrom, 1990). Unlike Ostrom, who focuses on the actions of humans in local communities, this research looks at organisations operating on a national level, including the activities of individuals, organisations, protocols, and digitalised systems.

Field theory does not focus on SAFs, where organisations act and create as members instead of individuals. To fill this gap, this study explicitly relates how lobbying SAFs, like SME representatives and the Dutch Bank Association (NVB), act to institutionalise norms by including the concept of “meta-organisations” (Ahrne & Brunsson, 2005; Berkowitz & Dumez, 2016). The common purpose of meta-organisations is to defend and promote functionally defined interests. (Baumgartner et al., 2013; Streeck & Schmitter, 1985). Interest mediation is acknowledged to be a well-established field of research in political science and is typically associated with lobbying. Interest groups pursue specific political interests through informal contacts with politicians and bureaucrats without seeking public office (Beyers et al., 2008; Waarden, 1992, 2002). Financial supervisors are examples of meta-organisations that defend the state's interests.

Latour's Actor-Network Theory (Latour, 2007) helps understand the relationships and networks between actors, particularly with the notion that humans and machines, organisations, financial models, protocols, and laws are equal actors in the network (Latour, 1993). These actors operate within collectivities, each with its own mode of existence and ways of communication (Latour, 2018).

Collectivities include Parliament, ministries, supervisors, banks, SMEs, consultants, and science. Often, different collectivities have varying perspectives, creating a gap that requires mediation to bridge. Mediators adapt incoming actions before taking action themselves. This differs from intermediation, which directly transfers incoming activities without alteration (Latour, 2007). When actions cross the blurry borders between collectivities, translation becomes complicated. This translation happens in the ongoing interobjectivation of shared meaning (Latour, 2018). This paper examines the interobjectivation of conflicting views between SMEs and banks regarding bank activities and impending debt. It includes the role of digitalisation and automation of bank protocols in the deteriorated relationship between banks and SMEs. This paper defines protocols as 'written instructions that regulate action through a recipe' (Berg, 1997; Goody, 1977) and algorithms as automated protocols. Protocols are not value-free, and neither are computerised protocols.

The conflict between banks and SMEs was centred around the (impending) defaulting debt issue. Money-debt relationships have been a part of human history for a long time and involve firmly held perceptions about fairness and shame. (Graeber, 2011). Debt is created when money is lent to a debtor, in this paper SMEs, for their entrepreneurial activities. The creditor, who can be a bank, earns revenues by charging a margin as a reward for running the risk of defaulting on loans. The creditor-debtor relationship between banks and SMEs is built on mutual dependency and trust. However, individual SMEs usually depend more on banks to run their businesses than vice versa. This creates a hierarchy in the creditor-debtor relationship, which leads to the perception of a power difference, where banks are seen as more influential. Of course, banks bear the risk of defaulting on debt and must take precautions to avoid losses. Historically, defaults have had a more significant impact on the debtor, as it could lead to poverty, imprisonment, torture, slavery, or even death. (Graeber, 2011). Although legal changes have improved the situation for defaulting debtors since the early 19th century, bankruptcy still mainly protects the creditor and can lead to impoverishment and shame. If the creditor, like banks, does not acknowledge this sufficiently, it can radicalise broader societal segments. Therefore, conceptual approaches to how actors gain support for their interests and create solutions to conflicts are crucial for understanding the conflict on perceived maltreatment of SMEs in the bank's infirmaries between 2009 and 2018.

Facilitated by the media, the SMEs made the conflict with the banks about FR&R publicly debated over a long period. The conceptual foundation of public discourse is rooted in Dewey's theory, which perceives the "public" as a community that engages in communication and debates about ideas and opinions while challenging each other's views. According to this viewpoint, "the public" is not a static entity but a dynamic and active force actively participating in democratic processes (Dewey, 1927).

This study assumes public discourse as a form of 'social practice' (I. Fairclough & Fairclough, 2012). Describing discourse as social practice implies a dialectical relationship between a particular discursive event (like the ownership of banks going from private to public due to the financial crisis) and the situation(s), institution(s), and social structure(s), which frame it: The discursive event is shaped by them, but it also shapes them. That is, discourse is socially constitutive and conditioned – it constitutes situations, objects of knowledge, and the social identities and relationships between people and groups. It is constitutive both in the sense that it helps to sustain and reproduce the social status quo and in the mind that it contributes to transforming it. Since discourse is socially consequential, it gives rise to critical issues of power. Discursive practices reproduce unequal power relations (e.g., between banks and SMEs) through how they represent things and position people (N. Fairclough, 2012).

As Wodak and Meyer (2001) explain, discourse analysis encompasses a range of aspects, including semiotics, pragmatics, psycho- and sociolinguistics, ethnography of speaking, conversation analysis and discourse studies. This study focuses on the properties of "naturally occurring" language used by real language users rather than on abstract language systems and invented examples. It analyses larger language units, such as texts, discourses, conversations, speech acts and communicative events, extending linguistics beyond sentence grammar to study actions. (Wodak & Meyer, 2009).

The study adopts the definition of "discourse" provided by Isabel and Norman Fairclough (2012), which states that discourses are constructed around ideas, providing people with reasons to favour one course of action over others and thereby affecting decisions and leading to changes in the world. Discursive argumentation combines deliberation, rhetoric, and dialectics (I. Fairclough & Fairclough, 2013). Stahl (2004) explains that the word 'discourse' derives from the Latin word 'currere', which means 'running' and implies that discourses are debates that run over time, involving the reasoning of actors in the perspective of developing argumentation as a process, thus reducing the concept's vagueness (Van Dijk, 1997). Therefore, this study examines how actors construct arguments to pursue their interests, developing their ideas over time (Blyth, 2011). It includes their perceptions of norms and values about defaulting on debt, underlying the discourse on FR&R for SMEs. For analysing normative interests in discourse analysis, this study assumes ideational contests, in which discourses are seen as the initiators and drivers of change, including patterns of subjective normative beliefs, desires and language (Foucault, 1980). Foucault relates power to discourse, an asymmetric relationship among social actors who assume different social positions or belong to other social groups. Following Weber, 'power' is defined here as the possibility of having one's own will within a social relationship against the will or interests of others (Weber, 1947). As this study assumes,

discourse analysis is more than a study of language; it looks at how, within social relations, power and knowledge have been distributed (Heracleous, 2006; van Dijk, 1993). Moreover, it shows how SMEs, media, banks, politicians, civil servants, and supervisors mediated their ideas and interests in the conflict on FR&R for SMEs.

This paper delves into the values held by SMEs and banks when discussing post-crisis discourses on FR&R. Drawing on ancient Greek and Roman philosophies, it examines balancing within and between the four cardinal virtues of justice, moderacy and wisdom. *Justice* governs social interactions, while *moderacy* (temperance) helps balance our emotions and desires. *Courage* (fortitude) is exemplified in human commitment and inner strength, and *wisdom* (prudence) is essential in making practical decisions and is viewed as an ‘intellectual’ virtue. (Carr, 2016; Houser, 2004; Timpe & Boyd, 2014).

Esteemed authors such as McIntyre (1981), Sen (2010) and Sandel (2009) stress the importance of working together to solve conflicts as the essential road for establishing peaceful, long-term social relationships.



Figure 1: Cardinal Virtues (Carr, 1950)

The conceptual framework helps analyse the main research questions of what caused the contest on FR&R between Dutch SMEs and banks after the financial crisis and how the conflict was solved. The analysis of processes and content of developing discourses shows how contesting SMEs and banks gained support for their views and how the institutionalisation of changing norms in their mutual relationship came about, thus unveiling mechanisms for creating solutions to publicly debated conflicts. The following sub-questions about the contest on FR&R for SMEs are informed by the conceptual framework: Which actors or groups participated in the contest? How did the discourse on the conflict evolve after 2008? What were the causes of the conflict? How was the conflict resolved? Why was this solution selected, and how well did it work out?

3. Collecting and selecting data on the FR&R conflict between SMEs and banks

The question of why and how SMEs and banks contested each other about impending defaulting debt after 2008 has been answered by collecting and analysing data with the help of the research steps of Walton & Boon (2014, see Figure 2). The first step entails constructing data, identifying the actors, compiling a chronological timeline, and defining the critical antagonistic discourse. Then, the

organisation of the discourse and its subjectivity are examined, and finally, the process of hegemonic closure is described.

The research on FR&R department operations and post-crisis events for SMEs involved interviews with experts in the banking industry and the collection of secondary data from various sources. These sources included relevant newspaper articles from leading Dutch newspapers, ministerial minutes related to the conflict on FR&R for SMEs, evaluative research reports on lending to SMEs, and codes of conduct for small business financing and FR&R. Secondary data were not collected from television or social media sources as it was assumed that newspapers had sufficient coverage.

Primary data was collected by interviewing 32 actors in decisive operational positions during the conflict on FR&R between Dutch SMEs and banks. Interviews were conducted between 2019 and 2023, and interviewees were kept anonymous for privacy. Relevant actors were identified through referrals in the banking sector, AFM supervisor, newspaper articles, reports of consultants and meta-organizations, and the snowball method to complete the network of people involved in the conflict.

A chronological overview assessed the evolving discourse over time by counting the number of newspaper articles per month from 2000 to 2020. Based on this analysis, the resulting critical antagonistic public discourses were determined. All original data is in Dutch and translated into English if quoted in this paper.

Identifying relevant actors began with referrals from the banking sector and the supervisory authority AFM. Additional actors were identified through newspaper articles, ministerial minutes, and reports from consultants and meta-organizations. Using the snowball method, the network of people actively involved in the conflict on FR&R for SMEs was completed, resulting in 32 participants representing a variety of stakeholders. This comprehensive network allowed for a clear understanding of the collective groups of actors that led to specific changes and how these changes occurred. A chronological overview assessed the evolving discourse over time by counting the number of newspaper articles per month from 2000-2020.

Through Critical Discourse Analysis, the institutionalising of new norms in the financial industry is analysed in a transdisciplinary and multi-methodical approach (van Dijk, 2015; Wodak & Meyer, 2009). More particularly, concepts of political discourse analysis (I. Fairclough & Fairclough, 2012) and discourse historical approaches (Reisigl & Wodak, 2008) are used. Adhering to a '*critical*' stance should be understood as gaining distance from the data, clarifying the political positioning of

discourse participants, and focusing on continuous self-reflection while undertaking research. Examples of circumstantially influencing discourses include the role of banks in the economy, the desirability of state support and nationalisations, remuneration of bankers, misselling and fraudulent practices, and allowing money laundering. In this study, the contesting actors are big banks and their SME customers, using language to gain and (or) maintain power (Reisigl & Wodak, 2008).

Laclau and Mouffe view discourse as an attempt to fix a web of meanings within a particular domain. (Laclau & Mouffe, 1985). Discourse constitution involves structuring signifiers into specific purposes to exclude other purposes. It reduces possibilities and thus can be seen as an exercise of power (Griggs & Howarth, 2011; D. Norval et al., 2000) Discourses are constituted as attempts to dominate the field of discursivity, arrest the flow of differences, and construct a centre.

All other meanings excluded by a particular discourse constitute the field of discursivity. (Laclau & Mouffe, 1985). For analysing discursive processes and content, based on Laclau and Mouffe, a process model is built for analysing discourses (Walton & Boon, 2014), which is adapted for this paper to analyse relevant discourses driving change on the desired role of banks as actors in networks regarding their behaviour towards SME clients in financial distress and the desired power and influence of the state on the private sector, especially on banks. The discourse analysis collects and organises data (in step 1), identifies the actors (in step 2), and chronologically informs the process (in step 3), which also helps to identify causal mechanisms through process tracing (Beach & Pedersen, 2018; Bennett & Checkel, 2015).

Visual mapping can help uncover what happened in the public and private actions regarding FR&R for SMEs between 2008 and 2018. The mapping categorises the processes involved in evolutionary, dialectical, teleological and life cycle processes (Langley, 1999), providing a chronological overview of events. This platform can be used for content analysis to identify how the discourse is organised and to understand its identifying subjectivities. When analysing discourse and its subjectivities from a political perspective, it is crucial to evaluate the objectives of the individuals involved and the values

Doing a Laclau and Mouffe informed discourse analysis (Walton & Boon, 2014)

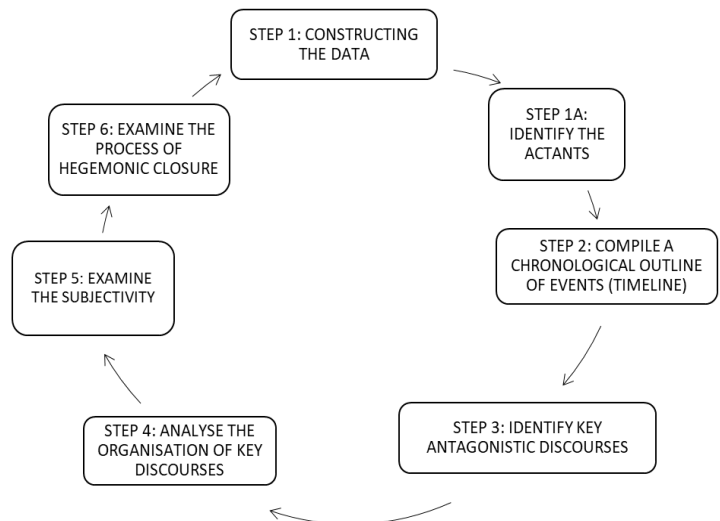


Figure 2: Discourse analysis; Laclau & Mouffe (1985), 2001

that drive these objectives. Additionally, it entails scrutinising the methods proposed by these individuals to attain their goals, the external factors that impact the discourse, and the probable ramifications if the objectives are unmet. (I. Fairclough & Fairclough, 2012).

The data on these circumstantial discourses were found in parliamentary minutes and interviews. The organisation and subjectivity of the content of the discourse (steps 4 and 5 of the Laclau & Mouffe informed discourse analysis) have been analysed using concepts for political discourse analysis (I. Fairclough & Fairclough, 2012). The information was gathered through minutes, reports, and interviews, which were transcribed manually. All of this data has been coded using political discourse analysis, where values, goals, counter-circumstances, claims for action, and measures stated by the individuals involved have been identified. The coding and analysis have been carried out using MAXQDA. (Kuckartz & Radiker, 2019).

Process tracing is used to analyse how the conflict on FR&R for SMEs evolved and was settled in a hegemonic closure. For determining the uniqueness of causes (Beach & Pedersen, 2018), interviews are the primary data source. Newspaper articles, ministerial minutes, and reports confirm applicable types of causal mechanisms.

By triangulating sources (newspaper articles, minutes, reports, and interviews) and methods (discourse analysis and process tracing), the research maintains a balance between validity and reliability in favour of validity (Gerring, 2001). It is acknowledged that improving the validity of this research comes at the cost of its reliability, thus limiting the potential for external generalisation of its findings. (Yin, 2018).

In Section 4, the findings of the study are presented. The section introduces the actors involved in the conflict on F&R for SMEs (4.1). The process of the evolving discourse is then explained in detail in Section 4.2. Section 4.3 delves into the banks' claims to defend automated FR&R activities. The impact of impending defaulting debt on emotions and the resulting anger is discussed in Section 4.4. The role of machine mediation as a critical cause in the conflict on FR&R is highlighted in Section 4.5, emphasising the need for a new balance of virtues. Section 4.6 talks about how an increased aversion towards banks during the post-crisis era influenced the discourse on FR&R for SMEs. Finally, Section 4.7 elaborates on how the conflict was settled, and Section 5 concludes the paper with a discussion of the findings, conclusions, and suggestions for further research.

4. Actors, processes, causes and solutions in the FR&R conflict between banks and SMEs

This section identifies the key actors and networks for SMEs in the post-crisis conflict on FR&R (4.1). Then, the chronological process of the developing discursive conflict and the solutions found are shown (4.2). This is followed by an analysis of the discursive content, highlighting the organisation and subjectivities of the discourse, which involves balancing the virtues (4.3).

4.1. Identification of actors and networks

As explained in Section 2, the reconstruction of the conflict on FR&R for SMEs involved collecting data from various sources such as newspaper articles, interviews, parliamentary documents, and internal ministerial minutes. This helped to identify the network of contestants (banks and SMEs) and the mediators (supervisors, ministries, parliament) involved. The process was guided by scholars, consultants, and media experts and the conflict on FR&R for SMEs involved two groups of private organisations. On one side, the incumbent contesting group was the banking sector, which included Rabobank, ING-bank, ABN-Amro-bank, and Volksbank. The meta-organization representing the banking sector in this conflict was the banking association NVB. The FR&R departments, their employees, financial models, computer and administrative systems, and protocols played a crucial role in this conflict. Dutch SMEs were on the other side of the conflict, represented by meta-organizations like MKB-Nederland, Ondernemend Nederland or Stichting Mores.

Mediators in the conflict are found in the realm of Dutch public governance, including Dutch (members of) parliament, the Ministries (of Finance and Economic Affairs), the supervisors (Central Bank, DNB, for Prudential Supervision and Financial Markets Authority (AFM), for behavioural supervision), and scholars, each have their modes of existence.

Both public and private actors have been advised by consultants, usually from economic, law, or business backgrounds. The media complete the picture for facilitating (and mediating) conflict. The discourse was made public and sustained via a collectivity of media, particularly the newspapers Het Financieele Dagblad, de Volkskrant, De Telegraaf and NRC, where journalists also played a role as mediators.

Figure 3 visualises the identified network of collectivities in the conflict. The network is complex, with many (public and private) collectivities in their modes of existence that do not always understand each other. The following section introduces the element of time to develop a solid platform for the content analysis of the discourse on FR&R, showing a process of evolutionary events.

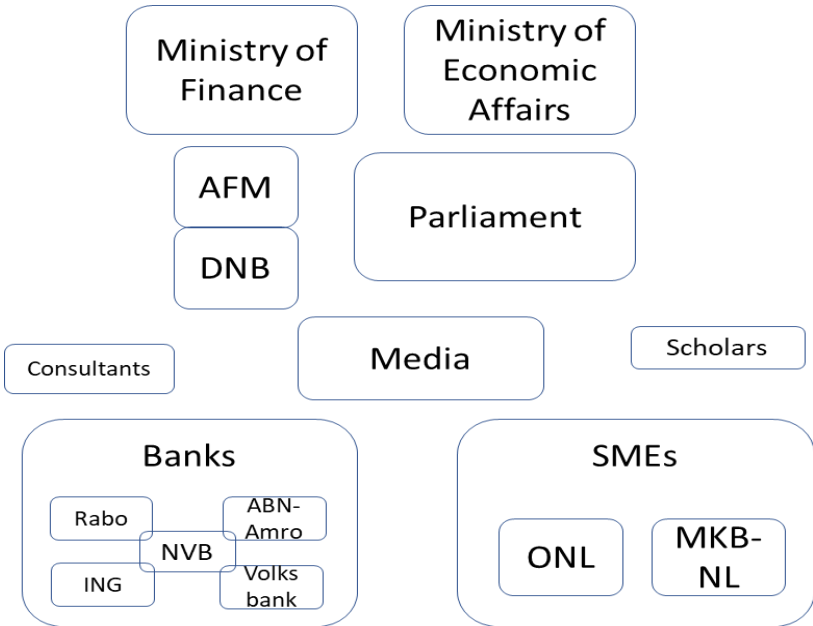


Figure 3.: Actors in the conflict on FR&R for SMEs

4.2. Process of post-crisis conflict: a chronological outline

The network of key actors (as collectivities) in the conflict has been identified in the previous section. This section shows the emergence and development of the discourse on FR&R for SMEs. The settlement was made by developing soft regulation, leading to changes in the FR&R departments and thus informing how “institutionalisation” happened as a struggle for support for conflicting goals. The process of the evolving discourse on FR&R for SMEs is identified based on Dutch newspaper articles between 2000 and 2019. In an overview, the process of the evolving discourse is shown in Figure 4.

Between 2001 and 2009, only fourteen articles on FR&R were published, compared to 550 articles in the decade afterwards. The few articles on FR&R discussed the importance of early interference with companies in impending financial difficulties (Maarsen & Strop, 2004; Haenen, H., 2006). Furthermore, it was mentioned that banks had been too lenient in providing loans to SMEs, causing more bankruptcies than before (Battes, 2005). Journalists also elaborated on the toughness of the bankers working in FR&R departments (Van Gelder, 2004), rationally reconstructing (or bankrupting) companies in financial trouble to limit the losses for the banks, although pre-crisis toughness of FR&R bankers may not have been pleasant for SMEs, it did not lead to (public) upheaval in the SME sector; possibly it was seen as part of the game and could be satisfactorily discussed between people involved in the long-standing and personal debtor-creditor relationship of SMEs and banks.

Signs of a lingering conflict between SMEs and banks about FR&R became visible as of 2008, starting in January 2009, with an article in the newspaper for the financial industry, *Het Financieele Dagblad*, with the headline: *In the slaughterhouse of the bank* (Couwenbergh, 2009). This article highlights that being transferred to FR&R by the bank is any entrepreneur's nightmare and is identified to be the traceable moment of starting the discourse on FR&R for SMEs. In 2013, the supervisor AFM was alarmed by the increasing amount of newspaper articles about the many SMEs in the bank's infirmity departments and by individual SMEs contacting them with complaints. AFM decided to act and investigate the matter (supervisor AFM, personal communication, 2020, 20 November). Simultaneously, the Ministry of Finance (Department of Financial Stability) discussed what was happening with many SMEs in the infirmity departments. In January 2014, ABN Amro answered questions from the Ministry via the formal owner of ABN Amro and Volksbank (the NLF¹). The bank explained that 20% of SME clients were transferred to FR&R, more than the usual rate of below 10%. Furthermore, the bank explained in general terms the workings of FR&R and possible consequences for SME clients. In July 2014, members of parliament picked up the problem of high numbers of SMEs in the infirmity departments (Van Hijum, 2014; personal communication, 2022, 19 September). In 2015, the Bank Association NVB presented self-regulation (code of conduct) on FR&R for SMEs (NVB, Handreiking Bijzonder Beheer, 2015). In 2016, the bank association NVB presented a monitoring report on the implementation and workings of the code (NVB, Monitoring Commissie Code Banken, 2016). In 2018, the banks launched and implemented the code of conduct for small-business financing (NVB, Code Kleinzakelijk Financiering). After 2015, the number of newspaper articles published on FR&R for SMEs faded out gradually.

The evolution of the public discourse on FR&R for SMEs shows a period of emergence and slow growth between 2009 and 2011, followed by a period of maturity between 2012 and 2013. The discourse erupted into a public debate on the wrongdoings by banks towards SMEs in 2014 and 2015. The period between 2008 and 2015 shows a steeply increasing intensity of media coverage and can be labelled the 'dialectical' phase in the conflict between banks and SMEs. After 2015, the debates went on but were shielded from the public gaze, which can be labelled the 'teleological' phase in the conflict, in which the contestants work together towards solutions for solving the conflict under the guidance of the Ministries of Finance and Economic Affairs, with the supervisors AFM and DNB in the background. Guided by the ministries, scholars, and consultants, the bank association works towards hegemonic closure, established in 2018 by introducing the code of conduct for small business financing. After 2018, the media attention for FR&R stayed higher than pre-financial crisis times, and the coronavirus crisis after 2019 increased awareness. However, the expected higher numbers of bankruptcies did not materialise due to support measures the state, and

the banks took to SMEs by adjourning taxes and payment terms to later dates. The banks anticipated high numbers of companies in FR&R and recruited more people for the infirmity departments, which was unnecessary. The state and banks had learned lessons regarding how to deal with SMEs in financial distress, and a revival of the SME conflict was prevented. How SMEs will behave after the adjourned taxes and payments must be paid for eventually remains to be seen in due course.

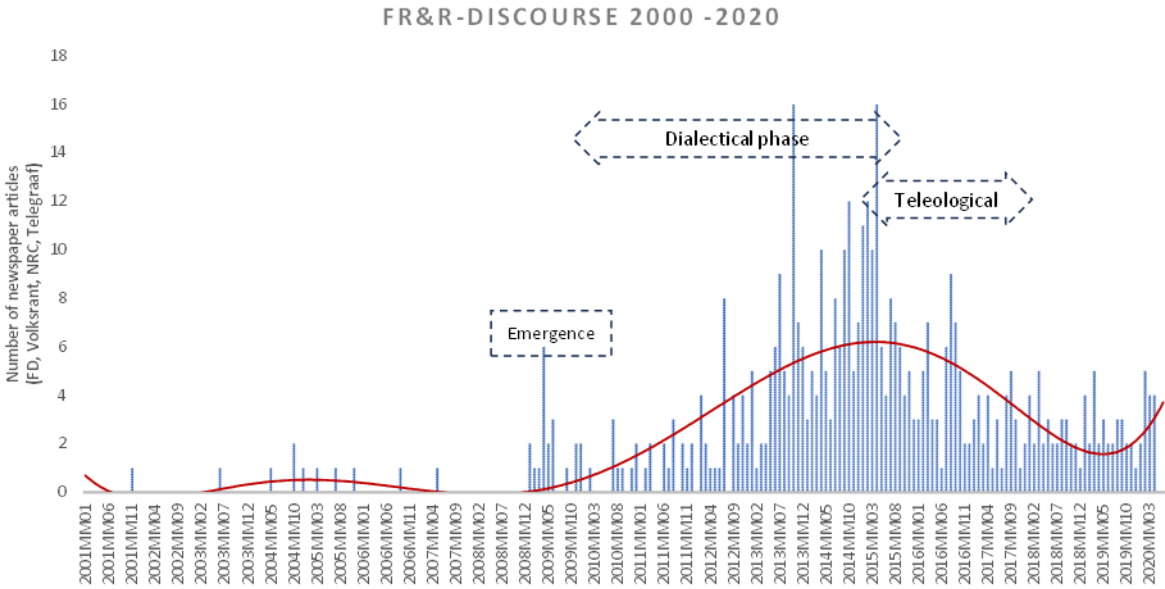


Figure 4: Newspaper articles on FR&R 2000-2020

Looking for causes and understanding of the conflict on FR&R, its discursive evolution is put in perspective of numbers of bankruptcies per annum and economic growth. The evolving numbers of defaults in The Netherlands between 2000 and 2020 show that relatively high numbers occurred during the financial crisis (around 2009) and in the post-crisis period (between 2011 and 2016), with an average of

around 80 bankruptcies per month (Figure 5). However, the numbers in the pre-crisis period (between 2002 and 2006, after the dotcom-crisis of 2001) also show high

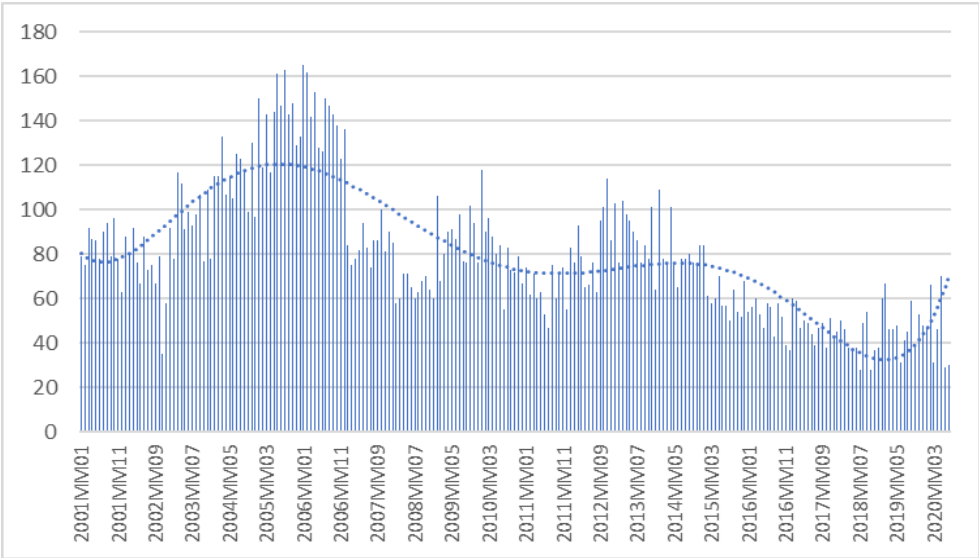


Figure 5: Number of business bankruptcies 2000-2020. Source: CBS Open Data StatLine, n.d.

numbers of bankruptcies, averaging 120 per month, while the trendline over two decades shows a decline in the number of insolvencies, between 2000 and 2020.

Given Dutch GNP figures (Figure 6), the two decades between 2000 and 2020 show the adverse effects of the financial crisis, the coronavirus crisis, the dot.com crisis after 2001, and the recession after 2011¹¹. Comparing the GNP trend figures with those of bankruptcies, the number of bankruptcies and GNP figures correlate, except for 2020 when the

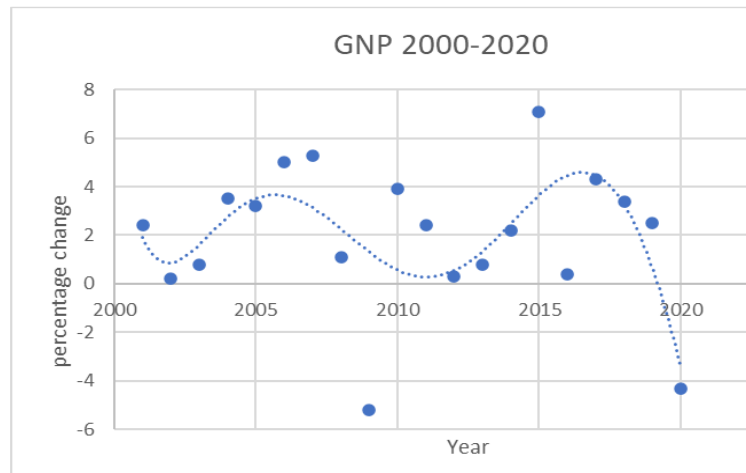


Figure 6: Dutch GNP 2000-2020

corona-crisis caused an economic standstill, but the state supported the SMEs³ Moreover, banks (by adjourning terms of payment) prevented companies from going bankrupt.

From these data, it can be concluded that while the chronological paths of GNP and bankruptcies correlate, the evolution of the discourse on FR&R for SMEs does not. GNP and the number of insolvencies over time need to be revised to explain the emergence and development of the discourse on FR&R for SMEs in the post-crisis decade. The primary data analysis shows that the banks using algorithms and machine communication was another element triggering anger with the SMEs and causing the conflict on FR&R. Section 4.3 studies the banks' arguments for using automation in the debtor-creditor relationships with SMEs, while 4.4. and 4.5. provide an analysis of how the SMEs perceived this new kind of machine-mediation.

4.3. Causes of conflict: Bank perspectives on transferals of SMEs to the bank's infirmary

Debtor-creditor relationships are fundamentally social in human history, and the notion that debt should be repaid is ancient. In this realm, banks also recover their loans. Banks intermediate between depositors and borrowers and must protect depositors (savers) against (too much) defaulting debt of borrowers, which may lead to bankruptcy of the bank itself. Arguments for automating are found to be more convenient for clients (banking via the computer instead of human interaction). Another

³ In the spring of 2020, when many small businesses had to close due to covid, banks claimed that, instead of being the causes, they were now 'part of the solution' by being lenient towards customers with impending defaulting debt (...), referring to the post-financial crisis conflict on FR&R.

argument is increasing regulation and the bank's accountability for complying. The chairman of an SME meta-organisation underpinned the latter view:

"Partly because of digitisation and automation, partly because those relationship bankers were blamed for all those billions that had to be written off. I think that played a big role. A risk-averse bank has come back for that. I want to add another element to this. From that moment on, the demands placed on banks by the Dutch Bank, the AFM, and - in terms of balance sheet, governance, and ratio - have changed enormously. If you look at what one must hold in terms of capital and risk capital to finance SMEs, that ratio is, in my view, quite out of whack compared to the past. It is no longer possible for banks to some extent. I understand that too" (ONL, personal communication, 2022, 23 August).

A representative of the Bankers Association, specialised in SME relationships, claims (in a slightly nuanced manner) that automation has improved the financing of SMEs:

"I honestly think that looking at how the credit process goes, it has not worsened. If you have a business plan and want to submit a credit proposal on Saturday evening, you can speak to someone on Monday morning about your case. For example, New10, the subsidiary of ABN-AMRO, functions entirely according to the code of conduct but via an online process. There are algorithms behind it. In terms of content, the process has not deteriorated there. I think there is dissatisfaction among entrepreneurs about the fact that there are stricter conditions compared to pre-2008. They are also part of the automatic credit process, and the rejection is harder online. So, you get fast feedback, and it hits harder if it is a 'no'. In the past, some loans were accepted due to talking down the Account Manager at the local bank and probably should have been rejected. This possibility no longer exists with automation, and entrepreneurs do not like that. The account manager had the right to say 'yes' or 'no' (without further underpinning). The computer does not have that possibility. So (the selection criteria of) 'blue eyes' or the 'OK-feeling' you may have with a person does not exist anymore, and the SMEs are dissatisfied with it (NVB, personal communication, 2022, 6 July).

Banks have emphasised the importance of loan repayment and implementing automation for improved efficiency, regulation, speed, and consistency. However, these priorities can also negatively impact human values and norms, particularly in balancing virtues like justice, moderation, wisdom, and courage. The following section discusses how small and medium-sized enterprises view the

transfer of defaulted loans to FR&R (Financial Restructuring and Recovery) and how social conflict can arise if the process is perceived to be out of sync with these virtues.

4.4. Causes of conflict: SME-perspectives on transferals to the bank's infirmary

Values and virtues are very much related to (impending) defaulting debt. In old times, failing to repay your debt meant poverty, enslavement, imprisonment, or death (Graeber, 2011). Such harsh effects no longer exist and are replaced by legislation protecting the debtor to some extent. However, the law still protects creditors against losses from defaulting debt, and the ancient value that one should repay debt is still alive. Financial trouble triggers fear, shame, and loss of control over the company (to the bank), making people angry. The frustration with SMEs, deriving from (impending) defaulting debt acknowledged by members of parliament in 2015, explained in debates on FR&R for SMEs:

If an SME comes under FR&R, it has a significant financial and emotional impact and frustrates the entrepreneur (Parliamentary Minutes, 2015, 7 October).

Such emotions inform SMEs' perceptions of the banks. Another newspaper article, quoting scholars about a book they published in 2015 on 'turnaround management' (Adriaanse & Groen, 2015), describes the workout of emotions around the transfer to FR&R:

"No bank division is as controversial as FR&R, the department where problematic loans end up. Transitioning from 'healthy' to 'sick' is a major shock for many small and medium-sized enterprises (SMEs). They have put all their money and energy into their business and lost control overnight. Bankers are taking over the helm, and, in many cases, this immediately arouses resistance from entrepreneurs. 'The entrepreneur often experiences his assignment to FR&R as a defeat or unwanted intimacy. An entrepreneur always finds it annoying when the bank interferes with business operations.' 'Being a FR&R customer is a disgrace. I once had a farmer as a customer who no longer dared to leave his house. Afraid to encounter creditors or customers who lived in the same village' (NRC, Van der Heijden, T., 2015, 28 May).

SME managers, including a chairperson of an SME-representing organisation (MKB-Nederland), talk about their experiences and emotions coming along with being transferred to FR&R in newspaper interviews:

“Friday, July 3, 2015, I remember it exactly. I had to go to the bank in the morning to discuss a loan for my company. However, the boy I had an appointment with (it could have been my son) immediately transferred me to the FR&R department. I did not get a loan; no, on the contrary, the bank wanted its money back as soon as possible. It was a hammer blow. I was invited as a panel member with other company directors in the afternoon. I held on, but my confidence was zero.” (de Volkskrant, Bogaarts, R. 2017, 7 August)

“I had a company with a turnover of €9 million and 150 employees. At a certain point, I ended up in FR&R. Yes, you curse the boys from the banks. You are in a tunnel and cannot see the light at the end yet, but a boy like that tells you how to do it. That emotion: that is difficult.” (Het Financieele Dagblad, Polman, J., 2020, 29 July)

Consultants claim that SMEs are irrational in case of financial troubles and should look at the problems more rationally (Adriaanse & Groen, 2015). However, despite cognitive dissonance, bankers believe that small and medium enterprises (SMEs) have valid reasons to fear the Financial Reporting and Regulation (FR&R) industry. This is because the image of bankers working in this field is often associated with high levels of rationality and toughness. The banks themselves also value these "macho" traits, as evidenced by the successful careers of some bankers:

The appreciation of being tough as a banker is illustrated by the careers of managers like Rijkman Groenink (CEO of ABN-Amro from 2000 to 2008), who founded his image of being a 'tough' banker on his FR&R activities (Couwenbergh & Bökkerink, 2020)."

The statement of tough bankers in FR&R has been confirmed by interviewees, for example:

“Before 2009, FR&R was not always done carefully and sometimes lacked accordance with legal rules in that regard. (...). Yes, in Groenink’s time, maybe we were tough” (RABO, personal communication, December 2022).

Traces of Graeber's anthropological and historical views on the unequal relationships between debtors and creditors, as well as the fear of the creditor resulting from the impending default on debt, can still be seen in contemporary research on how emotions guide small and medium-sized enterprises (SMEs) facing financial difficulties. Long-standing human emotions around debt are still related to Financial Recovery and Restructuring (FR&R) for SMEs and are a significant factor in the discourse on FR&R for SMEs after 2008. While balancing virtues has changed how defaulters are

dealt with over time, resulting in protective measures for creditors and debtors through bankruptcy laws, new changes in current times, due to rapidly increasing machine mediation, require a new balancing of virtues to guide human relationships. The following section will focus on the mediating role of automation in debt relationships and its perceived dehumanising effects.

4.5. Causes of conflict: Machine mediation requires a new balancing of virtues

Data show that access to sufficient funding for SME businesses and prevention of bankruptcy are essential goals of SMEs. Therefore, in the post-crisis era, the (need for) financing of companies shrunk, and the number of (impending) bankruptcies increased; it was no surprise that normal emotions involved with financial difficulty contributed to the anger of SMEs. The stereotyping of the 'slaughterhouse of the bank' appeared in the media in 2009, when a journalist asked SMEs about what happens if specific parameters in the lending relationship with the bank are broken:

“When certain indicators trigger the activation of the 'infirmary' department on a company, the bank takes over the company's financial steering wheel, and the entrepreneur loses his independence. The bank immediately monitors the company's financial development more closely and, if deemed necessary, imposes additional costs and strict managerial measures on the company. Being transferred to the infirmary department is a stern warning for the entrepreneur that the company is heading for bankruptcy if nothing is done” (Het Financieele Dagblad, personal communication, 10 January 2021).

FR&R bankers have been known to take harsh measures against SMEs in financial difficulty to safeguard the bank's interest. Interestingly, before the 2008 financial crisis, such actions were not a subject of public debate, and banks' harsh handling of impending defaulting debt was perceived to be expected. However, SMEs became increasingly angry after the crisis, and newspapers and politicians were interested in the issue. The data suggests that the trend of replacing personal human contacts with machine mediation played a crucial role here. During the first decade of the 21st century, banks accelerated the development and implementation of automation in lending relationships with SMEs, including FR&R operations. Banks initially used efficiency reasons to defend the unilaterally implemented digitalisation and automation of protocolised bureaucratic procedures. Until 2008, people executed these activities, and the impact of replacing human mediation with machine mediation on perceived values in debtor-creditor relationships was underestimated or ignored. Automated loan applications provide advantages for SMEs, such as facilitating interest rate comparison or avoiding the need to visit a bank branch. However, being transferred to FR&R by an

algorithm and computer communication was a bridge too far for SMEs. During the financial crisis, SMEs felt that the machine-guided action lacked human touch and respect in the mutual relationships with the bank. They regarded it as unjustified and disrespectful. Although algorithmically defined and automatically communicated activities from the FR&R department were similar to human mediation, SME clients perceived it as a breach of the mutual debtor-creditor relationship. The chair of one of the leading representative SME organisations, MKB-Nederland, explained in the media about the digitalisation of banks:

“The bank and the SME customer no longer understood each other. The banks are increasingly digitalised. Coffee with the bank manager is no longer possible. And that time will never come back.” (De Telegraaf, Eg, R., 2018, 18 January).

SMEs formulate their experience with machine-mediated communication as follows:

“So, it is a lack of human touch, not realising that the SME entrepreneur is also human and did his best to save his company. FR&R was ice-cold in saving money for the banks. Twenty to thirty years ago, the banker was a friend of the entrepreneur; they stood together in the pub and thought along (with the company, JZ). This switch to FR&R is not for the entrepreneur but only for the bank (ONL, personal communication, 2021, 16 April).

“The fun is gone, and I understand to a certain extent that this is no longer possible. However, I also think the human dimension, giving a little space to a company, is completely gone. It has become frigid, cold and distant. I have always said that banking is more than just granting credit. Banking is also where you participate with an entrepreneur. However, the old relationship banking was done away with after 2007 (ONL, personal communication, 2022, 23 August).

“Nowadays, banks mainly use automated systems to check whether a company is viable. People make choices less and less and more and more by computers.’ ‘Many entrepreneurs now have run into difficulties due to corona. I see them struggling terribly with liquidity. I would like them to have someone like (a banker in a regional office, JZ) instead of a protocol with ticking boxes.” (NRC, Leclaire, A., 2020, 10 October).

Consultants and scholars subscribe to the claim that banks have digitalised and dehumanised their debt relationship with SMEs. Already in 2012, the newspaper Het Financieele Dagblad quotes a

consultant, talking about the surprises deriving from automated lending and triggers for being transferred to FR&R:

“Many medium-sized companies are completely surprised by the consequences of breaking the so-called bank covenant. Management and supervisory directors are often unaware of the agreements they have made with banks when taking out a business loan.” (Het Financieele Dagblad, de Horde, C., 2012, 1 May).

In 2013, an agency advising entrepreneurs in their banking relationships saw a trend in which banks increasingly looked at the return per customer or group of customers:

“The scarce equity capital can only be used once.’ Credits are becoming less profitable for banks, so they are looking at other options to increase their income, including gradually increasing commissions for payment transactions and advisory income.” (...) “Banks have been able to analyse the return they achieve per customer or group of customers for several years. The models they use are becoming increasingly sophisticated. Banks are increasingly looking at revenue per customer. (...) “In the past, cross-subsidization was acceptable if the overall result for the bank was sound. Now, we do not do that anymore”. (Het Financieele Dagblad, Lalkens, P., 2013, 4 November).

Initially, the banks played down the claim of de-humanising effects but acknowledged the ongoing automation of the relationship with SMEs. By answering questions of the Ministry of Finance in 2014, ABN Amro informs the civil servants about lending to SMEs, including FR&R, in the following manner:

“FR&R is often an automated process. Program lending clients who run into financial problems are monitored internally by us if they hit certain triggers based on automated searches in the program loan portfolio. We proactively try to approach these customers and provide them with advice to avoid problems. When customers no longer meet the conditions of their loan, they are transferred to Lindorff (collection agency, JZ). This is a tiny percentage of total portfolios. Here, forbearance only occurs to a minimal extent”. (Ministry of Finance, ABN Amro, email exchange, 2014, 29 January).

As explained by ABN Amro to the Ministry of Finance in 2014, banks implemented automation processes without fully understanding their impact on relationships with Small and Medium-sized Enterprises (SMEs). However, after four years of public debate, things changed. In 2018, the

chairman of the Bankers Association released a statement acknowledging that banks lost sight of SMEs, which comprised 90% of their business customer base during the crisis. This statement was made before introducing the code of conduct for small-business financing:

"The relationship took a serious hit during the crisis. I have encountered entrepreneurs who said: 'My bank has suddenly raised the interest on my loan, but no one tells me why'. That should not be done. It is not fair to approach small entrepreneurs in the same way as large companies with many advisers. We must move towards an equal relationship between the bank and the SME client." (De Telegraaf, 2018-1-18).

By 2022, a highly experienced senior FR&R manager of Rabobank went even further and explained (in hindsight) the impact of automation on debt relationships with SMEs:

"(...) The current era has more standardisation and less customisation. That is a trend that you see. We try to put as much as possible into models. Everything used to be custom-made and possible, but you now see that consumers and companies are increasingly trying to put it into certain models and structures. In the past, you had a relationship manager, and he went to visit many companies. That is less often now, less common. Much is done digitally now, and if you meet the parameters, tick the boxes and receive new financing. Looking back on that, also because of the developments, one needs more normative behaviour, realising that you cannot always put people in those boxes. A certain framework of standards is needed to give it some direction and hold one another accountable, not only within the bank but also towards the customer. Data is becoming increasingly important in the context of non-performing loans and capital commitment, so more and more data is being requested from clients. There is an increasing pressure on data collection. There is also an increased emphasis on compliance with the rules of Europe and Amsterdam. Flexibility in the performance of various functions is under pressure, and much less customisation is feasible compared to the past. Looking at the nature of the work, it is, as I said earlier, much more standardised and process-oriented. There is much less attention to the specific case-oriented settlement of problems. This is partly caused and dictated by Brussels, the Netherlands and the supervision of the banks. It is much harder, I think, to deliver customised service to our clients just around the corner. The relationship manager used to visit clients much more often and could take the personal circumstances of the case more into account. With these developments, that (customisation) is less and less possible and will become less and less, I think. Moreover, it is true (that human) mistakes are made; you cannot deny that. It is also a people's business. However, the human dimension is no

longer there; it is just saying goodbye if you do not meet the parameters. With all its consequences." (RABO, personal communication, 2022, 10 December).

Consultants subscribed to views of how human relationships have faded out with SME-lending:

"If you want new financing, you will no longer get a banker on the phone, especially as an SME entrepreneur. You fill in documents and go online. The algorithm and the traffic light determine whether it is red, green, or yellow. Especially in SMEs, it is red very quickly. If it is green, your file is correct, and nothing is wrong. I do not think yellow is very common anymore, and yellow was no longer seen at FR&R at some point. It was red or green." (...). "I know they have switched to online acceptance and determining the risks via algorithms. I am into old-school banking. If the algorithm is leading, it makes me itch because there is much more going on in an SME entrepreneur than what emerges from a balance sheet and a profit and loss account. That is my personal experience. The whole flexibility and customisation went away. The private treatment has just completely disappeared. That is a shame because in banking, 'credere' is based on trust and is now all based on distrust. The funding process has solidified distrust. The personal has just completely disappeared. (Consultant, personal communication, 2021, 8 December).

A lawyer representing SMEs claimed banks are seizing them unexpectedly, causing financial trouble:

"Shocking things have happened. A company does not even have to be in trouble to become a victim of a bank. Suddenly, increased risk interest is imposed on a loan, and the revaluation of the assets is outsourced to an interim manager appointed by the bank but at the company's expense. (These measures) not only cost the entrepreneur a lot of time and money but sometimes even his company." (de Volkskrant, 2018, 30 March).

Amidst the COVID-19 pandemic, bankruptcy rates were expected to rise in 2020. A consultant emphasised the growing importance of automated protocols:

In the past, bank customers often spent a long time at regional offices, and account managers were reluctant to transfer them to FR&R, considering it a loss. However, now banks are more efficiently organised, and it is clear that if a customer's ratios drop, they must be transferred to FR&R bang-boom without delay. (Het Financieele Dagblad, Polman, P., 2020, 29 July).

Bankers, consultants, and scholars agree that unilaterally implemented digitalisation and protocolisation dominate the complex relationship between banks and SMEs. This notion is congruent with Latour's view on protocols and machines as actors but opposes pragmatic views on justice, that developing them should happen in dialogue. A scholarly report assessing alleged abusive practices of banks towards SMEs confirms the consequences of this problematic situation:

“Over the past two decades, the financial sector has invested heavily in the automated processing of (new) regulations and dealing with stricter supervision. The human side of financing relationships seems to have been overlooked in this process. There only seems to be room for short-term financial considerations and legal consequences. This undermines the nature of a credit relationship, which involves long-term trust and a joint assessment of the future, which, in principle, can only be calculated to a limited extent and will always involve uncertainties. For these reasons, in addition to a rational side, focused on financial and economic interests (also with the customer) and a legal side, there is also a personal and emotional side. The 'granting' is an essential element in economic transactions. Criteria like reasonableness and proportionality are discussed in the granting process. These touchstones in financial transactions receive too little attention from supervisors, banks, and entrepreneurs— (University of Applied Sciences Amsterdam, May 2017).

An expert from the University of Amsterdam, who evaluated codes of conduct for small business financing on lending and FR&R, explains the shift to automation and motivates the need for additional normative regulation:

“When discussing banks and comparing them to the years before the code of conduct, it is crucial for them to focus on improving their information delivery processes. (...) Over the past three to four years, there has been a significant shift towards automation, and many processes, especially those that cater to SMEs, are now highly automated. So, there are digital lending streets where (...) all those processes run”. (...) “There is no doubt that this will be the trend for small businesses, too, at a certain point, and that requires more attention in the Codes of Conduct: it should contain these elements (about digitalisation) sufficiently and needs adjustment accordingly. Parties need to assess where this can be improved. I think that will be an issue as well.” (...) “Emotions (that) also drive SMEs towards political organisations. I think that after the emergence of a populist party in the House of Representatives, SMEs have gained more traction. It is tilting, though” (SEO & University of Amsterdam, personal communication, 2022, 8 February).

The supervisor on behavioural issues, AFM, acknowledged the dehumanising effects of digitalisation. As the AFM representative working on the file on FR&R for SMEs explained:

“During better economic times, small SME loans were granted easily and almost fully automated. This is why I mentioned automation earlier. Banks attempted to automate the provisioning costs and reduce the expenses of monitoring and portfolio management, rather than focusing on individual customers.”(...) *“What has stuck with me is how bad the banks' communication is. They do not communicate clearly what it all means to you and what consequences it has for you. As a customer and entrepreneur, you have very little control over this. You go into that machine, and that machine pulls you through. Banks try to keep you alive as long as possible to prevent them from having to write off the credit. Moreover, if you are unlucky, they try to spin it so that the risk is with you and not with them. That is their business model. Moreover, it is not wrong if they say they are here to help you through it. However, they must tell you why they are doing that.”* (AFM, personal communication, 2020, 22 November).

SMEs, banks, consultants, scholars, and civil servants have recognised digitalisation's significant role in shaping SMEs' perceptions in FR&R situations. However, it is surprising that Members of Parliament completely ignored digitalisation as a possible cause of the problems between SMEs and banks. The Ministry of Finance only mentioned digitalisation once as a cause of concern, and that too after receiving information from ABN Amro:

“Some banks have partially outsourced special management to service organisations. This mainly concerns settling smaller loans for companies in the settlement phase. Some banks outsource this work to keep costs as low as possible for both the bank and the customer. For example, the process is largely automated, with less or no direct contact with the customer by account managers and practitioners. There is no quantitative overview of the deployment or effectiveness of service organisations. Incidentally, the bank always remains the contracting party of the customer, and the bank is therefore responsible for the careful treatment of the customer.” (Parliamentary Minutes, 2015, 10 July)

Although not considered by Members of Parliament or civil servants, the findings indicate that SMEs feel that banks should reintroduce a human touch in the debt relationship and FR&R with them, which has been lost due to digitalisation. The values underlying this claim are the perceived lack of moderation with profit-seeking banks and the lack of wisdom regarding the importance of

establishing human debt relationships over time, which the banks have one-sidedly sacrificed for efficiency. Another claim implies a lack of courage of banks to take risks with the acceptance of the risk of human error, while justice is under pressure because the oligopolistic position of banks allows them to take one-sided measures and impose risk-free interest rates.

The parliamentary mediators followed the banks by focusing on the symptoms, particularly surprises deriving from automated interest increases and other costs. Moreover, although the ministry was informed about the ongoing digitalisation of the banks, it chose to focus on the symptoms only. In hindsight, consultants and supervisors mentioned ongoing regulation and automated protocolisation as a cause for bad communication. Still, between 2013 and 2018, parliament did not recognise the importance of dehumanising effects deriving from digitalisation, and the MPs just mentioned the outsourcing of FR&R to (highly automated) collection agencies. As a result, the debates about FR&R for SMEs missed a critical point and remained fuzzy and lengthy. It was unclear to civil servants (or supervisors) what kind of regulation could be developed to solve the conflict.

In (sub-) conclusion, it is argued that changing perceptions about justice in the debt relationships due to automation have remained under-analysed and ignored by banks and MPs as a root cause of conflict. The anger with the automation of protocols in lending relationships is rooted in a cold, algorithmically triggered and computer-communicated sudden loss of control of the entrepreneur over his company, combined with looming shame and poverty. The financial crisis provided SMEs a platform to express dissatisfaction with the dominance of the ongoing digitalisation of bureaucratic protocols and human relationships. The situation brought many SMEs into financial difficulty, and when the harsh measures of FR&R bankers were combined with automation, the SMEs were infuriated. Furthermore, the banks had laid off many employees for efficiency reasons, leaving too few people to talk to SMEs in transfer to FR&R. The banks should have considered the virtue of justice in the lending relationship. As a result, the SMEs turned to the media. The SMEs used (and contributed to) the public outrage on a perceived lack of wisdom and moderation with the generously remunerated bankers. The following section explains how the anger of SMEs about the automation of lending relationships was covered by public debates about greedy crooks in pinstripe suits, which explains what caused the post-crisis public discourse on FR&R for SMEs.

4.6. Causes of conflict: post-crisis aversion towards banks

After the financial crisis of 2008, banks were criticised for the behaviour of their employees, which put them on the defensive^{III}. In the Netherlands, discussions about the reasons for the crisis, such as

greed and operating in a risk-poor oligopoly, as well as the bailouts and nationalisations of banks with taxpayers' money (ING, ABN Amro and Volksbank), fraudulent activities (Libor-affair, Rabobank), and facilitating money laundering, contributed to a high level of aversion to banks. This criticism of banks supported small and medium-sized enterprises (SMEs) in their arguments, cultivating the image of bank employees as greedy, short-term predators. Three discourses related directly to SMEs: 1. the misselling of derivative products to ignorant SMEs, 2. the over-selling of debt in the pre-crisis period, and 3. the RBS scandal on FR&R for SMEs, as revealed by the Tomlinson report. This section briefly points to the influence of circumstantial discourses on the discourse on FR&R for SMEs.

Scholars and journalists analysed the greed of misbehaving banks, which was made visible in a famous theatre play called 'The Seducers'. The play portrayed how banks seduced SMEs to do business with them, but when a client needed help, the bank would turn from friend to foe and not hesitate to bankrupt the SME. SMEs were portrayed as victims, expendable for the bank's profit and bonuses. Except for the employees who committed fraud in the Libor affair, no banker in the Netherlands went to jail. Some board members stepped down (receiving generous golden handshakes), and higher buffers, bank taxation, and significant penalties were imposed. Additional regulations (legislation) were developed, for example, to restrict excessive remuneration of bankers and guide bank behaviour.

The post-crisis public discourse about banks circumstantially influenced the FR&R discourse. Supervisors and parliament members were alarmed by the high number of SMEs in FR&R and by the continuous exposure in the media of banks as greedy, ruthless, and short-term profit-seeking institutions at the expense of taxpayers and clients. The unrest in society about banks also partially explains why the discourse on FR&R for SMEs emerged after 2008, and negative publicity fuelled aversion to banks. As a result, the banks found themselves in a defensive position, and their deteriorated image supported the public perception of banks as corrupt—the malpractices with FR&R for SMEs fitted in this view perfectly. From a normative perspective, regarding cardinal values, banks have been accused of lacking moderation and wisdom, driven by personal greed, and (related to bonus and status) claiming too much importance for shareholder value. The underlying value of moderation is also helpful in analysing the misselling of derivative products to SMEs in The Netherlands and the RBS affair on FR&R for SMEs in Great Britain. Since SMEs were the victims of these wrongdoings, they contributed directly to the anger of SMEs towards banks and the intensity of the FR&R discourse. However, cardinal virtues should also be considered to understand better the discourse on FR&R, particularly the virtue of justice. For example, the state's bailing out of banks

(which also caused the crisis) was perceived as 'injustice', as the SMEs in financial difficulty were not bailed out. This perception added to the anger of the SMEs.

"And on top of that, I think there comes that other emotion of: 'The bank was saved and (...) an eloquent SME chairman took his stage" (to use that in his favour; addition JZ). (ABN Amro, personal communication, 2021-11-22).

The discourses surrounding banks in the aftermath of the crisis put them in a defensive position, particularly about FR&R. This allowed SMEs to take advantage, and, with the support of politicians and supervisors, they could initiate discussions on FR&R in parliament. However, these discussions could have been more precise and focused mainly on lending to SMEs in general, without addressing the perceived injustice towards the rescued banks or the apparent reluctance of banks to lend to SMEs.

With public debates frequently criticising banks for their lack of corporate responsibility and emotions running high due to possible defaults, it was necessary to address the issue. "Improved communication" was proposed as a solution, and the Bank Association (NVB) took the initiative to implement self-regulation codes of conduct for small business financing and FR&R for SMEs. This helped to ease the conflict and took the focus off the issue of automation being a cause of conflicts. The banks were not required to be more lenient towards SMEs in financial difficulty, and the conflict was resolved. The following section will analyse how the codes of conduct helped to put an end to the conflict.

4.7. Hegemonic closure of the discourse on FR&R for SMEs.

The automation of protocols in FR&R has continued, but banks have found a way to "re-humanize" their relationship with SMEs by improving communication. In April 2015, the bank association published a 'recommendation'⁴ on FR&R and general codes of conduct for Dutch banks. According to this recommendation, banks promise to provide transparent information about the role and functions of FR&R, identify problems quickly, explain why transferal to FR&R is necessary, allow proactive entrepreneurs in FR&R, provide additional financing if needed, be easily accessible and make quick decisions, substantiate measures and costs, provide a clear and accessible complaints process, record agreements, and provide access to relevant information. In 2018, the code of conduct for small business financing included an improved version of these recommendations. It

⁴ In Dutch: 'Handreiking Bijzonder Beheer', 2015

states that the guidance of FR&R will primarily focus on improving the client's situation. If this is not possible, the bank may terminate the relationship and call in the loan, with the securities being executed. The code of conduct for small business financing came on top of the general codes of conduct on bank behaviour, like the first (primary) code of conduct of 2010, which was renewed and expanded in January 2015. This “code for banks” included a social charter of the banking code and rules of conduct. This renewed code elaborated on the importance of balancing the interests of all stakeholders (including ‘society’) and a promise to focus on customers. The general code, “future-oriented banking,” does not reference the implications of digitisation and automation regarding customer relationships.

The discourse ended with the banks creating self-regulation, which codified existing core FR&R practices but also mitigated the dehumanising symptoms of digitalisation, covered under the umbrella of "communication". In 2015, ABN Amro highlighted the importance of such communication in the media:

Communication and transparency are super important; ABN Amro starts on cautious terms. According to the bank, the emotional situation of an entrepreneur who has ended up in dangerously brutal weather makes the situation difficult. If I tell you you are sick, you may not hear everything. So, then we must talk more often and put everything on paper. Fifty per cent of the training of personnel in the department of FR&R focuses on social skills and is based on customer satisfaction surveys”. (De Telegraaf, Eg R. 2015, 18 September)

The solution of communication was quickly adopted in 2014 when the Bank Association NVB swiftly created self-regulation on FR&R for SMEs to address the normative problems with the infirmity departments, followed by a code of conduct on small-business financing in 2018. The discourse faded out as a result, and the chairman of the Bank Association NVB was happy with the code(s) of conduct:

The Code of Conduct for Small Business Financing has now been created for communication on FR&R. The guidelines describe what entrepreneurs, associations, foundations, and other institutions with a turnover of up to EUR 5 million can expect when they approach the bank for credit. All banks active in the Netherlands, including the subsidiaries of foreign institutions, promise to adhere to the concrete agreements. Banks promise to communicate no longer interim changes, such as interest rate adjustments and options for early repayment, in incomprehensible language. This also applies if a credit application is rejected. Complaints are taken seriously. If the two parties cannot agree, the customer can go to an independent dispute resolution counter.

Following the example of the complaints desk for consumers, this has been placed with the Complaints Institute for Financial Services (Kifid), an institution financed by the banks." (De Telegraaf, Eg, R., quoting the chairman of Bank Association NVB, 2018, 18 January).

The relationship between codes of conduct and digitisation has been more clearly defined in the evaluation process initiated and financed by the Bank Association NVB. The evaluation process is carried out by a consultancy firm (SEO) in close cooperation with the University of Amsterdam's economics faculty. According to the interviewed evaluator, automation is preferable as it eliminates human errors in judgment, but needs mitigation to control for human elements and argues that:

"The Code of Conduct should apply in the digital world, too. Digitisation can improve customer experience and access to banking services. However, banks must ensure proper execution and verification of the code. Digitisation can also lead to more accurate analytics and forecasting, but banks must remain vigilant to potential malfunctions." (...) "The banks attach great importance to that; they always try to build it properly. During that process - in addition to that digital line that runs all the way through - there must also be the possibility of continuous contact. Only what you no longer have or get less is, for example, that personal account manager, whom you already know from twenty years ago, so those kinds of very relationship-oriented aspects may gradually fade into the background due to digitisation. However, that does not mean that there cannot be contact and that there cannot be guidance in that process. So, if he does not have the digital knowledge, you can still very well include him; I think that is still possible. (SEO & University of Amsterdam, personal communication, 2022, 8 February).

The banks' counterclaims were partly based on norms for protecting (other) customers' savings and complying with legislation facilitated by unilateral automation. However, in practice, automation negatively affects customers and requires human intervention, and despite the efforts to make the FR&R process better for SMEs, the codes of conduct have only satisfied some. The threat of shame and impoverishment resulting from (impending) defaulting debt still lurks, as a former SME representative explains:

If your business is not running well and you are transferred to FR&R, you no longer have the power to fight against it. Moreover, that is why additional legislation is needed. At the time, we lobbied for a ruling on the duty of care by banks towards SMEs, but instead, a code of conduct emerged, which made no one happy. Apart from the banks themselves, I do not know anyone who is pleased with the code of conduct for small business financing. Even the Ministry of

Finance and supervisor AFM were very critical because the code of conduct was no more than codifying existing practice, and that was the same practice in which that internet consultation showed that everyone thought that this was not going well (ONL, personal communications, 2021, 16 April).

5. Conclusion: From friends to foes, and back?

The financial crisis contributed to the SMEs' perception of banks as greedy and oligopolistic institutions, which is confirmed in the data analysis. However, the analysis also shows that it was not only a perceived wrong balancing of virtues regarding debt that infuriated SMEs when they struggled to maintain their independence. When the crisis threatened their company's existence, the digitisation and automation of FR&R protocols ignited their frustration and became a new source of contributing to the public's perception of banks as mainly driven by greedy shareholders. Unfortunately, politicians and civil servants failed to recognise the anger caused by machine mediation, leading to a prolonged and confusing public debate about how to finance SMEs. The banks themselves understood the problem better and took the initiative to settle the dispute through self-regulation, focusing on the communicative negative symptoms of automation while leaving the core of FR&R and ongoing automation of protocols intact.

Debt relationships have been a part of human society since ancient times and have always been a topic of public debate. The discussion usually revolves around balancing the cardinal virtues of moderation, wisdom, justice, and courage, and the post-crisis era is no different. In solving the post-crisis conflict between small and medium-sized enterprises (SMEs) and banks on FR&R, the balancing of virtues has undergone institutional changes. This has been achieved through the joint development of self-regulation regarding automated protocols managing defaulting debts. As protocols become increasingly automated, it is essential to maintain a balance between rational efficiency and the empathic human-client relationship. It takes courage to question the benefits of automation, which include increased efficiency and profits. Not only the highly automated financial markets, which led to the global financial crisis but also minor examples, such as the automation of lending relationships with Dutch SMEs in FR&R, have demonstrated to be powerful sources of public discontent. These examples

showcase crucial lessons regarding the ongoing digitalisation of financial relationships, including developing, implementing, and using artificial intelligence.

The study affirms Graeber's insights on debt relationships being integral to social relationships, with creditors and debtors having human interests and obligations. It also confirms the theories of Fligstein McAdam on how challengers compete with incumbents to gain more support for their interests. Additionally, it demonstrates Latour's ideas on how computers, as mediating machines, alter human input before acting on receiving humans. Replacing human mediation with machine mediation changes human perceptions of justice in financial relationships and is a source of societal unrest. An early example of exposure to this embedded potential conflict was the contest between banks and SMEs about FR&R.

The conflict between SMEs and banks was resolved with codes of conduct that improved communication distorted by automation. After 2019, during the coronavirus crisis, the banks softened payment terms for SMEs on top of the improved communication protocols. They also rapidly increased the number of employees in FR&R departments, indicating they had learned lessons from the post-crisis conflict in FR&R. However, in the banks, automation is still a dominant solution to increase efficiency at the expense of human relationships. Therefore, automation and digitalisation should be explicitly brought under political mediation's control to mitigate the dehumanising aspects of automated protocols in banking relationships. The conflict about FR&R demonstrates how automation can become a source of societal unrest, and it should be a top priority in the governance of the financial industry. Parliament and ministries should acknowledge the role of automation as a vital actor to prevent future conflicts. For institutionalising regulation on this topic, meta-organisations are becoming increasingly valuable to help fill knowledge gaps in the government.

Banks are crucial in providing essential social services to human societies as a shared resource. However, large oligopolistic banks are becoming increasingly difficult to regulate and manage for supervisors due to their size, complicated international relationships, and the regulatory framework facilitated by complex and automated bureaucratic systems. The widespread use of automation in banking is putting pressure on the social relationships between banks and their customers, and it is necessary to maintain a better balance of

benefits. Automation, a significant cause of the post-crisis conflict between SMEs and banks, provides an early warning to be vigilant about the dangers and limitations of machine mediation. Social relationships between institutions and their clients are too crucial to be left solely to machines.

Further research is proposed on the role of the meta-organisations in public conflicts resulting from machine mediation, including the influence of dominant networks of the technical and consultancy industry.

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Endnotes

¹ The Netherlands Financial Investments (NLFI) is a state-owned investment agency based in the Netherlands. It was established in 2008 because of the nationalisation of several Dutch financial institutions during the global financial crisis. NLFI operates independently and is supervised by the Dutch Ministry of Finance. Its activities involve making strategic decisions regarding the government's stake in financial institutions, such as divestments, capital injections, and monitoring the performance and governance of the companies. NLFI's primary responsibility is managing and overseeing the government's investments in financial institutions rescued and recapitalised with public funds. Its primary goal is to safeguard the interests of the Dutch state and taxpayers in these institutions and to promote financial stability. Some notable financial institutions in which NLFI has had ownership stakes include ABN AMRO Bank, ASR Nederland, and SNS Reaal (SNS Bank, now called Volksbank). Over time, NLFI has gradually reduced the government's ownership in these financial institutions

through various means, such as initial public offerings (IPOs) of ABN Amro and ASR or sales to private investors. The ultimate objective is to fully exit these investments and return the financial institutions to private ownership, ideally with a profit, allowing them to operate independently in the market.

ⁱⁱ It is argued that austerity measures by the Dutch state deepened the economic downturn, a view supported by scholarly research (Blyth, 2013). However, the state argued that the higher number of bankruptcies should also be attributed to an overheated Dutch building sector and fast-growing competition in online selling.

ⁱⁱⁱ For example by scholars (Boot, 2012; Hellmann et al., 2000; Minsky, 2015; Stiglitz, 2019; Vogl, 2015) and journalists (Boonstra, 2010; Canoy, 2019; Couwenbergh et al., 2013; Couwenbergh & Bökkerink, 2020; Duffhues, 2018; Janssen, 2022; Kickert, 2012; Luyendijk, 2016; Smit, 2009)