



BUSINESS ETHICS AND ITS IMPORTANCE IN BANKING INDUSTRY

Amith Menezes

Senior Lecturer, Srinivas Institute of Management Studies,
Pandeshwar, Mangalore, Karnataka

Abstract:

Business ethics is defined as "the process of evaluating decisions, either before or after, with respect to the moral standards of society." Core ethical values include honesty, integrity, fairness, responsible citizenship and accountability. In short, business ethics means "choosing the good over the bad, the right over the wrong, the fair over the unfair, the truth over the lie". Observing the law is one basic professional requirement for banks. They must also pay close attention to moral concerns in order to make the right ethical decisions on a day-to-day basis. The upholding of an ethical culture in banking is of critical interest to regulators, banks, employees and customers alike. Banking ethics are the moral or ethical principles that certain banks chose to abide by. There isn't an ethics ombudsman or a universal code of ethical conduct, but the banks that vaunt their ethical credentials vet the ethical standing of potential investors and partners and also choose the companies that they in turn invest in with their ethical policy in mind. In this paper I would be discussing the concept of Business Ethics, and its importance in banking. Also the global viewpoint of Business Ethics in different countries. How Business Ethics is viewed in terms of the view point of the employee, customer or management. Also I would be analyzing the importance of Business Ethics on the Banks in general, which includes a specific study of the Business Ethics in the Banks in Mangalore.

Ethics:

The word ethics is derived from the Greek word 'ethos', which means character. Ethics is a branch of philosophy that is concerned with human character & conduct. It is a discipline dealing with that which is good & bad with moral duty & obligation. Ethics is the embodiment of moral values, which describes, what is right & what is wrong in human behaviour & what ought to be. Thus ethics refers to good character & morality and to generally accept human character & behaviour considered as desirable by contemporary society. The same action or practice is viewed as ethical or unethical depending upon the school of moral thought to which one subscribes. Further, the perceptions of ethical or unethical change at times because some values are dropped & some values are added over the period. "Ethics is the discipline dealing with what is good and bad and with moral duty and obligation." In this broad sense ethics in business is simply the application of everyday moral or ethical norms to business.

Morality & Ethics:

Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community. Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called ethical theories.

Business Ethics:

What is ethical & unethical in general society may not be the same in business as the same in business as the latter operates in different environments & with different objectives that are centred on profit & wealth maximization. Business ethics is concerned primarily with the relationship of business goals & techniques to specific human needs. It studies the impact of acts on the good of the individual, the firm, the

business community & the society as a whole. Business ethics studies the special obligations that a man & a citizen accept when he becomes a part of the world of commerce. Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.

The subject of business ethics is the effect of the social nature of morality, and the feedback effect of business morality on the business environment. Thus, business ethics may be defined as a group of moral actions of an individual, as the element of a collective, that he/she adheres to during all forms of business activities without damaging the business relationships within the business system and the wider environment. Public attention has lately turned towards debates about business ethics, as the social responsibility of the individual and the collective. The question arises as to whether business has anything to do with the morality of the individual and the collective. Many people deny the connection between ethics and business, believing that the place of morality is within religion, while others perceive the interconnection between morality and religion. Every business activity has certain things in common with morality and moral actions of an individual or groups. Business ethics has two basic dimensions of expression and demonstration:

- ✓ Collective Ethics
- ✓ Individual Ethics

Collective ethics includes the application of ethical principles in the management's decision-making that refers both to external subjects and the environment and the ethical relations within the business system itself. Individual ethics involves adherence to the norms of customary business morality. If an individual has a deficit of ethical morality it means that they put their interests before the collective and legal norms, and before the norms of customary business morality, which can damage the business climate. Individual ethics is the basic element of group or collective ethics. It is certain that opposed stands regarding the relationship between business and ethics are gaining importance.

Golden Rules of Ethics:

- ✓ Everything you want others to do to you, you shall do to others
- ✓ Do not do to others that which you do not wish them to do to you
- ✓ Do not do anything to others that if done to you, would cause harm to you

Business Ethics in a Global Perspective:

ISSUES	EUROPE	UNITED STATES	ASIA
Who is responsible for ethical conduct in business?	Social control by the Collective.	The individual.	Top management
Who is the key factor in business ethics?	Government, trade unions, corporate associations.	The corporation.	Government, corporations
What are the key guidelines for ethical behaviour?	Negotiated legal Framework of business.	Corporate codes of ethics.	Managerial discretion.
What are the key issues in business ethics?	Social issues in organizing the framework of business.	Misconduct and immorality in single decisions situations.	Corporate Governance and accountability.

Ethics & Banking:

Companies do have ethical responsibility and are not protected by limited liability from the consequences of their actions. A company's record and the perception of its ethics affect its reputation and ensure long term success or failure.

The financial community has a history of placing moral considerations above legal or opportunistic expedients. But we are often exposed to moral dangers and the

dangers of contamination are increasing. Deregulation and the technological revolution are sharpening ethical conflicts.

Bankers' role is one of stewardship based on trust. We are trusted by those who ask us to look after their money and we have a duty to lend that money responsibly.

Banking is about rewards reflecting real risks and ethical considerations form an important part of our risk-taking activities. The welfare of our borrowing customers, in good times and bad, is of major concern in any business proposition. Sometimes commercial considerations can be at odds where ethics and politics combine, for example, on the LDC debt question.

We depend on people to run our business and to reflect our ethical standards. We have to let our people know what is expected of them and help them to avoid pressures and temptations.

A bank's responsibility extends to Government, customers, shareholders, staff and the community.

The Basic Ethical Principles in Banking are:

- ✓ **Principle of Mutual Trust** is of special importance for successful functioning of the business system. Important and valuable deals are very often contracted over the phone, in the absence of witnesses, while the relationship between the participants is dominated by the inviolable principle of mutual trust.
- ✓ **Principle of Mutual Benefit and Interest** means that none of the partners in a business relationship should feel cheated;
- ✓ **Principle of Good Intentions** is very important for business ethics and moral behaviour.
- ✓ This principle means that there is no intention to treat the business partner in an immoral way, whether it refers to deception, theft or some other undesirable way of treating a business partner;
- ✓ **Principle of Business Compromise and Business Tolerance** refers to the harmonization of the conflicting interests of participants in the business process;
- ✓ **Principle of ethical improvement of business behaviour** represents the business partner's readiness to accept the mistake that has been made as a result of his own actions. He should admit the mistakes and respond in an appropriate way;
- ✓ **Principle of Demonopolization of One's Own Position**, because monopolistic behaviour on the market does not contain any ethical market value and
- ✓ **Principle of Conflict Between One's Own Interests** refers to the inability to relate common to personal interests, with simultaneous adherence to the same ethical values.

Importance of Ethics in Banking:

Ontologism based on the concept of good as opposed to evil helps us define the banking business from the point of view of ethics. The idea of awareness or conscience of the need for banking products or services inevitably comes to mind. This simplified parallel leads us to the conclusion that full awareness of and the related ethics about the importance of banking products and services is imminent to all economies, regardless of their economic development

Research Methodology:

We have considered the Mangalore Clearing House as the sample population for conducting this survey. Mangalore clearing house has 56 banks in its purview, which includes nationalised banks, private sector banks & also co-operative banks. For this survey, we have considered 12 banks with a mix of all the types. The banks are

- ✓ HDFC Bank
- ✓ ICICI Bank
- ✓ Axis Bank
- ✓ Indusind Bank
- ✓ ING Vysya Bank
- ✓ Kotak Mahindra Bank
- ✓ Bank of India
- ✓ Bank of Maharashtra
- ✓ Indian overseas bank
- ✓ Corporation Bank
- ✓ SCDCC Bank
- ✓ Saraswath bank

The total number of respondents are 70 which includes 50 customers & 20 employees.

Objectives of the Study:

The main objectives of this study is

- ✓ To find out what the customers & employees feel business ethics in Banking is about.
- ✓ Is it important to have Business Ethics in Banking
- ✓ What is the need or importance of Business Ethics in banking
- ✓ What are the skills & qualities of a Manager that one would associate it being important influencing factor for him being Ethical
- ✓ Can Business Ethics & Profit Maximisation go hand in hand

Findings of the Study:

Table 1: The meaning of Business Ethics in Bank

Type of Respondents	Meaning of Business Ethics	No. of Respondents	Percentage
Employees	Loyalty to your organisation	5	25
	Faith in your profession	9	45
	Justice to those with whom you deal	2	10
	Others	4	20
	Total	20	100
Customers	Loyalty to your organisation	9	18
	Faith in your profession	4	8
	Justice to those with whom you deal	22	44
	Others	15	30
	Total	50	100

With the above table we see that majority of the employees feel that Business ethics in Banking is mainly concerned with “faith in your profession” & majority of the customers feel that business ethics is “justice to those with whom you deal with”.

The other meanings that the respondents have listed are

- ✓ No Gifts and entertainment from customers
- ✓ Information disclosure and dissemination
- ✓ Outside activities and relationships
- ✓ Political contributions and activities
- ✓ Anti-bribery and anti-corruption
- ✓ Conflicts of interest
- ✓ Abusive or intimidating behaviour towards employees.
- ✓ Lying to employees, customers, vendors, or the public.
- ✓ Violations of safety regulations.
- ✓ Misreporting of actual time worked.
- ✓ Discrimination on the basis of race, colour, gender, age or similar categories.

- ✓ Stealing or theft.
- ✓ Insider trading
- ✓ Improper hiring practices
- ✓ Inappropriate alteration of documents
- ✓ Breaching employee privacy.

Table 2: Qualities and Skills of Manager required to be Ethical

S.No	Skills / Qualities	No. of Respondents	Percentage
1	Humane Values	14	20
2	Unselfishness	7	10
3	Integrity	16	23
4	Objectiveness	3	4
5	Responsibility	8	11
6	Honesty	13	19
7	Leadership	9	13
Total		70	100

The above table shows that respondents feel that the most important quality that the manager has to acquire or have with him to be ethical in banking is Integrity (23 %), followed closely by Humane value (20 %) & Honesty (19%).

There are other qualities also which make the manager more effective in terms of his ethics which are:

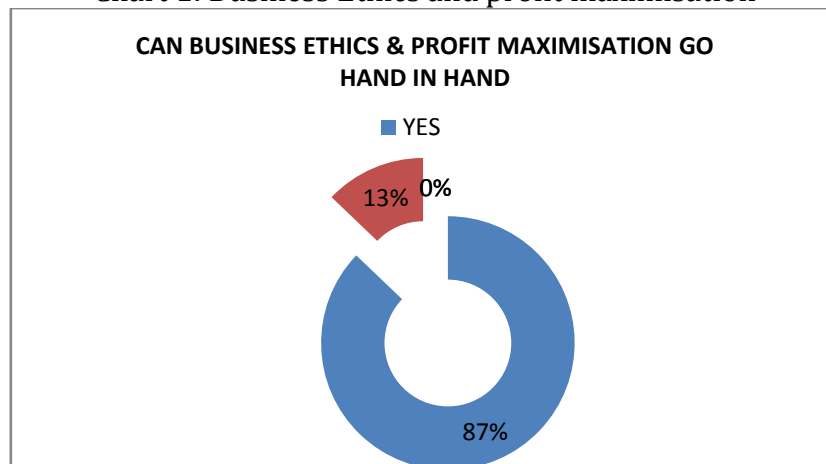
- ✓ Leadership
- ✓ Unselfishness
- ✓ Objectiveness
- ✓ Responsibility

Importance or Need of Business Ethics in Banking:

As per the survey the main aspects that signifies the need or importance of Business Ethics in Banking are:

- ✓ To define acceptable behaviour
- ✓ To promote high standards of practice
- ✓ To provide a benchmark for self- evaluation
- ✓ To establish a framework for professional behaviour & responsibilities
- ✓ As a vehicle of occupational identity
- ✓ Ethics corresponds to basic human needs
- ✓ It creates credibility with the public
- ✓ It gives management credibility with employees.
- ✓ It helps in better decision making.
- ✓ Law cannot protect society, ethics can

Chart 1: Business Ethics and profit maximisation



This clearly shows us that people feel or are of the opinion that Business ethics will not effect profit maximisation in a negative way. They also feel that being ethical only helps the bank to reach out to people, where by profits can be maximised. Out of the total 70 respondents, 61 feel that business ethics & profit maximisation can go hand-in-hand in a bank, and only 9 people feel that both these concepts cannot go together.

Conclusion:

Finally to conclude, we can say that Business ethics in banking is viewed differently by different types of people. If “Loyalty to your organisation” is business ethics for the management, then for employees its “faith in their profession” and for employees its “Justice to those with whom you deal”. We can also say that integrity, humane values & honesty are the major qualities that people associate with a manager who is ethical in his approach or dealings. We have also seen the need or importance of business ethics in banking. The most important aspect of the study is that people feel that profit maximisation & business ethics can go together without any hindrances.

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