

Ethics In Banking Industry : A Comparative Study Of Selected Public & Private Sector Commercial Banks Of India

Isha Preet

Research Scholar,
Tantia University,
Sri Ganganagar

Introduction

“The world has achieved brilliance without conscience. Ours is a world of nuclear giants, and ethical infants.”- **Omar N Bradley**

Ethics are the principles of behaviour that distinguish between the right and the wrong. It is vital that what is good is socially accepted and what is bad is socially undesirable in a given culture or society. There is no such thing as universal truth in ethics; there are only the various cultural codes which are desired to be followed. There are some basic moral principles that all societies will have in common as these are essential for the society to exist. The subject of ethics consists of the fundamental issues of practical decision making and its major concerns include the nature of ultimate value and the standards by which human actions can be judged right or wrong. Although ethics has always been viewed as a branch of philosophy, its all-embracing practical nature associates it with many other areas of study covering anthropology, biology, economics, commerce, history, politics, sociology and theology.

It is presumed that ethics could have come into existence only when human beings started to reflect on the best way to live. This reflective stage emerged long after human societies had developed some kind of morality, usually in the form of customary standards of right and wrong conduct. The process of reflection tended to arise from such customs and accordingly, ethics began with the introduction of the initial moral codes. Virtually every human society has some form of myth to explain the origin of morality. In the Louvre in Paris there is a black Babylonian column with a relief showing the sun god Shamash presenting the code of laws to Hammurabi (1750 BC), known as the Code of Hammurabi. The Hebrew Bible (Old Testament) account of God's giving the Ten Commandments to

Moses (flourished 14th–13th century BC) on Mount Sinai might be considered another example (Singer, 2013).

Sciortino (1994) referred that in ancient Greece ethical concepts like right, good and duty were discussed by Plato and Aristotle in the 3rd and 4th century BC. Ethics is viewed to have derived from genetic inheritance, religion, philosophical system, code of conduct, legal system and cultural experiences. Reddi (1994) avowed that ethics needs to be preached, practiced and incorporated in one's personal as well as professional life. Before laying down the ethical standard of an organisation, it needs to be internalized so that they become a part of the blood stream. Murthy (2004) asserted that ethics is the code of conduct that guides an individual while dealing in a situation. It relates to the social rules that influence people to be honest in dealing with other people.

As ethics refers to the “study of whatever is right and wrong for humans,” business ethics is related with investigation of business practices in light of human values (Hisrich et al., 2010). All over the world there is a growing realization that ethics is imperative for any business in order to attain progress in the long run. An ethically managed organisation is one which has developed a culture of caring for its employees, customers and the society as a whole where culture flows from the top management to the lower staff. Narasimhan (1994) stated that although application of ethics in business creates a number of dilemmas yet at the end people always prefer to be associated with the organisation which has high ethical standards.

Indian Banking Industry is viewed as a catalyst in the economic development of the country and the expectation from this fraternity has always been on an increasing trend (Dutta, 2013). While the coverage has been expanding day by day, the quality

and ethical values of the bank has been shaken up because of the tremendous pressure of the competition as well as meeting the high demands and expectations of the customers. With the era of globalisation and liberalisation, the banking industry has undergone tremendous change in terms of its structure, activities as well as the customers. The existence of large numbers of banks and their branches all over the country, availability of multiple products and services, installation of e-banking and an increase in the figure of bank customers has resulted in the complication of the banking operational (Senthikumar et. al, 2011). These have also led to deficiencies and unethical banking activities which are evidenced by a series of studies conducted by various committees appointed by government and RBI such as Talwar Committee (1975), Goiporia Committee (1990), Tarapore Committee (2004), Sadavisan Working Group (2006) etc. The studies also made implications to bring improvement in performance and procedures involved in hassle-free customer service. The Government as well as the regulator is facing hindrances to control the banking units because of globalisation and quick movement of banking activities (FIDELIS International Institute - Research Note 2010).

Importance of The Study

The study has been conducted regarding ethics of Indian commercial banks (including public and private sector banks) within the vicinity of the Sri Ganganagar city. The study primarily focused on the ethical practices of the public and private sector commercial banks, customers' perception concerning the ethical performances of the respective banks as well as customer's grievances from the office of Banking Ombudsman. But however, since exclusive data from the office regarding Sri Ganganagar is not available hence the study covers the entire state of Assam to know the actual picture relating to the nature of the customer's grievances by examining the total number of complaints received during the last five years including the mode through which the complaints are received and are dealt with, the major complaint prone areas, category of complainants who mostly file complaints at the banking ombudsman office, the number of complaints registered against the banks under study etc.

Objectives of the Study

The objectives of the study are:-

- * To examine the relevance of the conception of Ethics, Business Ethics and Banking Ethics;
- * To study the practice of ethics in the Indian commercial banking sector;
- * To study the customer's perception with reference to the ethical performance of public and private sector banks;
- * To make a comparative analysis with regard to the ethical performances of the public sector banks with private sector banks; and
- * To examine the nature of violation of ethical standard through the adjudication of customers grievances before the banking mediator.

Limitations of the study

The present study suffers from the following limitations:

- * The study is restricted to the city of Sri Ganganagar and only the individual customers who were available within the bank premises.
- * As the data from the banking ombudsman office regarding the customer's grievances was not exclusively available for Sri Ganganagar, hence the data for the state of Rajasthan had to be taken into consideration to analyse the crucial aspects of the nature of violation by the banks.
- * The term banking ethics under the study was restricted to the Code of Conduct/Ethics as laid down by the Banking Codes and Standard Board of India.
- * The protocol relating to granting of permission in the bank branches was stringent, lengthy and time consuming.
- * During the field survey the researcher have encountered that the bank officials were not able to cooperate because of their tight busy working schedule.
- * The bank officials were reluctant to disclose information about their ethical affairs as they did not have the confidence that the materials supplied by them to the researcher will be used only for academic purpose.
- * There are some perspectives of ethics which can be identified only by the experts to wholly know the truth whether the bank has followed their code of ethics as disclosed.
- * There is non-availability of sufficient research work, books and articles in the libraries in the context of banking ethics.

Review of literature

Literature review is indispensable to identify the problem of the study, which can be deciphered by the collection of data. It is important as it provides a background for the research study using the previous research work, evaluates the depth and breadth of the research in regard to the problem selected. It discloses appropriate theoretical structure of the study that helps in easy understanding. Though a number of studies are conducted in the field of banking ethics at an international scenario but very few at the national and at the state level. While a number of studies are undertaken in India relating to different perspective of either ethics or banking but very marginal regarding the combination of both i.e. banking ethics. As such few relevant subjects which come within the gamut of business and banking ethics have been reviewed.

Mitchell, Lewis and Reinsch (1992) in their study have addressed five key research questions relating to what specific behaviors are portrayed in the literature as ethical or unethical; what percentage of business people are believed to be guilty of unethical behavior; what specific unethical behaviors have been observed by bank employees; how serious are the behaviors and; are experiences and attitudes affected by demographics. The study concluded that there are seventeen categories of behavior, and that they are heavily skewed toward internal behaviors. It was found that younger employees have a higher level of ethical consciousness than older employees. It stated that more emphasis is needed on internal behaviors with particular attention on the impact that external behaviors have on internal behaviors.

Ali and Gibbs (1998) reviewed the Ten Commandments (TCs) in Christianity, Judaism and Islam and investigated the work ethics in three religions. In addition, the study examined the meaning and implications of the TCs in each faith and further the ethical and social considerations were addressed. It was argued that the TCs set the moral rules and foundations for individuals and groups. However, TCs should be regarded as general moral guidelines for personal and business conduct.

Reed (1999) stated in his paper that many non-metropolitan areas in the developed countries suffer from problems of underdevelopment. Because the activities of traditional business firms and

government have not met the local needs, many communities have created “community business corporations” which are overtly dedicated to work on the problems of community economic development. The paper examined the nature of such alternative corporations and some of the ethical issues and challenges that they raise. The study mainly focused on one “not-for-profit corporation” in Nova Scotia, New Dawn Enterprises and the businessman who has been the driving force behind it.

Haris and Spence (2002) had explored the ethics of business-to-business electronic commerce, with a focus on the banking sector. A case study of online foreign exchange developments at an investment bank was conducted to demonstrate some crucial moral issues. The key areas identified by the study for further research include freedom of choice, trust and transparency of business-to-business transactions and limits to responsibility with regard to the facilitation of fraud. It thereby concluded that only with careful contemplation of a broad range of management issues will traditional companies effectively address the challenges of electronic commerce.

Sintonen and Takala (2002) analyzed the concept of racism in the context of business ethics and globalization. Firstly, it introduces three ethical traditions to understand moral issues in business: deontological, utilitarian and virtue ethics.

Paulet (2011) highlighted that regulation is necessary but not sufficient condition to ensure the efficiency of banking institutions, financial markets and the management of companies. Through the analysis of the Swiss banking sector, the study provided an insight for banks to satisfy social pressure on more ethical behavior. By refocusing on their core business, banking institutions will be capable of realizing profit and creating value for the community. The suggestions forwarded in this study will be able to solve the opposition between profit and ethics. It thereby concluded that banking and finance is not “an ethics free zone” and accordingly by changing their behavior, banks can improve their credibility on the market and renew the confidence towards clients.

Mathias (1994) emphasized about the corrosion of corporate ethical behaviour in the developed nations like US, UK and Japan. As a

consequence there was a great public demand for more accountability on the part of business and accentuated the need for practice of ethical values and incorporation of ethical training to the future managers in the business schools. In the Indian parlance, severe competition had given the impression that 'Made in India' products are of low quality and highly priced. Thus the trend of unethical activities geared its momentum at the cost of the unfortunate Indian customers. Finally during the era of liberalisation and globalisation, the firms labeled as unethical could not withstand the stiff competition of the domestic as well as foreign players and compelled them to accept that the unethical practices will reap only short-term gains.

Kumar et al. (2003) highlighted about the concept of business ethics and its application and further threw light on the social responsibility of business towards the employees, towards the government, towards the owners and towards the consumers. Organisation's culture plays a significant role and its practice by its employees helps them in identifying what behaviour is accepted and what is not permissible. The Council for Fair Business Practices (CFBP) established in 1966 by the leading private sector industrialists in western India, have provided certain ethics which are applicable to business. Various councils, Federation and chamber of commerce has formulated Code of Ethics which have encouraged the use of unadulterated goods, using proper weights and measures, charging fair prices, equitable treatment to workers or employees, maintain proper books of accounts and regular payment of taxes to the government.

Murthy (2004) highlights the ethical concepts which are important in resolving moral issues in business and acts as guide to the professionals at the time of ethical dilemmas. The author elaborates the ethical aspects in context to various functional areas of business, viz; marketing, human resource development, information technology, finance and productions. The author also emphasized about ethics in global business, discrimination against gender, caste and race, corporate social responsibility and corporate governance.

Kanagasabapathi (2007) gave an idea about the role of ethics and values in the Indian economy

and business in ancient times and the changed nature of these factors in the contemporary period. It highlighted the contribution of higher human values such as help, faith and unwritten norms to the business and economy of contemporary India. It thus concluded that ethics and values have guided the Indian economy and business since ancient times. With the large-scale destruction of the native systems in the 18th century and the failure to recognize and revive them after independence, ethics and noble values ceased to guide the economic and business systems. At the local business and society levels, higher human qualities such as help, faith-based business transactions and basic norms are present even today, especially at the non-corporate level.

Hypothesis

The study aims to test two important hypothesis which are as under:

Null Hypothesis 1:

1H₀ There is no association between the attitude of the employees of the public and private sector banks regarding ethical practices.

Alternative Hypothesis 1:

1H₁: There is association between the attitude of the employees of the public and private sector banks regarding ethical practices.

Null Hypothesis 2:

2H₀: There is no association between the customers' perception relating to the ethical performance of public and private sector banks.

Alternative Hypothesis 2:

2H₁: There is association between the customers' perception relating to the ethical performance of public and private sector banks.

Research Methodology

The methodology of the study is discussed under the following heads:

Research Design

The study is an ex post facto research along with quantitative research as the researcher was not able to control the variables and reported as they had occurred. An attempt was made by the researcher to discover the ethical values and practices followed by the public and private sector

commercial banks and also to know the customer's perspective towards the ethical performance of the concerned banks. The study is carried out in the Sri Ganganagar as majority of the bank branches are located within the vicinity. The significant aspects of the research design are discussed as under:

Population of the Study

The population or universe of the study consisting of the public and private sector commercial banks operating in Sri Ganganagar is a finite one.

Sample Size, Sampling unit and Sampling Technique

In order to have a precise framework of the sampling size, sampling unit and sampling technique, it has been categorized as under:

- (a) Selection of Public and Private Sector Banks
- (b) Selection of Bank Employees
- (c) Selection of Bank Customers

Sources of Data

Both Primary and Secondary Sources are used for collecting the Data for the Study.

Findings

- * It has been observed from the study that there is a strong relationship between personal ethics and professional ethics. A person is bound to behave in the manner in which she/he has grown up with their individual code of ethics. Even though a person may try to hide their lack of personal ethics from the public view, yet during a situation of dilemma and stress an individual do exhibit unconsciously the actions which are in their belief. These may disclose their sense of ethical insight.
- * The banks under the study including both public and private sector conducts various training on banking issues but only few sessions of training in ethics is imparted during the behavioural training. No exclusive training is given to the Indian bankers regarding banking ethics.
- * It is seen that CSR activities are usually carried out by the bank branches located in the big cities which is not the scenario of the branches located in the small cities and towns. Moreover mere compliance with the rules or carrying out welfare initiatives for the staff does not fall in the ambit of CSR. There is also a lack of regulation as well as uniformity of CSR activities amongst the bank branches itself. It is also observed that the CSR activities of the banks are mostly in the same areas leading to duplication

and hence some significant and deprived areas remain unattended.

Suggestions:

The following are few suggestions made by the researcher:

- * First and foremost, ethics should be inculcated at a grass root level and thereby a curriculum should be particularly designed for ethics education for the students at the school level till they reach university by conducting academic programs, assessment, case studies, workshops etc. in a phased manner. This will undoubtedly help them to prepare themselves for the future as they would have an opportunity to learn and handle the professional and personal dilemmas in decision making where ethics comes to play. They will be much more at ease while making personal choices and business decisions.
- * Ethics when it is labeled within the norms of legality there are every chance of the standards or rules not to be complied with. It is important to hire people with a strong sense of personal ethics but however doing so will not be an easy task. A banker manages the money deposited by the public and hence they are entrusted with a very responsible and accountable job. Both public and private sector banks should incorporate rigorous psychological test in addition to their writing and interview test, in order to know the person's perception regarding ethical predilection before they are hired. In the same way promoting people exhibiting poor ethics must be sternly discouraged as it will have an adverse impact in the organisation they will work for.
- * Mere presence of code of ethics will not ensure practice of ethics in banks unless it is strictly followed and there should also be ethical officers to enforce the rules and make the employees accountable on failure to comply the ethical principles. Meetings should be conducted on a regular basis to review and update the code.
- * Employees should be motivated to report if they observe any unethical activities by providing them due recognition and awards. They should also be provided with enough security so that they are not hesitant in coming forward and reporting the matter to the senior officials.
- * Corporate Social Responsibility is an important aspect of ethics and there is a need for creating general awareness about CSR amongst the public to make CSR initiatives more effective particularly in banks. It is recommended that appropriate steps be undertaken to address the issue of building effective

bridges amongst all important stakeholders for the successful implementation of CSR initiatives.

- * The banks should review their security infrastructure and security policies regularly and optimize them in the light of their own experiences and changing technologies. They should educate on a continuous basis their security personnel and also the end-users.
- * Security infrastructure should be properly tested before using the systems and applications for normal operations. The bank should upgrade the systems by installing patches released by developers to remove bugs and loopholes, and upgrade to newer versions which give better security and control.
- * A monitoring mechanism should be developed at controlling office level that should go into the details of efforts made to resolve each complaint lodged at the office of Banking Ombudsman. The current system of Nodal Officers is insufficient to resolve the grievances of the customers of banks.

Conclusion:

It is imperative that the stakeholders are conscious relating to the ethical practices of their respective banks. The customers, investors- both individual and institutional can play a vital role by exerting pressure on the banks and regulators that banking practices and ethics will have to go side by side. From the study, it has been observed the Indian banking system will further grow not only in size but also in complexity in the years to come. As competition gains further momentum, banks are expected to get more integrated with the economy both domestically and globally. As the activities of the banking system expand, there would be a further need to focus on the ethical standards and practices of banks. In the coming years the concept of ethics in banks will attract more attention, whereby, complying of applicable rules and regulations from the regulator as well as the bank itself will become the prime requisite. In day to day functioning and operation of the banks, the quality and character of the bank management would play the role of primary line of defense against banks' potential distress and all unethical doings. In this context, the supervisors would need to focus on strengthening management and management systems within the banks. Even the banks abroad have realized the importance of being ethical and so they have gone beyond their internal code of conduct and are trying hard to see that their

money has been properly utilized and their moral implications. In India, RBI and BCSBI must act stringently and implement strict ethical criteria in order to avoid ethical lapses which results into flouting of trust. When there is ethical plummet within the bank, the effect will be grave resulting into decline in the employee productivity and encouraging more ethical violation. In the due course it would erode the confidence and trust of the customers, clients and all the stakeholders thereby affecting the entire society. Thus, the need of the hour is to have an ethically sound and respectful banking sector in India.

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