1.1 BACKGROUND OF THE STUDY:

“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).

1.2 BRIEF 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.

1.2.1 STUDIES AT THE INTERNATIONAL ECHELON:

Few of the studies done at the international scenario are:

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. Further it argued about the challenges and demands that globalization has set to multicultural and multinational business operations. It thereby elucidates how racism works when it is understood as an ideology-based phenomenon. It argues that there is a great value of knowing how racism works for the development of an anti-racist and non-discriminating organization. However, none of the three traditions on ethical thinking gave direct answer to the question of how to develop and manage an anti-
racist business organization, but connected with the understanding of racism they can be useful tools for the leader of a multicultural organization.

Bello (2004) examined the ethical dilemmas in the Nigerian banking sector. The main aim was to assess the level of unethical of some Nigerian banking practices and the extent to which they affect the banking ethical climate. The study analysed its primary data by applying Kendall coefficient of concordance. The major findings of the study reflected the existence of unethical behaviour in Nigerian banking sector, however, the level at which and the extent to which they affect Nigerian banking climate vary. The study suggested that all stakeholders in the banking industry, namely the licensing authorities, shareholders, directors, top management, the regulators and the government should work together and effectively manage the ethical dilemmas which the Nigerian banking sector is encountering. It thus, concluded that it is indispensable for a bank to have clarity about the key ethical values to which it promises to comply with, specific policies must be designed and the employees should act in harmony with these values. Another significant aspect in controlling unethical conduct was how the staff perceives the value that the senior management attaches to ethical behaviour.

Hurst (2004) stated that the study has been mainly undertaken to analyse if there is any difference regarding Ethics, Corporate Social Responsibility and Corporate Governance between the European and American based companies. For the purpose of the study the author considered eight European and ten American companies and compared few areas concerning technology, healthcare, energy, aerospace and defense industries. The outcome of the study revealed that the European companies show more commitment to CSR in comparison to the U.S. companies. However, American companies are more committed to have structured
business ethics and governance programs in place. The Enron scandal and Sarbanes-Oxley legislation have caused American business ethics and governance to surge in recent years. The study recommended that multinational companies, governments, Europeans and Americans all must play a key role in holding the business community accountable for ethical wrong doings and poor social and environmental performance.

Safakli (2005) have affirmed that as in the past, the banking and finance sector was considered to be the heart of all development models. Therefore, stability in the finance sector is crucial for the stability in all the other sectors. Analysing the recent bank and business failures it can be viewed that the business and professional ethics is one of the most vital elements of stability in banking and finance industries. The primary objective of the study was to explore the rationale for bank failures and delineate the professional and business ethics that has to be adopted in order to provide stability in the banking and finance sector. The study stated that the factors responsible for serious ethical problems leading to financial crises were - connected lending, credits without adequate collaterals, favoritism by the management, inadequate use of funds, dealing in non-financial activities, political interference, lack of accountability, illegal use of funds, lack of transparency and risky investments with low returns. It thereby concluded that the ethical misconduct played a significant role in bank failures and there has been involvement of the owners, board of directors, top executives and the internal auditors in unethical conduct prior to such failures. Additionally, government intervention to the central bank’s independence proved to be both unethical and unfavorable to the liquidity of banking sector. Moreover, high degree of asymmetric information and lack of transparency in the banking sector are other realities stated contrary to ethical behaviour.
Uche (2005) highlighted the unethical practices of the Nigerian banks from a historical standpoint which discovered the imprints of unethical behaviour in banking back to the appearance of indigenous banks in the colonial Nigeria. The study revealed that the most infamous unethical banking practices was led after setting up of Structural Adjustment Programme (SAP) way back in 1986 by the Military government in order to achieve Balance of Payments stability and deregulation of the banking system. The study concluded that Nigerian banking remained occupied of such practices which echoed the degree of corruption in the country.

Yidawi (2005) examined a number of ethical issues and problems in the banking industry which include dearth of qualified professional bankers, lack of proper ethics training, contravention of Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) guidelines, frauds and other malpractices. The researcher used five hypotheses which was tested by applying Chi-square test $\chi^2$. The study concluded that even though there was general awareness relating to the code of ethics amongst the Nigerian Banks but still most of the banks did not adopt it. Besides the increase in the number of bank frauds and forgeries compounded to the ethical problems in the Nigerian Banks.

Holian (2006) highlighted that the purpose of the study was to update and expand a model described in a previous paper by the author (Holian, 2002), which categorized practices, skills and preferences of practicing managers and management consultants. This paper included practical implications for managers, consultants and management educators and applied case study and qualitative interviews for the development of a model of ethical decision-making behaviour. The main findings of the study extended the previous work to include a mode of “Narcissism” as a further
category of behaviour. It builds on the analysis and application of findings from the previous original research study, discusses links with research on “emotional intelligence”, and describes applications to management practice and management education.

Bozovic (2007) emphasised the essence of ethics in the banking sector. The study highlighted that absence of ethical norms in the business operations has resulted into great damage at the micro and macro level and thus due importance has been given to ethics. The study has tried to explicate the business ethics as a social responsibility of an individual as well as of collective moral actions followed during all aspects of business activities up to the point where they do not disturb business relations within the business system, as well as within the wider surroundings. It was therefore concluded that the application of code of ethical principles would establish a defensive mechanism in the field of ethical values application.

Abiola (2009) has underlined the importance of tracing out the ways to control the incidence of frauds in the banks of Nigeria. The study challenged to identify the different techniques adopted to conduct bank frauds and its effects on the banking services. The author made an attempt during the field survey to recognize various means employed in defrauding banks and simultaneously determine the effects of fraud on the banking services. The findings revealed that there are ample issues which together contributed to the occurrence of the banking frauds, viz; poor management of policies and procedures; inadequate working conditions; bank’s staff staying longer on a particular job, and staff feeling frustrated as a result of poor remunerations.

Iraj (2009) in his study acknowledged the significance of global ethical business responsibilities. The recent public scandals of corporate malfunction have
heightened this need and organizations face numerous ethical issues. The multinational corporations will be guided by the incorporation of code of conduct developed by various international entities. The author also has analyzed various ethical climate and ethical problems and concluded that a global code of ethics, developed and enforced by an international agreement is the best means of bringing ethics to the international businesses.

Dion (2009) assessed the compatibility between the religious investing criteria of some Christian mutual funds and the shareholders resolutions about corporate unethical or illegal practices. The paper analyzed the unethical practices that could lead to corporate illegalities for business corporations that are included in the portfolios of Christian mutual funds. The main findings of the study was that the issue of slave labour in the supply chain, managers of Christian mutual funds could not invoke ignorance since in the code of ethics of one company, there is no provision dealing with slave labour. Concerning conflicts of interest on the board, managers of Christian mutual funds could not identify potential risks related to those companies since the problem is the applicability of their codes of ethics.

Dion (2010) advocated to what extent ethical relativism could be adopted as justification for corrupt practices. The paper analyzed the various perspectives which were used to define the boundaries of corruption: a structural perspective, a social-normative perspective, and an organizational-normative perspective. It then identified the various ethics positions that could be chosen and particularly focuses on ethical relativism. The study uncovered that the corruption should be considered not only as a social construct, a cultural phenomenon (from a social-historical viewpoint) but also as an object for ethical reasoning (from a moral viewpoint). Owing to the fact that corruption serves both to sway people away from their moral duties and to favour
self-interest, it cannot be looked at corruption as if it would only be a cultural phenomenon. The paper referred the case of guanxi networks as a cultural phenomenon that is not rooted in Confucian traditional texts but that makes an integral part of the present Chinese culture.

Hisrich et al. (2010) has discussed and compared the ethics and social responsibility of the entrepreneurs with that of the managers. They highlighted that the manager’s outlook towards the corporate responsibility are concerned with the organisational climate and the professional code of ethics while the entrepreneurs with few role models usually develop an internal ethical code. The entrepreneurs depends more on their own personal value system in comparison to the managers while making a decision during a situation of ethical dilemma. Again the entrepreneur’s behaviour and dependence of their own value system, vary in different countries, communities and as well as in metropolitan and non-metropolitan cities. The study further highlighted the relationship of culture and ethics.

Velentzas and Broni (2010) stated that ethics in business are obligated as many businessmen are only interested in making money at the cost of ethics or the harm they would probably cause to people or even to the nature by polluting the environment. Many organizations are choosing to make a public commitment to ethical business by formulating codes of conduct and operating principles. In doing so, they must translate into action the concepts of personal and corporate accountability, corporate giving and corporate governance. The authors concluded that though being moral may save a company from some legal and public relations nightmares, morality in business is also costly. A morally responsible company must pay special attention to product safety, environmental impact, truthful advertising,
scrupulous marketing and humane working conditions. In most issues of business ethics, ideal moral principles will be checked by the economic viability.

LeFebvre (2011) explored the impact of cultural differences between the U.S. and India in the particular area of business ethics. A comparative analysis is performed on the business codes of conduct from major corporations in both the countries revealing some distinct differences in the ethical attitudes. The vertical collectivist nature of India’s culture is evidenced in their focus on hierarchical accountability in ethical situations. The individualistic nature of the U.S. culture is shown in their all-encompassing approach to the personal ethical accountability. The study reflected the codes of conduct of the top fifty public companies in the U.S. and India which shows how cultural differences are manifested in the definition of ethical business practices in corporations. The main findings of the study were that the U.S. companies apply their codes of conduct to all employees, whereas Indian companies generally apply their codes of conduct only to senior management. Secondly, U.S. companies require their employees to report on their colleagues if they see them violating the code. They often provided mechanisms for anonymous reporting in order to encourage this behavior. Very few of the Indian companies had this requirement or provided for anonymous reporting. Thirdly, India is more specific about defining what a relative is, when discussing items such as conflict of interest or undue influence through gifts. Finally, in both the U.S. and Indian cultures, there is a strong expectation to protect the interests of the company and not achieve personal gains at the company’s expense.

M’Sallem, Bouhlel and Mzoughi (2011) highlighted the impact of the ethical dimension of selling behavior on some marketing relational variables in the banking sector viz; satisfaction, trust, commitment and loyalty. The study used Structural
equations modeling (SEM) to evaluate the simultaneous effects of the predictive variables. An empirical survey conducted confirms the impact of the ethical dimension on the trust. The study reveals that satisfaction has an effect on the customer trust which influences his commitment and loyalty. The study thus concludes that there is an impact of ethical dimension of selling behavior on customer satisfaction, his trust, commitment and loyalty. The findings contradict with anterior researches who perceived that ethical dimension does not affect the consumer’s satisfaction neither commitment. As regards loyalty, this variable was not affected by the perceived ethical sales behavior.

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.

Ram et al. (2011) addressed the ethical issues in private commercial banks in Pakistan. It was revealed that private commercial banks are not caring for the customers specially, four old Banks UBL, HBL, MCB, ABL. The study explored the unethical actions of different dimensions with the help of banker’s and customer’s opinion. The study found that the unethical actions identified by the maximum respondents was like influencing the customers to divert the loans in other purposes,
delay in sanctioning loan, sending the legal notice after due date and fixing up payment schedule without considering surplus generation capacity of the borrower. Immoral or unethical actions of the banker are not only harmful for the financial health of the commercial banks but it also contributed towards financial indiscipline in the other sectors of the economy too. The study concluded that it is crucial that rapid departmental actions against the bankers involved in unlawful activities should be undertaken. Additionally, adoption of universal code of ethics by the professional bodies of the bankers may improve the present miserable condition to the greater extent.

Safakli (2011) stated that competitive advantage and longstanding survival of the banking sector do not depend only on market oriented service production but also on winning public confidence. The crucial condition of winning public confidence is to comply with ethical standards. The main aim of this study is to determine the perceived ethical quality of commercial banks from the viewpoint of small and medium enterprises (SMEs) in Northern Cyprus. As a summary of the research, 21 ethical principles used in the study have been grouped into three factors for which perceived ethical behaviors were not satisfactory. Furthermore, regression analysis reveals that three ethical factors named ‘procedural justice’, ‘assurance’ and ‘sensitivity’ have an explanatory effect on their bank satisfaction while SMEs’ bank satisfaction have an explanatory effect on their word of mouth. The major findings of the study also indicated that only one of the demographic characteristics, ‘education’ yielded significant differences at the 0.01 level for ‘procedural justice’ and 0.05 levels for ‘assurance’ in disparity of perceived ethical factors.
Adams (2012) highlighted the failure of bank functioning in upholding the codes of ethics and professionalism, the weak base of banking knowledge, both in theory and practice have resulted in disregard for the codes of corporate governance, reckless initiation of diverse insider abuses by both board members and staff of banks and banks shunning the directives of the regulators. Systemic bank failures, institutional and industry disorders and collapses have been the consequences of the ethical anomalies. The study recommended that the government, regulators and the banking professional together can in unison provide solution through necessary actions.

Rendtorff and Mattsson (2012) discussed some ethical issues in the internet encounter between customer and bank. This empirical study emphasised the difficulties that the customers encounter with the bank through the operation of internet technology and electronic banking. The authors discussed the intricacies that the customers expressed from an ethical stance. The study concluded that the experience of lack of competency in internet banking implies a severe damage on the experience of ethics and respect for the basic ethical principles of customer autonomy, dignity, integrity and vulnerability. However, increased experience of competency may imply experience of increased feeling of ethical superiority and of the good life among the customers. The important implication for managerial research of this study would be for banks to focus on customer competency with an ethical concern instead of only being concerned with technical solutions for effective internet operations.
1.2.2 STUDIES AT THE NATIONAL STRATUM:

In India, even though a number of studies are been conducted in the diverse areas of banking, viz., non-performing assets, banking reformation, corporate social responsibilities, banking operations, banking opportunities and challenges but a very few in the field of banking ethics. The researcher was able to review only few studies at the national level which are cited below:

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.

Goyal and Joshi (2011) emphasized that the economic performance of a country is largely determined by the banking and financial system. The study highlights social and ethical issues such as social banking, ethical banking, green
banking, global banking, rural banking and agri-banking, which help in achieving sustainable development of banking and finance. The study focuses on historical background, past performances and development and social and ethical issues relating to Indian banking industry. Therefore it has been concluded that banks can project themselves as a socially and ethically oriented organization by disbursement of loans merely to those organizations, which has environmental concerns. However, this can decelerate the economic and industrial growth but human race cannot afford the fast pace of growth at the cost of environmental depletion. Apart from this, the concept of globalization and liberalization has been governing the world market. In this scenario, it is right time to focus on the social and ethical issues in banking.

Chattopadhyay (2012) stated that earlier ethics was considered irrelevant by the corporate loyalist but lately its existence and importance has been felt for the success of an organisation. The study focuses mainly on the contribution of Hindu philosophical thoughts in additions to others namely Buddhism, Jainism and Arthashastra. The study also highlighted regarding the association and relevance between Indian ethics and modern business ethics. The author concluded that holistic approach of Indian wisdom is needed for modern management to integrate spirit or values.

Singh and Singh (2012) emphasized the essence of ethical values, business ethics and social ethics as backbone in the field of business. Ethical values and business ethics comprises of honesty, integrity, responsibility, quality, trust, respect, teamwork, leadership, corporate citizenship, shareholder's value, social ethics, moral modes, employee satisfaction, customer satisfaction and finally leading to sustainable business in this globalized world. The study concluded that there is great need to educate the employees, managers, administrators, top management and even owners
of the business organizations regarding ethical values and business ethics along with technical and corporate trainings so as to make the customer and consumers delighted, thus helping to survive in today’s globalized competitive world.

1.2.3 RESEARCH GAP IDENTIFIED:

A number of studies has been conducted in context to business ethics covering various focal themes, such as, significance of global ethical business responsibilities, religion and business ethics, racism in relation to business ethics, cultural differences between nations regarding business ethics, Hindu philosophical thoughts with modern business ethics, relationship between higher human ethical values with the economy of contemporary India etc. However, the researcher was able to trace few works in the field of banking ethics at the international and national platform.

The studies undertaken at the international stratum primarily covered ethical issues of Nigeria which mainly focused on the problems of their banking ethics, i.e. unethical behaviour of bank employees, level of ethical banking practices and the extent to which they affect the banking ethical climate, associating bank distress with lack of professional ethics, tracing the history of unethical banking practices of the Nigerian banks, examining a number of ethical issues in the Nigerian banks, essence of ethics in banking industry, techniques adopted in conducting bank frauds and its effects on the banking services, ethics through regulation in banks etc. Safakli (2005) analysed the relationship between bank distresses with professional ethics, Bozovic (2007) emphasized the application of code of ethics in establishing a defensive mechanism in the field of its application. Ram et al. (2011) studied the ethical issues in private sector commercial banks in Pakistan, or bank survival and its dependence on ethics etc.
At the national stratum few research studies has been identified regarding issues concerning banking ethics, in which the authors, Goyal and Joshi (2011) highlighted the social and ethical issues, viz; social banking, rural banking, green banking, global banking etc. The study thus carried out emphasised more on the environment and social banking. Thus, this subject matter has an ample scope to be explored in India.

This research work is an extensive study regarding banking ethics where related concepts which come under the umbrella of banking ethics have been incorporated, with a view to overcome the research gap which has been identified through literature review. Foremost, the study takes into account the opinion of both the bank employees as well as bank customers regarding the practice of ethics in the Indian commercial banks. Further to understand the nature of violations made by the banks and customers’ grievances, the data from the office of banking ombudsman has been reviewed and analysed during the period from 2008-09 to 2012-13 to derive more authentic information. Additionally, a comparative study of select public and private sector banks has been made to comprehend if there are any differences in their ethical practices.

1.3 SIGNIFICANCE OF THE STUDY:

"If you have integrity, nothing else matters. If you don't have integrity, nothing else matters." -- Alan K. Simpson

Ethical violation in family to the society at large, in government or in private organisation has become a matter of great concern throughout the world. It is essential that ethical awareness, ethical thinking and core ethical skills are introduced and developed so that the individuals and the business leaders adapt themselves and act ethically with the changing environment. Business and society have a symbiotic
relationship and as such any action of the business leader will affect the stakeholders. Knowledge regarding ethics and values will help the supervisors, business leaders to act accordingly during the situation of ethical dilemmas by applying their own ethical decision making. Supervisors demonstrate ethical leadership by being open, fair, trustworthy, caring with the employees, by communicating about ethical values, by role modeling ethical conduct, by focusing on means as well as ends in reward systems and by disciplining unethical conduct when it occurs. A number of research studies conducted worldwide indicate that people around the world tend to identify a similar set of values, suggesting that people from different cultures generally agree that honesty, fairness, and respect for human life are important. Donaldson (1994) avowed that ethics is vital not only for smooth and effective functioning of an organisation but it is also crucial for the protection of the society. He strongly asserted that ethics can do what the law and government cannot do.

An ethically managed organisation commands respect from the public as well as from the government organizations. Similarly, a bank that behaves ethically stimulates other acquaintances to behave ethically as well. The public expects a high level of ethical behavior from the banking units as they keep their hard-earned money depending on their trust and confidence. ‘Doing the right thing’, ‘Do no harm’ and ‘Good to all’ are the general expectations of the public from any organizations. High level of morale and productivity can be easily obtained in organizations that treat all their employees with equality, encourage good team and work culture and ethical practices. Employees who are treated ethically will more likely behave ethically themselves in dealing with customers and their other associates.
It is observed from the study that ethics has become a focus of paramount importance because of the following aspects:

- Ethical behavior is vital because it not only involves doing what is right and proper, but it is also considerable for any organisation for its long-term success.
- Ethical practices build a strong public image for the organization. People respect an organization that follows ethical practices and the customers like doing business with an organization they can trust.
- Ethical conduct makes the best use of resources i.e. money, time and effort are put into productive activities rather than diverted for dubious purposes or personal gain.
- Ethical principles on the part of all employees also help in maintaining quality and productivity.
- Ethical conduct assists the organization to comply with the laws and regulations, as what is ethical in most of the cases are also legal.
- Ethical values ensure good and proper relationships of the organisation with customers and other stakeholders.
- Ethical practices boost morale and promote esprit de corps. People can work in team harmoniously when they have trust on one another and the management.
- Existence and practice of ethics by the employees develops a great sense of dignity and pride as well as provides them with a sense of job security.

Ethics in banking is becoming significant because of a number of reasons, such as

- Involvement of banks in various fraudulent activities, viz.; e-banking fraud, counterfeit signature in cheque, demand draft, fraudulent transfer of savings,
withdrawals through forgery, sanctioning of loan through fake or forged registered documents, usage of stolen credit card, misappropriation of funds by the bank employees, swindling bank customers, alteration of cheque amount, clearance of fictitious cheques etc.

- Signs of ethical deterioration especially after coming of the private players into the banking sector thereby exerting increased competitive pressure.
- Intra-bank or inter-bank rivalry compelling the officials to adopt unfair means to acquire more profits, incentives, promotions, recognition etc.
- In public sector, banks officials are involved in bribery to sanction huge loan amounts to the private parties.
- In private sector, addition of hidden charges, calculation of high interest rates, imposition of the additional charges, harassment for recovery of loan amount etc. leading to customers’ annoyance and dissatisfaction.
- Impartial behavior to various classes of customers, especially unhelpful to the poor and illiterate ones.
- Unprofessional and impolite behaviour of the banking officers and staff towards the customers.
- Under-the-table payments for speeding up the banking process.
- Not maintaining transparency to the customers during selling of the banking products.
- In an urgency to disburse the loan amount proper checking and scrutiny of the documents are avoided.

This research study has made an attempt to create a general awareness among the banking organizations, its stakeholders regarding the growing importance of ethics globally and in Indian banking in particular. The researcher further made an effort to
include all the major issues concerning the subject matter of banking ethics. A comparative study is conducted between the public and private sector commercial banks pertaining to their ethical practices. A survey is carried out to explore some ethical problems and to emphasize on the issues like existence and adoption of code of ethics, lack of proper training on ethics, frauds and other malpractices prevalent in the banking sector. With the increase in competition, new information technologies, declining processing costs and less restrictive governmental regulations all together have played a major role for public sector banks to forcefully compete with the private banks. Since marginal work has been done in India on this area of study, it will serve as an essential piece of document to the government, Reserve Bank of India, Policy makers and other banks as it provides an insight into identifying the need of adopting ethics in banking and also incorporating the changes in its policy guidelines for overcoming the challenges and for efficient functioning and growth of the banking sector in India. Moreover, the study will be a great help for students, academicians and for those who want to conduct research on parallel lines.

1.4 OBJECTIVES OF THE STUDY:

The objectives of the study are:-

i. to examine the relevance of the conception of Ethics, Business Ethics and Banking Ethics;

ii. to study the practice of ethics in the Indian commercial banking sector;

iii. to study the customer’s perception with reference to the ethical performance of public and private sector banks;

iv. to make a comparative analysis with regard to the ethical performances of the public sector banks with private sector banks; and
v. to examine the nature of violation of ethical standard through the adjudication of customers grievances before the banking mediator.

1.5 RESEARCH HYPOTHESES TO BE TESTED:

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

NULL HYPOTHESIS 1:

H₀₁: There is no association between the attitude of the employees of the public and private sector banks regarding ethical practices.

ALTERNATIVE HYPOTHESIS 1:

H₁₁: There is association between the attitude of the employees of the public and private sector banks regarding ethical practices.

NULL HYPOTHESIS 2:

H₀₂: There is no association between the customers’ perception relating to the ethical performance of public and private sector banks.

ALTERNATIVE HYPOTHESIS 2:

H₁₂: There is association between the customers’ perception relating to the ethical performance of public and private sector banks.
1.6 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 metro city of Guwahati as majority of the bank branches are located within the vicinity. The significant aspects of the research design are discussed as under:

1. POPULATION OF THE STUDY:

The population or universe of the study consisting of the public and private sector commercial banks operating in Guwahati is a finite one. The following table reflects the sampling frame or the source list of the study wherefrom the sample is drawn:
Table 1.6.1: Different public and private sector commercial bank branches in Guwahati

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Public sector banks</th>
<th>Total no. of branches</th>
<th>Private sector banks</th>
<th>Total no. of branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Allahabad Bank</td>
<td>06</td>
<td>Axis Bank</td>
<td>09</td>
</tr>
<tr>
<td>2.</td>
<td>Andhra Bank</td>
<td>03</td>
<td>Federal Bank</td>
<td>05</td>
</tr>
<tr>
<td>3.</td>
<td>Assam Gramin Vikash Bank</td>
<td>09</td>
<td>HDFC Bank</td>
<td>15</td>
</tr>
<tr>
<td>4.</td>
<td>Bank of Baroda</td>
<td>09</td>
<td>ICICI Bank</td>
<td>11</td>
</tr>
<tr>
<td>5.</td>
<td>Bank of India</td>
<td>13</td>
<td>ING Vysya</td>
<td>01</td>
</tr>
<tr>
<td>6.</td>
<td>Bank of Maharashtra</td>
<td>02</td>
<td>IndusInd Bank</td>
<td>01</td>
</tr>
<tr>
<td>7.</td>
<td>Canara Bank</td>
<td>11</td>
<td>Karnataka Bank</td>
<td>01</td>
</tr>
<tr>
<td>8.</td>
<td>Central Bank of India</td>
<td>20</td>
<td>Kotak Mahindra Bank</td>
<td>01</td>
</tr>
<tr>
<td>9.</td>
<td>Corporation Bank</td>
<td>02</td>
<td>South Indian Bank</td>
<td>02</td>
</tr>
<tr>
<td>10.</td>
<td>DENA Bank</td>
<td>02</td>
<td>Yes Bank</td>
<td>03</td>
</tr>
<tr>
<td>11.</td>
<td>IDBI Bank</td>
<td>07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td>Indian Overseas Bank</td>
<td>09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Indian Bank</td>
<td>06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.</td>
<td>Oriental Bank of Commerce</td>
<td>02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.</td>
<td>Punjab National Bank</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16.</td>
<td>Punjab and Sind Bank</td>
<td>04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.</td>
<td>State Bank of India</td>
<td>57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.</td>
<td>Syndicate Bank</td>
<td>06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19.</td>
<td>United Bank of India</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20.</td>
<td>Union Bank of India</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21.</td>
<td>UCO</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.</td>
<td>Vijaya Bank</td>
<td>07</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>230</strong></td>
<td></td>
<td><strong>49</strong></td>
</tr>
</tbody>
</table>

2. 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:

Multi-stage random sampling technique is applied wherein in the first stage two public sector banks i.e. State Bank of India and Central bank of India are selected and two private sector banks i.e. HDFC Bank Ltd. and Axis Bank Ltd. was selected by a simple random method (through lottery system). The names of all the banks (public and private banks) were written in small pieces of paper and was kept separately in two boxes and thoroughly shuffled. Thereby, two pieces from each box were randomly taken out and selected. In the subsequent stage, the same method was applied in the selection of the bank branches. The number of branches selected was three from each bank because of the time, monetary constraints, lengthy stringent protocol of the banks and hindrances in getting the permission from the branch manager.

Table 1.6.2: Selected branches of the concerned banks

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>SBI Branch Code</th>
<th>CBI Branch Code</th>
<th>HDFC Bank Branch Code</th>
<th>Axis Bank Branch Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Chenikuthi Branch 007976</td>
<td>Regional Office Branch 281152</td>
<td>Chandmari Branch 000631</td>
<td>Zoo Road Branch 001298</td>
</tr>
<tr>
<td>2.</td>
<td>Panbazar Branch 010756</td>
<td>Six Mile Branch 284213</td>
<td>Khanapara Branch 000757</td>
<td>Silpukhuri Branch 001442</td>
</tr>
<tr>
<td>3.</td>
<td>Rehabari Branch 013294</td>
<td>Ulubari Branch 283200</td>
<td>Noonmati Branch 000758</td>
<td>Hatigaon Branch 002181</td>
</tr>
</tbody>
</table>

*Source: Field Survey, June 2012*
b) SELECTION OF BANK EMPLOYEES:

As the study is concerned about the practice of ethics in banks, the sample size of 100 bank employees was considered satisfactory which fulfilled the requirement of representativeness and reliability. Thereby, 50 employees each from the two sectors were randomly selected and were served a structured questionnaire. Out of the total, 48 employees from the public sector and 47 employees from the private sector banks responded back.

The researcher further divided the job positions of the bank officials into the following for better understanding and clarity.

1. OFFICERS: They consisted of front desk officers, probationary officers, customer care officers, relationship officers, marketing executives, sales executives and HR officers.

2. MANAGERS: This category comprises of personnel at the managerial level - Customer care head, Branch Manager, Assistant Manager, Relationship Manager, Business Development Managers and Marketing Head.

3. GENERAL MANAGEMENT: This group consists of top level management- Chief Manager.

c) SELECTION OF BANK CUSTOMERS:

Since the exact number of bank customers were not disclosed by the concerned banks, the researcher conducted a pilot survey by distributing questionnaires to 100 bank customers (specifically from the concerned banks) in order to derive at a ratio which can be considered as basis. It was found from the survey that 38 were SBI customers, 21 CBI customers, 18 HDFC customers, 19 Axis Bank customers and the remaining 3 respondents failed to return back the questionnaire and 1 questionnaire was invalid.
Thereafter, the researcher carried out ‘debriefing’ whereby asking the respondents to summarize their overall experience in filling up the questionnaire and the problem they faced in answering the questions. This facilitated the researcher to further develop and construct the questionnaire considering the relevant feedbacks.

The ratio of the bank customers as per the pilot survey was 38:21:18:19 and for the study 300 bank customers are selected taking this ratio as a basis. Therefore, 119 SBI customers, 66 CBI customers, 56 HDFC customers and 59 Axis Bank customers were distributed questionnaire following the above ratio. The researcher visited the premises of the respective banks during the months of October – November, 2012 and thus the customers who were present during that period within the bank premises constituted the sample for the purpose of this study. The questionnaires were distributed personally and even some of the customers had provided their e-mail address and had responded back via this mode. The number of questionnaires that were received back from the respondents of the respective banks was – 112 SBI, 61 CBI, 53 HDFC and 57 AXIS bank, totaling to 283 i.e. 94.33% of the sample size 300 which is considered satisfactory and representative.

3. SOURCES OF DATA:

For drawing analogy, both primary and secondary data were collected from all the respective banks by way of:

1. COLLECTION OF PRIMARY DATA:

   a) QUESTIONNAIRE METHOD:

      A set of structured questionnaire consisting of Likert five point scale, multiple choice questions, close ended questions (i.e. in ‘yes’ or ‘no’ pattern) and open ended
questions (descriptive in nature) were served upon the bank employees by applying random sampling technique. Similarly, a questionnaire of identical pattern was also distributed randomly among the bank customers of the selected public and private sector banks.

b) PERSONAL AND TELEPHONIC INTERVIEW OF THE BANK EMPLOYEES:

The researcher collected some vital information by conducting a structured interview by setting pre-conceived questions (in a schedule). The subject matter of these questions was related to crucial banking issues in relation to banking ethics viz. corporate social responsibility, corporate governance, monitoring and surveillance, CAMEL rating, bank distress, e-banking and fraud etc. Even telephonic interview was conducted for the bank officers who were unable to give time during their busy working hours.

Besides the banking ombudsman personnel were interviewed to understand and get authentic information regarding the nature of violation of ethical standard by the public and private sector banks.

c) OBSERVATION METHOD:

Some essential information has been acquired by the researcher’s own structured, participant as well as disguised observation in the bank premises. In matters relating to ethics, it is quite obvious that the banks may try to conceal their flaws and so a close observation regarding the banker’s execution of professional behaviour, practicing of their code and by applying cross-verification method, genuine information has been gathered. By following the observation method, it was more likely that the hidden facts were uncovered.
2. COLLECTION OF SECONDARY DATA:

The researcher had referred various libraries both within and outside the state of Assam for collecting secondary information. The libraries visited comprises of Assam Institute of Management Library (Guwahati), K.K Handique Library of Gauhati University, Dr. Birinchi Kumar Baruah Library of Gauhati Commerce College, Library of Indian Institute of Entrepreneurship (IIE), (Guwahati), the Library of OKDISCD (Guwahati), Indian Institute of Bank Management Library (Guwahati) and NEHU Central Library (Shillong).

Secondary data were collected from RBI Circulars, RBI Working Notes, Banking Ombudsman Annual Reports and relevant materials on learning and training from different banks’ learning Centre. Various other national and international journals, research articles, books, working notes, newspapers and periodicals were also referred in order to arrive at meaningful conclusions. Further essential materials were also collected from the internet on the current development of the issue.

4. DATA ANALYSIS:

For analyzing the data Chi-square test $\chi^2$ is applied (by using SPSS statistical software, version 20) as the study is qualitative in nature and the test is done at 5% level of significance. The researcher has applied various statistical tools viz. the percentage analysis method, bar, pyramid diagrams, trend analysis etc. extensively in the study wherever necessary to give a better illustrations and understanding of the study.
1.7 SCOPE 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 Guwahati city for the period from June 2010 to December 2013. 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 Guwahati 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 (2008-09 to 2012-13) 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.

1.8 LIMITATIONS OF THE STUDY:

The present study suffers from the following limitations:

i. The study is restricted to the city of Guwahati and only the individual customers who were available within the bank premises during the period October- November 2012 were taken as the sample.

ii. As the data from the banking ombudsman office regarding the customer’s grievances was not exclusively available for Guwahati, hence the data for the state of Assam had to be taken into consideration to analyse the crucial aspects of the nature of violation by the banks.
iii. 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.

iv. The protocol relating to granting of permission in the bank branches was stringent, lengthy and time consuming.

v. During the field survey the researcher have encountered that the bank officials were not able to cooperate because of their tight busy working schedule.

vi. 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.

vii. 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.

viii. There is non-availability of sufficient research work, books and articles in the libraries in the context of banking ethics.
END NOTES:


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