

## Ethical behavior and fair practice in business "A Special Panoramic view if Indian Banking scenario"



### Management

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### ABSTRACT

*Ethical bankers' traditional mission is to combat poverty by addressing the problem of financial exclusion. In other words, ethical banking represents less than 1% of the traditional banking and financial industry and can be seen at best as an industry in an infancy stage of development, albeit growing rapidly. Ethics are liked soul; intensely inherent in us, not easily burned, moistened, or emaciated by any situation. Ethics refers to a system of moral principles a sense of right and wrong it's a branch of philosophy and is considered as normative science because it is concerned with the norms of human conduct as distinguished from formal sciences such as mathematics and logic, physical science such as chemistry and physics and empirical sciences such as economics and psychology. In new business generation ethics is a study of good and evils, right and wrong and just unjust action of business man and some times appearance of a growing disregard for the ethical standard. Researcher will review all relevant current understanding of challenges & CSR in fair and ethical banking industry, why code of ethics is necessary, value faced by stakeholders due to ethical and unethical behavior, main streaming ethics into good banking system & changes required and novel strategies for organizations.*

### INTRODUCTION ABOUT ETHICAL BANKING

As long as there are no bank guidelines or criteria on ethical, social and sustainability aspects, the individual co-worker or the lending committee are generally applying the 'neutrality rule' excluding ethical, social and environmental considerations from the bankers' decision making.

Financial regulators and authorities are only concerned with the mechanics of the system in order to prevent major breakdowns. Is there an organizational design for money as an instrument subservient to human development? What are ethical impulses and human qualities that can be found in modern societies in both developed and developing countries and that can be brought into the banking and finance process.

One result of the economic downturn of 2009 was a deeply embedded distrust of banks by the general public. Legally, banks are obligated to act in a manner that safeguards public interests. When banks fail to meet standards and expectations, the interests of all parties are jeopardized. A code of ethics is one method banks use to educate interested parties on banking standards of practice and to gain public trust.

Myths About about Business Ethics "Ethics is simply to do What is Right" Lack of Involvement from leaders and managers in the field of business and ethics has spawned a great deal of confusion and misunderstanding among leaders and managers about business ethics. Let's, start with what is ethics? Simply put, ethics involves learning what is right or wrong, and doing the right thing-but "the right thing" is not nearly as straight forward as conveyed in a great deal of business ethics literature, business Ethics refers to rules and standard governing the conduct of organizational members. There have been all too many situations in which the conduct of managers has been contrary of ethical behavior.

Ethical behavior is merely making good business decisions based on an established "code of ethics". Entrepreneurs should establish a written code of ethics that can serve as a framework for decisions to be made by the entrepreneur as well as the employees. In developing this code of ethics we should consider the following items:

1. Identify your general principles that would lead to fair business practices.
2. Check with industry association for basic standards to review
3. Allow for the fact that ethical questions do not always have a unique, faultless answer.
4. Write out specific statements that will assist you and others in making day-to-day ethical decisions.
5. Apply code of ethics to a written policy and procedure manual identifying the major rules for operating your business.

### Ethical Issues facing the Banking Industry-

Financial institutions -including banks of all sorts, credit agencies, private equity firms, pension funds, insurance companies, and the like- have long been considered by most people to have no other object in view than the creation of wealth.

Banks are judged by their ability to develop financial instruments such as complex derivatives and sophisticated credit schemes that help connect the money of investors with the companies in need of those financial resources in the best possible way. In pursuing these ends, banks, and financial institutions in general, have long defended the confidentiality of the information pertinent to their business, be it data about their clients, the sources and the destinations of the economic resources they handle, their credit-giving policies and procedures, and many more aspects of the banking profession that tend to be little transparent and not very communicative about their way of doing business.

Financial institutions have become very complex and sophisticated in the way they operate. The products and services they offer tend to be more and more complicated. The ways they invest resources, the way they design, promote, and implement credit facilities,

### What are our main concerns-

#### 1 Usurious practices-

Banking is a business concerned with protecting and growing people's money. As such, one of its principal purposes is to generate wealth, in the form of financial returns for its shareholders. Financial institutions consistently engaged in usury are accordingly a subject of our concern. While we do not necessarily endorse bureaucratic regulations which may be excessively burdensome and counter-productive, we do expect banks to act morally with respect to lending practices within their organizations which are potentially usurious.

#### 2 Speculative banking-

The assets a bank lends and invest should be handled responsibly, even moreover so, when we consider that the bank is investing and lending money that belongs to other people, i.e., the individual and institutional investors whose money they manage. Engaging in excessively speculative investments and irresponsible credit lending practices is morally unacceptable, and in many cases, not even good business. We believe bankers and financial professionals should take a responsible approach in all investment and lending operations with its customers' money.

Speculative banking, which has also been evidenced in this crisis, is the fact that many financial institutions have been involved in speculative investments resulting in enormous losses for their customers while their executives continue to receive compensation packages and bonuses in the millions of dollars. While we un-

derstand that the banking profession has traditionally generated a lot of wealth for its executives, their excessive bonuses become an ethical concern when their clients' wealth has been destroyed precisely because of these forms of speculative investment practices.

### 3 Financing arms manufacturing and trade-

Many banks are actively financing the military industry around the world. While we recognize the moral acceptability of a country taking care to defend its population, and thus investing in arms and weapons, we are concerned with excesses and human rights violations involved in this activity. We are specifically referring to indiscriminately destructive, overly-damaging weapons and their manufacturers and distributors. These usually fall in the category of so-called "cluster munitions" which are highly-destructive weapons which not only destroy an enemy's military target, but quite frequently kill thousands of innocent civilian victims.

### 5- Financing of companies with little or no commitment to social responsibility-

The banking industry usually grants credit facilities to companies, and helps in raising capital in the financial markets, to companies operating with no socially-responsible agendas, or with little commitment to one. We are referring, amongst others, to companies operating in third-world countries that allow child-labor, overwhelming pollution of the environment, black economies, and so forth. We have observed companies that have little respect for their workers and which have consistently violated labor laws (mainly in developing countries) having no problem securing credits from well-known banks. So far, banks have not been interested in questioning clients about their human-rights or social-impact agendas. Banks tend to look at the risk-return ratio of their investment as the sole basis for granting the credit.

### 6-Ecological Impact-

We should expect banks to start looking more in detail at the potential ecological damage that their clients could be generating when receiving financing from them. Companies known to be involved in activities that result in substantial environmental damage through the extraction of fossil fuels for instance; companies polluting the seas through the release of toxic chemicals; companies that manufacture products which persist in the environment and are linked to health concerns; and any other company damaging the world should not receive financing so easily as they do today from banks and financial institutions.

Ethical business practices include assuring that the highest legal and moral standards are observed in your relationships with the people in your business community. This includes the most important person in your business, **your customer**. Short term profit at the cost of losing a customer is long term death for your business.

### Research Methodology

**The Research is basically based on descriptive research.**

**The data is used in research paper is secondary.**

This paper is the brief research project which is carried out by the researcher after a careful research and analysis of the data and which has been collected with the help of different books, articles and journals and number of web references.

### Challenges of ethical business managers and employees in banking sector-

According to International Ethical Business Registry, "there has been a dramatic increase in the ethical expectation of businesses and professionals over the past 10 years. Increasingly, customers, clients and employees are deliberately seeking out those who define the basic ground, rules of their operations on a day today." Ethics refers to a code of conduct that guides an individual in dealing with others. Business Ethics is a form of the art of applied ethics that examines ethical principles and moral or ethical problems that can arise in business environment. It deals with issues regarding the moral and ethical rights, duties and corporate governance between a company and its shareholders, employees, customers, media, government, suppliers and dealers. Henry Ford said, "Business that makes nothing but money is a poor kind of business". In addition to these codes, the moral corporation should address human rights and whistle blowing and the international ethics code under which it operates. 80

percent agreed with seven items being ethical issues for business:- (1) employee conflict of interest, (2) inappropriate gifts to corporate Personnel, (3) sexual harassment, (4) unauthorized payments, (5) affirmative action (6) employee privacy; and (7) environmental issues (Brooks, 1989; Berenheim, 1987, 1989: 117-129).

### Some other challenge are as follows

1. Responding to globalization.
2. Improving quality and productivity.
3. Maintaining workforce diversity.
4. Implementing code of ethics.
5. Responding to labour storage.
6. Improving customer services ..

### Use of decision skills for "ethical decisions and novel strategies"

The day-to-day operations of a business require everyone to make decisions all the time. Practice in developing a code of ethics and then applying it to situations is important to establishing an ethical business image.

The decision-making process will help you improve the success of your business:

- Define the problem requiring a decision. Often we jump to conclusions about a situation without even taking time to clarify the problem
- Consider alternative solutions to the problem. There is always more than one solution to any problem. Practice thinking about possibilities before taking action.
- Identify the consequences of alternative solutions. There are many different consequences possible for choosing different alternatives. Entrepreneurs need to think about both the short-term and long-term consequences likely to result from their decisions.
- Collect information. If you do not have enough to make the right decision. This is where a company policy and procedure guide may help employees check out their approach to a problem.
- Group Activities. Members of the group should then role-play the process of handling an ethical issue with a customer, with a supplier, with a competitor, and with the son of the owner. Discuss the results of the role-playing exercise. If necessary you may want to modify your code of ethics at this time.

### And some novel strategies are-

- Truthfulness.
- Fairness and independence.
- Establishment of audit committee.
- Formulate company policy.

### To apply the code of ethics of Banking operations in General terms

Ethics is related to all disciplines of management like accounting information, human resource management, sales and marketing, production, intellectual property knowledge and skill, international business and economic system. Joe Paterno, said that success without honor is an unseasoned dish. It will satisfy your hunger, but won't taste good. In business world the organization's culture sets standards for determining the difference between good or bad, right or wrong, fair or unfair.

### Some points are as follows

1. Handling cash and checks from customers
2. "Negotiating" special prices for a friend without permission
3. Accepting gifts from suppliers and business associates
4. Handling shoplifters
5. Accounting procedures for cash sales
6. Employee theft
7. Insurance coverage adequate to protect the business and employees
8. Supporting your advertising promises
9. Keeping the premises clean and free from harmful substances or germs.
10. Handling employee performance problems
11. Telling customers the truth,

Each group should present their code of ethics to the class and discuss major outcomes of their discussion.

**The value faced by stake holders due to unethical behavior in business**

Robert Noyce, "If ethics are poor at the top, that behavior is copied down through the organization. "Price is what you pay. Value is what you get" – Warren Buffet A stakeholder should treat his employees, customers, shareholders, government, media and society in an honest and fair way by knowing the difference between right or wrong and choosing what is right, this is the foundation of ethical decision making. REMEMBER: GOOD ETHICS IS GOOD BUSINESS. "Non-corporation with the evil is as much a duty as is co-operation with good" – Mahatma Gandhi.

In orders to serve their stakeholders in an ethical and social manner, more and more organizations are adapting the model of corporate social responsibility. The term Corporate Social Responsibility goes by many other terms such as corporate citizenship, responsible business or simply corporate responsibility.



**Total Corporate Social Responsibility in ethical business-**

The first criterion of social responsibility is **economic responsibility**. The business institution is, above all, the basic economic unit of society. Its responsibility is to produce goods and services that a society wants and to maximize profit for its owners and shareholders. An economic responsibility, carried to the extreme, is called **profit-maximizing view**; it was advocated by Nobel economist Milton Friedman. This view argued that a company should be operated on a profit-oriented basis, with its sole mission to increase its profits so long as it stays within the rule of the game.

**Legal responsibility** defines what society deems as important with respect to appropriate corporate behavior. Businesses are expected to fulfill their economic goals within the legal framework. Legal requirements are imposed by local councils, state and federal governments and their regulating agencies. Organizations that knowingly break the law are poor performers in this category.

**Ethical responsibility** includes behavior that is not necessarily codified into law and may not serve the organization's direct economic interests. To be ethical, organization's decision makers should act with equity, fairness and impartiality, respect the rights of individuals, and provide different treatments of individual only when differences between them are relevant to the organization's goals and tasks. Unethical behavior occurs when decisions enable an individual or organization to gain expense of society.

**Discretionary responsibility** is purely voluntary and guided by an organization's desire to make social contributions not mandated by economics, laws or ethics. Discretionary activities include generous philanthropic contributions that offer no payback to the organization and are not expected. Discretionary responsibility is the highest criterion of social responsibility, because it goes beyond societal expectations to contribute to the community's welfare

**Is a better banking industry possible**

The answer is absolutely YES. Better, ethically-responsible, respectful banking and financing industries are not only possible, but also highly desirable, and they are already starting to emerge. Some banks, mainly small institutions in developed countries have realized the importance of being ethical beyond their internal Code of Values, that is, beyond paper and beyond what is strictly within its operations. Individual investors will play a key role in putting pressure on banks and regulators to let them know that banking practices cannot go on as independent of ethics any longer. The relevance of what banks do with the people's resources is material.

Some important institutional investors are becoming much more concerned with the handling of their investments. Institutions like the Government Pension Fund of Norway, the so called, "Folketry fondet", the world's largest single holder of equity securities, has been implementing strict ethical criteria to handle their investments. Some bank-industry watch-dogs like Bank Secrets Organization or Netwerk Vlaanderen of Belgium, have started to lobby regulators to implement stronger policies for the banking industry.

**Conclusion**

Private community and development banks, microfinance banks, ethical, environmental and social banks and ethical funds differ in terms of focus, accents, clients ,products and business culture, they have in common to practice banking and investment with a human development mission.

Ethical banking as it has been described above stands in a historical line of continuous Search for the application of ethical principles in banking and is in line with broader Trends in the 20th and 21st centuries.

Legally, banks are obligated to act in a manner that safeguards public interests. When banks fail to meet standards and expectations, the interests of all parties are jeopardized. A code of ethics is one method banks use to educate interested parties on banking standards of practice and to gain public trust.

The Ethics of Banking analyzes the systemic and the ethical mistakes that led to the crisis. It keeps the middle ground between excusing all failures by the argument of a systemic crisis not to be taken responsibility for by the financial managers and the moralistic reproach that only moral failure is at the origin of the crisis. It investigates the role of speculation in the formation of the crisis and distinguishes between productive speculation for hedging and for securing market liquidity on the one hand, and unproductive and even detrimental hyper-speculation going far beyond of the degree of speculation that is necessary in a developed economy for the liquidity of financial markets, on the other hand. Hyper-speculation has increased the risks of the financial system and is still doing so.

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