Abstract

Ethical behavior appears to be largely influenced by a range of factors including the law, government regulation, social pressure, industry sector, ethical codes and personal standards. Banking, despite being a highly regulated industry in most countries, has not gone untouched by ethical crises. The process of business, domestically and internationally, should be guided by appropriate norms of ethical conduct. Appropriate regulatory structures and processes cognizant of the nature of organizations and considering the perspective of the country where the business process occurs should be developed, and be properly implemented if acceptable ethical standards in business are to be achieved. In the article it has been stated to build & nurture an institutional culture that believes that the long term net worth of a firm is maximized not by driving short term profits but by driving enduring contribution to societal welfare. Good ethics militate profitability is wrong & must be demolished. Rather the opposite is true. If an institution target societal welfare, profits automatically roll in.

Introduction

Ethics, perhaps the much known word in our society and is relevant to every action in our personal, social, national and international sphere. Ethics also draw significant attention while it is neglected or not matched with a certain standards set according to the culture of a particular society. Banking is certainly a business with one difference “much highly regulated than other business”. Like other business banking involves a number of objectives including profit maximization within a framework of social and other obligations.

Ethics in business

Ethics in business is related to national factors as well as global perspectives, varies from country to country, and potentially it is affected by many factors including the strength of legal, business regulation and human characteristics such as ethnicity, gender, level of education and socio-cultural environment. There is often a conflict between the pursuit of profit and the exercise of ethical conduct in business as business managers pursue profit to maximize returns to investors and often to maximize their own self-interest. Trevino and Nelson (1995) define ethics as the principles, norms and standards of conduct governing an individual or group. They also comment that two types of factors influence ethical behavior: characteristics of the individual and the characteristics of the organization. England (2006) suggests that ethical decisions are made by business people, based on the following
considerations: 1) how employees can feel fulfilled professionally; 2) how customers can be satisfied; 3) how profit be assured for the stakeholders or shareholders; and 4) how the community can be served. Under competitive conditions when a free market economy prevails, business managers make choices to maximize short-run profit, but to be sustainable in the long-run business organizations must usually satisfy both profit expectations and acceptable norms of ethical business practice. Fraedrich and Ferrell (2004) suggest that business ethics comprises moral principles and standard that guide behavior in the world of business. Weather a specific behavior is right or wrong, ethical or unethical is often determined by the public as embodied in the mass media, interest group, and business organizations as well as through individuals, personal morals and values. Thus ethics in business is directly related to social values, norms and global business trend and is negatively related to corruption in society. A business may achieve a sustainable growth if nurtured and operated more professionally. Ethical business practices are essential ingredients of professionalism what we expect to get strongly in our businesses.

**Ethics in Finance & Banking**

The core function of the financial sector is to secure the most efficient allocation of financial capital across the productive economy, but its most significant achievement over the past 30 years has been the large scale extraction of financial resources from that economy. Even in the wake of the financial crisis, financial practitioners have not only been getting richer than anyone else but also getting richer at the expense of everyone else. All businesses deal with money, but finance is concerned exclusively with money and monetary products, and money and morality always have been, and always will be, uneasy bed fellows. Despite stronger regulations & the best efforts of all concerned, the financial sectors continues to have a bad reputation for illegal and unethical behavior and to be more prone to ethical lapses than other business sectors. Plenty of scams can be pointed out very shortly related to finance and banking & these scams are not only familiar in South Asia rather it has been observed in the big economies around the globe. Amitai Etzioni, professor of sociology at George Washington University, recently concluded that in the last ten years, roughly two-thirds of America’s 500 largest corporations have been involved, in varying degrees, in some form of illegal behavior. U.S. Attorney General Loretta Lynch announced on May 20, 2015 in Washington DC settlements with five of the world's biggest international banks, including Swiss bank UBS which will pay $545 million to U.S. authorities to end an investigation into alleged manipulation of currency rates. There are plenty of perceptions about those in our minds and other scams and there may be a problem of perception too. Besides, there is a real problem and it is a problem that refuses to go away, despite the best efforts of firms and regulators to address it.
Now, what is ethical and what is unethical for banking? Utilitarian approach argues that a business (banking) or an institution has to be based on the proof that it provides greatest good for the greatest number of people. Great economist Adam Smith and Milton Friedman modifies the argument with modern economy “free competitive market is based on the argument that maximization of profit in an ethical society is coterminous with maximum benefit of the people”. In country like ours the proponents of free market economy wants all the rights to do anything they intend and forget their obligations. Professor Muzaffer Ahmad advocates that this has given rise to concentration of extractive rights in the name of business without any countervailing force to check their unethical adventures. Rather, the people of influence has created cronies within the banking and financial institutions and mange their protection through financing of political organizations, arranging delays in legal actions and promoting nonprofessional acts in the financial system itself. As a result, the business and banking in our country cannot be defended on the basis of the classical utilitarian theory; both the visible hand of the law and invisible hand of the competitive market have failed to yield the greatest good for common people of the country. This is why all concerned are vocal enough to put banking on ethical stand. Banking is more than a business organization that does not provide only private goods/services but in developing country like Bangladesh it is required to make provision for social goods as well and an imperfect market like ours fails to create appropriate balance in the absence of proper ethical moorings.

Unethical behavior is not desirable in any business including banking. In most of the cases unethical behavior-be it corruption, fraud- in banking or financial sector always get more attention in newspaper headlines than others. That does not necessarily mean that people in the financial sector are inherently no more or no less ethical than larger society they are drawn from. It is the environment in the financial sector-pressure and opportunity to bend the rules, high rewards for the pay off and low risk of getting caught-that encourages ethical compromises (Dr. Subbarao, Ex Governor of RBI). Usually, we think that unethical behavior is the result of poor character-bad people do bad things. Most humans are capable of behaving in profoundly unethical ways. Not only they are capable of it, but without realizing it, they do it all the time (Kelaris et al, 1991). A business frame cognitively activates one set of goals-to be competent, to be successful, while ethical frames triggers other goals (Tenbrunsel and Messic, 2004). Once one is in the frame of mind, they become focused on meeting these goals, and the other goals can completely fade from view. That some goals take the forefront and others become suppressed highlight that we are not aware of our unethical behavior (Spiegel, 2012). So, it is not only the character that makes one unethical, but in addition and most importantly the situation and frame of mind contribute significantly for unethical behavior. In this context, it is beneficial for banking or
financial institutions to make aware their people of the factors that lead to unethical behavior so that they can prevent environments that lead to unethical behavior.

**Factors influencing unethical behavior in business (banking)**

The ancient Greeks already recognized money as the unique object of unlimited desire. The greed of the glutton or libertine is inherently self-limiting and its immorality painfully visible, but the greed for money knows no limits. As behavioral economists like Bruno Frey have shown, money also displaces or crowds out emotions and moral values. And as the anthropologist David Graeber has recently argued, it de-moralizes personal debts and obligations. Our moral obligations are, in a very important sense, non-measurable. Whatever may be paid or repaid, they can never be squared off and closed. As soon as debts become monetarised, however, the values and obligations associated with human exchanges are lost, and because morals are always associated with values and with personal obligations or commitments, they are lost too.

Cooper and Frank (1991), and O’Fallon & Butterfield (2012), identified the following factors influencing unethical behavior:

a) One’s personal values and standards,

b) Family and friends who provide support and insight in resolving ethical issues,

c) Boss who controls the pressure employees have to compromise ethical standards,

d) Company environment/culture which controls the pressure to compromise employee’s ethical values to achieve organizational goals,

e) Company management philosophy that emphasizes ethics in operations,

f) Professional codes of ethics in the company and society at large,

g) Peer influence demonstrates a major role in influencing ethical decision making—the more the individuals observe peers engaging in unethical behavior, the more likely they are to engage in the same or similar activities.

Saul W. Gellerman, an industrial psychologist in his Harvard Business Review, July 1986 - had pointed out four commonly held rationalizations that can lead to misconduct,

1. A belief that the activity is within reasonable ethical and legal limits—that is, that it is not “really” illegal or immoral.
2. A belief that the activity is in the individual’s or the corporation’s best interests—that the individual would somehow be expected to undertake the activity.
3. A belief that the activity is “safe” because it will never be found out or publicized; the classic crime-and-punishment issue of discovery.

4. A belief that because the activity helps the company the company will condone it and even protect the person who engages in it.

How far is too far – Managers’ tale?

Concentration on short term goals (profit maximization) pulls the management and the boards of the organization to set targets crazily and put the employees/managers in intense competition. Striving to achieve targets under intense competition also puts Bank Officers under pressure which could lead to malpractices and illegalities. Recently a joint study had been conducted by PwC (Price Water House Coopers) & London Business School where 2,431 managers from UK financial services organizations representing banking, insurance and wealth management. It reveals that when presented with situations where the negative consequences or punishment for poor performance were highlighted, managers were 15% more anxious than excited, leading them to be more than twice as likely to behave unethically. When presented with the same situations, but with the positive outcomes of success highlighted, they were more excited: leading them to be "more than twice as likely to demonstrate innovative behavior" says the report. It suggests that regulators and leadership teams in financial services can change behavior by shifting the emphasis to the positive outcomes of good performance rather than solely on the negative outcomes of the bad behavior they wish to stamp out.

Top executives seldom ask their subordinates to do things that both of them know are against the law or imprudent. But company leaders sometimes leave things unsaid or give the impression that there are things they don’t want to know about. In other words, they can seem, whether deliberately or otherwise, to be distancing themselves from their subordinates’ tactical decisions in order to keep their own hands clean if things go awry. Often they lure ambitious lower level managers by implying that rich rewards await those who can produce certain results—and that the methods for achieving them will not be examined too closely. Meanwhile some managers have overstepped it only when they have gone too far. They have no reliable guidelines about what will be overlooked or tolerated or what will be condemned or attacked. When managers must operate in murky borderlands, their most reliable guideline is an old principle: when in doubt, don’t.

Ambitious business managers look for ways to attract favorable attention, something to distinguish them from other people. So they try to outperform their peers. Some may see that it is not difficult to look remarkably good in the short run by avoiding things that pay off only in the long run. The sad truth is that many managers have been promoted on the basis of “great” results obtained in just those
ways, leaving unfortunate successors to inherit the inevitable whirlwind. Since this is not necessarily a just world, the problems that such people create are not always traced back to them. Companies cannot afford to be hoodwinked in this way. They must be concerned with more than just results. They have to look very hard at how results are obtained.

The difference between becoming a success and becoming a statistic lies in knowledge—including self-knowledge—not daring. Contrary to popular mythology, managers are not paid to take risks; they are paid to know which risks are worth taking. Also, maximizing profits is a company’s second priority, not its first. The first is ensuring its survival.

**What to do for ethical practice in banking**

Dr. Subbarao, Ex Governor of Reserve Bank of India argued what could be the role of the individual firms, finance industry and the regulators to set it up the ethical standard and he sort out that building financial business (banking) on ethical standard must begin at firm level and they firstly build and nurture an institutional culture that believes that the long term net worth of a firm is maximized, not by driving short term profits but by driving enduring contribution to social welfare. In recent history the most notable failure to achieve common welfare has been the failure of regulators, allocators and users of resources to develop ethical standards of decisions. According to famous economist Professor Muzaffer Ahmad, the standard needs the following conditions: (a) it must be general and not situation or person-specific, (b) it must be known to all and be part of general practice, (c) it must be understandable, (d) it must not be made self-contradictory through use of discretion, (e) it must be within the consensual norms respected by the citizens, (f) it must not be time-specific i.e. be stable through time, (g) its evolution should not be contrary to basic universalism i.e. relativism should not form any part of the standards, and (h) the actual administration must act to uphold it and make no compromise about it. These conditions enunciated in terms of ethical basis of law equally apply to the conduct of all transactions including business and banking. It is evident that ethics in banking is of supreme importance for the economy and the society. In his judgment, Mirza Azizul Islam emphasizes, ethics in banking must be firmly anchored on four pillars. First, banks must comply with all laws, rules and regulations that are usually framed in any country to ensure soundness of operations and to enhance confidence of the society. Second, banks must ensure fair and equitable treatment of all stakeholders. Third, the banks must ensure full, truthful and transparent disclosure of their financial health. Fourth, banks must behave as socially responsible corporate citizens.

Milton Friedman, a nobel-laureate economist and an ardent proponent of free market economy wrote in 1970 that there is one and only one social responsibility of business to use its resources and engage
in activities designed to increase its profit so long as it stays within the rules of the game. One may interpret this statement to mean that business is simply about maximizing profit without violating laws and regulations. This is obviously an untenable position. It may be observed here that banks did not apparently violate any prevailing laws and regulations, yet their activities inflicted severe negative externalities upon the society, as noted earlier. In this context, it may be mentioned that many of our corporate entities, including banks, gloat with satisfaction about fulfillment of social responsibility by offering a few scholarships, making donation to some clinics or offering some support for some charitable activities. While such initiatives are welcome, these touch only the fringe. Social responsibility must be viewed from a wider perspective, taking into account the impact of banks' activities on growth, employment and emphatically in our case, poverty alleviation as well.

**Why and how to ensure ethics in banking**

Banking in particular rest on trust and inconsistent and discriminatory relation strike at the root of this trust. There is something to do with the goals set about by the company. Intense competition in the industry, which forces employees to focus on the bottom line and not on business ethics, causes more unethical behavior. Also, measuring employee performance on the basis of end results without considering how ethical the means were to achieve these results promote unethical behavior (Haron, Ishmail, Hamzah & Razak, 2011).

At individual firm level, it is important to tailor human resources policies to reflect the ethical values of the institution and implement an rewarding incentive structure for ethical conduct rather than concentrating on legal behavior (everything legal is not necessarily ethical). There are people in every institution who conform to strict ethical standards but they are seldom recognized much less rewards. It is pertinent to discuss how to promote ethical behavior in banking. The three promoters are strong will, fear of punishment and societal pressure exerted through peers (Muzaffer Ahmad). For the 2nd and 3rd promoters, we must have to depend on judiciary and social actors those have their own shortcomings too. So, concerted efforts form the individual firms and industry, other externalities will be required to get the benefits by putting people in a situation to behave ethically. One of the most effective ways of developing ethical principles in banking is by developing code of ethics and setting the rules that are to be followed. The codes of ethics, developed by not only for bank professional, but also developed by chambers, business associations, are may be useful devices to assist individuals to behave ethically.

Eduardo Arbizu, Head of Legal & Compliance at BBVA, a multinational Spanish Banking Group, argues an effective implementation of the process-oriented regulation which ensures ethical values
needs to be: (I) easily perceptible (II) sufficiently disseminated and (III) effectively applied through remuneration, recognition and sanctioning mechanisms. He told that if the mere statement of values is not enough than we would need to deepen into the factors that determine the success of some organizational cultures compared to other. This organizational corporate culture is critical to ensure honesty and integrity in employee behavior. Its effectiveness depends on a series of factors:

1. The top management’s commitment and example. If those who bear the highest responsibility behave inadequately, they can neither expect nor require their collaborators to apply different integrity standards.

2. Integral involvement of the company: Commitment with the integrity values has to affect all the people that integrate company, and all the activities that the company develop.

3. The rollout of a compliance program, through the approval of policies and procedures aimed specifically at the effective application of the values.

Wise, Mahboob & D. Wise, 2010 recommended the followings to ensure ethics in Banking business-

1. Ethical practices and processes within business organizations should be encouraged. This can be achieved in a variety of ways, including improving, reporting, transparency and strengthening business controls such as audit and internal management information systems.

2. Codes of ethics should be developed and utilized to motivate personnel, increase their capability, judgment power, and effective managerial skill. Personnel subject to professional and ethical codes of conduct of their respective organization should be encouraged to adhere to those codes.

3. Social prestige of ethical business personnel should be improved to so that they are motivated to continue the work in an ethical way for the organization.

4. Appropriate business regulations should be established and monitored so that organizations can operate free from political interference. Undue pressure from business owners, corporate boards and management should be discouraged. The audit/oversight function has a significant role in ensuring that ethical business conduct occurs from the top-down.

5. Services provided by business organizations should be improved. Customers should get proper and due services at a reasonable cost.
6. Multinational organizations should be reminded of their ethical responsibilities and they should be discouraged from engaging in unethical practices.

7. Appropriate recruitment and training policies within organizations can have a positive impact on the ethical profile of a business and its human resources and should be used in this manner.

Overall, much can be done to improve ethical business norms and practices around the globe. As long as sectors within business and society are unwilling to discourage unethical behavior, including law, order forces and political unfairness, it will remain difficult to establish ethical behavior in the business/financial/banking sector. The business and banks can exist in the long run only if they benefit the society and the economy and thus they must serve public purpose and be mindful of social good. They have a duty as the government and controlling authority to create and sustain an operational environment that is creative and promotional of ethical standards. In order to repair the damage and mistrust cultivated in the years leading up to the crash, the banking industry as a whole must reform. Now is the time for all banks to rise to the occasion and consider a more sustainable approach to banking. If we all viewed money as a tool for enhancing society rather than purely for maximizing profit, it would go a long way to restoring the industry's image.

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