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Ethical Issues in Service Organizations (With Special Reference to Banking Industry)

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Abstract— In today's competitive scenario, every bank wants to become the market leader, capture maximum market share and have maximum customer base. The communications are extremely important in case of services to create powerful images and a sense of credibility, confidence and assurance for the consumers. However, in the banking sector, marketing communication elements are misunderstood and irrelevant from the consumer's perspective. Moreover, for the growth and survival every business has to trade-off between 'profit' and 'ethical' issues concerning their marketing strategies. In this paper the attention is paid to the very essence of the ethics in economy, and especially in banking. Nowadays the attention is much more dedicated to this topic, because the lack of ethics norms in business operations produces great damage at the micro and macro level. More than anything else the significance of ethics becomes apparent through establishing of socially accepted ethical norms, affecting in consequence all aspects of life.

Key words: Competitive Scenario, Service organizations, Banks, Ethical issues

I. INTRODUCTION

Ethical banking as it has been 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. In the context of banking and insurance sectors, with increasing complexity in the business environment, being ethical is not merely a choice between what is right and wrong, but is more about confronting moral dilemmas in the course of business. Financial services are today changing and evolving at a rapid pace. There has been a growing emphasis on the need for transparency, trust and concern for clients. In general, ethics are defined as "a branch of philosophy dealing with what is good and bad and with moral duty and obligation". Simply put ,ethics involves learning what is right or wrong, and doing the right thing but " the right thing" is not nearly is 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. Opportunities for ethical misconduct with in service sector abound and they can be attributed pre dominantly to the intangibility, heterogeneity and inseparability dimensions inherent in the provision of services. 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. Moral bankruptcy is more serious with far reaching consequences than financial bankruptcy. 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.

Objectives of the Study:

The primary objective of this paper is to take a look at some important aspects of ethics in service organizations with reference to banking industry. In addition to this the focus is to, to know the various ethical issues facing banks.

Research Methodology:

The Research in the present paper is basically a descriptive research and the secondary data is used. This is a brief research paper, 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.

II. REVIEW OF LITERATURE

AmirulAfifMuhamat et al (2010) in their research paper "The Development of Ethical Banking Concept Amongst the Malaysian Islamic Banks" have set up that "Ethical banking is a concept that is gradually receiving attention and acceptance from the depositors and investors who are not only searching for a place to save and invest their money safely, but also a place where their money will be channelled to productive activities which are free from elements that contribute to the deterioration towards standard of living and environmental aspects."

Ahmad Bello Dogarawa (2006) in his research paper "An Examination of Ethical Dilemmas in the Nigerian Banking Sector", he expressed that banks are expected to be ethical in their operations by following the principles of integrity, impartiality, reliability, transparency, social responsibility and controlling money laundering, keeping in view the need to protect the rights and interests of countless depositors, establishment of stability and confidence in financial markets.

Andreas G. F. Hoepner et al (2010) in their paper "Social, Environmental, Ethical and Trust (SEET) Issues in Banking: An Overview" gave an overview of Social, Environmental, Ethical and Trust (SEET) issues in banking.

Green (1989) revealed that a bank's responsibility extends to Government, customers, shareholders, staff, and the community. Companies do have ethical responsibility, but it is not protected by limited liability from the consequences of their actions. A company's record and the perception of its ethics affect its reputation and ensure long-term success or failure.TarumoyChaudhuri (2007) in his paper "A study of ethics in business communication in the Service industry with emphasis on banking industry" also linked business to ethics. Green (1989) exposed that a bank is responsible towards government, customers, shareholders, staff, and the community. Weber and Remer (2011) described Social Banking as a way of value-driven banking that has a positive social and ecological impact at its heart, as well as its own economic sustainability. These banks attract the interest of clients looking for safe and sensible ways to deposit their money and the conventional banks also embark on the potential of a more socially oriented approach towards banking.

After reviewing the studies done in India and abroad, it is very evident that many banks are putting their best endeavours to achieve sustainable growth in banking sector through ethical and social practices.

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. The performance of financial institutions is therefore measured solely on the basis of their capacity to maximize financial assets, that is, it has been measured with evaluation factors that review only their monetary bottom-line results.

Finance, the lifeline of every economy has been inflicted with many cancerous issues ranging from IPO scandals, securities scams, churning and insider trading to window dressing, greenmail and agency issues in the corporate group. Responsibility in the area of finance is not simply a matter of private ethics. It also involves establishing and maintaining bonds of trust between holders and users of capital, as well as between the operators themselves. Such trust is the corner-stone of efforts to achieve the common good, whereby the interests of individual operators and financial institutions are integrated with those of the community at large. Financial institutions should have rules of law, industry and ethical standards. Dealing with ethics is not a side line but it should be the core part of the industry, as banking is all depend on mutual trust. Greed and unethical behaviour by market participants creates a situation of financial crises. Reserve bank of India had set up an independent body "Banking Ombudsman" for resolving the complaints related to banks.

Complaints received by Banking Ombudsman in last 3 financial years:

Table 1: Category wise distribution of complaints (only main categories are covered in the paper)

Complaints category	Number of complaints received 2010-11	2011-12	2012-13
Deposit accounts	1727 (2%)	8713 (12%)	3913 (6%)
Card Related (ATM /Debit/ Credit Cards)	17116 (24%)	14492 (21%)	17867 (25%)
Levy of charges without prior notice	4149 (6%)	3806 (5%)	3817 (5%)
Failure to meet commitments/ non observance of fair practices code/ BCSBI codes	16,302 (23%)	18,365 (25%)	18,130 (26%)
Others (Remittances, loan, pension payment, DSAs & recovery agents, notes & coins, out of subject)	31,980 (45%)	27,513 (37%)	26,814 (38%)
Total	71,274	72,889	70,541

Source: www.rbi.org

III. ROLE OF ETHICAL PRINCIPLES IN BANKING

The concept of good as opposed to evil helps us define the banking business from the point of view of ethics. The idea of awareness or conscience of the need for banking products or services inevitably comes to mind. This simplified parallel leads us to the conclusion that full awareness of and the related ethics about Principle of mutual benefit and interest means that none of the partners in a business relationship should feel cheated; Principle of good intentions is very important for business ethics and moral behaviour. This principle means that there is no intention to treat the business partner in an immoral way, whether it refers to deception, theft or some other undesirable way of treating a business partner Principle of business compromise and business tolerance refers to the harmonization of the conflicting interests of participants in the business process Principle of ethical improvement of business behaviour represents the business partner's readiness to accept the mistake that has been made as a result of his own actions.

Principle of de monopolization of one's own position, because monopolistic behavior on the market does not contain any ethical market value and Principle of conflict between one's own interests refers to the inability to relate common to personal interests, with simultaneous adherence to the same ethical values.

The violation of ethical principles in banking occurs when the lenders take too much risk, trying to find a loophole that allows them to approve more loans. Strict adherence to the law and regulations in the field of banking makes it possible to grant loans to all the qualified clients in a fair way Reasons for Ethical Misconduct in Banks:

In banking institutions personal selling is highly used and reliable media of communication. Due to individuality of service provider and consumer, the chances of ethical misconduct increases due to greed, self-interest, profit maximization, to accomplish targets etc. some of the reasons for ethical misconduct are:

Self-interest morphs into greed and selfishness: Sometimes greed of employees becomes a fever of accumulation for gaining profit. Their focus shifts from long term to short term.

Lack of transparency:

When a customer is paying for the services, he has full right of loyalty and transparency from the institution but bankers recommend those investment plans to the customers in which bank is making maximum profit rather than informing the customer about the composition of the investment.

Conflict of interest:

Service provider can be in close proximity to the customer, consequently the service provider can experience conflict of interest. For example insurance personnel can guide the customer to divide his whole amount of investment in small amount and increase the number of policies to evade the requirement of PAN number and to misguide the income tax authorities.

IV. EQUITY

Equity means impartial treatment. Clients should be treated equitably and service dealing should not be based on favouritism or the financial position of the customer. It's a true fact about the banking industry that if a customer is financial sound, maintains good balance in bank, that customer will get warm welcome and all the kind of services will be provided to him on his doorstep, vice a versa is also true if a customer is not having very sound financial condition, nobody will bother to look towards that customer and resolve his issues.

Outcome based -Reward system

In our country reward systems are outcome based and not service or behaviour based. To fulfil the assigned target or to get recognition, officials often engage in practices to misguide the customer. It is frightening to imagine a situation where the front line staff at banks may be more interested in pushing insurance and par banking products instead of promoting core banking products."

Codes of Conduct of Ethics 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. 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 To apply the code of ethics of banking operations in general terms some points of focus are:Handling cash and checks from customers "Negotiating" special prices for a friend without permission Accepting gifts from suppliers and business associates

Handling shoplifters

Accounting procedures for cash sales

Employee theft

V. CONCLUSION

Participants in the banking sector should be true professionals and should adopt best practices of the industry and should comply to the rules strictly. If any illegal or unethical activity is suspected by a financial service provider then it should be discouraged and if required should report to the concerned authorities. There should be independence, meaning that service provider should not be biased by personal relationship, personal benefits such as gifts or other forms of compensation. In financial services risk and return factor should be placed accurately so that customer can make a prudent decision, secondly organization's as well as customer's secrecy should not be compromised for personal gain. It can be clearly observed that one of the major reasons of ethical lapses in the financial.

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