Chapter 1

Introduction

"Ethics always says, "Not I, but thou." Its motto is, "Not self, but non-self." The vain ideas of individualism, to which man clings when he is trying to find that infinite power or that infinite pleasure through the senses, have to put yourself last, and others before you. The senses say, "Myself first." Ethics says, "I must hold myself last." Thus, all codes of ethics are based upon this renunciation; destruction, not construction, of the individual on the material plane."

– Swamy Vivekananda

Business ethics, once considered an oxymoron, has now become a fundamental part of the decision making process within an organization.

Sri Vittal, former Chief Vigilance Officer (1999) observed:

Issues connected with business ethics have recently acquired prominence in the changing business scenario. The anxiety of global investors in emerging markets is not only about the quality of management but also the ethical framework for decision-making and the collapse of the South East Asian countries has stressed the issue (business ethics) further.

1.1 What Is Business Ethics?

According to John Donaldson (1989), 'Business ethics in short can be described as a systematic study of moral (ethical) matters pertaining to business, industry or related activities, institutions or practices and beliefs'.

In defining business ethics Laura Nash (1990) observed that the moral standards of business are not different to that of an individual.

'It is the study of how personal moral norms apply to the activities and goals of commercial enterprise. It is not a separate moral standard, but the study of how the business context poses its own unique problems for the moral person who acts as an agent of this system'.

Similar view was voiced by Strenberg (1994). He also opined that ethics mainly refers to distributive justice in deciding the business activities.

'Business ethics applies ethical reasoning to business situations and activities. It is based on a combination of distributive justice – that is, the issuing of rewards for judgment that is placed on all activities'.

Organizational ethics refers to the rightness of the decisions and behaviors of individuals and the organizations of which they are a part. The definition of Buchholz and Rosenthal (1998) highlights this.

'Business ethics is the study of moral standards and how they apply to the systems and organizations through which modern societies produce and distribute goods and services, and to the people who work in these organizations'.

In interpreting business ethics, Carroll and Buchholtz (2001), view that the concept of business ethics has become relative and includes grey areas of right and wrong.

'Organizational ethics is concerned with good and bad or right and wrong behavior and practices that take place within a business context. Concept of right and wrong is increasingly being interpreted today to include the more difficult and subtle questions of fairness, justice and equality'.

In defining business ethics C.S.V. Murty (2006) observed that 'moral principles that define right and wrong behavior in the world of business. What constitutes right and wrong behavior in business is determined by the public interest groups, and business organizations, as well as an individual's personal morals and values'.

According to Stanford Encyclopedia of Philosophy (2008), 'Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations'.

In simple terms, Business ethics/corporate ethics are practically concerned with the entire gamut of functions of an organization which scrutinizes and sets the codes related to the moral/ethical principle to find the solutions to the problems faced by an employee in specific and the organization in general.

From the above definitions, which echo similar views on ethics with minor shades of difference, it can be concluded that business ethics are related to-

- morally right and wrong behavior,
- in the business context,
- including questions of fairness, justice, and equity,
- that which require application of moral standards by persons in the organizations, and
- the moral standards that are not separate, but derived from society.

1.2 Ethical Decision Making

The ethical decision making and behavior of individuals in the organization are influenced by various factors which can be classified into three major headings namely: a) Intrinsic variables, b) Extrinsic variables and c) Moral issue related variables (Sunil Kumar Maheswari and M P Ganesh, 2006). Ethical decision making process can be viewed as a system influenced by several components as given under:

- Ethical issues (ethical dimension in a given problem or opportunity),
- Principle(s) guiding ethical decision making,
- Managerial concerns in an organization,
- Environmental factors like culture, legal frameworks etc., and
- Personal characteristics of decision maker (Suja S. Nair, 2009)

1.2-I Ethical issues

Within an organization, one would find a broad spectrum of ethical issues based on the functions of a business organization like Strategy Management, Financial

Management, Human Resource Management, and Marketing Management and Production Management.

- Corporate Strategy issues like selection of the type of plant, technology, decisions like reconciling the expectations of different stakeholders in formulating and developing strategies, the role of business in society and in the economy, corporate social responsibility, and ethical issues at the individual level in organizations.
- Finance and Accounting issues like insider trading, hostile takeover, acquiring non-performing assets through surplus funds, fixing swap ratio in favor of a big acquiring firm, green-mailing and transfer pricing. Value maximization of the owners, has its limitations and is often in conflict with the traditional concept of morality. Moreover, Delloitte fraud survey (2014) revealed that bribery, corruption and cyber frauds are more frequently happen in financial industry.
- Human Resource Management issues related to dealing with unions and labor negotiations; responsibilities to employees like safety and occupational health hazards, managing cross cultural teams, workforce diversity, gender equality, privacy of employees, impact of new technology on employees and their families, fair compensation, proper working environment, enforcing ethical standards in the work place, resolving conflicts of individual employee values and of organizations through systematic training, creating an equitable and empowering corporate culture etc.
- Marketing Management issues, often culture specific, such as marketing of baby milk in developing countries, misleading or deceptive advertisements, the effect of advertising on children, bait and switch, puffery, the connection between packaging and the environment, whether the poor really pay more, etc.
- Production and Operations Management issues like impact of technology on employees, process safety, quality of production, pollution, etc.

Another way of categorizing ethical issues is:

- Monetary issues like dumping, price fixing, bid rigging, embezzlement and expense account padding.
- Behavioral issues like corporate espionage or leakage of sensitive information to business rivals, discrimination and harassment.

1.2-II Principles Guiding Ethical Decision Making

Ethical issues involve dilemmas and managers require some sort of guidance in resolving them. Many theoretical approaches to guide ethical decisions and behavior have been evolved. The theories of business ethics which explain approaches to ethical decision making fall into two groups, one based on traits another based on methods of reasoning.

(a) Virtue Ethics

Virtue ethics theories maintain that the habitual development of sound character traits determine the ethical value of persons. Individual character, work character and professional character are covered by these theories. It focuses on improving the character or traits of the agent.

Virtue theorists try to identify the list of virtues and give an account of each. They also explain why they are important. Plato and Aristotle pursued the questions: What is a good person? What are the virtues associated with a good person? For the Greeks virtue meant excellence, and ethics was concerned with excellence of human character. The list of possible virtues is long and there is no general agreement on which is most important. Aristotle, in his *Nicomahean* Ethics, espouses moral virtues, such as courage and truthfulness. Other often stated virtues are: honesty, generosity, tolerance and self-control. The virtues are dispositions to find the golden mean between two extremes and help us find happiness and fulfillment.

(b) Ethical Reasoning

Two distinct sets of theories of business ethics are found as given under:

- Teleological ethics theories determine the ethics of an act by looking to the probable outcome or consequences of the decision. It can also be defined as the good ends and/or results determine the ethical value of actions (Eternal law, Hedonism, and Utilitarianism).
- Deontological ethics hold that fulfilling obligations, responsibly following proper procedures, doing the right thing and adhering to moral standards determine the ethical value of an action (Universalism, Distributive justice and Liberty).

A brief of the six theories under the two categories is presented here.

i) Eternal Law

Many church leaders and some philosophers (Thomas Aquinas and Thomas Jefferson among them) believe that there is an Eternal Law, incorporated in the mind of God, apparent in the state of Nature, revealed in the Holy Scripture, and immediately obvious to any man or woman who will take the time to study either nature or the scripture.

Religious leaders tend to emphasize the revealed source of the truth more than the reasoned nature, but they also believe that the state of the Law is unchanging, and that the rights and duties are obvious: if we are to be loved, then we must love others. This reciprocal exchange is summarized in Christian theology by the Golden Rule; “Do unto others as you would have others do unto you”.

Thomas Jefferson, the first of the secular humanists, believed that the truths of this law were “self-evident,” in his famous phrase, that the rights were “inalienable,” and that the duties could easily be derived from the rights. If people had rights to “life, liberty and the pursuit of happiness,” then they had obligations to ensure those rights to others, even if this meant revolution against the British Crown.

The philosopher David Ross qualifies that sometimes duties arise from our special relationships in life, and they are not absolute. Our character as well as our circumstances, therefore determines what our actions are.

- Golden rule principle: You act on the basis of placing yourself in the position of someone affected by the decision and try to determine how that person would feel.

ii) Hedonism /Egoism

It refers to the self-serving philosophy of individuals who seek to maximize their pleasure in the world in which they live. The following three ethical principles attempt to justify self-serving decisions and behaviors.

- Hedonist Principle: You do whatever is in your own self-interest, but not clearly illegal.
- Might-equal-right principle: You do whatever you are powerful enough to impose without respect to ordinary social conventions and widespread practices or customs, but not clearly illegal.
- Organization interest's principle: You act on the basis of what is good for the organization and the achievement of its goals, but not clearly illegal.

iii) Utilitarianism

The utilitarian view of ethics says that ethical decisions are made solely on the basis of their outcomes or consequences. It focuses on net consequences and not individual intentions. It is termed 'Utilitarianism', a philosophy originated by Jeremy Bentham (1748-1832), a British thinker.

The name of the philosophy is derived from the word utility, which had an eighteenth-century meaning that referred to the degree of usefulness of a household object or a domestic animal; that is a horse could be said to have a utility for plowing beyond the cost of its upkeep. Utility has this same meaning, and this same derivation, in microeconomic theory; it measures our degree of preference for a given good or service relative to price.

This theory advocates that a good course of action as being that which brings the greatest amount of good over bad, both over the long term and the short-term. It uses a quantitative method for making ethical decisions by looking at how to provide the greatest good for the greatest number. The use of a cost and benefit analysis is one of the ways in which one can make a decision.

The basic principle is:

Every one ought to act so as to bring about the greatest amount of happiness for the greatest number of people.

The utilitarian principle provides a decision procedure. When you have to decide what to do, you should consider the happy – unhappy consequences that would result from your various alternatives. The alternative that produces the most overall happiness is the right action.

Acts Vs Rules

Utilitarians have recognized the difficulty in making cost benefit analysis in all cases.

- Sometimes we must act quickly
- Sometimes consequences are impossible to foresee
- Sometimes consequences are difficult to measure or quantify

To save time, and to avoid the need to compute the full consequences of every decision and action, most *Utilitarians* recommend the adoption of simplifying rules. Rule *Utilitarians* argue that we adopt rules that, if followed by everyone, would, in the long run, maximize happiness. Examples of utilitarian rules are:

- Be honest
- Tell truth
- Do your duty
- Keep your promises
- Don’t reward behaviors that cause pain to others.

Act *Utilitarians*, put the emphasis on individual actions rather than rules. 'Act' in such ways to bring happiness to people. Rule *Utilitarians* believe that rules are universally applicable and take them to be strict. However, act utilitarianism regards rules as rules of thumb general guidelines. They are at best relative, as they have varying implications depending on the situation.

- Use of water - Putting water in swimming pools and watering lawn is right in a water-abundant situation and wrong in an environment in which water is scarce. Therefore, rules to be effective should be flexible and changing with the times.
- Divorce - Rules and laws that break marriage bonds were unknown earlier. Today they are found in many societies.
- Lying - It is wrong as per the rules, but lying may sometimes bring happiness without harm. A sick husband may lie to his wife so as not to create stress in her. However, lying in all cases is not good. It destroys the trust between the husband and wife.

Both act and rule principles can be used to formulate a decision-making procedure for figuring out what one should do in a situation. In fact, the principles can be used to determine and evaluate the laws of a society. Law against killing, stealing, fraud, breaking contracts and so on, can be justified on utilitarian grounds. Laws are criticized when they fail to produce net good consequences. The debate on changing the law examines alternative approaches that maximize the good and minimize the harm.

- Means-end principle: You act on the basis of whether some overall good justifies any moral transgression, but not clearly illegal.
- Utilitarian principle: You act on the basis of whether the harm inherent in the decision is outweighed by the good in it, but not clearly illegal.

iv) Universalism: A Deontological Theory

The deontological approach is the reverse of teleological theory. The term deontology is derived from Greek word *deon* (duty) and *logos* (science). Etymologically, then deontology means the science of duty. Deontology says that individuals are valuable in themselves, and not because of their social value. Further they argue:

(1) The capacity for rational decision making is the most important feature of human beings.
(2) We are moral beings, because we have the capacity to give ourselves rules and laws and to follow them.
(3) What morality requires is that we respect each other as valuable persons in themselves. We should refrain from valuing them only as aids, facilitators or means to our ends.
(4) Happiness is not the only end. Humans seek a variety of goals.

It emphasizes on intentions and not outcomes - It states that the moral worth of an action cannot be dependent upon the outcome because those outcomes are so indefinite and uncertain, at the time the decision to act is made; instead, the moral worth of an action has to depend upon the intentions of the person, making the decision or performing the act.

Intentions guide actions - Personal intentions can be translated into personal duties or obligations because, if we truly wish the best for others, then we will always act in certain ways to ensure beneficial results.

Actions become duties - The theory states that these ways of actions become duties that are incumbent upon us, rather than the choices that are open to us. It is our duty to tell the truth; it is our duty to adhere to contracts; it is our duty not to take property that belongs to others. In teleological theory, these are the actions that bring the greatest benefits to others.

Duties are universal - Our personal duties are universal, applicable to everyone and consequently deontological theory is also termed as 'Universalism'. The common law is a form of Universalism: Everyone, who secured a loan, should repay it and no one, needing money, should rob banks.

Treat others as ends - The first duty of Universalism is to treat others as 'ends' and not as 'means'. Other people should be seen as valuable ends in themselves, worthy of dignity and respect, and not as impersonal means to achieve our own ends.

Categorical Imperative - Immanuel Kant (1724-1804) proposed a simple test for personal duty and goodwill. The test is to ask yourself whether you would be willing to have everyone in the world, faced with similar circumstances, forced to act in exactly the same way.

'Never treat another human being merely as a means but always as an end'

This is the Categorical Imperative; "categorical," of course, means absolute or unqualified, and the precept is that an act or decision can be judged to be "good" or "right" or "proper" only if everyone must, without qualification, perform the same act or reach the same decision, given similar circumstances.

The two formulations by Kant, in his words:

1. To act only in ways that I would wish all others to act, faced with the same set of circumstances, and
2. Always treat other people with dignity and respect.

The first version says that what is morally right for me must be morally right for others. Everyone is of equal value. If this is so, then no person's rights should be subordinated to those of anyone else. One must treat people as free and equal in the pursuit of their interests.

For example, when I start a business, success is my goal. I hire employees to work in my company to achieve the success. If I make them work for longer hours and extract heavy work ignoring their well-being, I can improve my success, but it is exploitation. It is unfair because I have used people as a means to the end (success).

Take another example, when a researcher assures confidentiality of information,

Q. Is he justified in hiring research assistants to process the responses?

A. No, because he is violating a promise.

Q. Will he be right when individual responses are secretly coded?

A. Yes, because he is not using respondents as objects but as humans and treating their concerns with respect.

A related principle that helps managers in decision making therefore is:

- Professional standards principle: You act on the basis of whether the decision can be explained before a group of your peers, but not clearly illegal.

v) Distributive Justice

In 1971, John Rawls, a Professor at Harvard University, examined the distributive justice in his book "A Theory of Justice". It is explicitly based upon the premise of a single value: justice. Justice is felt to be the first virtue of social institutions; our laws and institutions, no matter how efficient or accepted, must be reformed or abolished if they are unjust. Professor Rawls proposes that society is an association of individuals, who co-operate to advance the good of all. Therefore the society and the institutions within that society are marked by conflict as well as by collaboration.

The collaboration comes about, since individuals recognize, that joint actions generate much greater benefits than solitary efforts; the conflict is inherent because people are concerned by the just distribution of those benefits. Each person prefers a greater to a lesser share and proposes a system of distribution to ensure that greater share. The alternative systems are:

(i) **Absolute equality** - They would not select absolute equality in the distribution of benefits, Professor Rawls argues, because they would recognize skills; develop greater competences, and so on.

(ii) **Absolute inequality** - They would not agree to absolute inequality based upon effort, skill or competence because they would not know who among them had those qualities and consequently who among them would receive the greater and the lesser benefits.

(iii) **Conditional inequality** - They would develop a concept of conditional inequality, where differences in benefits had to be justified, and they would propose a rule that those differences in benefits could be justified only if they could be shown to result in compensating benefits for everyone, and in particular for the members with least advantage in their society. That is, the distribution of income would be unequal, but the inequalities had to work for the benefit of all, and they would work for the benefit of all by helping in some measure, the least benefited, who would then continue to contribute and co-operate.

Rawls understands that individuals are self-interested. Therefore, they will be influenced by their own experiences and their own situations when they think about fair arrangements. This may result in injustice favoring the powerful and influential ones.

Smart people would want rules that favored intelligence.
Strong people would want a system that rewarded strength.

Justice will be possible only when individuals take decisions behind the veil of ignorance with regard to their own characteristics (intelligence, strength, etc). Rawls argues that individuals in their original position (unaware of characteristics) would agree to two rules, they are:

1. **Liberty** – Each person should have an equal right to the most extensive basic liberty compatible with a similar liberty for others.
2. **Opportunity** – Social and economic inequalities should be arranged so that they are both:
   a. Reasonably expected to be to everyone's advantage, and
   b. Attached to positions and offices open to all.

Theory of justice suggests, framing and enforcing rules fairly and impartially by following a suitable base of distribution consistent with legal rules and regulations. Modern economic systems make use of distributive systems that have five very different bases as given in the table 1.1.

Table 1.1: Methods of Distributive System

Method	Example
to each person equally	public education
to each according to his or her need	welfare payments
to each according to his or her effort	sales commissions
to each according to to his or her contribution	public honors
to each according to his or her competence	managerial salaries

Source: Suja S. Nair (2009) 'Ethical Attitudes of Managers in India', Theses Submitted to Sri Venakteswara University, Tirupati, pp. 11-13

The distributions are justified by the principle of equality.

- Distributive justice principle: You act on the basis of treating an individual or group equally rather than on arbitrarily defined characteristics, but not clearly illegal.

vi) Personal Liberty and Rights

The theory of Personal Liberty is proposed by Robert Nozick, a member of the Harvard faculty. This system is based upon the primacy of a single value, 'liberty'. Liberty is thought to be the first requirement of society. An institution or law that violates individual liberty in making choices, even though it may result in greater happiness and increased benefits for others, has to be rejected as being unethical. Professor Nozick argues as follows:

Society is an association of individuals and co-operation between those individuals is necessary for economic gain. The co-operation comes about as a result of the exchange of goods and services. The exchanges can be considered to be "just" as long as they are voluntary. Non-voluntary exchanges, based upon the use of social force or other coercive means, are unjust. Individuals must be allowed to make informed choices among alternative courses of action leading towards their own welfare. Those choices are "just" or "right" or "proper" as long as the same opportunities for informed choices are extended to others. Justice depends upon equal opportunities for choice and exchange, not upon equal allocations of wealth and income.

The principle that helps managers in decision making is:

- Disclosure principle: You act on the basis of how the general public would likely respond to the disclosure of the rationale and facts related to the decision, but not clearly illegal.

Rights theory is concerned with respecting and protecting individual liberties and privileges such as the right to privacy, freedom of conscience, free speech, life and safety and due process. This would include, for example, protecting the free speech rights of employees who report legal violations by their employers and refusal of overtime when needed.

Rights are positive and negative. Negative rights are rights that require restraint by employers. Employer should refrain from exploiting employees. Positive rights, on the other hand, imply that others have a duty to do something to or for the right holders. Employers have to create rules and regulations that facilitate a fair day's work with a fair day's pay and a climate of participation. Positive rights are more controversial than negative rights because they have implications that are counter-intuitive. Positive rights include better wages, good welfare facilities, sound training, proper supervision and right environment. Rights are legal and moral. Legal rights are rights that are created by law. Moral rights are claims that are independent of law. Utilitarian arguments generally tend to recognize a legal right. Rights are deeply rooted in the tradition of social contract theories. Humans agree to do things for a consideration. The agreement (social contract) creates obligations that are moral and legal.

The appropriate principle that aids managers in decision making is:

- Principle of Individual Rights: This behavior gives due respect to the rights of all the affected persons in terms of the basic human rights.

The Rights based theory by John Locke states, that human beings have duties because they have rights. Liberty is related closely with life in a community of people. Negative rights, on the other hand, place duties on other people not to interfere with one's life. One may also talk of having rights to certain goods and services, health care, a clean environment or education.

Which one?

There are six major ethical systems, as summarized in Table 1.2. Each ethical system expresses a portion of the truth. Each system has adherents and opponents. And each, it is important to admit, is incomplete or inadequate as a means of judging the moral content of individual actions or decisions. What does this mean to managers?

Moral reasoning of this nature, utilizing all five ethical systems, is not simple and easy, but it is satisfying. It does work. In case of corporate businesses, their performance in ethical terms can be identified by factors such as: the nature of business, the availability and use of information, participation, employment relationships, connections with the government in power, attitudes to their staff and customers and society (degree of autonomy, warmth, support etc.) Since ethical issues pervade in all aspects of organizational activities and performance, it will be necessary to identify the nature of all the legitimate interests of all those concerned with corporate governance. Table 1.2 exhibits summary of major ethical systems.

Table 1.2: Summary of Major Ethical Systems

Theory	Guiding question	Nature of the Ethical Belief	Principles
Eternal Law	Is the decision based on natural human duties and rights of decision maker?	Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanist philosophers.	Golden rule
Hedonism/egoism	Does a given decision give maximum benefit to self or organization?	Moral standards are self-serving. Maximum benefit to self or organization.	Hedonist principle, Might equal rights principle, Organization interest's principle:
Utilitarian Theory	Does a given decision result in greater benefits than damages for society as a whole, not just for our organization as part of that society?	Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people.	Means-end principle, Utilitarian principle
Universalist Theory	Is the decision self-serving, or would we be willing to have everyone else take the same action when faced with the same circumstances?	Moral standards are applied to the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances.	Professional standards principle
Distributive Justice	Will the decision lead to social cooperation?	Moral standards are based upon the primacy of a single value, which is justice. Everyone should act to ensure a more equitable distribution of benefits, for this promotes individual self-respect,	Distributive justice principle

		which is essential for social cooperation.	
Personal Liberty	Will the decision increase or decrease the liberty of others to act? Is the decision protecting the rights of others?	Moral standards are based upon the primacy of a single value, which is liberty. Everyone should act to ensure greater freedom of choice, for this promotes market exchange, which is essential for social productivity.	Disclosure principle Principle of individual rights

Source: La Rue Tone Hosmer, "The Ethics of Management" Universal Book Stall, New Delhi, 1987, Pp.106.

1.2-III Managerial Concerns

In respect of organizations, three managerial approaches have been identified. They are briefly outlined here.

- **The stockholder theory** holds that managers are agents of the stockholders, and their only ethical responsibility is to increase the profits of the business without violating the law or engaging in fraudulent practices (legal and economic approach).
- **The social contract theory** states that companies have ethical responsibilities to all members of society, which allow corporations to exist based on a social contract. What to do? The first condition of the contract requires companies to enhance the economic satisfaction of consumers and employees. They must do that without polluting the environment or depleting natural resources, misusing political power, or subjecting their employees to dehumanizing working conditions. What not to do? The second condition requires companies to avoid fraudulent practices, show respect for their employees as human beings, and avoid practices, which systematically worsens the position of any group in society. The theory**,** proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view on ethics is based on the integration of two "contracts"; the general social contract that allows businesses to operate and defines the acceptable ground rules, and a more specific contract among members of community that addresses

acceptable ways of behavior. For instance, in deciding what wage to pay to workers in a new factory in CPCL, Chennai would base the decision on existing wage levels in the community (Social approach).

- **The stakeholder theory** maintains that managers have an ethical responsibility to manage a firm for the benefit of all of its stakeholders, which are all individuals and groups that have a stake in or claim on a company. Sometimes the term is broadened to include all groups who can affect or be affected by the corporation, such as competitors, government agencies, special interest groups, and the media. Balancing the claims of conflicting stakeholders is obviously not an easy task for managers. It requires balancing political, legal, economic, technological and social factors (Integrated approach).

1.2-IV Environmental Factors

A set of studies explored the influence of environmental factors on ethical attitudes (Brown and King 1982, Mayo 1981, Smith and Oakley 1994). Among the internalized factors, norms, pressures from community and peers exerted the greatest influence, while the fear of punishment was the least influential. With regard to the externalized factors, competition received the highest rating on the positive and the negative influence scales.

The situational approach asserts that the situational aspects such as organization's reward system, peer influences, the influence of superiors and organizational norms (Trevino and Youndblood, 1990), philosophy of the top management (Arlow and Ulrich, 1980), managerial behavior (Nielsen, 1988), firm's reinforcement system (Hegarty and Sims, 1979), the nature of issue involved (Bhal, 2000) and job dimensions (Trevino, 1986) have a demonstrable effect on the ethical decision-making behavior of the individuals.

1.2-V Personal Characteristics

Ethical attitudes are “the product of personal values, experiences and the environment in which one works and lives” (Donaldson and Dunfee, 1999). The subject of cognitive moral development has received much attention in the ethics literature. Individuals develop a network of ethical norms and principles through the process of socialization (Kohlberg, 1983), which constitutes their ethical philosophy and affects their decision-making in situations involving an ethical component. The ethical personality is influenced by four factors:

- Cognitive moral development,
- Ego strength,
- Locus of control, and
- Machiavellianism.

Cognitive moral development refers to an individual’s level of moral judgment. Research (Kohlberg, 1976) confirms the existence of three levels of moral development, each composed of two stages, exhibits table 1.3.

Table 1.3: Stages of Moral Evolution

Stages of Morality		**Illustrative Behavior**
Level I: Pre-conventional morality		
Stage 1	Punishment orientation	Obeys rules to avoid punishment
Stage 2	Reward orientation	Conforms to obtain rewards or to have favors returned
Level II: Conventional morality		

Stage 3 Stage 4	Good-boy/good-girl orientation Authority orientation	Conforms to avoid disapproval of others Upholds laws and social rules to avoid censure of authorities and guilt about not "doing one's duty"
Level III: Post-conventional morality		
Stage 5 Stage 6	Social-contract orientation Ethical principle orientation	Actions guided by principles commonly agreed on as essential to the public welfare - upheld to retain respect of peers and self-respect Actions guided by self-chosen ethical principles (that usually value justice, dignity, and equally value justice, dignity, and equality) up-held to avoid self-condemnation

Source: Gerald D. Baxter and Charles A. Rarick, "Education for the Moral Development of Manager: Kohlberg's Stages of Moral Development and Integrative Education", Journal of Business Ethics, June 1987, Pp.243-248.

Ego strength is a personality measure of the strength of a person's convictions. People who score high on ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right. Managers with high ego strength are expected to be more consistent in their moral judgments and moral actions than with low ego strength.

Locus of control is a personality attribute, which measures the degree to which people believe they control their own fate. People with an internal locus of control believe that they control their own destinies; those with an external locus believe that what happens to them is due to luck or chance. Research (Blasi (1980), Trevino and Youndblood (1990) and Dozier and Miceli (1985)) has demonstrated that individuals with high internal locus of control exhibit more ethical behavior when making organizational decisions than the individuals with high external locus of control.

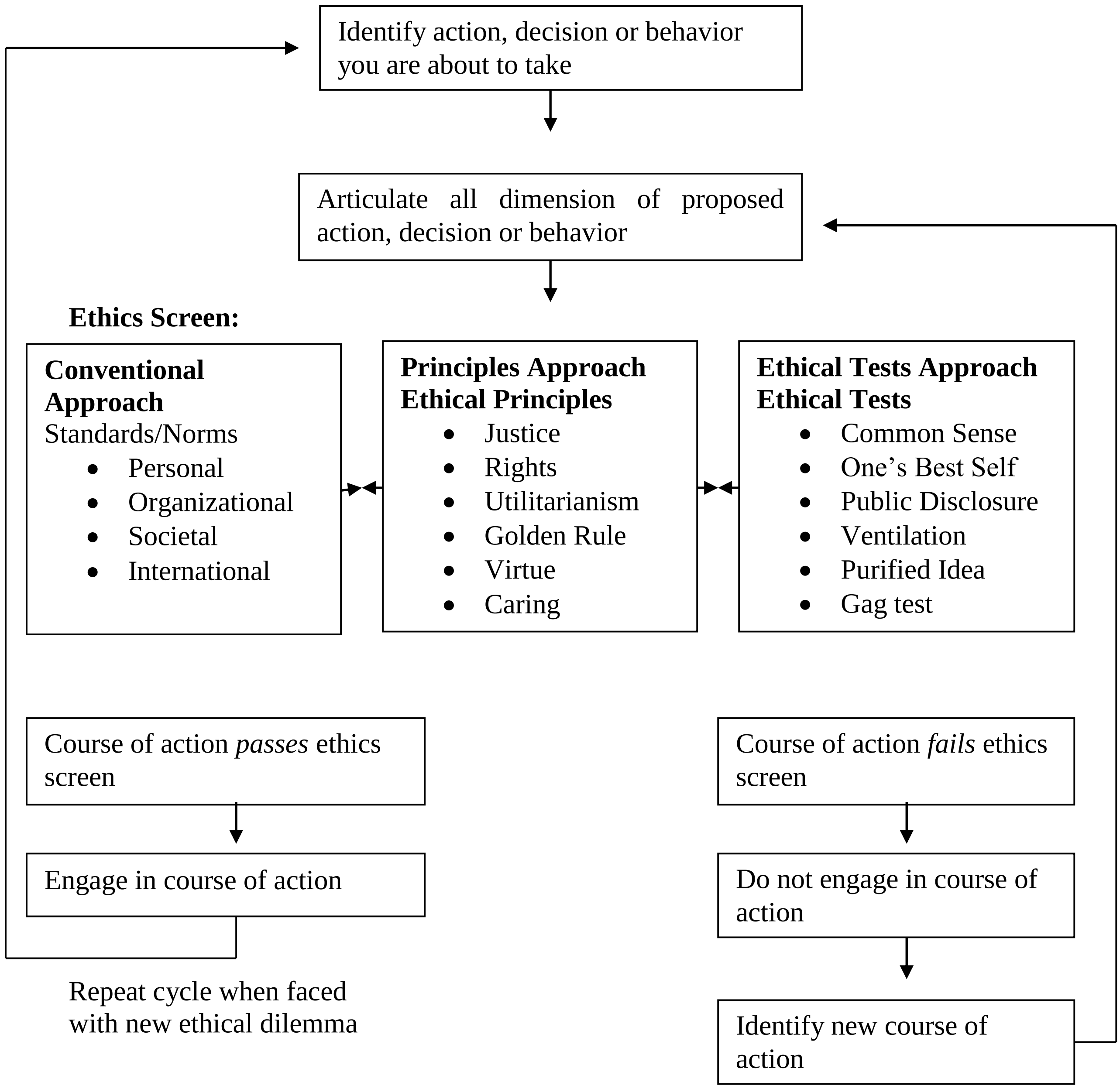
Machiavellianism, as a personality trait, Machiavellianism refers to the use of deceit in relationship, and manipulating others. Niccolo Machiavelli was a sixteenth-century Italian philosopher and statesman whose best-known writing includes a set of suggestions for obtaining and holding governmental power. He published a book called The Prince. The book deals with strategies to manipulate people to retain power.

1.3 Ethical Decision Making Models

Ethical decision making is not a simple process but rather a multifaceted process which is complicated by the characteristics just described. Carroll and Buchholtz (2003) model shown in Figure I.1 identifies the decision making process as influenced by ethical screen with three variables that filter decision making: Conventional norms, principles and tests.

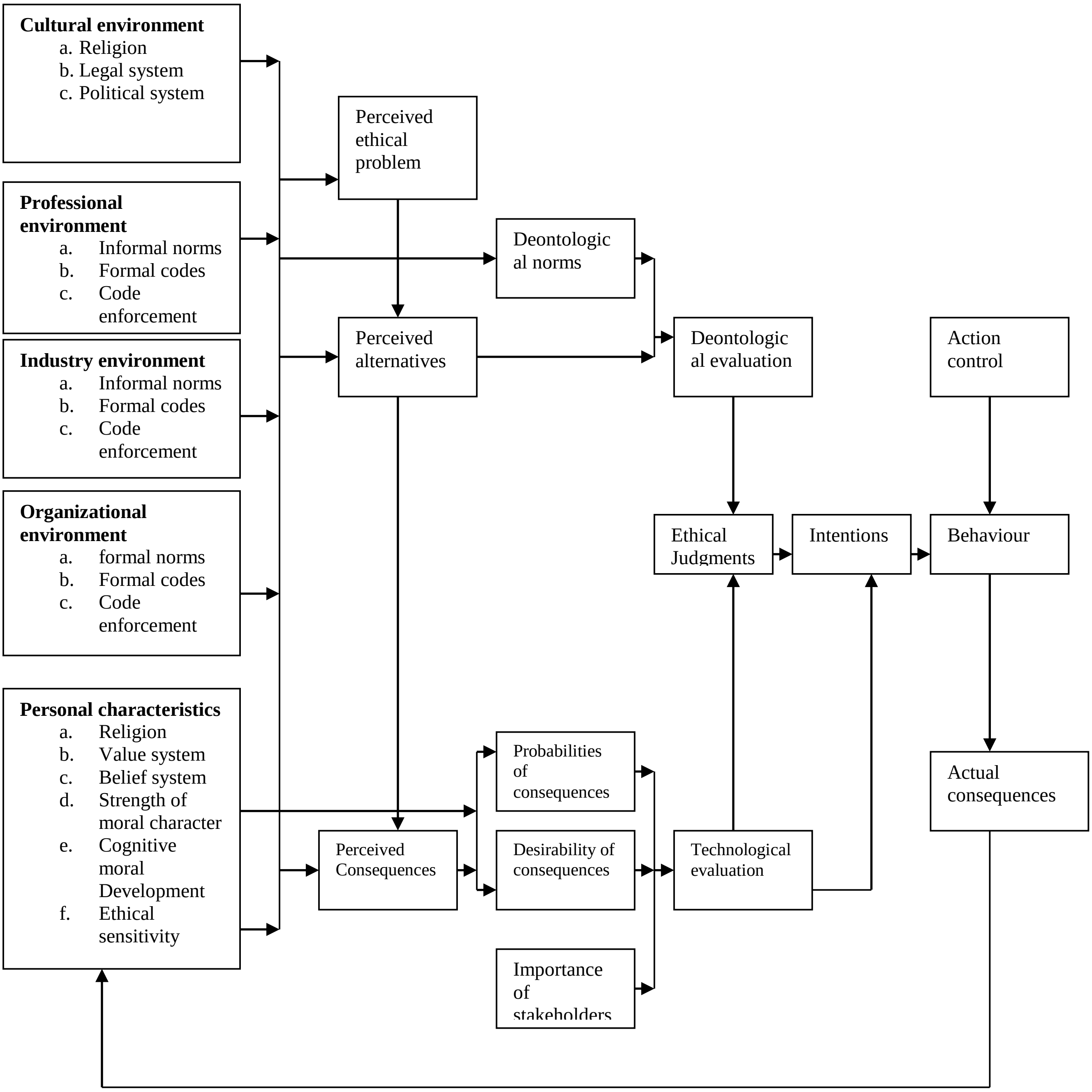
Hunt-Vitell, (1986) developed a theory that provides a general model of ethical decision making that would draw on both the deontological and teleological ethical traditions in moral philosophy. This model as shown in Figure I.2 addresses the situation wherein an individual confronts a problem perceived as having ethical content. This perception of an ethical problem situation triggers the process depicted by the model. If the individual does not perceive some ethical content in a problem situation, subsequent elements of the model do not come into play.

Figure 1.1: A Process of Ethical Decision Making



Source: Carroll and Buchholtz, (2003) "Business and Society: Ethics and Stakeholder Management, Thomson Publications, 5th edition, PP.229.

Figure 1.2 Hunt - Vitell Model of Ethical Decision Making



Source: Hunt and Vitell (1986). Copyright © 1991 by Shelby D. Hunt and Scott J. Vitell as cited in Business ethics edited by Rober A. Peterson and O.C. Ferrell, (2005), Prentice-Hall, India, pp20.

1.4 Integrating Ethics with Other Policies

A view, gaining increasing acceptance in recent years is one that upholds ethical behavior as the best long term strategy for an organization. However, this does not mean that, doing what is ethical will always be beneficial to an organization. There may be occasions when ethical behavior is punished and unethical behavior is rewarded. Therefore, to say that ethical behavior is the best long term business strategy means that in the long run, ethical behavior can give a company, competitive advantage over other companies that are not ethical. (Velasquez, 2002)

1.4-I Business Ethics and Corporate Social Responsibility

A company's core values and codes of ethical behavior should underpin everything that the business does. How a company then chooses to interact with its global and local communities in the light of its values and ethics is often known as ‘Corporate Responsibility’ or ‘Corporate Social Responsibility’ (CSR). The Institute of Business Ethics defines CSR as:

“The voluntary actions taken by a company to address the ethical, social and environmental impacts of its business operations and the concerns of its principal stakeholders”

Almost all the banks in India today claim that, they are been undertaking some sort of social responsibilities. Two cases are cited here to illustrate the point.

(i) State Bank of India

State Bank of India with the philanthropic arm undertaken various initiatives in providing Community service banking, Disaster Relief, Children’s Welfare scheme, Adoption of girl child, blood donation camps, Medical camps, Family Planning Camps, Veterinary Camps, Adult literacy classes, Ladies club activities, Tree planting Activities, special program for children and other cultural activities, Facilitate education for underprivileged children, Energy, Environment, Physically challenged, Poverty Eradication, Vocational Training, Women, Rural community-Development and Adoption of girl child, Research and development- on education with the objective of owing a solemn duty to the less fortunate and under-privileged members of the society. It has established a child protection Centre ‘UTSAH’ (Universal Team for Social Action & Help) under which accommodating 125 students are from slum area to provide education. SBI’s major contribution towards CSR happens through ‘SBI Children’s Hope Foundation’ and ‘GrowTrees.com.

(ii) ICICI bank

ICICI bank, one of the flagship companies among the banks in India. Today, ICICI bank’s CSR initiatives are spread across diverse areas such as environment management, employee relations, economic development, civic amenities and community services, population management, sports and adventure, healthcare, response to natural calamities, education, skill development and sustainability livelihood, arts and culture and social welfare. To achieve the desired objectives, ICICI bank supports various social welfare organizations. These include Nutrition Security Innovations Program, Village Health Committee-Sahitya Resource Centre, Developing new products for outpatient healthcare, City Initiative for Newborn Health, Mumbai Maternal Nutrition Project, School and teacher education reform program in Rajasthan, Chhattisgarh Curriculum and Textbook Development, Creating an Education Resource Centre in Chhattisgarh, English Relay Program, The Quality Education Program, Rural Self-Employment Training Institutes, Universal Access to Finance, Effective and Affordable Risk Management Solutions, Poverty alleviation through ICICI Group companies, Working with Self Help Groups: Kalanjiam Foundation Project, Project SARAS, Muktangan Education Initiative (healthy Lokshakthy), ICICI Academy for Skills and English language training for teachers and students in rural Assam.

1.4-II Business Ethics and Corporate Governance

Companies are increasingly being required by both regulatory authorities and by their shareholders to operate efficiently, responsibly and ethically. How banking companies – especially those that are in public trade – meet these requirements has a direct impact on public confidence in the free market system.

Corporate governance is defined by Sheik and Chaterjee (2001) as:

"Distribution of rights and responsibilities among different participants in the organization, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs"

Corporate governance, therefore, is concerned with establishing a system whereby the directors are entrusted with responsibilities as well as duties in relation to the direction and day to day operation of a company's affairs. It is also founded on the system of accountability, primarily directed towards the shareholders, in addition to maximizing the shareholder's welfare in the long-term.

(i) State Bank of India

The Golden Peacock Global Award was honored State Bank of India for excellence in corporate governance' in 2012from Mr. Eric Picker, Former Prime Minister of the Sweden and Co-chair of the World Commission on Forest and Sustainable Development. State Bank of India has a three-pronged governance structure that provides for checks and balances throughout its operation.

- First layer of this structure is the 'law of the land'. Statutes on the number of non-executive and independent directors, board procedure, and terms of office are followed with rigor.
- Second layer is 'ethics and compliance through audit committee'. As stipulated by the code, and this comprises, among other things, employee welfare measures leave with pay, provident fund, gratuity and profit sharing.
- Third layer is 'communication'. To ensure that a culture of safeguard all the stakeholders interest by applying prompt transparency and integrity in all the banking operations/transactions. Evenly communicates for excellence in customer service through answerability and highly standardized leadership to build ideal leadership skills among other employees

(ii) ICICI bank

Among the top ten companies in Asia ICICI bank received one of the prestigious award Corporate Governance Asia Annual Recognition Awards 2013 and also awarded the certificate of recognition as one of the top 5 companies Corporate Governance in The Institute of Company Secretaries of India (ICSI) National Awards for Corporate Governance. The ICICI bank, consistently one of the highest CG score companies in India is ahead of prevailing CG norms and has implemented most of the reforms even before they became mandatory.

Till today its disclosure standards are among the best in the entire industry. Also, it provides the most comprehensive manpower data like age profiles, experience, education levels, and gender mix etc., elaborated in detail. ICICI is one of the very few companies in India to have a board with a majority of independent directors, as well as wholly independent audit, nominations, compensation, board governance, CSR, customer service, fraud monitoring, information technology strategy, share transfer & shareholders'/investors' grievance, credit and risk committees and committee of executive directors.

1.5 Measures to Create Ethical Behavior

Theodre Purcell and James Weber (1981) suggested three ways for applying and integrating ethical concepts into daily action. They include:

1. Establishing appropriate company policy or a code of ethics,
2. Using a formally appointed ethics committee, and
3. Teaching ethics in management development programs.

Thus it is top management which has to take initiative to establish ethical organization.

Creating Value System

In common parlance, value is indicative of worth, honor, and finally right and wrong actions and choices. It is also associated with norms, world views, culture and tradition.

Values can be classified into individual and organizational values. Values at the Individual level includes faith, self-respect, setting an example or being ideal, open-mindedness, competitiveness, creativity, devotion towards work, tolerance, sacrifice, courtesy, good, just, civic sense, honesty, humility, simplicity, reason, truth, non-covetousness, forgiveness, fortitude, cleanliness, absence of egoism, detachment, poise, equanimity etc,

Values that can be imparted to the members of organization collectively include harmony, resourcefulness, discipline, dharma, equality, brotherhood, unity, peace, social conscience, co-operation, live and let live concern, care, mutual trust, love, team-spirit, efficiency, effectiveness, excellence, morale, productivity, responsibility, risk-bearing, accountability, sharing, sacrifice, etc.

Open Book Management - The goal of open-book management is to get employees to think like an owner by seeing the impact of their decisions and actions on financial results.

Employee Selection - The selection process should be viewed as an opportunity to learn about an individual's moral level of development, personal values, ego strength, and locus of control.

Codes of Ethics - A code of ethics, a formal statement of an organization's primary values and the ethical rules it expects its employees to follow, is a popular choice for reducing that ambiguity. For instance, nearly 95 percent of Fortune 500 companies now have codes of conduct.

Ethics Game - Individuals are grouped into small groups or large groups are divided into several teams. Individuals or teams are presented with ethical dilemmas based on the company's actual experiences. The goals of the game are to help employees recognize ethical dilemmas and increase their understanding of its rules and policies regarding ethical behavior.

Ethics Committees - Many companies have ethics committees to advice on ethical issues. Such a committee can be a high-level one, comprising the board of directors and chaired by the CEO of the company.

Board- Many boards of directors now include outside directors, such as influential, academic, minority, and religious leaders, who give "society's" view during decision making.

The Ethical and Social Responsibility Review -Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics. Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply "do the right thing". These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

Ethics Hot Lines - A member of the ethics committee receives the confidential call and then quickly investigates the situation. Elaborate steps are taken to protect the identity of the caller, so as to encourage more employees to report any deviant behavior.

Ethics Training Programs - Generally speaking, ethics training is most effective when it is conducted by company managers, and is steered away from abstract philosophical discussions to focus on specific issues from the work environment.

Ethics Manual - If an organization is keen to set up explicit norms that will guide its general business principles and code of conduct, it needs to first craft a business ethics manual. Such a manual will begin with the 'Vision Statement' and proceed from there to a clear declaration of actual norms, practices and what the company considers to be strict. A good ethics manual will integrate these different aspects within a common and reiterative scheme such that the whole manual hangs together as a unity.

Ombudsman Position - An ombudsman is a person within an organization, often an elder and respected manager, close to retirement, who has been relieved of operating responsibilities and assigned the task of counseling younger employees on career problems, organizational difficulties and ethical issues. The term in Swedish, refers to a government agent in that country who has been especially appointed to investigate complaints made by individual citizens against pubic officials for abuses of power or unfeeling/uncaring acts. Often the ombudsman can go considerably beyond counseling and investigation and is able to act informally to resolve problems.

1.6 Role of Ethics in Banking Sector

"Some turn every quality or art into a means of getting wealth; this they conceive to be the end, and to the promotion of end they think all things must contribute"

Aristotle, Politics

Bk. 1, Ch.9, 1258a13-14

The unfettered love of money is the root of all evil. Such a claim, exaggerated as it is, reflects an ethical bias against money and money instruments and, by extension, banks and banking services that permeates many, if not most, cultures thing. Indian philosophical culture, particularly as exemplified in Aristotle, defines the very notion of liberal as being practically is illiberal and irksome. "Further, he maintains that it is"…justly censure; for it is unnatural, and a mode by which men gain from on another… For money was intended to be used in exchange, but not to increase at interest" (Aristitle, Politics, Bk, 1, Ch. 11, 1258b 10-11, and Politics, Bk. 1,Ch 10, 1258b 1. (in Ronald Duska 2007)).

It is bound to say that banking would be impossible without ethics. It is placing our assets in the hands of the others, most of the times with unknown people which requires immense trust. Unknown people includes an untrustworthy banker, finds few takers for his or her services. Banking scandals shock us precisely because they involve people and institutions that we should be able to trust.

Innumerable number of organizations in India has cheated many highly ethical people who trusted them and their companies. Hard earned has been put by many people in cash to seek their better living in the post retirement stage. The company starting have booted money by cheating the public and had themselves without address and no action has been taken on them, neither by the concerned authorities nor by the Government. Even if caught, no stringent actions have been taken on them. This is more predominant in India.

Ethical concern in banks are quietly significant because the bear on people financial well-being. Ethical misconduct as everyone knows, maybe by individuals acting alone or by banking institutions has the potential to rob people of their life savings. As huge money is involving in banking operations, there must be well-developed and effective safeguards along in place to ensure personal and organizational ethics. Through the law governs much banking activity, strong emphasis must be placed on the integrity of the bank professionals and on ethical leadership in our banking institutions (C.S.V. Murthy, 2006).

The nature of the banking industry is such that it is vulnerable to nefarious intensions. Hence it becomes more imperative to study ‘ethics in banking’. Integrity, honesty and responsibilities are the prerequisites for key banking personnel. Bank managers are the custodians of safeguarding the trust entrusted by the customers and the Government institutions to follow adherence and compliance to morality (Jelena Bozovic, 2007).

Banking is an industry that is meant for safeguarding the customers’ money. The complexities of handling customers’ money and the intricacies of investing the same have often been a major bone of contention for bankers. Since globalization, it has become very difficult for banks to assess the integrity of customers’ banking operations. Similarly, it has become difficult for the customers to know the destinations of their money. As custodians of customers’ wealth, it becomes imperative for banks to maintain the confidentiality of the customers.

Trust, transparency and responsibility should form the basis for a value system in banking. Transcendence to a transparent corporate culture can facilitate in solving ethical issues.

Now it is no longer an improbability to question the banks about the destinations of the customer's money. Apart from maintaining foolproof systems, the owners of appointing key personnel with integrity also on the banks. These individuals should ensure the transition of the banks from ethical deficit to a transparent corporate culture is in consonance with the banking practices (George F. Kermis, Marguerite D. Kermis)

The efficacy of a value system in banking that is universally acceptable requires an insight into the intricacies of banking systems transactions. The key personnel/managers can take the initiative by training the employees to make ethical decisions. In such a scenario, ethical violations can be brought to the minimum. There are certain basic traits which should symbolize the bank managers, namely: efficiency, discipline, honesty, integrity and transparency. Unethical actions by banker can include ignoring banking guidelines and concealing facts. Some managers indulge in ethical violations by overvaluing collaterals or overestimating projections submitted for loan sanctions. But the sooner the bank managers accept that the decision to make ethical decisions is not just a moral one any longer but it is mandatory. One cannot alienate professionalism from idealism. Since there are no specific guidelines to curb ethical violations, a case by case approach can be adopted (Dr. Nanik Ram, Dr. Immamuddin Khoso, Muhammad Bachal Jamali & Faiz M. Shaikh 2011).

The ethical premise for the banking industry should consist of trust and values. Banks are accountable for their practices. With a constant demand for expansion banks may have to make risky decisions. However, during slump, many businesses fail to keep up their deadline for repaying loans. Deposits are the most common source of funds for banks. If the banks have to gain revenues, they need to apply these funds in the most viable way. However, there is a lack of clear cut guidelines for the criteria to be followed by banks while issuing loans. And the very nature of banking is such that any wrong decisions or any mistake of hoverer minute nature can have large impact. Most of the public perceptions with regard to banks' lending especially in reference to some corporate houses is not a very complementary one (Dr. Githui Donatus Mathenge, 2013).

One needs to understand the roles and functions of banks. Banks primarily transact in accepting deposits and advancing of loans. As third party, they also take up payment of cheques, bills and letters of credit and receiving payment for customers. Security of wealth and assets, arrangement of travelers' cheques and letter of credit form part of general utility functions of the banks. And there are similar allied functions of the bank in consonance with the above functions.

One needs to study the social and ethical issues emerging in the banking industry. The economic crisis in US was a setback to that county and many other countries. Similarly the crisis in the Euro zone is simmering and may overflow to take many other nations in its cauldron. The concept of several banks which implies giving equal opportunities to all is picking up momentums. Profit maximization as well as human and environment well-being should be the motto of banks.

Progress comes at a price. As a consequence of modernization, we are faced with global warming. Repercussion of rapid industrialization may not be seen immediately but over a period of time the impact can be measured in the form increased Carbon foot print, increased emissions, deforestations etc. The importance of sustainable practices for corporate are emphasized as part of good governance (Dr. K.A. Goyal and Vijay Joshi, 2011).

What is the basis for determining the ethics guidelines in the banking industry? Let us study what are the possible unethical practices in the banking industry. Having undue access to customers' accounts and taking advantage of the same and tampering with the accounts, diverting bank funds by the bank staff, illegal transfer, opening fictitious accounts, lending to fictitious borrowers, collaborating with outsiders to defraud the bank, defrauding the investors and creditors by the banks top management who are privy to confidential information and custodians of safety. If one needs to correct these unethical practices, one needs to ensure adherence at an individual or personal level and at an organizational level. If preventions and control of bank fraud is to be effected banks need to take certain measures like ensuring excellent leadership, speedy settlement of fraud cases and conviction of fraudsters**.** Thorough investigations of alleged frauds, hiring, officials with honesty and integrity and creating a pleasant work ambience with due recognition for caliber and commitment is suggestible to inculcate ethical environment with better circumstances (Ayozie Daniel Ogechukwu, 2013).

1.6-I Principles of Ethical Banking

Irrespective of the fact that, economies may be in various phases of development, it becomes imperative for all concerned to have complete awareness about ethics in relation to banking products and services.

- For the operational function of any business system, leave alone banking, most of the transactions are based on the principle of mutual trust. When telephonic conversations expedite into business deals, the presence of witnesses does not arise.
- Mutual trust precedes mutual benefit and interest which gives confidence to both the parties that they will not be cheated.
- If both the above factors have to be achieved, then it is important for the both the parties to be well intended and not to treat each other in any way which may be deceptive.
- There should not be any conflict of interest and both the parties need to exercise tolerance and have to compromise when necessary.
- It is also necessary to own up to a mistake when committed, which would strengthen and improve business ethics and behavior.
- Monopolistic attitude should be curtailed.
- There should not be any conflict of interest and once own personal interest should not supersede the common interest.

1.6-II Codes of Ethics to be Followed by Bank Managers

Bank managers are expected to have the qualities which adhere to the banking codes of ethics.

- A set of values which make them humane
- There should be thorough professionals who are not selfish. Their decisions should not be taken to derive material benefits for themselves.
- If a bank manager does not have integrity, he/she will be influenced by clients while carrying out his responsibilities.

- A bank manager should have the right objectives, should be impartial and should have the ambition to exercise the right ethical behavior.
- A bank manager is responsible for all his/her acts and decisions.
- A bank manager should be an honest person so that the question of conflict of interest does not arise.
- A bank manager should have excellent leadership qualities.

1.6-III General Standards of Banks

The banks have to follow these general standards.

- Avoid a high concentration of loans in one particular sector.
- Prerequisites for loan security are to be adhered to by the clients.
- The procedure for loan approval has to be strictly followed.
- The financial documents and reports have to be accompanied with loan application.
- Loan should be granted with an amortization payment schedule.

Banking is an industry that is meant for safeguarding the customers' money. The complexities of handling customers' money and the intricacies of investing the same have often been a major bone of contention for bankers. Since globalization, it has become very difficult for banks to assess the integrity of customers' banking operations. Similarly, it has become difficult for the customers to know the destinations of their money. As custodians of customers' wealth, it becomes imperative for banks to maintain the confidentiality of the customers.

The efficacy of a value system in banking that is universally acceptable requires an insight into the intricacies of banking systems transactions. The key personnel/managers can take the initiative by training the employees to make ethical decisions. In such a scenario, ethical violations can be brought to the minimum. There are certain basic traits which should symbolize the bank managers, namely: efficiency, discipline, honesty, integrity and transparency.

1.7 Ethics in Banking Sector – A Challenge in India

'Business World' (a renowned Indian magazine) brought out a special collectors issue on 'Ethics and the Manager' in the year 2007. In this volume, 16 cases which throw up a range of interesting ethical issues are discussed by professionals from all walks of life. The editor of the case studies, Meera Seth wrote in her preface (pp. 6-7).

So what is going on? Are we admitting that we are a people a little low on ethics? Most discussants agree. The slap in the face, the wakeup call, the cold water douse, call it any one of these, comes from a single poignant set of sentences in Achal's (a discussant) commentary to the 'Leader's fifth p' case (p.125), where he says:

"So are the organizations today any worse on ethics than they were, say, 10 years ago? Are they bending it more? I do not think that the vacuum of ethics is recent or sudden; I think the difficulty is that the vacuum has itself become the atmosphere. There is an ongoing normalization of lack of ethics and that is worrying".

1.7-I Ethical Violation

Banks fraud, and more so, the financial frauds have been in existence for a very long time. Some may be surprised, but, it is interesting to note that Kautilya, in his famous treatise "*Arthashastra*" penned down around 300 BC, painted a very graphic detail of what people, in modern times, term as 'fraud'. Kautilya describes forty ways of embezzlement, some of which are: "what is realized earlier is entered later on; what is realized later is entered earlier; what ought to be realized is not realized; what is hard to realize is shown as realized; what is collected is shown as not collected; what has not been collected is shown as collected; what is collected in part is entered as collected in full; what is collected in full is entered as collected in part; what is collected is of one sort, while what is entered is of another sort." As everyone us would agree, some of the above actions continue to be the *modus operandi* adopted in many instances of financial fraud that have hit the headlines in recent times.

Unethical practices like corruption and bribery, internet and cyber fraud, frauds and financial system and money laundering, are very prolific as per the KPMG India fraud survey 2012. As per the survey 33 per cent of financial services have been affected by frauds and most of the frauds have accelerated during the last two years. The most vulnerable to commit these unethical practices are managers and below level employees of banks and external parties like vendors, business and agents.

A survey conducted by Deloitte India revealed that the sectors which were more vulnerable to frauds where financial services, real estate and infrastructure and social & Government sectors. Yearly there is a constant increase in the number of frauds committed. A strict regime can ensure the decrease of frauds. As per the 'Association of Certified Fraud Examiners' (ACFE) 2012 titled "*Report to the Nation on Occupational Fraud and Abuse"* reported firms lose about 5 per cent of their revenues in frauds. As per 2011 reports, global loss in frauds is almost 3.5 trillion. The amount involved in the frauds reported by the banking sector in India has more than quadrupled from Rs. 2038 crore during 2009-10 to Rs. 8646 crore during 2012-13. Similarly, another report has estimated the losses of the Indian insurance companies at a whopping Rs.30, 401 crore in the year 2011 due to various frauds which have taken place in the life and general insurance segments. The losses work out to about nine per cent of the total estimated size of the insurance industry in 2011. Enron, Worldcom and more recently, the Libor manipulation scandals, have caused major upheavals in western nations and their impact has been felt not only in the individual institutions or countries but across the global financial system. Losses of the Indian banking sector and insurance sector in frauds are quite alarming. Corporate fraud in India is also a cause for concern, the most notorious case being Satyam Reebok, Adidas, etc.

The ACFE report further states that as in the preceding years, banking and financial services industry continues to be among the most commonly victimized sectors as far as fraud is concerned. What the above statistics reveal is that the frequency, volume and the gravity of instances of fraud across various sectors, particularly in the financial sector, has gone up tremendously over the past few years.

With the sweeping changes in the scope and magnitude of banking transactions witnessed in the past few decades, the emergence of hybrid financial products, the increasing trend of cross border financial transactions and the dynamics of real-time fund movement and transformation, the vulnerability of the system to the menace of fraud has become higher than ever before. Against this backdrop, in my address today, I intend to primarily focus on the trend of frauds in the banking sector, the causative factors, share my concerns as the banking supervisor and highlight the touchstones of a robust fraud risk management and control framework in banks (Dr. K. C. Chakrabarty, Deputy Governor, RBI, 2013).

Table – 1.4 shows the number of frauds in commercial banks, NBFCs, urban cooperation banks and financial institutions, table 1.5 shows year-wise no. and amount of fraud cases in the banking sector and table 1.6 shows bank group wise fraud cases respectively. These frauds reinforce the assertion that some of Indian banking and financial institutional businessmen are tempted to be unethical.

Table 1.4: Frauds in Commercial Banks, NBFCs, Urban Cooperative Banks, and Financial Institutions

No. of Frauds Cases Reported by RBI Regulated Entities (No. of cases in absolute terms and amount involved in Rs. Crore)		
Category	**No. of Cases**	**Amount Involved**
Commercial Banks	169190	29910.12
NBFCs	935	154.78
UCBs	6345	1057.03
FIs	77	279.08
Total	176547	31401.01

Source: Inaugural address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi.

Table 1.5: Frauds by the Banking Sector

Year-wise no. and Amount of Fraud Cases in the Banking Sector (No. of cases in absolute terms and amount involved in Rs. Crore)		
Year	**No. of cases**	**Total Amount**
2009-10	24791	2037.81
2010-11	19827	3832.08
2011-12	14735	4491.54
2012-13	13293	8646.00
Total frauds reported as of March 2013	169190	29910.12

Source: Inaugural address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi.

Table 1.6 Frauds by Different Bank groups

Bank Group Wise Fraud Cases (No. of cases in absolute terms and amount involved in Rs. Crore)				
Bank Group	**No. of cases**	**% to Total Cases**	**Amount Involved**	**% to Total Amount**
Nationalized Banks including SBI Group	29653	17.53	24828.01	83.01
Old Pvt. Sector Banks	2271	1.34	1707.71	5.71
New Pvt. Sector Banks	91060	53.82	2140.48	7.16
Sub Total (Private Banks)	93331	55.16	3848.19	12.87
Foreign Banks	46206	27.31	1233.92	4.12
Total	169190	100	29910.12	100

Source: Inaugural address by Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26th, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi.

A bank group wise analysis of frauds reveals that while the private sector and the foreign bank groups accounted for a majority of frauds by number (82.5%), the public sector banks (including SBI Group) accounted for nearly 83% of total amount involved in all reported frauds (Table 1.6).

There are different instances in which some of the well-known companies have adopted unethical means.

- Central bank of India scam reveals how the managers defrauded the bank through forgery and misuse of accounting information
- Punjab National Bank - Ramesh Kumar, an employee provided the vital information like account numbers, name of the account holder, the serial number of cheque books of the concerned depositors and photo copies of the specimen signatures of the account holder to the fraudsters for the fraudulent withdrawals.
- AXIS, ICICI and HDFC banks faced various allegations regarding money laundering issues exposed through sting operation by online portal, Cobrapost.
- The Central Bureau of Investigation (CBI) has arrested eight people, including the chief executive of LIC housing Finance and senior officials at state run Central Bank of India, Punjab National Bank and Bank of India on account of taking bribes to grant corporate loans.
- Syndicate Bank – Sudheer Kumar Jain, Chairman and Managing Director allegedly extended and offered credit limit of Bhushan steel by taking bribe where in which Bhushan Steel is already neck deep in debt and owes around Rs. 40,000 Crore to 51 banks, including State Bank of India (SBI), Punjab National Bank and others

A brief description of how some of the individuals representing financial institutions and banks in India are involved in unethical practices' have been attempted individuals representing the organization in the following paragraphs.

i. Harshad Mehta – Big Bull of Indian Stock Market

Harshad Mehta started his career as a dispatch clerk in the New India Assurance Company. Later, along with his brother he became a stock broker with

BSE. He started buying shares heavily in the stock market. He was able to convince everyone with his replacement cost theory which implies that old companies should be valued on the basis of the amount of money which would be required to create another company.

He became the favorite of the business media but nobody wondered where all the money was coming from. He invested over Rs. 1,000 Crore which started the biggest Bull Run in the Indian stock market. He rigged the price of ACC cement shares from Rs. 200 to Rs. 10,000consequently, BSE *SENSEX* from 2000 points in January 1992 to 4467 points in April 1992.

Eventually in April 1992 the bubble burst Suchetha Dalal of the Time of India exposed the scam. Harshad Mehtha's *modus operandi* was to dip in illegally into the banking system. He exploited the loop holes in the financial system through the ready forward deal and the bank receipts. Bank of Karad and Metropolitan Co-operative Bank where involved in the bank receipts scam. In August 1992 Rs. 0.1 Million Crore where wiped off in market capitalization. Banks were left with bank receipts which had no value. The banking system dwindled of a huge Rs. 4,000 Crore. The Chairman of Vijaya Bank committed suicide by jumping from his office roof since he was also a partner in crime for issuing checks to Harshad Mehta.

In November 1992 to he was charged with 72 criminal offences and over 600 civil cases. However, by the time he died in 2002 almost a decade later he had been convicted in only one of the many cases filed against him.

ii. Ketan Parekh the Pentafour Bull

Ketan Parekh was a charted accountant by profession and came from family brokers. He was also related to many stock brokers. He used the fact to his advantage. Such was his accuracy on market developments and the art of turning everything he touched into gold that everyone was eager to turn to him to invest their money.

His modus operandi was to buy shares at low prices and when the prices went in the bull market he mortgaged the shares as collateral with banks. The funds received through this where used to buy more shares. Everything was rosy when the market went up. The trouble started when the market went down. So he sold the pledged shares to repay the loan which triggered further selling and consequently Rs. 2000 billion was wiped from SENSEX in 2001.

Ketan Parekh had large borrowings from Global Trust Bank and he rigged up its shares at the time of its merger with Union Trust of India. He is reported to have taken Rs. 250 Crores from Global Trust Bank. He also secured Rs.1000 Crore loan from Madhavpura Mercantile Co-operative Bank. As per RBI norms a stock broker is not allowed to get more than Rs.15 Crore. Bank of India and other banks lost considerable amounts of money. It was Bank of India which was first lodged a complaint against Ketan Parekh.

Ketan Parekh's scam was exposed by Suchetha Dalal of the Times of India. She said that Parekh's filthy lucre methods where not evident to the public eye. There were many similarities with Harshad Mehtha but since he kept a low profile unlike Harshad Mehtha's lavish lifestyle, people found Ketan Parekh to be genuine.

To give credit to Ketan Parekh his fraud was responsible for the Government to bring in some reforms and also plug the loop holes to ensure considerable safety of the Indian Stock Market.

iii. Operation Red Spider

Operation Red spider is a code name of sting operation of an online magazine Cobra post in which it release video footage, recorded a largely by hidden cameras, showing high ranking officials and some employees of three Indian banks. What the cameras revealed was sly operation of these banks to launder money, the offer of safe deposit lockers to stash away black money, the offer to open accounts without adhering to RBI guideline and use *benami* (false) accounts to facilitate conversion black money and to keep the identity of the depositor a secret. The partners in crime were ICICI bank, HDFC bank and AXIX bank. The protagonist of the scoop was Anirudha Behal, Founder and chief editor Cobra Post.

The scrutiny of RBI revealed violation of certain regulations and instructions issued by the RBI which includes non-observance certain safe guards in respect of arrangement of 'at par' payment of cheques drawn by co-operative banks. Risk categorization and periodical review of risk profiling of account holders where blatantly ignored, caution thrown to the winds.

However, RBI opined that although some of the violations warranted imposing of penalties, the investigation by RBI did not yield *prima facie* evidence. The involvement and there by an investigation by tax and enforcement agencies can reveal a clearer picture and eventually a conclusion can be drawn based on the findings. Many of the problems relating to bank frauds proper due to the existence of multiple enforcement agencies, complicated regulations and identification documents.

As per the Cobra Post findings the money laundering of these banks from illegal sources was introduced into the financial system through fictitious accounts and *Hawala* transaction.

iv. A Game of Shadows

The vice chairman of Bhushan Steel and MD Neeraj Singal where arrested for allegedly offering bribe of rupees 50 lack to Syndicate Bank Chairman and Managing Director Sudheer Kumar Jain for extending its credit limit. The amounts of debts were for about Rs. 40000 Crore to 51 banks including SBI, PNB and other banks. After the CBI raid, a consortium of bank conducted a forensic audit of the banks. Bhushan Steels was the not the only company to whom Syndicate Bank CMD was extending credit limits to.

The role of middle men in such scam has also come to light. In wake of the Syndicate Bank's incident, Indian bank and Andhra Bank had also owned up to their murky dealings.

v. Loan Bribery Case

CBI revealed that a bank officials and officials from financial institutions sanctioned large scale corporate loans to reality developers' bi-passing the mandatory approval for such sanctions. These transactions were facilitated by a private financial services company who acted as a mediator. Money Matters Group, a Mumbai based private financial company was acting as a mediator for the transactions. And the partners in crime were LIC, Bank of India and PNB. The benefactors of this filthy lucre-

1. Lavasa Corp, A Unit of HCC
2. Oberoi Realty Limited
3. Ashapura Minechem Ltd
4. Suzlon Energy Ltd
5. DB Realty Ltd., A part of the Dynamics Balwas Group

6. Emar MGF Land Ltd

7. Mantri Realty

8. Kumar Developers Ltd

However, this case has been categorized as an individual wrong doing and had not spread far. The then Finance Ministry shrugged off the scam the as being too insignificant. Some even believed that innocent bankers where being falsely accused. The other scams during that period notably the 2G scam Common Wealth Game scam and the Adarsh Housing Scam gained so much prominence in the media that it made this particular case very insignificant in comparison.

1.7-II Positive Response to Ethics

Some Indian organizations including banks are now trying to spread the message that they are ethical. In India, business educators refer to Vedic values, Gita prescriptions and stories of *Panchatantra*. Over the last ten years, since the Management Centre for Human Values (MCHV) came up as a formal outfit within the IIM-Calcutta, more than 5000 managers have been covered from about 50 organizations. Of them, TELCO, Godrej & Boyce, IPCL, IOC, Bharat Electronics, Hindustan Aeronautics, Indian Farmer Fertilizers Co-operatives and the State Bank of India, have stayed with these programs for as long as three to five years at a time.(S K Chakraborty, 2002)

Azim Premji, while addressing the TISS HR seminar recently (2005) said that in his journey from a tiny business of Rs. 5 Crore to Wipro's net worth today touching some Rs. 3500 Crore, everything in Wipro 'but for values and integrity', has undergone a drastic change. He cautioned the emerging breed of entrepreneurs and business managers to desist from temptations of shortcuts and windfall gains.

State Bank of India

State Bank of India is India's largest commercial bank in terms of assets, deposits, profits, branches, number of customers and employees, enjoying the continuing faith of millions of customers across the social spectrum.

SBI follows the values as given below:

- We will always be honest, transparent and ethical.
- We will respect our customers and fellow associates.
- We will be knowledge driven.
- We will learn and we will share our learning.
- We will never take the easy way out.
- We will do everything we can to contribute to the community we work in.
- We will nurture pride in India.

HDFC Bank

HDFC Bank with a network of 3400 branches, 11250 ATMs in more than 2100 cities, is a most valued bank among Indian Banks. And also it is sole Indian firm among world's most ethical companies. The criteria for being listed are leading ethics and compliance programs.

HDFC is India's largest mortgage lender and offers a wide array of financial investment advisory services. HDFC is very diligent in executing its responsibility for the impact of its activities on the environment, consumers, employees, communities and stake holders. They also integrate their business activities with social responsibilities.

Case of Alacrity

The case of Alacrity as narrated by the founder shows how a business man committed to ethics had faced problems and survived in Indian context.

Intrinsic to the story of Alacrity is the value of leadership in the organization. I believe fundamentally in the necessity to make value judgments. I take strong positions and I believe that leadership has no choice but to do that. But at the same time I do not want to deny your freedom to take a strong position and if necessary, even to try and upset my position. It is in the process of this conflict and resolution that strong relationships and institutions are built. There is a tendency across the world to maintain soft relationships but soft relationships don't make strong institutions. And a socially responsible corporation is necessarily a strong institution with strong relationships, in which the leadership has taken strong value positions and provoked people to resolve conflicts and stay meaningfully or leave, however painful, the parting.

Much of our initial capital came from well-wishers, mainly from family. And it turned out that even before I had collected the whole sum, I had lost it all. Despite the uncertainty of the construction business and the high risk, I sensed a long term opportunity here.

Now, that is as far as the first aspect of political legitimacy goes. Coming to actually dealing with the government, construction is full of sanctions at every stage and corrupt practices are known to be rampant. Very early I gave this matter a lot of consideration: Imagine that my colleague tells me that a certain official has to be paid twenty thousand rupees and he leaves the room with the money (he takes cash since bribes are paid in cash, not by cheque). I might then start wondering whether the official had wanted only ten thousand and my colleague was pocketing the other ten thousand. This cuts, at the very root of building mutual trust and confidence in relationships and it is enduring relationships that build institutions. So, when I said that Alacrity will not bribe, I was not making a public statement on morality, but merely saying that I wanted to build an institution.

When we finished out first project, we delivered flats at one hundred and fifty rupees per square foot against the market rate of two hundred and fifty. Immediately the income tax department issued notices against all twenty-four flat owners asking them to show-cause why the undervalued flats are not be taken over. They obviously were implying that there was a large component of black money involved. Were they, in effect also saying that they would not facilitate good, honest pricing?

When my auditor and I went to meet the official concerned, the man who started off on an angry, contemptuous note ended by asking us in a whisper, "Is it really one fifty per square foot? The crowning piece of this whole encounter was something quite unexpected. At the end of our dramatic meeting, he got up, took my hands in his and said, “I was once a communist, an activist, pursuing my own brand of idealism. Somewhere over the years, I have allowed layers of rust to accumulate within me. Please don’t let this happen to you.” He seemed to be saying, please do it for me too, not just for yourself. When I had spoken to him, I was thinking only of my own emotions. But I suddenly realized that if you are honest and you assert honesty, you awaken it in others. I had now started recognizing what I had only sensed earlier: that there was indeed a leader within me. This is not to say that we have since got all our sanctions on time. Not asking for a bribe does not amount to efficiency. The departments have a long way to go. There are delays. But because we observe regulations strictly we are on a very strong wicket. And since we have established a track record, we finally get what we want and in the occasional cases when we don’t, we have moved the courts and won every single case that we have filed. This particular dimension of our achievement is perhaps not sufficiently highlighted or acknowledged.

1.8 Conclusion

There are six major ethical systems namely Eternal Law, Hedonism/egoism, Utilitarian Theory, Universalist Theory, Distributive Justice and Personal Liberty. Each ethical system expresses a portion of the truth. Each system has adherents and opponents. And each, it is important to admit, is incomplete or inadequate as a means of judging the moral content of individual actions or decisions.

The general perception of the stock holder theory that managers are mere agents of the stock holders, the social contract-theory where in the contract requires companies to enhance the economic satisfaction of consumer and employees, to avoid fraudulent practices, the stake holder theory that maintains that managers have an ethical responsibility to manage a firm for the benefit of all the stake holders, are the three managerial approaches.

The environmental factors – internalized and externalized, personal characteristics and the different stages of moral evolutions are also influential factors. Managers with high ego strengths are expected to be more consistent in their moral judgments and moral actions. People with high internal locus of control exhibit more ethical behavior when making Organizational decisions. Machiavellianism refers to strategies to manipulate people to retain power.

Ethical decision making is not a simple process but rather a multifaceted process. The different models show different processes – decision making process as influenced by ethical screen and addressing a situation where in an individual confronts a problem perceived as having ethical content.

For all concerned to be aware about ethics in relation to banking products and services, bank managers are expected to a code of ethics. Bank should follow certain standards and take measures to safeguard the interest of the customers.

It transpires that the number financial frauds are on the increase and that the sectors which were vulnerable to fraud were financial services, real estate and infrastructure and social and Government sectors.

Ethics in business/ banking is possible when businessmen and banker resist the temptation of easy money and stop resorting to short cuts. Organizations and banks have learnt to integrate their business operations/activities with social responsibility.

Values that can be imparted to the members of organizations collectively include harmony, resourcefulness, discipline, unity, co-operation, mutual trust, responsibility, risk bearing, team spirit, accountability etc.

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