

Value Systems in Banking Need, Importance and Implications of Training For Young Managers.

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But the principal failing occurred in the sailing,
And the Bellman, perplexed and distressed,
Said he had hoped, at least, when the wind blew due East
That the ship would not travel due West!

Lewis Carroll - The Hunting of the Snark
Fit the Second

ABSTRACT

It is necessary for all executives and non-executives in the banking industry to know the meaning of ethics and the value systems that flow from these, and how to deal with the concept in its various nuances. This is because in today's business environment, ethical shades and meanings are difficult to pin down. By this it is meant that ethics is not something which can be seen in stark black and white colors; there are intervening shades of gray that make the concept of ethics difficult to define at times, and also make its practice, quite tricky.

From the perspective of training, the paper will be relevant for managers handling this function, in constructing modules which can be incorporated in the induction programs for new executives, perhaps based on what comes out from the contents of this paper. It is felt that in this day and age, and especially from what comes out in the press, this will be of critical value to new executives.

This paper looks at the meaning of business ethics and value systems as defined by various proponents. It also looks at these as applicable to non-banking industries, and then goes on to elaborate on what ethics meant to the writer when he worked as a young banker in a multinational bank, over three decades ago, where banking ethics (no one called it by that term in those days) were drummed into him by strict bosses, of the old school banker variety, both from and outside India.

Background

What then, is business ethics? Business ethics is the application of ethical values to

business behavior. It applies to any and all aspects of business conduct, from boardroom strategies and how companies treat their suppliers to sales techniques and accounting practices. Ethics goes beyond the legal requirements for a company and is, therefore, discretionary. Business ethics applies to the conduct of individuals and to the conduct of the organization as a whole. It is about how a company does its business, how it behaves intrinsically.

Secondly, what is the difference between business ethics and an ethical business?

Business ethics relates to how any company conducts its business in order to make profit. Any company can seek to do business ethically. An ethical business, on the other hand, has a much broader agenda and focuses on making a positive contribution to the community. A mainstream bank, for example, may take ethics seriously by taking responsibility for its negative impacts on society and the environment and seeking to minimize those impacts.

And what about value systems? Value systems in organizations are also closely linked with business ethics; the difference is that value systems are a by product of business/organizational ethics. Value systems are the symptoms, just as the common cold is the symptom, of perhaps something much bigger. Thus value systems are more related to employee

behavior and reflects how the employee will react when faced with a certain set of circumstances - be they positively or negatively oriented. Value systems will focus on the action taken by the employees, and these actions will be closely meshed with the ethical beliefs propounded by the organization.

The Setting

What then are the issues, which we have to look at when looking at value systems in banking? According to Carse (1) "the first is that banks need to be careful about business relationships with controversial politicians, whether of the right or left wing variety. The second is the increasing power of the media and social pressure groups to throw the spotlight on what they regard as "unethical" business activities. In the case of banks, such activities might include financing the arms trade or industries that damage the environment. The third is the way in which ethical values change and how they can differ between societies".

What tools can banks use to manage value systems in their own organizations?

Clearly, the first essential is for the bank itself to be clear about the key ethical values to which it subscribes. It then needs to ensure that the organization and the employees act in accordance with these values. This can be done through the adoption of codes of conduct.

Again, the banking industry generally believes that internal behavior, like employee rules on hospitality, cannot be separated from external activity, like local community outreach.

Socially responsible behavior inside and outside a bank also translates into good business. So-called ethical funds, for example, are inclined to buy shares of financial institutions whose reputations do not distract from the core business of banking.

Every major international bank has a code of ethics, many of which have been tightened further since governance concerns have shaken the likes of Citigroup, which announced in October 2004 that it would shut its private banking unit in Japan after transactions violations.

Thus, customer and employee relations are key elements in a bank's operations. One of the chief ways in which you can involve the employees in the work of the bank is to get them involved in the generation of the ethos of the organization. It matters not whether they are on the counter or in line or staff management, all should be involved. In particular they should talk about the ethics of their organization so that it is made relevant to the circumstances in which they work. That is, ethics should come to be seen as being relevant to practice so that the topic comes alive. People should be given a forum in which they can discuss the code and its relevance to the present day.

And when a code of ethics comes alive for those who live with it then the chances are that it will become something of which they can be proud and which they can bring forward to the customer. Bank staff should tell customers the bank has a code of ethics and what it is. You are telling customers, then, that the bank has made various commitments and that the customers can judge the bank's performance accordingly. The customer will register the fact that this bank - and it will vary from bank to bank - stands for something.

And in this day and age of shifting values, that sort of commitment really matters.

Ethical Perspectives and Value Systems of Other Industries

What is ethics in the workplace? It is no different from ethics in any part of life. The fundamental question in ethics is: "What ought one to do?" This is not an abstract question. It relates to practical things to do with the conduct of our daily lives. The first

thing to realize is that it is impossible to escape questions about our values. They are attached to everything we do, from the way in which we choose to allocate our time to our choice of reading materials.

It's exactly the same in the workplace. All of us are required to make decisions about how to allocate resources: time, money, personnel and so on. We are called upon to make choices in relation to colleagues and clients. In short, we are asked to answer the question, 'what ought one to do?' So it is that the work environment also challenges us to confront questions about our conception of the 'good life'.

According to Dr Simon Longstaff (2), there are four conditions that have to be met to address the question of ethics in an organization.

"First is to have a commitment from the top. And that means from the board and senior managers. Not just a verbal nod, but also a real commitment. Unless that happens people will be justified in asking questions about the level of sincerity lying behind the development of an organization's ethics.

Second is to have something like a code of ethics, which sets out the fundamental principles which people are going to hold to. Codes are very important documents - a bit like the Ten Commandments, in that they make sure that important principles are kept before us. The trouble is that items written in stone tend to become lifeless unless someone takes particular care to nurture their understanding. And a dead code is virtually worthless. A code has to be something that is alive. It has to be 'owned' by all the people who have to observe it. It is not enough that it be approved by management, or by the board. To be really effective an organization's code should evolve in consultation with all the people it affects. They principally are all the people who belong to the organization, and often those who have contact with the organization - suppliers, customers, and so

on. That's a living code of ethics.

Thirdly, there also needs to be a commitment to review the code continually. Does it still make sense for this organization?

Fourthly, the organization has to be aware of what blocks there are to prevent all of this commitment and goodwill from actually working. It is pointless having a code and a commitment from management and staff if something in the management systems or practices of the organization prevents the development of this ethos".

If we accept the points made in the foregoing paragraphs, it is clear that the concept of business ethics is a major one, and in India today, all executives irrespective of the industry they work in, should be aware of the significance of the concept. In the sections, which follow, an attempt is made to analyze the findings of a basic survey done to find out how students understood the concept of business ethics.

An Analysis of a Dip Stick Study

It was decided to conduct a dip stick study - mainly interview based, to see the 'levels' of understanding, which young bankers (two/three years experience) had of banking ethics and how they acquired the relevant knowledge. The broad questions which we tried to focus on were on how many of the respondents:

- Had any idea as to what to expect in terms of banking ethics when they commenced working in a bank
- Were given in puts in colleges from which they had passed out as to the practical aspects of dealing with ethical issues

What came out clearly was that the majority of the students did not have any idea on what to expect in terms of ethical issues and value systems when they joined a company.

Lack of Skills Revealed by the Study

The same lack of the skills required to get along without major problems (especially in the initial stages) in an organization was evident in the response to the question, which asked the whether they would be able to distinguish between the genuine customers and those who were trying to 'use' the bank to suit their own purposes.

Necessity to Provide Relevant Inputs and Basic Conclusions

What was evident was that the respondents possessed only a rudimentary idea of what to expect in terms of understanding the basics of banking related ethics or the value systems propounded by them. These were evidently skills, which are not considered important to impart as part of their college training. It was felt that this analysis was revealing insofar as the new recruits were evidently being 'thrown to the wolves' without the skills on how to survive, especially in a highly competitive business environment.

In the section that follows, the paper will examine what business ethics meant to a young banker, over three decades ago in terms of how the concept as it was conveyed then understood was conveyed to him.

Meaning of 'Ethics in Banking' and Related Value Systems from a Young Banker's Perspective

(This section of the paper is based on personal experiences and is consequently written in the first person i.e. from the writer's perspective)

The terms 'ethical learning' or 'business ethics' (hereafter referred to as 'learning' for the sake of convenience), mean different things for different people. The school student, the college student, the young executive, the senior executive, the retired executive, will all view these terms from a perspective which revolves around their

current lifestyle and mind set. Their past experience will also have an impact on the how and what they view as learning, and what they will include as topics to be learnt. It is thus possible that what is seen as a critical bit of learning for one person is perceived to be irrelevant for another. I am not here making any value judgment; both are correct in their own way.

What is important is that the learning can have different origins but should have the intrinsic quality of being long lasting. I feel that the test of any good learning is that it is relevant for a long period of time and can provide the learner with insights into issues, which he may not have had. It should have the ability to make complex matters simple and clear the waters where erstwhile they were muddy. These are the qualities by which a person can tell whether what is learnt is of value or not.

Otherwise the learning is of the type, which, say for example, is done by lawyers. They learn facts before arguing a case and these facts are soon forgotten as the facts of a newer case is learnt. I do not call this temporary ingesting of facts true learning.

I am digressing but would like to state that I am a strong proponent of the view that learning should be intensified the older one gets. There are two simple reasons for this, and both are not rocket science. Firstly, with the explosion in knowledge happening around you, it is very easy to get outdated - skills one possessed become redundant and the knowledge you possessed is of no use to anyone. What made you a hero to your colleagues is no longer relevant. Secondly, if you do not wish to be seen as a 'has been', living on past glory, it is time you systematically put in an hour or two of reading something new every day.

Going back to our main discussion, to a banker learning can again have different nuances. As a young banker, who was in charge of a department of the Hongkong and Shanghai Banking Corporation (HSBC) in

Mumbai, (Inward Remittances to be precise), the learning came fast and thick. I do not wish to go into the details of all that I learnt but will address what I feel - with a perspective of 34 years and more - were the most important and valuable and stood by my side for a long time. In fact, most of them still do.

One of the first things I learnt was basic discipline in terms of coming to work on time and not taking extra long lunch breaks. In fact, the latter was not possible, as the bank worked somewhat like an assembly line in those days, and your colleagues were not over fond of being kept waiting for vouchers as you were not at your desk. They let their feelings be known and that too loudly and in the choicest of Anglo Saxon epithets (in fact, I learnt quite a few new ones in my formative years in the bank - this in its own way was also a useful bit of learning). As to coming to work on time - this was a fundamental part of our existence - and we did not even have to punch in, in those days.

Discipline also meant that a strict dress code was observed. Colored shirts were therefore not considered appropriate - I remember one officer being sent back for a quick change as he came wearing a light mauve shirt; another was sent back as he had skipped the morning shave. Both are now very senior bankers and I wonder if they ever think of these incidents.

A person who was then called the Accountant maintained discipline. He (no question in those days of this job being held by a she) was the equivalent of the Prime Minister in the pecking order in the bank. The Manager (spelt G-O-D) was at the top and then came the Assistant Manager (equal to the Vice President of a country). The Accountant - in my case a hard-bitten Scotsman from Aberdeen - kept the discipline by the simple expedient of putting holy terror into staff - old and new. I am now out of touch with the working atmosphere and methods prevailing in a bank and sometimes wonder whether the older

methods would have found a place in today's workplace. But in all fairness, the Accountant was a just man and never held anything against you once the storm had blown over; he would be the first to have a drink after work with you during which no reference would be made to the day's work.

I was also taught that customer courtesy was important. We did not have workshops/ seminars/ training programs in those days dedicated to Customer Delight or CRM or the half a dozen other terms, which are in vogue now. Courtesy meant simple things - do not ever smoke during customer hours (much less in front of him/her). Stand up when the customer leaves your table after finishing the work. If you say you will call back after checking something, you called back at the time you said you would do so. And very important, you always responded to customers' letters; if the response meant you had to verify details, which would take time, you sent a holding reply so that the customer knew the matter had your attention.

Strangely enough, I read the recent book by Jack and Suzy Welch (3) soon after writing this paper. I was pleasantly surprised to find that there were a few points addressed in the book with regard to treating customers. I will mention the three, which I felt also embodied what I stated earlier. These three stated:

- a) never let profit center conflicts get in the way of doing what is right for the customer
- b) give customers a good, fair deal, and
- c) don't forget to say thank you.

Straightforward stuff, but with the punch packed with a lifetime of experience behind it. As I always say, never forget the basics.

If things went wrong, the Accountant was there as a shield; he would ream you out for something you had done which had caused a problem, but would never allow anyone else to do so. This is a learning, which I still carry

around and try to instill in my training programs/ classes, and of course, practice. I do not know if I have succeeded. The trend today, as I heard a senior manager put it, should be to either deflect a problem or pass it down. To accept responsibility when things went wrong and not try and pass the buck is a difficult bit learning and I am glad I got to understand this early in my working life. What I most notice now is the tendency to avoid facing uncomfortable issues by passing it down the hierarchy - I agree this is one way of getting out of it, but to me it smells of cowardice. Unfortunately, I have also seen many proponents of this type of behavior moving up the ladder fast. The younger staff sees this and naturally follows the example set by the senior person and soon, passing the buck has become a way of life for the young executive. Naturally, he carries the practice with him over the years.

Regrettably, computerization has given a convenient escape route for employees. It is so easy to blame the 'system' - that amorphous entity over which the poor customer has no control or venting his feelings, when someone from the staff is faced with a customer complaint. When confronted with the phrase 'system failure', very few people will take issue with the staff member concerned; in fact, the staff member could very well be the object of the customer's sympathy. The monkey, which should have been lodged firmly on the back of the employee, has jumped onto the shoulders of 'systems failure'; the computer will, I am sure, nurture and look after the monkey (the staff member will ensure this), so that there is no chance of it returning to its legitimate 'home'.

Another thing I learnt in those early days was that you should never ask anyone to do a job because you did not want to do it; this applies to the difficult jobs such as tackling irate customers/ staff etc. You should be convinced that you are able and willing to tackle the job if required, before passing it down the line. This is a tough one and requires a clinical mind to take an objective

decision. But believe me, it can be done though it will be difficult at first.

Another important learning was the importance of people skills or man management as it was then called, and to treat everyone, especially staff, with respect. It was a frequently told axiom of the Accountant that man management constituted 95% of the job; technical knowledge counted only for 5%. This is a learning which was forcibly drilled into me as in my salad days, I too was as conceited about my skills as others. This learning becomes valuable the higher you rise in the organization and your efficiency is more dependent on others doing their work correctly - aspects of control become critical to your survival, and for this, people skills are very important. Usually by the time you realize it, the problem has exploded in your face and it is too late to do anything. So have your spies/ informers/ in place - I say there is nothing wrong with having them so long as you do not misuse the knowledge they provide you; in fact I will go so far as to say that knowledge is critical the higher up you go and informants are a key source of getting the knowledge to come to you. Only a very naïve executive will function in a vacuum without a loyal network in place.

Another bit of learning I got was not to be reluctant of getting into detail and getting your hands dirty. The more you knew about an issue, the stronger your command over the staff reporting to you. In non-computerized days, this sometimes meant spending hours in the Record Room and digging/ tracing out old trails ('exhuming graves' as one of my colleagues used to put it). This is something I find of importance even now and I can still surprise people with my understanding of issues which I have obtained through the simple expedient of taking a bit of trouble.

This focus on detail was also responsible for memorable sentences in the famous Group Head Office Standing Instructions (GHOSI), which struck terror into the hearts and minds

of bankers, especially during an audit inspection. For example, GHOSI stated that when inspecting goods hypothecated to the bank (against facilities granted) by customers, officers should remember that 'oil floats on water', and that 'overhead storage tanks usually have a ladder leading up to them'.

In those days, prior to the coming of computers, we had to send monthly returns to Group Head Office in Hong Kong, and India Area Management Office, Mumbai. One of these returns was called Monthly Certificates and was essentially a series of certificates by the departmental officer and the branch's operational head that certain specific routines had been carried out during the course of the month. A powerful impression was made on young officers at the pains, which were taken to ensure that a false certificate (even inadvertently) was not signed and sent. The concept of truthfulness in what an officer said or wrote was instilled early on in the banker's life. I still remember an incident, which drove this point home. In those days all savings general ledger accounts had to be physically balanced thrice a month. By this I mean that we would sit with an adding machine and tape the last balance in every account; this had to balance with the general ledger. Once, there was a discrepancy of ten paise in one of the savings 'blocks' - we stayed up till well over midnight for a full week before the error was spotted and rectified. It also meant that we did not send the usual monthly certification, but told Group Head Office what the problem was and the reasons for the delay. Though this happened 30 years ago, I can still see the event in my mind very clearly.

I could go on as the list is long but I think I will mention one more item of learning. This came to me late in life. Like many others in those days, I was under the impression that churning out good work would automatically bring its rewards. I read later on that if you expected your good work to speak for you, it should also be understood that it would speak in a very soft voice. Managing the

political system is then the key to success, and is something every executive should be taught. I do not use the word 'managing' in a derogatory sense - all I am saying is that one should not again be naïve in the work place and should positively - repeat positively - use one's people skills when dealing with senior management.

The examples quoted above strongly drilled into me the importance and significance of banking ethics, as they then existed. The fact that they could be recalled without effort, it is felt, is proof enough that they have withstood the test of time.

Implications for Training

It will be noticed that most of the points made in the foregoing paragraphs are from a practical working manager's point of view. It is also however, felt that it will be useful for some of these to be converted to modules for training in an induction program for bankers (some of the points are valid for people from other industries as well). 'Managing the Political System' for example, is very important nowadays, and most fresh executives walk into organizations without any idea on how this is to be done. 'Basic Discipline' is also another aspect which can be touched upon in a training program. Both these are subjects which can;

- A) be made interesting through case studies, examples from practitioners with industry experience, and
- B) lay a valuable foundation at the beginning of a young executive's career.

'Getting into Detail' and 'Accepting Responsibility' are again not found in most training programs, let alone induction programs. If these topics are again handled properly in an induction module, it is felt that the impact it can have will be significant and will be of value to the new entrant for many years to come, if not for his or her entire career.

Basic Conclusions

Where then does one turn today to ensure that the correct type of business ethics is instilled in banking executive? It is felt that one should not revert to theory in order to answer this question. What is more important is that we seek for the answers in the experiences of bankers with a considerable experience, as these are the people who will best be able to conceptualize what the new generation of bankers should imbibe; and more importantly be able to put it into words. The stanza of Carroll quoted at the beginning of this paper is meant to show how difficult it is to attract and institutionalize business ethics, as organizations have an annoying way of traveling in one direction (leading away from ethical practices), especially in those times when to move in the right direction is of great importance.

Perhaps however, we can look at two examples, which will elaborate the points made in the foregoing sections.

The first is from a speech delivered by Sir John Bond, the previous Group Chairman, HSBC Holdings plc, in Mexico (4). Speaking about the success of HSBC as a Group, Sir John said that "our experiences have been character forming; they have taught HSBC the self reliance and flexibility that remain the essence of our character today. The values of our founders are still alive in HSBC today. They are integrity, genuine concern for our clients, international teamwork, financial strength, and conservative risk appetite, blended with bold opportunism. But the overarching key to HSBC's success has been a top management team who put the interests of HSBC ahead of their personal interest...."

The second example is from a talk delivered by Mr Stephen Green, the current Group

Chairman of HSBC Holdings plc, in Hong Kong (5). Speaking on the theme of the 'importance of values to value', Mr Green indicated "As the former Chairman of the Fed, Alan Greenspan said in 2004, 'we should not be surprised to see a reemergence of the value placed by the market on trust and personal reputation in business practice'. How a company makes money, as well as how much money it makes, is becoming an increasingly important part of its investment proposition. In this environment, there is no conflict between sustainable growth and values.

Or, to put it another way, values are essential to value".

It is felt that the foregoing excerpts from the two talks amply illustrate and act as pointers to what the young (and old) bankers of today should focus on in their careers.

Endnotes

- Speech on "The Importance of Ethics in Banking" by David Carse, Deputy Chief Executive, Hong Kong Monetary Authority, 15 September 1999
- "Some Comments About Ethics and Banking" - Dr Simon Longstaff - Executive Director of St James Ethics Center. A version of this article was published as part of Advance Bank's Public Affairs Issues in December 1991
- "Winning" by J. Welch and S. Welch, Harper Collins Publishers. London, (2005)
- Speech by Sir John Bond, former Group Chairman, HSBC Holdings plc, delivered on 5 April 2006 to the British Chamber of Commerce in Mexico.
- Speech by Mr Stephen Green, Group Chairman, HSBC Holdings plc, delivered on 24 June 2006 at the CBI Business Summit, Hong Kong.

