

Doing Business: Less by Rules More by Ethics

A Case Study on Ethics

Abstract

Doing Business: Less by Rules and More by Ethics is about an organization's struggle to keep up this basic human quality alive in its business dealings. Set in an environment of sinking moral standard, this case study talks about how some of the key visionaries of an organization could make Ethics relatable and doable and transform the people's perception towards ethical business standards. This is based on actual events which have taken place at a large PSB, however, characters and incidents have been fictionalized for the purpose of this case study.

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DOING BUSINESS: LESS BY RULES MORE BY ETHICS

Mr. Anurag Basu, breathed deep. Frustration and despair were writ large on his face. Notifications were constantly popping up on his mobile. His desktop was patiently displaying him his new assignment order. It read 'Chief Ethics Officer, National Bank of India (new post created)'. Mr. Basu had just got his promotion in the Top Executive Cadre along with 12 others last month. Considering his past performance and excellent track record, he was expecting a more prominent position with a promising portfolio, may be that of a Chief Financial Officer or of a Chief Credit Officer. He didn't have a clue as to why he was chosen as the Chief Ethics Officer of the Bank. He looked at his WhatsApp notifications on his mobile and could see more than hundred new messages. It seemed to him that all the people whom he knew in the bank had wished him good luck for his new assignment - the wishes looked more like obituary messages than actual good wishes. He was searching for answers - what went wrong, why it happened with him, was it the end of his career in the bank?

The day passed as if nothing happened. It was already 6.30 pm in the evening and Mr. Basu got up to call it a day. No point in sitting late in the office anymore, he thought. Before he could gather his stuff and leave, there was a call from CEO's secretariat to inform him that next day at 11 o'clock, the CEO wanted to meet him. Many thoughts came to his mind. May be, he thought, this assignment would be a temporary one before something really important would be assigned to him, because who needed a full time Chief Ethics Officer in the Bank?

Next day, when Mr. Anurag reached the CEO's office, the CEO looked his usual relaxed and ever pleasing self. He asked Mr. Anurag, "Basu, what do you think our customers value most in our Bank?" Mr. Basu felt a bit perplexed as he was not prepared for such a simple question, but anyway he answered, "I think the Trust and Transparency associated with our Bank, Sir." "I too felt the same till I came across this news item" the CEO responded and handed over a newspaper to him. Mr. Basu could see a small news item at the corner where a district consumer court had imposed a penalty of Rs.10 lakhs on a branch of National Bank of India (NBI) for selling a ULIP insurance policy to a senior citizen by investing a huge sum of his superannuation benefit when all he wanted was to have a simple bank fixed deposit. "We could apply to the National Forum, Sir" Mr. Basu responded. The CEO smiled and said, "Yes, we can and who knows, maybe we would win also. But I want you to do something else and that's very simple. I want our people to follow a simple business mantra 'IF IT FEELS GOOD, DO IT'" because that is the basic ethical idea of humanism and you have to instill it in their minds."

Back in his cabin, Mr. Basu kept on pondering over the CEO's message. The message was simple enough - our conscience gives us an indication of what is right and what is wrong and if we don't feel good about doing something, in all probability, it is not right to do that. Basically, what the CEO wanted was, going forward, business should be done following ethical standards in National

Bank of India so that the most cherished values of the Bank - trust and transparency can thrive in that environment. But the moot question was HOW? Can business be conducted in truly ethical way? Isn't Business Ethics an oxymoron? Mr. Basu decided to take a dip in the oceans of ethics.

The Mirror says it all:

Case One: The Branch Manager of an NBI Branch was disbursing home loans by debiting system suspense account first and sanctioning on a later date so that the turnaround time (TAT) remained low and more and more business could be booked from the builder showcasing their prompt response.

Case Two: Another Branch assisted a local businessman to launder his ill-gotten money by investing it in various insurance schemes. The deal was video graphed by an anonymous person and released in the net thereby bringing huge disrepute to the Bank.

Case Three: A young officer of the Bank claimed fake medical bills through the online portal of the bank meant for processing reimbursements by using his senior's password.

Case Four: RBI fined the National Bank of India for serious KYC breaches by some of its branches. As one of those customers offered big ticket deposit, the branch unauthorizedly relaxed the KYC norms for him.

Case Five: A small branch of the Bank deducted Rs.10,000.00 as insurance cost and invested in a group insurance while making payment towards a deceased claim settlement. The deceased was a daily laborer and left with approx. Rs. 50,000.00 in all for his wife and child.

Moment of Truth:

Mr. Basu looked at the mirror (reality) in horror. He could understand what their CEO meant that day. He was convinced that it was important to restore the ethical standards of the Bank immediately and the best part was that he knew what he should do. Being one of the hardcore strategists of the Bank, he needed a 'Code of Conduct' in place for the staff members. Mr. Basu believed that a well-written code of conduct clarifies an organization's mission, values and principles, linking them with standards of professional conduct.

With this clarity, Mr. Basu channeled all his energy to design and develop the 'Code of Ethics' for National Bank of India, a 100-year-old Financial Institution in India. He spoke to the top brass, spoke to many corporates who had a 'Code' in place, read many existing 'Codes' available in the public domain and finally designed something new for the Bank. The Code came out nicely, articulate and in sync with the values of Bank. On an important day, the CEO unveiled it ceremoniously and made it official. Each office of the Bank received the 'Code of Conduct', all

training centers were asked to allocate one session to discuss about the code and every employee was asked to confirm through online portal that they had read the Code of Conduct.

Culture Eats Strategy for Breakfast:

Mr. Basu, satisfied and content, went to meet the CEO next day. The CEO looked happy too when he acknowledged that the foundation had been laid for building an ethical organization. “What’s next?” he asked. Mr. Basu said the employees could now refer to the Code if any ethics related doubt arises and hopefully over a period, the Bank’s culture would evolve to be more ethical and conscientious. Hearing this, the CEO could not resist himself from laughing a bit but gathered himself fast. “Basu, culture eats strategy for breakfast. Have you ever heard about this famous quote?” Mr. Basu nodded, and the CEO continued, “our organizational culture is very strong, Basu. And that’s good and bad at the same time. It helps us to tide over many crises but it also hinders our strategic goal. In our bank, policies/ strategies are like our constitution - by the department, for the department and of the department that makes them. None of our employees will refer to your code while taking business decisions. You have to change the way they take the decisions.”

Mr. Basu came back to his cabin, a little worried and confused. How could he change the decision-making process of the Bank? He was tired and wait, did he doze off a bit? He could see Socrates entering his cabin. It happened before also. Whenever Mr. Basu felt stuck up in life and sipped his black coffee in frustration, Socrates (yes, you guessed it right...the great philosopher Socrates) appeared. He usually did not say much but one or two sentences which looked no less than puzzles initially but helped him to untie his mental knot. Mr. Basu had a strong feeling that Socrates loved black coffee too.

Mr. Basu prepared and extended a hot cup of black coffee to Socrates. While sipping his coffee Socrates smiled, “it is not living that matters, but living rightly, Basu and I’m happy that you are going to convey this message to your colleagues.” Mr. Basu responded, “but how to impress upon them to live rightly, Mr. Socrates? It should be the only way of life and they should know this.” Socrates smiled again and in his usual philosophical way said, “it’s all about the interplay of 3Cs- Connect, Convey and Convince.” Before their cups ran empty, Socrates disappeared.

The confusion in Mr. Basu’s mind seemed to lighten a bit. As per the Socrates’ hint, if staff members of National Bank of India were expected to behave ethically in all spheres of life, first a **Connect** with them is to be developed. Then they needed to be necessarily brought to the conversation table and **Conveyed** the organizational message and by engaging them in the whole process, they can be **Convinced**. Mr. Basu was happy again as he knew what exactly he needed to do.

Next day, Mr. Basu reached out to all 50 training centers of NBI and requested for multiple choice questions involving ethical dilemma that were faced by the staff members in their day to day life.

He also invited questions from all staff members based on their actual experiences. Once a healthy repository of interesting situations was collected, he started his daily dose of ethics - “What’s your Ethical Quotient?” It was designed to have a question from the day to day issues faced by the employees, followed by four choices. The choices were also structured in such a way that employees could understand their ethical inclination over a continuum. Every morning, a fresh new question hit the mailboxes of every employee, giving them a new direction.

The Daily Dose of Ethics was a huge hit as employees could see their actual dilemmas reflected there. Another intention behind this exercise was to direct the employees towards the long-term vision of the Bank and not to be influenced by the self-fulfilling short term goals set by some of the ‘important’ people of the Bank.

But ethics is not an easy concept to always explain through MCQs. There were bigger issues bothering the people. For those complicated situations, Mr. Basu found an answer. Why not write on his frequent encounters with Socrates? Mr. Basu started tackling the chronic and nagging issues of ethics through his blog ‘Coffee with Socrates’.

Employees loved his ethics blogs as they were very lucidly written stories with some pearls of wisdom from Socrates. As a greater number of employees started sharing their dilemmas, people across all levels at NBI started talking ethics. Once the idea of ethics percolated to all the tiers of the organization, the CEO of NBI decided to incorporate ‘Ethical Business’ as one of the most cherished values of the Bank.

Points to Discuss:

1. ‘Ethics is a philosophy but business is a reality’ - Can Ethics and banking business go hand in hand?
2. Is having a ‘Code of Ethics’ a solution for practicing ethical business? What are the positives of having an Ethics Policy in the Bank?
3. Do you think the CEO’s concerns over the sinking ethical standard of NBI justified or was he over-reacting?
4. What are the key take-aways from how National Bank of India tried to make ethics a way of business?
5. What are the other steps you would like to take if you were in place of Mr. Basu?

Teaching Note

Learning Outcome:

- Sensitizing the participants about the importance of ethics in banking.
- How an ethical organization is better placed to realize its corporate objectives.

Points to Discuss:

1. 'Ethics is a philosophy but business is a reality'- Can Ethics and business go hand in hand?

It is true that ethics is a branch of philosophy that deals with moral principles telling us what is right and wrong. This is the study of standard of our behavior that promotes human welfare and general principle of 'the good'. It is present wherever human interaction takes place and wherever decision making is involved and a choice has to be exercised.

Business ethics, the term sounding more like an oxymoron, is ethics applied in a business context. But can business be conducted on strictly ethical terms? Are business and ethics separate or if not 'sans ethics', can business be at least ethically neutral?

Nobel laureate Economist Mr. Milton Friedman once declared that "the only social responsibility of business is to make profits". Does it mean that in a hyper-competitive world, if others are not acting ethically, how can we be ethical and survive in that environment? The explanation may be put out in the following way - Ethical standard of an individual determines and develops his character and the character of a person ultimately decides how he is perceived by others and thereby managing his relationships with the greater mankind. Similarly, business (run by individuals ultimately) can also be conducted by embracing the same principles of ethics and thereby managing how individual employees are influencing or being influenced to deliver the organizational goals.

Although, on the face of it ethics and business appear to be two parallel tracks which do not converge, but if we dig deeper and analyze closely then we can see that ethics and business, successful business at that, are closely intertwined. In fact, in the long run it is very difficult for a business to thrive if it does not carry out its dealings with all its stakeholders (customers, shareholders, employees, vendors, government, society at large, etc.) ethically. History is replete with such examples wherein umpteen number of companies, which were doing extremely well in terms of profitability, were ultimately forced to bite the dust because unethical practices had crept into their culture. Similarly, ethics happens to be a common thread (apart from others) running through corporations which have flourished across generations.

Two quotations from two individuals who have left an indelible mark in their respective fields nicely sum up the discussions. "The blind pursuit of profit at all costs is untenable. It is essential that we make money the right way. After all, if communities suffer as a result of a company's actions, those returns are not sustainable." - Indra K. Nooyi. And Peter Drucker succinctly put it when he said "the purpose of a business is to create and keep a customer" and compromising on ethics may sometimes win a business a customer but it will not be able to retain it in the long run.

2. Is having a 'Code of Ethics' a solution for practicing ethical business? What are the positives of having an Ethics Policy in the Bank?

The Code of Ethics articulates the values the organization wishes to foster in leaders and employees and, in doing so, defines desired behavior. As a result, written codes of conduct or ethics can become benchmarks against which individual and organizational performance can be measured. Additionally, a code is a central guide and reference for employees to support day-to-day decision making. A code encourages discussions of ethics and compliance, empowering employees to handle ethical dilemmas they encounter in everyday work. It can also serve as a valuable reference, helping employees locate relevant documents, services and other resources related to ethics within the organization.

Externally also, a code serves several important purposes. Some of them are:

Compliance: Legislation requires individuals serving on boards and organizational leaders of public companies to implement codes or clearly explain why they have not.

Marketing: A code serves as a public statement of what the company stands for and its commitment to high standards and right conduct.

Risk Mitigation: Organizations with codes of ethics, and who follow other defined steps, can reduce the financial risks associated with government fines for ethical misconduct by demonstrating they have made a "good faith effort" to prevent illegal acts.

3. Do you think the CEO's concerns over the sinking ethical standard of NBI justified or was he over-reacting?

When the CEO came across the news item that a district court had imposed a monetary penalty on one of the branches of NBI, what disturbed him was that this may not be a random stray incident but was reflective of a larger trend across the organization. For every complaint which reaches the internal or external grievance redressal forum there are 'N' number of instances which do not get reported as complaints. The following table taken from RBI 'Report on Trend and Progress of Banking in India' dated 28.12.2018 shows nature and number of complaints at Banking Ombudsman.

Nature of complaints at Banking Ombudsman

(Number of complaints)

	2016-17@	2017-18 @
Deposit Account	7,190	6,719
Remittance	3,287	3,330
Credit Card	8,297	12,647
Loans and Advances	5,559	6,226
Charges without Prior Notice	7,273	8,209
Pension	8,506	7,833
Failure of Commitments	8,911	11,044
Recovery Agent	330	554
Notes and Coins	333	1,282
Fair Practices	31,769	36,146
BCSBI	3,699	3,962
Out of Subject	6,230	5,681
ATM/Debit Card	16,434	24,672
Mobile Banking/Electronic Banking*	-	8,487
Para-Banking*	-	579
Others	23,169	26,219
total	130,987	163,590

notes: 1. *: Fresh grounds included from July 1, 2017.
2. @: Data pertains to July-June.

source: Various offices of Banking Ombudsman.

Source: RBI 'Report on Trend and Progress of Banking in India' dated 28.12.2018

From the above it is clearly evident that 'Fair Practices' and 'Failure of Commitments' account for the two largest categories of complaints if we exclude complaints pertaining to 'ATM/ Debit Card' which has more to do with technical failure. This telling piece of statistic is bound to unnerve the leader of a 100 years old bank which prides itself in keeping the Trust of its millions of customers. Here due credit must be given to the CEO of NBI Bank for anticipation of the impending change, timely intervention and the far-sighted step of appointing a Chief Ethics Officer.

4. What are the key take-aways from how National Bank of India tried to make ethics a way of business?

Here the reader would do well to retrace the journey of the Bank from acceptance of the problem, instead of brushing it aside as a one-off incident, to reaching a stage where all employees discuss and talk about ethics. The first step which laid the foundation for an ethical organization was the formulation of Code of Ethics. The next step was the insight that the Code will remain only a Code unless ethics became a part of their regular decision-making process. This was Conveyed to the employees by establishing a Connect with them through the daily dose of 'What's your Ethical Quotient?' and 'Coffee with Socrates' blog until the employees were Convinced that living rightly was the only way of life.

5. What are the other steps you would like to take if you were in place of Mr. Basu?

Apart from the steps taken by Mr. Basu in making NBI an ethical organization, readers can come up with some other suggestions. Some of them could be:

- Opening up the informal employee communication channel so that an employee can freely get in touch with his superiors when faced with ethical dilemmas.
- Institutionalization of Mentorship. Care should be taken to ensure that the mentor should not be the immediate or next immediate reporting authority of the Mentee.
- Incentivizing instances of ethical behavior in the organization.
- Disincentivizing unethical practices.
- Setting of tone by the CEO and Top Management.
- Ethics should not be confined to the Ethics Department, instead it should be professed by all the departments.
