***Impact of Ethical Practices on Customer Relationship Management of Selected Public and Private Sector Banks in Karnataka***

**INTRODUCTION**

Economic Development of a country is largely determined by banking and financial system. Banking and finance play a vital and crucial role in framing public policies in today’s business environment. Banking system have a vast influence in our daily modern lives, and due to the privatization globalization and nationalization of banking sector the business environment has become more competitive and complex. History of banking industry that reveals these institutions were set up on one hand for provide security to the population’s wealth, and on the other to manage and control the flow of money that can affect positively or negatively on the economy. Recently, economy around the world has suffered due to economic crisis that sparked from the banking sector. This crisis has led the unethical culture in the banking sector as well as the role of government; banking ethics is a specialized set of ethical standards and rules that should be followed in the activities of these institution and employees of the banking sector. But, because of the simplicity of the definition in the modern world, this concept became complex and ambiguous. Significant of studying this subject is important become the ethical behavior of the bank and its employees will always promote the banking and customer relationship management. At present there are several conceptions of banking ethics: general ethics, regulated ethics and ethical bank, banking sector is a customer oriented services where the customer is the KEY focus, in this field a unique ‘Relationship’ exists between the customers and the bank. But because of various reasons and apprehensions like ethical practices, financial burdens, rick of failure, marketing inertia, the ethical issues and practices are more influencing on customer relationship management.

The basic purpose of the banking ethics is to be apply all kinds of affairs and relations of banks with customers, shareholders and employees, and with other organizations as a whole to assure sustainability of their existing reputation and

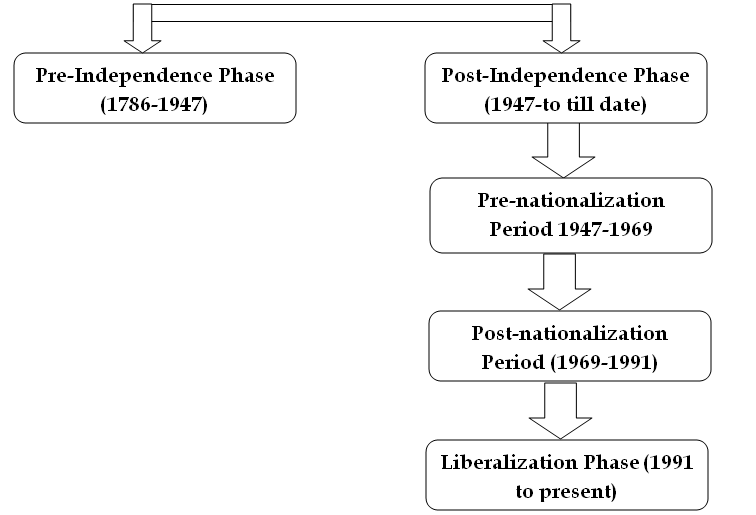
reliability of banking profession in the public and private sector banks it is they Important and to enhance and maintain such reputation and reliability termed as professional dignity, and to protect and maintain stability, consistency and confidences in banking sector. The aim of this research study is to understand and present the original perspective of ethics in the banking industry by identifying the factors in the banking system that influence banker’s behavior and analyzing the codes of ethics in banking institutions and also highlight the impact of ethics on the customer relationship management in banks

**BANKING INDUSTRY: HISTORICAL BACKGROUND**

Banking industry is one of the oldest industries of the world. The first record of banking activity can be traced way back in 2000 BC in Assyria and Babylonia when merchants of ancient world made loans to farmers and traders that carried goods. Later in ancient Greece and during the Roman Empire lenders based in the temples made loans and also accepted deposits. The word Bank came from French word *banque*, from Old Italian *banca*, from Old High German *bank.* It is said that benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions with the help of desks covered by green tablecloths banks were considered from 1157 when ‘Bank of Venus’ was set up in Italy. Later on, ‘Bank of Barsilona’ in 1401 and ‘Bank of Geneva’ in 1407 were set up. ‘Bank of Amsterdam’ and ‘Bank of England’ were set up in 1694. It is considered one of the oldest unit of Modern Banking System. Joint stock companies entered the banking sector in 18th century.

**BANKING IN INDIA**

The banking system of the country is the base of the economy and economic development of the country. It is the most leading part of the financial sector of the country as it is responsible for more than 70% of the funds. The banking system in the country has three primary function those are operations of payment system, depositor and protector of people’s saving, issue loans to individual and companies, The over view of Indian baking sector historically passed through mainly in five Phase those are per-independence phase, and post independence phase, per-nationalization, post nationalization and liberalization phase.(Fig.1.).

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*Fig.1. Phases of Indian Banking History*

In the first phase of the banking sector was developed during British era. British east India Company established three presidency banks 1) bank of Bengal (1809), bank of Bombay (1840), bank of madras in the 19th century, in 1935 presidency banks merged together and formed a new bank named as imperial bank of India in the year 1921, it was later renamed in the year 1955 as the state bank of India. In 1865 the first Indian-owned bank was set up as the Allahabad bank, 1895 the Punjab national bank and 1906 bank of India was established, the sequence, many more commercial bank was X such as Canara bank, Indian bank, central bank of Indian, bank of Baroda and bank of Mysore, were established between the year 1906 to 1913 under the Indian ownership.

The central bank of in India (RBI) was established in 1935 on the recommendation of “Hilton young” commission, the this time period, most of the bank were small in size and suffered from high rate of failure and the banking system was only covered urban population and its was neglected rural and agriculture sector. Post-independence phase, in begging of this phase entire banking sector was working under private ownership and rural population of the country had to dependent on small money lenders for their requirements. For solve these issues and better development of the economy the government of India nationalized the reserve bank of India in 1949 and

in the same year banking regulation act was enacted for implementation and smooth operation of financial system in the country. In the same way in 1955 the imperial bank of India was nationalized and named the state bank of Indian. Nationalization period in 1969 government of India nationalized 14 major banks whose deposits were more than 50 corers. The immensely changes and development fund in Indian baking system after the nationalization but the rural and weaker section of the society was not covered under this system for overcome of this issues, the Narasimham committee in 1974 recommended the establishment of Regional rural bank (RRB) it was come existed on 2nd October 1975 with the main objective of extend and inclusion in financial credit and service to the rural and weaker section of the society. Further six more banks was nationalized in the year 1980.with the second wave of nationalization, the target of priority sector lending was also raised to 40%.

In liberalization phase in order to improve financial stability and profitability of public sector bank the government of India set up a committee under the chairmanship of Shri.M. Narasimham recommended the several measures to reform were taken in the banking system in the country. The major focus and objective of the recommendation was to make bank competitive and strong and conducive to the stability of the financial system, the committee suggested for no more nationalization of bank, foreign banks would be allowed to open offices in India either as branches or as subsidiaries. In order to make banks more competitive, the committee suggested that public sector banks and private sector banks should be treated equally by the Government and RBI. Now, foreign banks and Indian banks permitted to set up joint ventures in these and other newer forms of financial services.10 Privates players got a license from the RBI to entry in the Banking sector. These were Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank and Development Credit Bank. Recent Development in Indian Banking Sector, Kotak Mahindra Bank and Yes Bank got a license from RBI to entry in the system in the year 2003 and 2004.In 2014, RBI grants in-principle approval to IDFC and Bandhan Financial Services to set up banks. And in State Bank of India (SBI), which will see five associate banks merge into it on April 1st 2017.Today, Indian Banking industry is one of the most

growing flourishing industries. Banking systems of any country need to be effective, efficient as it plays the active in the economic development of the country.

During the 20th century, developments in the information and communication technology allowed the banks to dramatically increase their size and geographic network. The recent financial crisis saw significant number of banks failed, including some of the world’s largest banks and much debate took place around the world about bank regulations.

**ETHICS AND BANKING**

Companies do have ethical responsibility and they are not protected by limited liability from the consequences of their actions. Company's record and the perception of its ethics affect its reputation and ensure long term success or failure. The financial community has a history of placing moral considerations above the legal or opportunistic expedients. But it is often exposed to moral dangers and the dangers of contamination are increasing. Deregulation and the technological revolution are sharpening ethical conflicts. Bankers' role is one of stewardship based on trust. Sometimes commercial considerations can be at odds where ethics and politics combine, for example, on the LDC debt question. A bank's responsibility extends to Government, customers, shareholders, staff and the community.

**UNETHICAL PRACTICES IN BANKING**

The specific ethical issues that are characterized the financial crisis included manipulating credit ratings, the mis-selling of securities; unauthorized trading and the short-selling of securities, there are long standing ethical concerns regarding practices such as market manipulation and insider dealing. The ethical implications of these practices are not uniform it would be difficult to objectively consider some of these activities to be unethical, where as others are clearly unethical. The financial crisis exposed a number of practices in the investment of banking sector that have been described as unethical such as: Manipulating credit ratings ; Mis-selling securities; Over-leverage; Unauthorized trading; Insider Dealing; Market manipulation and market abuse; CDOs/CDSs and off- market trading; Speculation and ; Short-selling.

**REVIEW OF LITERATURE**

**Haris and Spence (2002)** revealed that a online foreign exchange development at an investment bank was conducted a study to demonstrate some crucial moral issues, the major areas identified by the study for further research included freedom of choice, trust and transparency of business to business transaction and limits to responsibility with regard to the facilitation of fraud.

**Bello (2004)** a research oversee the ethical dilemmas in the Nigerian banking sector. The main objective was to evaluate the level of unethical practices in Nigerian banking sector and that affect the banking ethical climate. the study highlighted the existence of unethical practices in Nigerian banking sector and the level at which extant its affect on Nigerian banking climate,

**Safakli (2005)** revealed the investigation of the failures and relevance of professional and business ethics that has to be adopted to provide stability in the banking and finance sector. And also stated that the factors accountable for serious ethical issues leading to financial crises such as connected lending, credits without adequate collaterals, favoritism by the management , inadequate use of funds, dealing in non financial activities, political interference, lack of accountability, illegal use of the funds, lack of transparency and risky investment with low returns. And concluded that unethical practices played a significant role in failures of bank, for such failure prior to involvement of the owners, board of directors, top executives and the internal auditors in the unethical conduct.

**Yidawi (2005)** described the ethical issues and problems in the banking sector and stated that due to the lack of proper ethical training; contravention of central bank of Nigeria (CBN) Nigeria deposit Insurance corporation (NDIC) guidelines, frauds and other negligent professional behavior, the study used five hypotheses and were tested by using the statistical tools of Chi-square test. The research concluded that although general awareness relating to the code of ethics among the Nigerian Banks but also still most of the banks did not follow ethics due to increase in frauds and forgeries compounded to the ethical issues in Nigerian Banks.

**Bozovic (2007)** addressed the lack of ethical norms in the business operation and it was resulted into great significant harmful at the micro and macro level of business and the study was strived to interpret the business ethics as a social responsibility of an individual as well as collective virtuous actions followed throughout all aspects of the business activities by degrees where they do not disturb business relation within the system and within extensive surroundings. And it was concluded that application of ethical principles and practices would initiate defensive system in the pasture of ethical values.

**Abiola (2009)** suggested the methods to control the occurrence of frauds in the banks of Nigeria. The study was conducted to identify the various techniques adopted in banks to control frauds and its effects on the banking services. And it was identified through the field survey on the various modes employed in defrauding banks, and determines the consequence of fraud on the banking services. The study concluded that there were ample issues which together accord to the phenomenon of the banking frauds, specifically poor management of policies and procedures inadequate working conditions, bank’s staff continue longer time on a same job, and personnel feeling disappoint as a result of poor remunerations.

**Iraj (2009)** described the global ethical business responsibilities. For predominance of the ethical issues, the multinational corporations were suggested the incorporation of code of conduct developed by various international entities. And also analyzed numerous ethical nature as well as many ethical issues and concluded that code of ethics, developed and implement by the international agreement is the best means of bringing ethics to the international business.

**LeFebvre (2011)** addressed and analyzed the impact of culture differences between the U.S and India in the particular area of the business ethics. And also presented the comparative analysis of performance on the business code of conduct from major corporations in U.S and India and revealed some distinct differences in the ethical attitude. The study threw the light on the code of conduct of the top fifty public companies in the U.S and India. And the conclusion was cultural differences indicated in the precision of ethical business practices in corporations.

**M’sallem *et.al* (2011)** described the impact of the ethical dimension of selling behavior on some marketing relational variables in the banking sector, such as satisfaction, trust, commitment and loyalty. The study analyzed the simultaneous effects of the established variables in the applied structural equations modeling (SEM) and also conducted empirical survey to identify the impact of the ethical dimension on the trust. And also disclosed that the satisfaction has an effect on the customer trust that was influencing the commitment and loyalty, and concluded that there was an impact of ethical dimension of selling behavior on customer satisfaction, trust commitment and loyalty.

**Paulet (2011)** described that the regulations of the banking sector were very essential but it was not sufficient condition to ensure the efficiency of banking institutions, financial markets and management of companies through the analysis of the Swiss banking sector, the study contributed an insight for banks to satisfy social pressure banks have to be more ethical in its, proposition redresseal. In this study it was able to solve the difference between the profit and ethics. And concluded that banking and finance is not “an ethics free zone” and accordingly by changing its behavior, banks can improve their credibility on the market and can establish the confidence towards clients.

**Adans (2012)** presented that the failure of bank performance validated on the codes of ethics and professionalism, the insufficient banking knowledge of both in theory and practice was resulted in ignoring the codes of corporate governance, inattentive incorporation of diverse, inside misuses by both the board members and the staff of banks, and avoidance of the instructions of regulator. It was concluded that bank failures, institutional and industry disorders and disintegrated have been the consequences of ethical irregularity. The study advocated that the government, regulators and the banking professional together can simultaneously provide the solutions through necessary actions.

**Luchian (2014)** presented the analysis of banking ethics and its main conceptions, the study defined the fact that the ethical behavior of the bank and bank employees promotes banking services. The existence of problem in the banking lack of ethical standard and that adversely affects the financial institution and that deliberately reflect main tendencies and problems of banking at the international.

**Augustine *et.al* (2015)** addressed the ethical challenges and financial performance in the Nigerian banking sector. They identified the degree to which most individual and corporate customer change their banking services due to the lack of confidence, and the level of insider related credit. The study concluded that unethical practices do have significant relationship on financial performance in the Nigerian banking sector. And unauthorized tampering with customer account does not have a significant relationship with financial performance

**Desai (2015)** described the ethical issues in the Indian financial services industry. The study strived to identify a few ethical issues relating Indian financial sector. This study concluded that greed and unethical behavior by the market participants is culprit for financial crises and therefore it would be unwise to ignore the area of ethics and the requirement ethics put on market participants.

**Deka (2016)** Described ethical issues of banks towards the environment, and on green practices of state bank of India in Assam. The study identified the ethical bank as a bank concerned with the social and environment impact of its general banking practices investment and loan and also as social, green, or sustainable banks, move towards more social and environmental responsibility by adopting various eco-friendly practices such as green banking to reduce the internal carbon footprint and external carbon emission in banking operation and also ethical practices adopted in the banking sector in India, especially in the state bank of India related to environmental issues, the study was categorized into two parts, one was the environment –friendly practices adopted by the SBI in at national level and anther one green banking practices introduced by the bank practiced by the customers in Assam Bank.

**STATEMENT OF PROBLEM**

The various studies have been conducted so far in the context of ethical practices in banking sector, available literatures during the period from 2002 to 2016 indicated that most of studies conducted on various issues such as, moral issues in online foreign

exchange, ethical dilemmas in the banking sector, ethical issues and problems in the Nigerian banking, the methods to control the occurrence of frauds in the banks, comparative of culture differences between the US and India, impact of on business ethics, ethical dimension of selling behavior on marketing relation variable in bank, impact of code of ethics in failure of the banking performance, ethical challenges and financial performance in the banking sector, ethical issues in Indian financial services industry, ethical issues of banks towards the environment and green practices, etc, most of the research studies were done outside India and very few studied have been done in India the Indian context.

Over the last decades, ethic issues have attracted a great deal of public interest, to is now it is widely accepted that this is critical for the economic health of corporations bank and of larger society. The headlines of newspapers of the past few years in particular, portray a dismal story of lack of corporate ethics: PNB fraud by Nirav Modi (2018), fraud by ex-chairman and MD of Syndicate Bank SK Jain (2014) ,union bank of India fraud by Vijaya Mallaya(2014), IDBI fraud by kingfisher airlines by Mallya’s debt(2017), felling willful defaulters , Manipulating credit ratings, Over-leverage, Unauthorized trading ,Insider Dealing corporate failures, dubious accounting practices ,abuses of corporate power, criminal investigations reflect that the entire economic system on investment returns shows the signs of infirmity and stress that have undermined investor confidence. Notably, some failures were the result of fraudulent of willful defaulter and Manipulating credit ratings ,Over-leverage, Unauthorized trading ,Insider Dealing ,other illegal practices , other were just bad and unethical practices.

Evidently, there is no study in the banking context focusing on ethical practices and its impact on customer relationship management covering public and private sector banks in Karnataka’s major District is done so for therefore that the comprehensive approach of this research study will be identifying the views of customers and banking that affects relationship management and major factors involved in ethical practices initiatives making the banking organization as successful

by improving performance Therefore, this becomes the research gap to select the research study that would certainly help the banking sector, customer, its proposed policy makers and the society as a whole.

**RESEARCH OBJECTIVE AND QUESTIONS**

The central purpose of this research study is to identify the prominent ethical practices in the banking environment and how this practices are influencing on the employees behaviors, banking operation, stakeholder, employees and with other organization, customer and their relationship management and describe the existing issues and its impact. And the specific objects

* to study and understand the ethical practices and issues prevailing in the Indian banking sector;
* to make an examination of the pertinent conception of ethics, business ethics and banking ethics, customer relationship management in the banking sector;
* to identify the significant ethical practices and issues influencing customer relationship management in the public & private sector banks of Karnataka ;
* to highlight the major challenges of implementing ethical practices in the banking operations;
* to evaluate the impact of ethical issues and practices on customer relationship management in public and private sector bank; and
* to raise major policy implications for the prevention of unethical practices in the banking sector.

The above proposed research objectives are intended to answer the following research questions:

RQ 1: What are the ethical practices exist in selected public and private sector bank in Karnataka?

RQ 2: What are the significant factors currently influencing the ethical behavior in the banks that improves customer relationship?

RQ 3: What are the ethical issues and concerns prevail in the Indian public and private sector banks?

RQ 4: What are the major challenges faced by the public and private sector banks in the implementation of ethical practices in the banking operation?

**RESEARCH METHODOLOGY**

The proposed research study will be based on both primary and secondary data. Primary data will be collected through structured pre-tested questionnaires which will be administered to the selected customers and employees of the respondent banks, for these purpose two separate questionnaires will be used. Secondary data will be collected from the various national and international journals, research article, books, newspaper and periodicals, RBI circulars relating to ethical practices, RBI working notes, banking ombudsman, annual reports ,unpublished data, and also further required materials will be collected from the internet on the recent development of the particular issues. This research study uses one public sector bank (SBI Bank), and one private sector banks (ICICI), at present operating in Karnataka as the sample frame covering all the divisions within the State. Questionnaires will be processed using the SPSS–Version (23). Statistical tools and techniques such as descriptive statistics (Mean and Standard Deviation), chi-square test of significance, zero-order correlations, and multiple regression analysis will be used to analyses and interpret the survey data.

**HYPOTHESES**

Based on the extensive review of earlier research studies, of proposed research study the following two research hypotheses have been formulated for the investigation in the proposed study:

H1: there is a positive relationship between the ethical practices and customer relationship management in public and private sector banks.

H2: there is a the significant difference between the ethical practices and performance in public and private sector banks

**SCOPE AND SIGNIFICANT OF THE STUDY**

This research study focuses on the ethical culture and practices in the public and private sector banks including SBI, banks covered as public sector and ICICI, in the private sector at present operating in Karnataka. The scope of the proposed study will be extended to understand the impact of ethical practices on customer relationship management concentrating on strategies adopted by selected public and private sector banks in Karnataka. This research study will be going to explore how ethical practices of banks including behavior of employers will influence the relationship management that result in improved the performance. The findings of the proposed study will be useful for the banks to understand the views of customers on ethical practices and modify their ethical concern if it is necessary in general and the selected banks in specific.

**LIMITATIONS OF THE STUDY**

It is worth noting that this proposed research study will be confined only to the selected public and private sector Banks in Karnataka and the research conclusions based on the findings of this study cannot be generalized to other parts of the country or other nations of the world due to cross-regional and cross-cultural differences. This study will be concentrating only on the ethical practices, and its influence on the customer and customer relationship management, other organizational issues will be kept outside the purview of this study.

**STRUCTURE OF THE STUDY**

The proposed research study will be coordinated in six chapters as below:

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| Chapter I | Introduction |
| Chapter II | Conceptual framework and , Review of literature |
| Chapter III | Issues and challenges of ethical practices in banking sector |
| Chapter IV | Ethical practices and customer relationship management public and private sector bank |
| Chapter V | Key indicators of ethical practices for enhancing customer relationship management |
| Chapter VI | Summary of major finding, suggestions and conclusion |