CHANGING SCENARIO IN BANKING AND FINANCE: DIMENSIONS OF LEADERSHIP AND ETHICS

*J.L.Gupta**

Within the contemporary maelstrom of change, financial environment is becoming more complex, risk conscious and market driven. While the emerging global banking scenario is dominated by easily quantifiable barometers of asset quality, capital adequacy and profitability, behind these developments usually lies the exercise of that somewhat ill-defined and often inappropriately used quality of leadership. It is widely agreed that effective managing in a fast changing world of banking and finance demands exceptional leadership from a chief executive that can establish a challenging but a realistic vision endow people with the conviction to attain that vision and live that vision in his or her personal behaviour.

Intensifying competition, the challenge of new technologies, increased concern for quality, and changing motivations and aspirations of employees - all are driving change. In such an environment effective leadership throughout the bank, but inevitably driven from the top, is essential. The new environment would require managements who are not only good at managing but also can lead their organisation towards a stronger position in the market. Obviously, the knowledge and the experience of the past would no longer be adequate to ensure growth and success in future.

The core skill of banking continues to be management of risk, whether counterparty, rate, or market risk. The leadership plays a central role in what would appear to be a straight forward managerial process; devising a system to identify and control risk is not beyond the reach of a competent management team. Basically, banks as enabling institutions empower people and organisations to realise goals which without financial support would be impossible. Banks also act as enforcing institutions; they have to ensure that their resources are used in line with the law, and their clients comply with their commitments and obligations. These twin roles can create moral dilemmas for both banks and clients, and resolving these imposes new pressures on managements.

There are four dimensions to banking: Economic, Technical, International, and Moral. The first three dimensions call for a range of diverse competencies. The fourth i.e. moral dimension has always been an integral part of banking and other financial services. It consists of the values governing the behaviour of those engaged in providing

*Principal, Shri Ram College of Commerce, University of Delhi.

legitimate financial services. Unfortunately, this dimension in the recent years has been over shadowed by the other three. The technological innovations have presented opportunities for banks to supplant cash with plastic cards, character appraisal with credit profiling etc. Not all these initiatives have been beneficial - as technology opens new doors to instant financial satisfaction, criminals find it easier to slip through. In 1991, the world of banking and finance experienced a moral earthquake with the collapse of the BCCI. Unfortunately, the early 1990s experienced other financial upheavals also; the collapse of savings and loans institutions in USA; wrong doing by highly respected financial institutions in Europe and Asia (including India's security scam); the junk bonds scandals of wallstreet. Though the financial consequences of these unethical actions were severe, far more damaging was their psychological impact on the financial service industry and its customers.

Across the globe, the financial services are suffering from the threat of the New: new regulations, new values, new competition, new technology, and the new customer need and expectations. In view of these threats, making profits in the financial services industry will be tougher in the future. Innovative products, high quality service and financial acumen will all provide opportunities for competitive advantage; but perhaps most effective competitive tool will be the least expensive to operate - ethical behaviour. If it is to work, the strength of the moral future must be more powerful than the forces shaping he present. Banking as a business is inevitably prey to the moral hazard, more so in the context of new technological advances. New technology will lead to a inter dependency between banks and their clients as systems compatibility becomes a perquisites for receiving many type of financial services. Unfortunately, in an increasingly criminalised world, the benefits of technological advance can be killed by the cancer of technological fraud. Opportunities for electronic collusion between computer operators in both bank and client will be a nightmare in the new age of banking. The basis of the technology bond between lender and client will be a significant future in financial relationships. Emphasizing the need for greater moral sensitivity on the part of banking personnel, Taylor (1993) in Going for Broke refers to the French religious philosopher, Blasie Pascal's advice that men should act as if God existed because if they did, and he did not, nothing was lost, whereas if they did not and He did, then all was lost. According to him, this is the standard which bank managers need to adopt in their dealings. Their leadership role as 'value shaper' and commitment for institutionalizing in their organisations operational and continuing concern for sound professionalism and ethical integrity becomes important. Immorality rather than incompetence is the factor most likely to cause the failure of leadership.

Ethical leadership in any aspect of financial services will continue to depend upon the scope of the vision which directs the strategy and defines the organisational focus of priorities and behaviour. For some banks their perspective will be global, for other local. Some will focus on satisfying the financial needs of a new industrial sectors, others will concentrate on developing expertise on an activity like marketing specialist products. Whatever the scope of their perspective it will need to encompass the likely impact of the shifts in customers behaviours from passiveness to assertiveness.

Besides the perspective, the ethical leadership will depend on important factors like organisational purpose, its views about profit, prudence, perseverance and professionalism. Keeping in view the way particular changes impact a bank, it has to sculpt its distinctive moral purpose. There are two aspects to purpose - role and goal. Any financial institution has both an economic and moral role. There needs to be a link between long and short term role, but goals must be consistent with these roles. In recent years, the emphasis on being 'the best', 'biggest' or to be 'the most profitable' lured even the most astute Chairman of financial institutions on to the rock unfulfilled aspirations. Goals needs to be defined in precise terms both economically and morally. Without clearly stated purpose, which motivates employees attracts customers and reassures share holders, there is little chance of organisation earning profits.

Profit is the indicator that a bank has a realistic perspective and is fulfilling its economic purpose. However, profit has both moral as well as an economic aspect. The financial service which is not financially profitable will not survive. In such circumstances its moral dimension is irrelevant. However, money is not the only measure of the profit. Its explanations must be spread out to encompass profits in its moral as well as economic dimensions.

Being careful to avoid undesired outcomes is a strong force pulling banks in the direction of low risk taking. Yet to increase the value of investments entrusted to them, banks must expose themselves to risk. Prudence therefore must be exercised for the diligent management of risk. It must be exercised not simply in the economic domain but in the more difficult realm of moral behaviour. The growth of computer based credit scoring system, has in fact changed the balance of prudence towards moral assessment of the suitability of the customers and their proposals. Prudence demands constant vigil of the threats to the moral dimension and has implications for the inspection and the audit functions. Looking ahead the extension of centralised computer based procedures and checks should provide such integrity safeguards while enabling the inspection function to act as a guide as well as a monitor on the management of the moral dimension. Therefore a new look at this function would be necessary, and it will call for another important factor i.e. perserverance. A prerequisite of perseverance is morally grounded belief that what one is doing is right in terms of the interest of stakeholders. In an increasingly volatile and complex world, enlightened perserverance will be sought from those playing leadership role.

As technology takes on risk assessment as well as burdensome administrative chores, the human contribution in financial services will shift from decision taker and administrator to career and facilitator. Banks will have to assume the role of 'financial advisors' and 'counsellors'. Many financial institutions have been established in the public mind as an integral part of the social and moral fabric of the society. Unless care is taken to strengthen and dispense moral power in a way which re-inforces trust, the influence of these institutions will diminish. One way of avoiding this is to devote greater energy and resources to enhance the element of professionalism in their functioning. While proficiency in financial matters will distinguish the bankers from other professions, their commitment to the ethical dimension should be the hallmark of leadership in banking and financial services.

This will require all out efforts to enhance peoples' sensitivity in organisation to ethical behaviour. Appropriate training initiatives in this direction can perhaps be one important mechanism to build a culture of integrity and enhanced conscience, besides measures like strengthening audit and inspection and developing codes of fair practices in different areas of banking and finance.

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