

CHAPTER 1

INTRODUCTION

Ethical issues have become even more crucial in today's fiercely competitive and rapidly changing financial services industry. Many incidents have presented us with a rogue's gallery of prominent ethical abusers in the financial services industry. This has led to many financial institutions adopting codes of ethics to govern behavior.

In general, financial institutions play a very vital role in our economy and achieving Malaysia's vision. Thus the effectiveness, efficiency and its ability to achieve this vision will depend on the behaviors, attitude and practices of people who work for it.

With an increasing trend in commercial crimes being committed in Malaysia, the question of ethics has become a heated issue, gaining attention of academicians, managers, proprietors and even politicians (Zabid, 1989). There have also been major cases of illegality or fraud involving banks, such as the Rakyat Merchants Bank and BBMB affairs. In 1977, for instance, the total number of commercial crimes committed in this country was 1,981 cases and increased to 4,080 cases by 1987.

This research project is intended to explore the general practices among credit executives particularly the credit and marketing executives in the financial institutions.

1.1 Objective of the Study

This study is aimed to explore the general perceptions, opinions, conduct and behaviors of executives in financial institutions with regards to ethical/unethical practices.

Specifically, the study is aimed to achieve the following objectives: -

- a. To determine the general practices among executives in financial institutions in respect to receiving gifts and entertainment.
- b. To determine the perception and general practice among executive in the financial institutions in respect to whistle blowing.
- c. To determine the general practice among executives in the financial institutions in respect to falsifying credit reports and concealment of pertinent facts during credit evaluation.
- d. To examine and explore the executives' stand on shirking issues such as using company time for personal purpose, bribery and calling in sick to take a day off.
- e. To determine the significance in the attitude and belief of executives in respect to the above practices.
- f. To determine the executives' views and their adherence to code of ethics and BAFIA.
- f. To provide answers for the reason of ethical/unethical practices by identifying the factors influencing behaviors of these executives.

1.2 Scope of the Study

This study will be conducted in the context of the financial sector in Malaysia. In order to draw meaningful findings, the scope of this study will be confined to executives in various segments of financial institutions. The sample respondents

will be drawn from executives who are involved in preparing credit proposals and marketing of loans.

The reason for focusing on financial industry as the sample group is because of its exposure to a variety of businesses and business practices. While the focus on executive was due to the objective to explore the perceptions of young executives which have large turnover rate across the industry. Moreover, researches on ethical perception of Managers, though in general, has been done previously.

The behavioral categories to be used in the questionnaire will cover only the major ethical concerns in the industry practices. The questions will be focussed on the credit evaluation and working environment in financial institutions. This list, of course is not a comprehensive list of business ethics – for example sexual harassment and discrimination of woman are not included. But, it is certainly derived from objective to indicate a concern about specific and frequent ethical issues.

Due to the limitation of time and financial resources, this study will cover only major financial institutions in Klang Valley. For reason of confidentiality, the name of the financial institutions and their executives will not be revealed.

1.3 Significance of the Study

Financial institutions play a crucial role in the development of the nation in line with the governments' efforts of turning Malaysia into a financial hub for this region. The practices, attitude and belief of its executives determines not only the reputation of their institutions but also its' success.

With the present economic turmoil affecting the financial institutions, its hoped that this study will provide some guidelines for these institutions and its regulators

to understand and draw a better and more suitable code of ethics, compensation system or work procedures for their executives.

From the importance of various factors determined by this study, the institutions, human-resource managers, the CEO's, and the executives themselves can focus their efforts in establishing better ethical practices.

The results of this study may also provide useful indications to IBBM or any other human development organization to tailor, design and include training programs on ethic in their training schedule.

This study hopes to provide some useful answers to some of these concerns of the organizations by examining the perceptions, belief, attitude and stand of their executives. Ultimately, the results of this study is hoped to add knowledge to the field of business ethics which is not only limited in numbers but regarded as not relevant for business.

1.4 Methodology and Analysis.

The survey method and hypothetical ethical situation (HES) testing will be primarily employed.

A questionnaire developed based on the earlier researches and various ethical issues related to credit appraisal and marketing of loans will be sent to several major financial institutions. The respondents will be confined to executive level.

The behaviors and situations to be examined are based on the behavioral categories developed by William J. Mitchell (1992) which was based on 315 articles from a variety of publications (Times, Harvard Business Reviews, Journal of Business Ethics and local news papers). In addition, more frequent issues prevailing in the local financial institutions are included as specific moral behaviors.

The respondent will be drawn from various financial institutions including commercial banks, finance companies, merchant banks and leasing companies. This is to enable meaningful comparisons to be done.

Depending on the sample size, this study intends to undertake a complete statistical analysis to explore the data as completely as possible.