

## **A Case Study in Identifying Gaps and Developing a Common Code of Ethics for Commercial Banks in Sri Lanka**

V.A. De Silva (*viruli2@gmail.com*)  
*University of Sri Jayewardenepura, Sri Lanka*

A.S. Gamage (*arunasgamage@gmail.com*)  
*University of Sri Jayewardenepura, Sri Lanka.*

### **Abstract**

Growing corrupt behavior of employees and its negative consequences to the organization, economy and the society at large, had become a global issue for many years. The stability of a country's economy depends on the stability of its Financial Sector, mainly on its Banking Industry. Banks do business with public money, and depend heavily on public trust for its stability. Creating and maintaining an 'ethical image' through ethical management and ethical behavior of employees are critical to win public trust and confidence. Thus, banks' operations are governed by many statutory and mandatory rules. The Central Bank of Sri Lanka had issued a mandatory Code of Conduct for Licensed Banks (Customer Charter - 2007), to guide them in customer transactions, to protect the customers. In addition, banks have individual Codes of Ethics, which specify their ethical policies and values, and guide the employees' behavior at work. However, the Codes differ from bank to bank, depending on each banks' ethical orientation and priorities. This Case Study is a comparative analysis of the Codes of Ethics of Licensed Commercial banks (LCBs) operating in Sri Lanka, comparing against globally accepted moral standards of Codes, recognized in scholarly literature. The study exposed many gaps in the Codes of LCBs: inadequacy of ethical principles and rules, less clarity of the ethical rules available, less focus on ethical principles and rules, congested contents with other operational rules etc. Authors proposed a common Code of Ethics, based on universally acceptable ethical standards, for the LCBs operating in Sri Lanka, to evaluate the intensity of ethical standards of their Code of Ethics. The study identified 12 universally acceptable moral principles and developed a measure which could be used as a guide by the banks, to self-evaluate the ethical quality of their Codes of Ethics. This research is new in the Sri Lankan banking industry, Thus, have original value and adds many valuable managerial implications.

**Keywords: Common Code of Ethics, Universal Standards, Sri Lankan Commercial Banks.**

## INTRODUCTION

A 'Code' is a formal guideline created by a company to direct their management and employees in their present and future behavior at work (Kaptein and Schwartz, 2008). A Code of Ethics of an organization documents the core philosophical principles and values of the organization, acting as a policy document which specifies the responsibilities towards its stakeholders (Stevens, 2009). A Code of a company specifies the ethical conduct anticipated of its employees, and states the ethical rules and limitations of conduct the organization expects them (p. 14). Codes of Ethics or Business Codes are used extensively by companies as a management tool (Kaptein and Schwartz, 2008). A well implemented Code is a vital device for an organization, as it contributes towards the organization's many vital aspects: strategic framework, identity and reputation, culture and work climate and financial performance (KPMG and Kaptein, 2014). The necessity of a Code of Ethics/Conduct is developed internally and focused through laws and regulations, which make the company under obligation to take adequate steps to create a favorable culture and control unethical behavior at work.

Hence, the concept 'Code of Ethics' could be defined as 'an organization's ethical policy and values that describes ethical standards for their employees' conduct at work'. Business Code, Code of ethics or Corporate Code of Conduct has no universally accepted definition (Hartman & Chatterjee, 2007). But, some early researchers (Stevens, 1994; Townley, 1992; Hosmer, 1991, as cited in Schwartz, 2002) defined a Code of Ethics as a formal document which governs ethical standards of employee behavior at work. Almost every code of ethics appears to be in a legalistic form, but it goes 'beyond the law' as it focuses on the 'spirit' in adding to the 'letter' of the law (Schwartz, 2002: 28).

Some countries have a common Codes of Ethics for strategically important industries in the economy. For example, Malaysia has a common Code of Ethics for its Financial Services Industry, issued by the Financial Services Professional Body (FSPB) in 2015, through Bank Negara and Securities Commission, Malaysia. This Code specifies five key ethical principles (Competence, Integrity, Fairness, Confidentiality, and Objectivity) considered vital to the achievement of a high standard of professionalism and ethical conduct of employees, across the Financial Services Industry, in Malaysia.

The Central Bank of Sri Lanka (CBSL) issued a common Code of Conduct in 2007 labeled *Customer Charter*, to the licensed banks operating in Sri Lanka. The *Customer Charter* is a set of ethical and professional guidelines, focused on the daily operations of customer transactions in banks. The main objective of this *Charter* is “to safeguard customer’s interests and ensure customer confidence and stability in the banking sector (Customer Charter, CBSL, 2007, p. 1).” All licensed banks operating in Sri Lanka and their employees are mandatory to adhere to the *Customer Charter*. It directs bankers towards ‘professional conduct’ in their daily operations of customer transactions. The *Customer Charter* also specifies customer obligations which stipulates how customers should fulfill their responsibilities towards banks. In addition to adhering to the *Customer Charter* of the CBSL, licensed banks operating in Sri Lanka have their own individual Codes of Ethics/Conduct. They specify the ethical policies and values of the respective banks, and guide employees towards ethical and professional conduct at work. The Financial Sector, especially the Banking Industry, plays a pivotal role in any country, whether developed, developing or under-developed. The role of the banking industry is crucial to a developing nation like Sri Lanka attempting to achieve its massive development goals, after experiencing a three decades of an intense civil war, with its limited resources available for growth needs. The stability of a nation’s economy depends on the stability of its banking industry to a great extent. The banks do business with public money, thus depend heavily on public trust for their growth and sustainability. Hence, winning public trust and confidence through an ‘ethical’ image, by way of ethical management and ethical conduct of employees at work is crucial for a bank’s stability. In order to serve the legitimate interest of their stakeholders (employees, investors, customers, society and government) in a professional and transparent manner, the highest standard of professionalism and ethical behavior of employees are mandatory for banks. Therefore, banks and their employees are bound by many statutory/formal, internal/external rules and regulations, directing employees towards professional and ethical conduct at work. The Code of Ethics/Conduct of a bank stipulates the core ethical rules and professional guidelines, to which employees across the bank should adhere to and rely upon for decision-making and behavior at work.

## **Background**

The Sri Lankan banking industry comprised of 25 Licensed Commercial banks (LCBs): 13 domestic banks, 12 foreign banks, and 9 local Licensed Specialized Banks (CBSL, Annual Report 2015). The total LCBs and LSBs together have over 6590 banking outlets island wide. Hence, the ethical and professional conduct of bankers are critical for the strength of

the banking industry and stability of the economy of the country. In addition to the professional knowledge and skills in banking matters, ethical competence, ethical attitude and ethical behavior of employees are vital for banks to gain public trust and confidence. To ensure this critical need, the operations of banks and conduct of employees are governed by many statutory and formal rules and regulations.

The Financial System of Sri Lanka is regulated by many legislative enactments. The Central Bank of Sri Lanka (CBSL) is the apex body in the Financial System and plays the key regulators role. Some of the key Acts and Directions relevant to the licensed banks operating in Sri Lanka: Banking Act No. 30 of 1988, Monetary Law Act No. 58 of 1949, Prevention of Money Laundering Act, No. 5 of 2006, The Local Treasury Bills Ordinance, Registered Stocks and Securities Ordinance, Exchange Control Act, Payment and Settlement Systems Act, Finance Transaction Reporting Act, Finance Business Act and Finance Leasing Act, 'Customer Charter' issued via Direction No. 11 of 2007, Companies Act No. 7 of 2007, Corporate Governance rules issued by the Colombo Stock Exchange (CSE) for listed companies registered at the SEC, since January 2009, etc. In addition, many mandatory rules and regulations, Codes of Ethics/Conduct etc., have been issued by individual banks, to ensure ethical and professional conduct of employees at work. Employees would be held liable for breach of the above rules under the Disciplinary Code of respective banks.

### **Research Problem and Significance**

A preliminary investigation was conducted by way of face-to-face interviews with eight Corporate Level senior bankers including Heads of Human Resource departments, from eight established LCBs operating in Sri Lanka. The survey findings revealed that the banking industry is faced with intense competition and new challenges, due to recent developments in the business context: digitalization, threats from non-banking industries (e.g., FinTecs), emerging new customer segments and change in demands, changing work environments and boundaries etc. Further, customers in the present banking environment are more knowledgeable and highly demanding, as a result of the advanced communication channels and rapidly developing Information Technology.

The business of banking and the stability of the banking industry depends on public trust and confidence. The ethical and professional conduct of employees in banks play a major role in this task. Among many other statutory and external/internal mandatory rules and regulations,

the Code of Ethics/Codes of Conduct functions as a basic guideline to employees, towards ethical and professional conduct in their daily operations in the banks. Preliminary study revealed that every employee is issued a copy of the Code of Ethics/Conduct/ Hand book when they join the bank, and it is mandatory that they adhere to the rules, to ensure ethical and professional conduct at work. Further, violating the rules would be a punishable offence under the Disciplinary Code of Conduct of the banks. Hence, the Code of Ethics/Conduct has much value in a bank in directing employees towards ethical behavior at work.

Further, the individual banks have their own Code of Ethics/Conduct, based on the individual ethical policies and values. The codes have been developed internally by the individual banks and not adhered to a common, globally accepted ethical standard. Thus, the standards of the Codes differ among the banks, and the intensity of the ethical standards of the Codes vary among banks.

Authors assumed that the intensity of ethical standards of Codes of Ethics of banks reflect the intensity of standards of individual banks' ethical policies and values, up to a reasonable extent. A common Code of Ethics, prepared according to a globally accepted ethical standard, would guide the individual banks to evaluate the intensity of the ethical standards of their Codes against same. Many developed and developing countries (e.g., Malaysia, U.K., New Zealand) have either already introduced or in the process of introducing a Common Code of Ethics/Conduct for their banking industries, recognizing the timely need of same in the current turbulent business context. Literature revealed that, there are no previous theoretical or empirical research conducted in the banking industry in Sri Lanka, to analyze the Code of ethics of banks to identify gaps and develop a common Code of Ethics based on a universally acceptable standard. Hence, this study is a timely need for the Sri Lankan banking industry, with many valued managerial, practical implications.

### **Research Objectives**

The main objectives of the study are as follows:

1. To find gaps in the Codes of Ethics of LCBs operating in Sri Lanka based on the following:

- availability of ethical principles in the Codes.
- availability of details of ethical principles in the Codes.
- clarity of available details of ethical principles in the Codes.

2. To develop a Benchmark or a Common Code of Ethics for LCBs operating in Sri Lanka.

### **Research Questions**

Following research questions were formulated to achieve the two research objectives:

1. What are the gaps available in the Codes of Ethics of LCBs operating in Sri Lanka?

- are ethical principles available in the Codes?
- to what extent are details of ethical principles available in the Codes?

to what extent are the available details of ethical principles being clear to the reader?

2. What is the benchmark or Common Code of Ethics for LCBs operating in Sri Lanka?

### **METHODOLOGY**

Initially a general search of literature was conducted on the research topic. Articles in refereed journals published over the past 20 years, edited book chapters and text books, on the subjects of business codes, codes of ethics/conduct, codes of banks etc. were searched. Combinations of key phrases from the topic such as, code of ethics of banks, common code of ethics, code of conduct of banks, code of ethics Sri Lankan banks etc., were used in the search. On-line databases: JSTORE, Springer link, Science Direct, Wiley on-line, SAGE research, Taylor & Francis on-line, and Emeralds etc., were examined in the article search. Websites of Central Bank of Sri Lanka, Bank Negara Malaysia, Bank of England etc., were also examined for any common codes of ethics for banks. The following literature and few text books were selected to study in detail.

About 30 articles on Codes of Ethics/Conduct of companies and banks published in refereed journals with high citations, Common Code of Ethics/Conduct for bankers in websites of few foreign Central Banks (e.g., Malaysia, New Zealand, U.K.), the *Customer Charter* of the Central Bank of Sri Lanka, Code of Ethics/Conduct of foreign and domestic Commercial Banks etc. were examined in detail. In addition, subject matter in Business Ethics, Business Codes, Codes of Ethics, Codes of Conduct published in latest text books, edited book chapters, and prominent business journals were reviewed. The *Customer Charter* of the CBSL (2007), *Code of Ethics* for Financial Services Industry, Malaysia (2015), *KPMG Report on Codes of Ethics/Conduct of Fortune 200 global companies* (Kaptein, 2014) and *Universally accepted moral standards for Code of Ethics* by Schwartz (2002), were reviewed in detail.

### **Selection of the Sample**

The population of the study consisted of LCBs (foreign and domestic) currently operating in Sri Lanka. According to the CBSL ([www.cbsl.gov.lk](http://www.cbsl.gov.lk)), there are 25 LCBs (13 domestic and 12 foreign LCBs), operating in Sri Lanka. Eighteen LCBs were selected out of this population, based on the number of employees in the banks (Annual Reports, December 31, 2015). The sample included 10 domestic LCBs (employees over 1000) and 8 foreign LCBs (employees over 100). The sample of 18 LCBs represented 72% of the total population of 25 LCBs.

### **Data Gathering and Analysis**

Initially, the websites of the LCBs in the sample were examined to find whether a document labeled 'Code of ethics' or a similar guideline in any other name is available. It was revealed, all 8 foreign LCBs had Codes of Ethics or similar documents (e.g., Codes of Conduct) in their respective websites. Only one bank, out of the 10 domestic LCB in the sample had its Code of Ethics available in the website. The balance nine domestic LCBs had their Codes in a hard form, either as an employee hand book/booklet or policy document.

Preliminary investigations revealed that in addition to the individual banks' Codes of Ethics/Conduct, it is mandatory for the licensed banks operating in Sri Lanka to adhere to a common operational code named *Customer Charter*, issued by the CBSL ([www.cbsl.gov.lk](http://www.cbsl.gov.lk)). It stipulates standards to licensed banks on their daily operations towards customers, and also sets directions to customers on obligations towards banks.

The contents of the selected documents on codes of ethics: (i) Customer Charter of CBSL (2007), (ii) Common Code of Ethics for FSIs in Malaysia (2015), (iii) the six universally accepted moral standards identified by Schwartz (1998, cited in Schwartz, 2002) and (iv) the KPMG Report on Fortune 200 global companies' Code of Ethics (Kaptein, 2014) were analyzed to identify the ethical principles and rules embedded in the documents. Authors identified few commonly cited, universally accepted, ethical principles and rules in these codes. Based on them a benchmark was developed and the LCBs' Codes of Ethics were analyzed against the benchmark, to achieve the objectives of the study.

### **Gaps in Codes of Ethics of banks**

A copy of the Code of Ethics/Conduct was obtained from each LCB in the sample, and the contents were analyzed manually, based on the developed benchmark. The banks have issued

the Codes as formal documents through responsible authorities: Board of Management, Managing Director, Head of Human Resource, Group HR Director etc. As a general feature, all LCBs had ethical rules in the Codes, based on ethical principles. However, the intensity of ethical standards of Codes varied based on the *availability* and *clarity* of the ethical principles and details included in the Codes. Gaps in the Codes were identified under two basic categories: (i) General features and (ii) Contents of the ethical principles: availability and clarity.

### **Gaps Identified in the General Features of the Codes of LCBs**

Following gaps were identified under general features of the Codes of banks based on: Title (names); Objective of the code; Issued/renewed date; Length of the Code.

#### **Gap 1 - Title (name) of Codes:**

All 18 LCBs had a Code of Ethics or similar document in a different name. The banks used different labels: Code of Ethics, Code of Conduct, Code of Conduct and Ethics, Code of Business Conduct and Ethics, Employee Handbook etc. Scholars (KPMG Report, Kaptein, 2014) too identified that academics, as well as practitioners use different names for Code of Ethics. The contents of the Codes too varied according to the label of the Code. Thus, there is a confusion about the name of the Code and specific contents to be included.

*Absence of a common label and specific principles and rules to be included in the code was identified as a main gap in this study.*

#### **Gap 2 - Objectives of the Codes:**

The objectives of the Codes varied among banks. Some banks did not mention a specific objective. Majority of the foreign banks stated that the objective was to convey the values and ethical principles of the bank to the employees through stated guidelines, in order to sustain the ethical image of the bank. Domestic banks too agreed with this notion, but in addition, they had many additional objectives embedded in their Codes such as, to convey operating guidelines, to specify operational conduct to be followed, to convey banks' different policies: transfer, disciplinary, dress code, foreign policy, social behavior etc.

*Absence of a specific common objective in the code of Ethics was identified as a gap in the study.*

**Gap 3 - Issued/renewed date of Codes:**

It was noted, some of the Codes appeared in the websites of respective LCBs were undated. Few foreign banks had Codes of Ethics as e-booklets, and dates varied from 2010 to 2014. Most of the domestic banks had Codes of Ethics/Conduct in a hard form, and the dates varied from 2011 to 2015. Since there was no consistency in dating the documents, it was difficult to identify whether the Codes have been issued/renewed in the recent past.

*The absence of an issued/renewed date in the document was identified as a gap in the Codes of banks.*

**Gap 4 - Length of the Codes:**

Length of the Codes of domestic LCBs varied from five pages to about 36 pages, whereas the foreign LCBs Codes were in the range of 4 to 20 pages. Physically, the documents were in various sizes and forms: employee handbooks/booklets, policy guidelines, operational instructions etc. The length and number of pages in the Code too varied, depending on the number of ethical/ operational principles and rules included. There was no consistency in including the number and specific ethical principles in the Codes.

*Common agreement as to the inclusion of specific principles and length of details of the principles were identified as a gap in the Codes of ethics of banks.*

**Gaps Identified in the Content Analysis of Codes of LCBs**

**Gap 5- Common Code or Benchmark for Codes of Ethics:**

Domestic and foreign LCBs had their unique formats for the individual Code of Ethics. The contents or the number of ethical principles and rules included in the Codes varied. As revealed in the preliminary investigations, analysis too identified that the Codes have not been developed according to a common ethical standard or benchmark. Hence, the intensity of the ethical standards of the Codes varied from bank to bank.

*The absence of a benchmark or a Common Codes of Ethics for LCBs, has been identified as a key gap in this study.*

### **Benchmark for Codes of Ethics of LCBs Operating in Sri Lanka**

A common ethical standard or benchmark was developed to evaluate the Codes of Ethics of banks, based on four selected Codes: (i) 'Customer Charter' (CBSL, 2007); (ii) Code of Ethics (Financial Services Professional Board, Bank Negara, Malaysia and Securities Commission, Malaysia, 2015); (iii) KPMG Report on the Fortune 200 Global companies' Code of Ethics (KPMG Report, Kaptein, 2014) and (iv) Universally accepted six moral principles (Schwartz, 1998, cited in 2002). The contents of the above four Codes were analyzed to identify common ethical principles embedded in them. Accordingly, a benchmark was developed to evaluate the intensity of the standards of Codes of Ethics of LCBs. The analysis revealed the following key features of the above four Codes.

(1) *The 'Customer Charter' (CBSL, 2007)* is a 'Code of Conduct' directed at the licensed banks operating in Sri Lanka. It stipulates key standards to safeguard customer interest and confidence to ensure stability in the banking industry. The banks are mandatory to adhere to the rules specified in the *Customer Charter*. In addition, it specifies 12 Customer Obligations towards the banks. They are directed at customers about their responsibilities towards banks. The 'two-way' guide helps to facilitate a firm 'banker-customer relationship' in the banking industry.

The 'Customer Charter' is a comprehensive document, stipulating rules and regulations under 17 Sections. Some of the key ethical and professional principles are included under Sections 4: General Principles; Section 7: Conflict of Interest; Section 8: Personal Visits and Contact with Customer; Section 10, Provision of Information; Section 11: Knowing the Customer and Suitability; Section 16: Compliance with the Charter etc. ([www.cbsl.gov.lk](http://www.cbsl.gov.lk)).

(2) The '*Code of Ethics' issued by the Financial Services Industry, Malaysia* in 2015 sets out five common principles (Integrity; Fairness; Confidentiality; Objectivity), to which all the institutions and employees across the Financial Services Industry in Malaysia should adhere to. These ethical and professional principles also serve as guidelines to employees for ethical decision-making and behavior at work.

(3) *The KPMG Report on the Fortune 200 global companies' Codes of Ethics (Kaptein, 2014)*, stated the most commonly cited ethical principles as, integrity (50%), respect (36%), honesty (34%), responsibility (27%) and trust (26%).

In this KPMG (Kaptein, 2014) survey three forces have been identified as the most common drivers among companies on acceptance of a Code of Ethics : (i) to create a common organizational culture; (ii) to improve staff behavior and (iii) to protect and enhance the organizational ethical reputation.

(4) *Schwartz (1998, cited in 2002)* proposed six universally accepted moral standards to evaluate or audit the contents of a Code of Ethics of a company: 1) Trustworthiness (honesty, integrity, reliability, and loyalty); 2) Respect; 3) Responsibility; 4) Fairness; 5) Caring and 6) Citizenship.

A summary of the content analysis of the above four Codes are presented in Table 1. Commonly cited ethical and professional principles are in bold lettering.

**Table 1: A summary of content analysis of the selected four Codes**

| Code and Issuing body              | Ethical Principles   |
|------------------------------------|--|
| 'Customer Charter' – (CBSL, 2007). | Ethical principles included:<br>1. <b>Trustworthiness</b> (honesty, integrity, reliability and loyalty)<br>2. <b>Respect</b> (respecting human rights)<br>3. <b>Responsibility</b> (accountability)<br>4. <b>Fairness</b> (impartiality, equity)<br>5. <b>Caring</b> (kindness, not harassing, no undue influence)<br>6. <b>Citizenship</b> (adhere to laws, rules and protecting the environment)<br>7. <b>Objectivity</b> (avoid personal conflict of interest)<br>8. Transparency (openness in transactions/dealings)<br>9. <b>Confidentiality</b> (adhere to bankers' secrecy)<br>10. Due diligence (attentiveness)<br>11. Professionalism (competitiveness)<br>12. <b>Competence (knowledge &amp; skills)</b><br>13. Compliance (Compliance with the Charter) |

|   |  |
|---|--|
| <p>‘Code of Ethics’ - Financial Services Professional Body (FSPB, Malaysia, 2015).</p>  | <p>Five common ethical principles recognized:</p> <ol style="list-style-type: none"> <li>1. <b>Competence</b></li> <li>2. <b>Integrity</b></li> <li>3. <b>Fairness</b></li> <li>4. <b>Confidentiality</b></li> <li>5. <b>Objectivity</b></li> </ol>  |
| <p>The KPMG Report on Fortune 200 Global companies’ Codes of Ethics, Kaptein (2014)</p> | <p>Most commonly cited ethical principles among Fortune 200 companies:</p> <ol style="list-style-type: none"> <li>1. <b>Integrity</b></li> <li>2. <b>Respect</b></li> <li>3. <b>Honesty</b></li> <li>4. <b>Responsibility</b></li> <li>5. <b>Trust</b></li> </ol>  |
| <p>Schwartz (1998, cited in 2002)</p>   | <p>Six Universally Accepted Moral Standards:</p> <ol style="list-style-type: none"> <li>1. <b>Trustworthiness</b> (honesty, integrity, reliability, and loyalty).</li> <li>2. <b>Respect</b> (respecting others/ human rights).</li> <li>3. <b>Responsibility</b> (accountability).</li> <li>4. <b>Fairness</b> (impartiality, and equity).</li> <li>5. <b>Caring</b> (avoiding unnecessary harm etc.).</li> <li>6. <b>Citizenship</b> (obeying laws, environmental protection etc.).</li> </ol> |

The authors identified 33 ethical and professional principles through a content analysis of the above four Codes. Nine were recognized as commonly cited principles among the four Codes: trustworthiness (including honesty, integrity, reliability and loyalty); responsibility; respect; fairness; caring, citizenship; objectivity, confidentiality and competence.

In addition, three key principles were identified from *Customer Charter* of the CBSL, relevant to the Sri Lankan Banking Industry: (i) Transparency; (ii) Professionalism and (iii)

Compliance with the Code. Accordingly, 12 common ethical principles were identified (Figure 1) to use as a benchmark for the Code of Ethics of LCBs in Sri Lanka.

| <b>Common Principles Identified: Benchmark for Codes of Ethics</b> |
|--|
| 1. Trustworthiness   |
| 2. Respect   |
| 3. Responsibility  |
| 4. Fairness  |
| 5. Caring  |
| 6. Citizenship   |
| 7. Objectivity   |
| 8. Confidentiality   |
| 9. Competence  |
| 10. Transparency   |
| 11. Professionalism  |
| 12. Compliance with the Code                                       |

*Figure 1: A benchmark: Common principles identified among four Codes*

The above benchmark was used to analyze the Codes of Ethics of banks in the sample, to answer the research questions in the study.

### **Are Ethical Principles Available in the Codes of LCBs?**

Firstly, the contents of the Codes of LCBs were analyzed to see whether ethical principles were available. Most of the domestic LCBs had the common ethical principles (Figure 1) embedded in their Codes of Ethics. However, the number of principles and rules in the codes varied across banks. In addition, there were few rules outside the identified 12 common principles. Two such additional principles identified were, “anti-corruption” and “whistle-blowing”. These two principals were against corruption, malpractices, bribery, gift-taking, compromised behavior etc. in banks, and considered vital in the current business context.

Foreign LCBs had ethical rules based on majority of the 12 common ethical principles. Many foreign banks used their Group Code of Ethics, hence included principles and rules relevant to off-shore banking operations. Some banks had special Codes for specific operational functions (e.g., Treasury operations, Credit Cards), and the rules in the special codes were restricted to operational instructions only.

### **To what extent are details of ethical principles available in the Codes of LCBs?**

The length of the Codes of banks varied according to the number of ethical principles and rules included in the codes. Some banks had only a few ethical principles, where as some had majority of the principles out of the 12 common principles. The banks which had lengthy Codes of Ethics had various other disciplinary and operational guidelines to employees, in addition to the ethical rules. The analysis revealed that when various types of rules other than ethical rules (e.g., operational, disciplinary, foreign policy, welfare, transfer etc.) were included in the Code, it made the document lengthy and less effective.

Mostly cited ethical principles were trustworthiness, honesty, integrity, reliability, respect, responsibility, fairness, caring, citizenship, and objectivity. The least cited principles were transparency, and competence. However, these two principles are considered crucial to discharge a banker's responsibilities in a transparent and a professional manner. Based on the 12 common principles identified, authors developed a guide (Table 2) to evaluate the Codes of Ethics of banks. This is to find out the 'Availability' of ethical principles or to what extent the Code included the specific common ethical principles. A value was given to the answers (Yes = 1; No = 0), to evaluate the availability of ethical principles (X) and calculate the percentage (%) of the intensity of ethical standard of the Code of Ethics of banks. This (Table 2) could be used as a self-evaluation guide by individual banks, to identify the intensity of the ethical standard of their Codes against a common ethical standard or benchmark.

**Table 2: Benchmark to evaluate the 'availability' of ethical principles in the Code of Ethics**

|  |                        |
|--|------------------------|
| <b>Ethical Principles (expected outcome)</b> | <b>Score (X)</b>       |
| <b>'Availability'</b>                        | <b>Yes = 1, No = 0</b> |

|  |                     |
|--|---------------------|
| 1. Trustworthiness (to maintain Credibility)<br><i>Honesty</i> (to maintain morality)<br><br><i>Integrity</i> (to stick to values)<br><br><i>Reliability</i> (to accomplish commitments)<br><br><i>Loyalty</i> (to avoid conflict of interest) |                     |
| 2. <i>Respect</i> (to respect rights of others)  |                     |
| 3. <i>Responsibility</i><br>(to be accountable for action)   |                     |
| 4. <i>Fairness</i> (to be impartial)   |                     |
| 5. <i>Caring</i> (to help others)  |                     |
| 6. <i>Citizenship</i> (to obey laws; protect the environment)  |                     |
| 7. <i>Objectivity</i> (to avoid personal conflict of interest)   |                     |
| 8. <i>Confidentiality</i> (to maintain customer secrecy)   |                     |
| 9. <i>Competence</i> (knowledge and skills on ethics)  |                     |
| 10. <i>Transparency</i> (to have openness in dealings)   |                     |
| 11. <i>Professionalism</i>   |                     |
| 12. <i>Compliance</i> (to comply with the ‘letter’ and ‘spirit’ of the Code).  |                     |
| <b>Total Ethical Standards Score - Availability of principles</b>  | <b>(X/12) * 100</b> |

### 3. To what extent are the available details of ethical principles being clear to the reader?

Authors used the same benchmark (Table 1) to develop a tool (Table 3), to evaluate the ‘clarity’ of details of ethical principles included in the Codes of Ethics of banks. Accordingly, Codes of the LCBs were analyzed and a value was given (1 or 0), according to the clarity of details (Clear = 1; Not clear = 0). With the total value scored (Y), percentage (%) of clarity of the principles included in the Codes was calculated.

**Table 3: Benchmark to evaluate the ‘clarity’ of ethical principles in the Code of Ethics**

| <b>Ethical Principles and Rules (expected outcome)</b><br><b>“Clarity”</b>  | <b>Score (Y)</b><br><b>Clear = 1,</b><br><b>Not clear = 0</b> |
|---|---|
| 1.Trustworthiness (to maintain Credibility)<br><i>Honesty</i> (to maintain morality)<br><br><i>Integrity</i> (to stick to values)<br><br><i>Reliability</i> (to accomplish commitments)<br><br><i>Loyalty</i> (to avoid conflict of interest) |   |
| 2. <i>Respect</i> (to respect rights of others)   |   |
| 3. <i>Responsibility</i><br>(to be accountable for action)  |   |
| 4. <i>Fairness</i> (to be impartial)  |   |
| 5. <i>Caring</i> (to help others)   |   |
| 6. <i>Citizenship</i> (to obey laws; protect the environment)   |   |
| 7. <i>Objectivity</i> (to avoid personal conflict of interest)  |   |
| 8. <i>Confidentiality</i> (to maintain customer secrecy)  |   |
| 9. <i>Competence</i> (knowledge and skills on ethics)   |   |
| 10. <i>Transparency</i> (to have openness in dealings)  |   |
| 11. <i>Professionalism</i>  |   |
| 12. <i>Compliance</i> (to comply with the ‘letter’ and ‘spirit’ of the Code).   |   |
| <b>Total Ethical Standards Score – Clarity of details of principles</b>   | <b>(Y/12) * 100</b>   |

Intensity of the ethical standard of the Codes of Ethics depend on the ‘availability’ and ‘clarity’ of details of the ethical principles included in the Code. Hence, banks could use the guides (Table 2 and Table 3) to conduct self-evaluations of their Codes, to find gaps against the benchmark or universally accepted ethical principles.

Based on the benchmark developed (Table 1), authors propose a Common Code of Ethics for LCBs operating in Sri Lanka (Table 4).

**Table 4: Common Code of Ethics: Ethical principles and expected behavior of employees**

| <b>Ethical Principles (universally acceptable)</b>  | <b>Expected behavior from bankers at work</b>   |
|---|---|
| 1.Trustworthiness<br>- <i>Honesty</i><br>- <i>Integrity</i><br>- <i>Reliability</i><br>- <i>Loyalty</i> | To:<br>be trustworthy in all bank operations and duties.<br><i>conduct duties with honesty.</i><br><i>conduct themselves with integrity.</i><br><i>be reliable in providing information.</i><br><i>be loyal to the bank at all times.</i> |
| 2. Respect  | be respectful to customers, internal and external.  |
| 3. Responsibility   | be responsible when giving advice to customers.   |
| 4. Fairness   | treat stakeholders impartially.   |
| 5.Caring  | provide assistance to elderly, differently-abled, or financially illiterate customers to have fair access to banking services.  |
| 6.Citizenship   | comply with rules and regulations/obey laws, protect the environment etc.   |
| 7.Objectivity   | avoid personal conflict of interest: where interest conflicts with that of the bank or its clients, a disclosure to be made.  |
| 8.Confidentiality   | maintain customer secrecy or should not to divulge customer information to third parties, except in accordance with the law.  |
| 9.Competence  | be familiar with ethical principles' knowledge and skills, to maintain high standards of ethical competence at work.  |
| 10.Transparency   | ensure transparency in all business operations or to make full disclosure of all relevant information, to customers.  |
| 11.Professionalism  | act with due diligence and care in the best   |

|               |  |
|---------------|--|
|               | interest of the bank and its customers, at all times.  |
| 12.Compliance | strictly adhere to the rules of the Code, and to understand that, violation of the Code will be a punishable offence under the Disciplinary Code of Conduct of the bank. |

The common Code of Ethics (Table 4) stipulates the operating ethical principles and the expected standards of behavior to be followed by the employees in the banks.

## CONCLUSION

The study analyzed the Codes of Ethics of 18 LCBs operating in Sri Lanka, and compared the contents of the Codes of banks against a benchmark (Table 1) developed based on 12 universally accepted ethical principles; Trustworthiness, Respect, Responsibility, Fairness, Caring, Citizenship, Objectivity, Confidentiality, Competence, Transparency and Professionalism. The intensity of ethical standards of the Codes were evaluated against ‘availability’ and ‘clarity’ ethical principles included in the Codes. Two instruments were developed (Table 2 and Table 3) to evaluate the Codes of Ethics of banks, to identify gaps against the developed benchmark. The instruments (Table 2, Table 3) offer LCBs an opportunity to conduct self-evaluations of their individual Codes, to identify the intensity of ethical standards of same, comparing against a universally accepted ethical standard.

The LCBs operating in Sri Lanka do not have a common Code of Ethics, developed according to a universally accepted ethical standard. Hence, the general features and intensity of ethical standards of the individual Codes varied among banks. This was identified as a major gap in Codes of ethics of the banks. Hence, authors developed a Common Code of Ethics, based on universally acceptable 12 ethical principles identified through existing literature, for LCBs operating in Sri Lanka (Table 4).

This is perhaps the pioneer study in this area: identifying gaps in the Codes of Ethics of LCBs operating in Sri Lanka, and developing a common Code of Ethics based on universally acceptable ethical principles. Hence, this study makes an original contribution to the existing knowledge in Codes of Ethics of banks, and adds practical managerial implications to the Sri Lankan Banking Industry, as well as to the banking industries functioning internationally.

## REFERENCES

- Companies Act No. 7 of 2007, Parliament of The Democratic Socialist Republic of Sri Lanka.  
[http://www.drc.gov.lk/app/comreg.nsf/200392d5acdb66c246256b76001be7d8/\\$FILE/Act%207%20of%202007%20\(English\).pdf](http://www.drc.gov.lk/app/comreg.nsf/200392d5acdb66c246256b76001be7d8/$FILE/Act%207%20of%202007%20(English).pdf) \_Accessed August 22, 2016.
- Colombo Stock Exchange (CSE) for listed companies registered at the SEC, since January 2009.  
[https://www.cse.lk/pdf/Issuer\\_Relation\\_En.pdf](https://www.cse.lk/pdf/Issuer_Relation_En.pdf). Accessed August 22, 2016.
- Financial Services Professional Board Launches Code of Ethics for the Financial Services Industry,  
[http://fspb.com/App\\_ClientFile/cf19434c-e35d-47ea-9ac3-36638ac18f8c/Assets/Media\\_Release\\_FSBP\\_Launches\\_Code\\_of\\_Ethics\\_for\\_the\\_Financial\\_Services\\_Industry.pdf](http://fspb.com/App_ClientFile/cf19434c-e35d-47ea-9ac3-36638ac18f8c/Assets/Media_Release_FSBP_Launches_Code_of_Ethics_for_the_Financial_Services_Industry.pdf), Accessed August 20, 2016.
- Hartman, L.P. and Chatterjee, A., 2007. Perspective in Business Ethics. The McGrawHill companies. *New Delhi*.
- Kaptein, M. and Schwartz, M.S., 2008. The effectiveness of business codes: A critical examination of existing studies and the development of an integrated research model. *Journal of Business Ethics*, 77(2), pp.111-127.
- Kaptein, M. and Bons, F. (2014), The Business Codes of the Fortune Global 200. What the largest companies in the world say and do.  
<https://www.kpmg.com/NL/nl/IssuesAndInsights/ArticlesPublications/Documents/PDF/Forensic/The-Business-codes-of-the-Fortune-Global-200.pdf> , Accessed on August 15, 2016.
- Monetary Law Act (Chapter 422) (Incorporating Amendments up to 30th June, 2014). Central Bank of Sri Lanka. [http://www.cbsl.gov.lk/pics\\_n\\_docs/09\\_lr/\\_docs/acts/mla\\_7th\\_rev\\_latest.pdf](http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/acts/mla_7th_rev_latest.pdf)
- Prevention of Money Laundering Act, No. 5 of 2006. Parliament of The Democratic Socialist Republic of Sri Lanka. [http://fiusrilanka.gov.lk/docs/ACTs/PMLA/Money\\_Laundering\\_Act\\_2006-5\\_\(English\).pdf](http://fiusrilanka.gov.lk/docs/ACTs/PMLA/Money_Laundering_Act_2006-5_(English).pdf)
- Schwartz, M.S., 2002. A code of ethics for corporate code of ethics. *Journal of Business Ethics*, 41(1-2), pp.27-43. [https://scholar.google.com/scholar?cluster=4363907494200437851&hl=en&as\\_sdt=0,5](https://scholar.google.com/scholar?cluster=4363907494200437851&hl=en&as_sdt=0,5), accessed on August 10, 2016.
- Stevens, B., 2009. Corporate ethical codes as strategic documents: An analysis of success and failure. *EJBO Electronic Journal of Business Ethics and Organization Studies* Vol. 14, No. 2 (2009).  
[https://jyx.jyu.fi/dspace/bitstream/handle/123456789/25441/ejbo\\_vol14\\_no2\\_pages\\_14-20.pdf?sequence=1](https://jyx.jyu.fi/dspace/bitstream/handle/123456789/25441/ejbo_vol14_no2_pages_14-20.pdf?sequence=1), Accessed on August 10, 2016.
- The Banking Act No. 30 of 1988. [http://www.gbld.org/xml/Srilanka/Srilanka\\_BA.pdf](http://www.gbld.org/xml/Srilanka/Srilanka_BA.pdf)
- The Central Bank of Sri Lanka. [http://www.cbsl.gov.lk/htm/english/09\\_lr/lr.html](http://www.cbsl.gov.lk/htm/english/09_lr/lr.html) \_Accessed on August 20, 2016.
- The Central Bank of Sri Lanka, Annual Report 2015.

[http://www.cbsl.gov.lk/pics\\_n\\_docs/10\\_pub/\\_docs/efr/annual\\_report/AR2015/English/content.htm](http://www.cbsl.gov.lk/pics_n_docs/10_pub/_docs/efr/annual_report/AR2015/English/content.htm)  
, Accessed August 20, 2016.

The Customer Charter –English Version- Central Bank of Sri Lanka.

[http://www.cbsl.gov.lk/pics\\_n\\_docs/09\\_lr/\\_docs/directions/pdd/PDD\\_Annex\\_CustomerCharter\\_e.pdf](http://www.cbsl.gov.lk/pics_n_docs/09_lr/_docs/directions/pdd/PDD_Annex_CustomerCharter_e.pdf). Accessed August 20, 2016.