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Bank Commitment to Ethics

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Abstract: This paper brings theoretical approach of ethics in financial industry as well as research results from Croatian banks. The role of ethics in financial industry becomes every day more important issue, also there are no more questions of ethics institutionalisation - it is a question of ethical behaviour. Research limitation was subject matter so sample was reduced to seven major banks in Croatia which are actively involved in creating ethical values. The paper implies stakeholders' orientations which assure understanding, learning and improving organisation; as well as identification, development and implementation of appropriate strategy also larger attention in future should be given to institutionalisation of ethics, on every level, because main ethical dilemmas according to bank managers trace roots in society culture. The value of this paper is based on the uniqueness of the research results about ethics in Croatian banks.

Key words: *Ethics, Banks, the Republic of Croatia*

1. Introduction

As Green (1989) stated the future will be increasingly complex and conflicting issues bank's resolve and commitment to ethical behaviour will be tested. We are already facing this. With all the changes we track last twenty years on financial markets, and especially because of environmental issues, globalisation, developing of information technology, knowing customers, etc., business ethics has slowly started to achieve priority in the business agenda. It became obligation for financial institutions. Unethical behaviour: the greed of managers, the company's engagement in manipulative deals, corruption, the lack of state intervention on the market, the little focus placed on moral, ethics and losing of the human values as well as social responsibility of corporations, on other side, is (or it will be) punished.

The financial crisis has brought with it an array of consequences and new responsibilities for financial institutions. Although according to Daft (2008) we can distinguished ethical behaviour between the "domain of codified law" and "domain of free choice" in case of financial institutions, new rules and laws which regulate financial institutions' behaviour are ensuring compliance with ethical codes of behaviour and assure stability primarily for customers (Buchanan, Huczynski, 2010). Within this, responsible ethical behaviour has started to be highly valued for all stakeholders, especially for investor's community. Ethics from a theoretical point of view, defines set of rules that guide people through the decision-making process in order to unable them distinguish the good versus bad decision in different situations (Ćorić and Jelavić, 2009, pg. 394). Every day leaders bring many decisions and they are based on different situations encountered in the practices or other words they are facing ethical dilemma. Although sometimes it seems easy to bring a decision, it is not. We have been witnesses of many wrong decisions and wrong leadership, and unmoral leaders. Corporate leader is not enough to be good, moral individuals privately, in order to be considered. Ethical leader**,** one must be proactive, about communicating their ethical value, decision-making criteria and expectations of employee (Gilman, et al., 2002). Furthermore, for all stakeholders is important that ethical values are seen in business strategy as plan for future and expected development of corporation. Business strategy has to be ethical because (Ćorić and Jelavić, 2009, pg. 398): (1) strategy which is completely or only partially morally incorrect has a bad influence on the employees' character and (2) ethical strategy enables good business and is in the interest of shareholders. The absence of ethical elements is an organizational dysfunctional instance which undermines organizational cohesion and human confidence which are the most important immaterial business factors (Bogdanović, 2008, pg. 296).

This paper focuses on the banks commitment to ethics in Croatia. With regards to the recent economic and financial crises, authors wanted to explore ethical dimensions Croatian bank managers recognize and value. They wanted to see how much the crises of morality affected Croatian managers. Hence, through

giving the insights into the recent developments in the field, authors are combining theoretical and practical elements. The rich theoretical background is provided in the first chapter, followed by research results based on the real research conducted in the Republic of Croatia. The empirical research is divided into two parts. First one is focused on the happenings in the banking sector providing an overview; the ownership structure, criteria of the division of banks into small, medium and large, the analysis of asset concentration, net credit and deposits, the concentration of credits and deposits received, and flows and changes in particular forms of bank assets. The second part is exclusively focused on research results. The research problem was to investigate the ethical climate within the banking sector and to underline main aspects of ethics and its implementation in the business practice. The research goal is to present the current situation with regards to ethical discipline within main Croatian banks as well as to provide some recommendations in the field. The review on ethics is provided; the new issues and novelty in literature is enlightened, as well as the key research results presented. Practical recommendations give valuable tips for interested parties.

2. Review of Literature

Ethics in the Banks: Ethics is a branch of philosophy dealing with moral issues, very complex concept with no unique and universally accepted definition. The word 'ethics' is of Greek origin (ethikos) meaning habitual or customary conduct, or often can be used as custom and character. (Encyclopaedia Britannica, 2011) On the other side, the ambiguous word moral is a Latin word meaning customary behaviour. (Stanford Encyclopedia of Philosophy, 2011) Importance of ethics is best described in Adam Smith The Theory of the Moral Sentiments (1759) which states that a capitalist system must be based on honesty and integrity, otherwise will be destroyed (Lo, Sheu, 2007, pg.345). So, ethical questions and dilemmas are of strategic importance for the organization especially for corporate governance which direct and control organization. Corporate governance (Ryan et al., 2010, 673) comprises the roles, responsibilities, and balance of power among executives, directors, and shareholders. Corporate governance (Cornett et al., 2009, pg.16) is also a process of monitoring managers and aligning their incentives with shareholder goals - inside: board of directors, supervisory board and outside the firm- auditors, investment analysts, investment banks, credit analysts, whilst recently local community, suppliers, customers, NGOs are putting their eye on firm's behaviour. "Ethical investments" appeared at the end of twenty century and is an investing vehicle which reflects investor's values and concerns regarding the impact and conduct of business activities (Lo, Sheu, 2007, pg.347). Defining business ethics we refer to a movement within business or the movement to explicitly build ethics into the structures of corporations in the form of ethics codes, ethics officers, ethics committees and ethics training (De George, 2010). However, still looting and related problems as a result of companies and financial institutions engaging in fraudulent deals like currency trafficking, money laundering, forged letters of credit and bankers' receipts, manipulation and falsification of accounts, writing off bad and doubtful debts to show deliberately reduced levels of nonperforming assets by engaging in terminological in exactitudes, etc. are happening in today's business life (Swami, 2009, pg. 71) But, organizations slowly began to change, responding to growing public pressure, media scrutiny, their own corporate consciences, and legislation, thus turning to be ethically sensitive. Many organizations had started reacting to calls for ethical structures, and more and more started adopting ethical codes and instituting ethics training for their employees. Furthermore, many regulations and Acts, international institutions' efforts further strengthen the need for ethical behaviour (The U. S. Civil Rights Act of 1964, The Foreign Corrupt Practices Act, Defense Industry Initiative (DII) on Business Ethics and Conduct, The Sullivan Principles, The Global Compact, etc.)

The financial crisis of 2007 – 2010 (Ryan et al., 2010, 686) has also focused attention on the finance industry and brought to the fore the question of whether finance is in some sense special. Financial system constitutes a kind of crossroads: it is affected by governance problems but at the same time is required to influence the governance of other business, the functioning of markets and the ethical conduct of other actors (Marsiglia, Falautano, 2005). Lately we witnessed broad federal interventions to support the financial system have been justified on the grounds that the provision of credit and the continued functioning of the financial system were necessary to sustain all areas of the economy (Ryan et al., 2010, 686). The point is that financial institutions must base their behaviour on ethical criteria and this comes from the awareness that the yield of financial investments depends on the trend of the real economy (Marsiglia, Falautano, 2005). In market economy, a company's ability to create value is a particularly helpful measure of performance because it takes into account the long – term interests of all stakeholders (McKinsey 2010), so, ethical values became more important. Today's organizations have to leave the concept that underlines knowledge and competences as the cornerstones of a successful business and

means of getting the competitive advantage. They should recognize the trend of ethical behaviour as valuable assets to encourage government, shareholders, investors, clients, employee, etc. that they are institution of future. As noted in the research conducted by Laouisset (2009, pg. 337) Statistically significant relationships between organizational ethics and objective organizational performance as indicated by productivity, quality, and employee turnover and as well as organizational performance versus the industry as indicated by productivity, profitability, quality, and customer retention have been demonstrated by the study on the banks. Statistically significant relationships between organizational ethics and objective financial performance as indicated by income relative to total sales have been similarly demonstrated.

Bankers' role is one of stewardship based on trust. Ethical values should make an integral part in each dimension of the strategy to prevent and detect fraud: commitment, communication, control and culture (Krummeck, 2000). Thus, organizational behaviour and structure should change in a way to incorporate new qualitative values such as ethics, morality and social responsibility. A key strategic leadership question arises when introducing a change in strategy and new values into the business (Holme, 2008, pg. 304). Leaders on their own are not able to transform the organization and introduce new values if they don't have right people on key positions in the organization who understand what values mean for the organization. The inculcation of ethical values in an organization is not an easy process. Employees have to be given the opportunity to engage with the ethics document and to discuss, to examine and to question the values of the organization that are placed before them (Aydinlik, 2008). Good ethical policy and atmosphere throughout the company involves engagement of all employees, managers and leaders. Leaders in order to retain its position, be respected and enhance corporate reputation need to be creative, risk-taking, team-oriented, responsive, adaptive to changes and be able to look at them as a challenges and sources of new opportunities but also should be managers with lots of character being able to address all new issues and bring decisions in a way that reflect sound moral and ethical values. Unless selfish management and fraudulent motives are eradicated in any country or organization, its success is short-lived and myopic. It is important that every manager in the organization becomes a selfless spiritual leader who is able to inculcate the dharmic (ethical) code of value so that money laundering account manipulation and other heinous crimes become a thing of the past. The mere form of a human being is not significant – what is essential is the observation of human values (Swami, 2009, pg. 82).

The revelation of existing dynamics of self-reinforcing positive spirals, the effects of positive emotion, inquiry and leadership on employees and organizations has led the latter to perceive that trust, compassion; integrity could constitute the next basis for competitive advantage (Laouisset, 2009, pg. 334). Ethics is implying moral judgment and thus it is influenced by culture, and its judgment is based on moral standards applied by different cultures. Hence, another challenge banks – multinational corporations face is that they operate across boundaries of one country – where they have their headquarters. The management of these issues goes beyond simply complying with the law. It requires a strategic decision about the policy to be adopted and the latitude for discretion by executives working in countries with different ethical standards and traditions. Less time is then spent on whether to take a course of action that might be unethical and more time can be devoted to deciding how to successfully apply one's values to business decisions. (Holme, 2008, pg. 308) According to William A. McKenna, Jr., retired Chairman and CEO of Ridgewood Savings Bank (Pactwa, 2006, pg. 3), the main corporate values and culture that the bank should promote are: integrity, loyalty, honesty and fairness. It should focus on responsiveness to the needs of the customer, and promote a standard of equality. They should believe they are owned by their employees, customers and the community. One way of communicating and embedding ethical values in the organization is through well defined ethical policy. Codes of Ethics as well as the code of conduct are means through which ethical values can be spread throughout the organization. Codes of conduct are derived from codes of ethics whether the ethical code is a written code or unwritten and understood by members of the organization developing the code (McFadden, 2010). The Codes of Ethics and Codes of conduct become a tool to safeguard institution's standards and reputation. They inform employees about what is considered acceptable professional behaviour, and what is accepted of the institution's employees, underscore the ethical responsibilities of each employee to the institution and lay out the legal policies that affect bank workers, they reduce the risk of costly litigation and corporate image damage, help curb dishonest behaviour in the financial services industry, particularly if the codes are signed by employees and reinforced by management (Aspen Publishers, 2009). The effectiveness of corporate codes of ethics is dependent, inter alia, on the day-to-day behaviour of managers. Ethical behaviour if beyond expectations should be rewarded and misbehaviour penalized (Pactwa, 2006, pg. 3- 4).

The most important factor in controlling unethical conduct within companies is how staff perceives the value that senior management attaches to ethical behaviour, so organisational culture, and the leading by example are important tool in setting ethical values. An important way in which behaviour of staff can be influenced is through remuneration policy, and senior management needs to be careful to ensure that rewards are not given to staff that uses dubious practices to gain business (Carse, 1999). Besides this the Principal – Agent relationship or the agency relationship can create ethical dilemmas or the moral problem: uncertainty, or doubt as to what one ought to do; and motivation, the difficulties involved in fulfilling one's moral obligations. The uncertainty-motivation grid yields four possible combinations, each defining a different type of ethical problem: (1) a genuine ethical dilemma, which may arise when two or more valid ethical duties conflict, in which one is unsure what to do but wants to do what is right; (2) a compliance problem, in which one knows what the moral obligations are, but experiences difficulty in fulfilling them; (3) moral laxity, in which one acknowledges an indeterminate moral duty, but is unclear as to what exactly is to be done and fails to take serious steps toward the pursuit of the moral duty; and (4) no-problem, in which one knows what the moral obligations are and is willing to fulfil them (Aviva, 2001, pg. 308). The Josephson Institute (2010) suggested some of the ethical dimensions which companies could follow to increase their productivity, employee satisfaction and enhance their core values: (1) put the mission first and above personal considerations**,** (2) use a common language of values to increase mutual understanding**,** for example**,** Six Pillars of Character: trustworthiness, respect, responsibility, fairness, caring, and citizenship, (3) make sure your organization lives up to your employees' values, (4) develop a code of ethics and code of conduct, and stand behind them**,** (5) support the ethics program and set the example, (6) make ethics decisions in groups, (7) foster transparency and trust, (8) strengthen your business ethics skills, (9) understand that no one's perfect and (10) pay attention to the little things**.**

3. Methodology

Theoretical approach of this paper was focused on how ethics can and should be dealt with when conducting specific activities, as the ones banks perform. This is particularly important due to sensitiveness of interested stakeholders and their interest in the functioning of the financial system of the country. Research in the field was carried out in October 2010 using the questionnaire, which was sent by e-mail to bank managers exclusively. Prior actual sending of the invitation and questionnaire, rigorous desk research was done and phone calls were placed. In order to get the most of the research and to attain the most objective results, managers were contacted in order to finalize a complete list of all responsible managers form the chosen banks. The questionnaire was put on the web to facilitate the research and enable managers to reply faster having the possibility of quicker mode for replying. Questions were descriptive, dichotomous, those based on level measurement (i.e. Likert response scale, ordinal questions-ranking model, semantic differential). The questionnaire was created in a way to explore a manager's perception of (1) corporate governance; (2) ethics and corporate social responsibility and (3) corporate communication and reputation. Research limitation was subject matter so sample was reduced to seven (7) major banks in Croatia which report to Croatian National Bank on the consolidated basis (Banks Bulletin, No.20, 2010) and are actively involved in creating ethical values: Erste & Steiermarkische Bank, Hrvatska poštanska banka, Hypo-Alpe – Adria Bank, Privredna banka Zagreb, Raiffeisenbank Austria, Societe Generale – Splitska banka, and Zagrebačka banka. Research results were analyzed using SPSS program and Excel tools. Respondents' were equally divided: male 50%; female 50%. Average number of years on the managerial position was 7 years. The average age of respondents is as follows: 37, 5% of managers have between: 31-35 years; 37, 5% of managers have between: 41-45 years. 75% of the respondents have a bachelor degree; none of them has finished a MBA, nor have attained the scientific master or doctoral degree.

4. Results and Findings

The Banking Sector in the Republic of Croatia – an overview: The Republic of Croatia is small European country with 4.4 million inhabitants. Real GDP has decreased for 5, 8% in 2009 compared with 2008, and for 1, 4% in 2010 compared with the previous year due to the negative movements of domestic demand (negative trends on the labor market, low level of consumer optimism have influenced the household demand and all this was further supplemented with the decrease of investments) (Croatian Bureau of Statistics, 2011). The structure of the gross added value in 2009 (current prices) was the following: public sector and defense (18%), agriculture (6, 7%), industry (19, 1%), construction (8%), hotels and

restaurants (4,4%), trade (10,9%), transport and storage (8,3%), and financial services and real estate (24,4%) (Croatian National Bank, 2011a). The registered unemployment rate for March 2011 was 19, 3%. The average monthly paid off net earnings per person in paid employment in legal entities of the Republic of Croatia for February 2011 amounted to 5 242 HRK[1] (Croatian Bureau of Statistics, 2011). The inflation rate in February 2011 was 2,2% due to the increase in prices of un-manufactured and manufactured alimentary goods. At the end of 2010 the gross foreign debt was 45,8 billion Euros or 99,7% of GDP. Due to the negative movements in the real sector and the high price of foreign borrowing the Croatian National Bank has continued to conduct politics of high HRK liquidity in the banking sector in order to enhance and improve domestic financing conditions and stronger credit activity recovery. At the beginning of March 2011, Croatian National Bank has decreased the rate of minimal coverage of the total foreign currency liability for liquid foreign currency receivables from 20% to 17%. (Croatian National Bank, 2011b). The discount rate of the Croatian National Bank is 9% the same as the interest rate for Lombard credit, whilst the reserve requirement is 13% (Croatian National Bank, 2011c).

The Croatian National Bank, as stipulated by the Constitution of the Republic of Croatia, is the central bank of the Republic of Croatia. The status, tasks, objectives and capital ownership of the central bank, its powers, organization and relations with the bodies of the Republic of Croatia, banks and international institutions and organizations are regulated by the Act on the Croatian National Bank (Official Gazette 75 of 1 July 2008). According to the Credit Institutions Act (Official Gazette 117 of 26 September 2008) credit institutions in the Republic of Croatia are divided into three main groups: banks, savings banks and housing savings bank and their initial capital shall not be less than HRK 40 million (for the banks), less than HRK 8 million (for savings bank) and less than HRK 20 million (for savings housing bank). "Credit institution" means a legal person authorized by the competent authority, whose business is: (1) to receive deposits and other repayable funds from the public and to grant credits for its own account; or (2) to issue means of payment in the form of electronic money. A credit institution is a joint-stock company.

According to the Banks Bulletin (Croatian National Bank, 2010a and 2010b) we can distinguish - small banks dispose of less than HRK1.0bn of total assets of all banks, medium size banks dispose of assets in size of HRK 1.0-10.0bn and large banks dispose of assets exceeding HRK10.0bn. Thus in statistic analysis of financial reports submitted by banks to the Croatian National Bank takes into account different bank peer groups. The number of large banks, their order by assets, and their total market shares, show no considerable variations in the last five years. By the end of 2009 and the first half of 2010 most of the market, i.e. 82,7% and 82.2% of total bank assets still belonged to the group of large banks. The bank ownership structure at the end of the first half of 2010 was: nineteen (19) banks were under majority ownership of domestic shareholders and 15 banks were under majority ownership of foreign shareholders. Bank assets under majority ownership of foreign shareholders amounted to 90.6% of total asset of all banks (Table 1), slightly lower share than by the end of 2009, as a consequence of the unchanged level in foreign ownership of overall bank assets and the simultaneous growth in domestically owned private bank assets by 5.1%, and in domestic state ownership of bank assets by 1.4%. The greatest impact in domestic ownership of bank asset share growth occurred in small banks, prevailingly owned by domestic shareholders.

Table 1: Ownership Structure of Banks and Their Asset Share in Total Bank Assets, end of period

	2007		**2008**		**2009**		**2010**	
	No.of banks	**Share**	**No.of banks**	**Share**	**No.of banks**	**Share**	**No.of banks**	**Share**
Domestic ownership	17	9,6	18	9,4	19	9,1	19	9,4
a) Domestic private ownership	15	4,9	16	4,9	17	4,9	17	5,2
b) Domestic state ownership	2	4,7	2	4,5	2	4,2	2	4,2
Foreig ownership	16	90,4	16	90,6	15	90,9	15	90,6
Total	33	100	34	100	34	100	34	100

Source: Croatian National Bank (2010b) Banks Bulletin, No.21, year 10, , Zagreb, pg. 20

[1] The exchange rate for the Croatian Kuna on February 26th, 2011, according to the Croatian National Bank Exchange rate list (middle reate) was 1Eur = 7, 414 HRK

It is interesting to observe the ownership structure according to the headquarters of the corporations or the country of residence of the owners. At the end of 2009, the greatest share in terms of ownership belonged to the Austrian corporations (60, 4%), followed by Italian (19, 4%) and French corporations (7, 3%) (Croatian National Bank, 2009, pg. 64).

The analysis of asset concentration, net credit and deposits over the longer period showed that the bulk of the sum of all stated items remains concentrated in the top ten banks, viewed by their asset size. The concentration of credits and deposits received, measured by Herfindahl-Hirschman Index (HHI) is moderate. Because of their increase in some large banks with considerable impact on the indicator level, the values of all indexes are slightly lower in relation to the end of 2009. Thus the asset index value amounted to 1366 at the end of 2009 and 1356 at the end of 2010, net credit amounted to 1409 at the end of 2009 and 1405 at the end of 2010, and deposits received to 1448 at the end of 2009 and 1412 at the end of 2010 (Croatian National Bank, 2010a and 2010b).

Table 2: Biggest Banks in the Republic of Croatia

No.	Name	Total Assets '000 HRK	Share in total Assets in %	Asset Growth
1	Zagrebačka Banka d.d.	92.814.083	24,10	3,83
2	Privredna Banka Zagreb d.d.	65.061.033	16,89	1,04
3	Erste&Steiermarkische Bank d.d.	49.142.273	12,76	7,47
4	Raiffeisenbank Austria d.d.	39.501.232	10,26	-2,17
5	Hypo Alpe-Adria Bank d.d.	38.764.907	10,07	46,23
6	Societe Generale - Splitska banka	27.702.201	7,19	0,75
7	Hrvatska poštanska banka d.d.	13.985.623	3,63	-4,46
8	OTP banka Hrvatska d.d.	12.629.864	3,28	-1,90
9	Volksbank d.d.	7.664.000	1,99	-0,18
10	Međimurska banka d.d.	2.838.241	0,74	-0,80

Source: Croatian National Bank, Audited data on banks, 31st of December 2009

Flows and changes in particular forms of bank assets have for the first half of 2010 had little impact on the asset structure, mostly on increase in net credit share. Larger net credit growth rate than the total asset growth rate, together with the decrease in some other investment forms influenced the increase in credit share within bank assets from 66.7% at the end of 2009 to 68.3% at the end of the first half of 2010. The share of cash also increased slightly and it amounted to 1.7% of bank assets, with the share of other asset forms lower than at the end of 2009. Deposit shares with other banks amounted to 7.7% of the total bank assets, lower than at the end of 2009. Slight decrease by 0.4 percentage points was noted in securities, which formed 8.7% of assets by the end of first half of 2010, and in Croatian National Bank deposits, which, after the reduction in shares, formed 10.5% of bank assets.

Compared to the end of 2009, some slight changes in bank asset currency structure were noticed. Therefore bank assets in foreign currencies have decreased during the first half of 2010 because of considerable decrease in financial sector placements and investments into foreign securities. Due to the increase in net credit and securities, after almost two years of continuous decrease, assets with currency clause increased in the second quarter of 2010, along with the increase in HRK assets with currency clause. However, no considerable changes within the overall asset structure were shown, because of which foreign currency assets, including foreign HRK assets with currency clause at the end of the first half of 2010 formed 65.2% of overall assets. (Croatian National Bank, 2010b, pg. 26)

Considerable capital investments and retaining larger portion of profit achieved since 2006 still had positive impact on the capital share within bank liabilities, which has increased to 14.1% in the first half of 2010. Due to retaining the majority of profit for the previous year and to the profit achieved in the current year, the larger than average capital share was shown in bank liabilities of large banks (14.6%). Within small bank liabilities, the capital share was relatively high, in spite of losses from previous years and the non-realized loss based on value adjustment of assets held for sale. The share in medium banks was the lowest (11.5%) because of considerable impact of low level capital in one bank from the medium

bank group. (Croatian National Bank, 2010b, pg. 29). Decrease in profits for the first semester of 2010 led to the further fall in bank profitability, and to lower values in Return on average assets (ROAA) and Return on average equity (ROAE) regarding the same period of 2009. ROAA decreased from 1.5%, to which it amounted at the end of the first half of 2009, to 1.2% at the end of the first half of 2010. It decreased both in large and small banks, while the increase in medium-size bank indicators represent the consequence of profits obtained by the bank which had operated with a loss in the same period of the previous year. The lowest value indicator was still stated in small banks (0.2%), in medium-size banks it amounted to 0.7%, and in large banks to 1.3% (Croatian National Bank, 2010b, pg. 33).

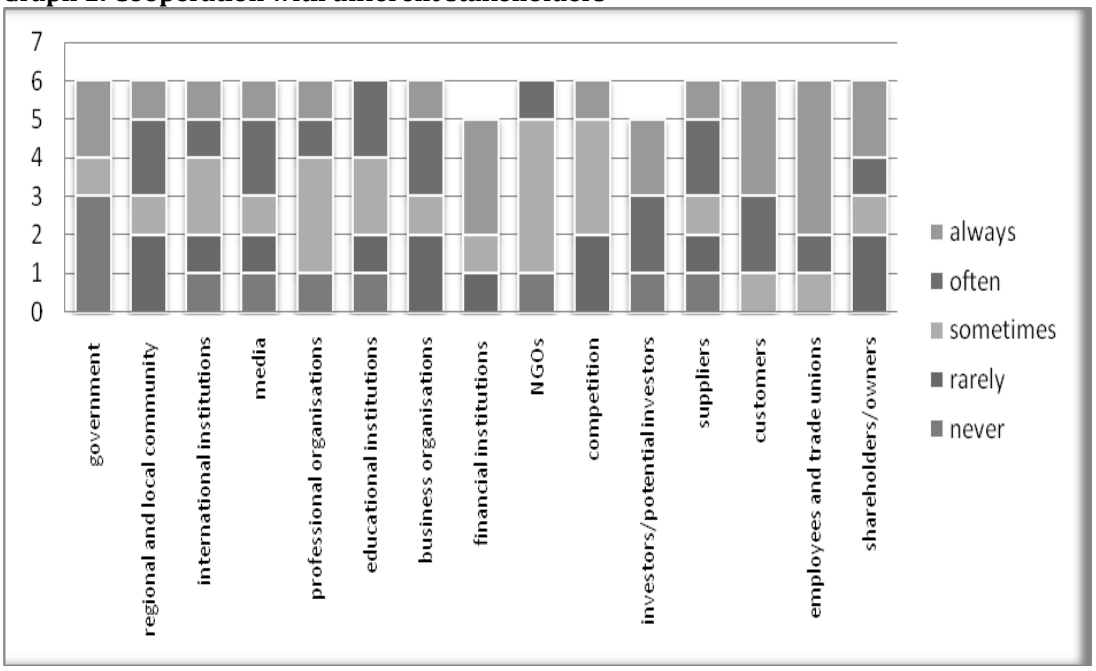
Discussion: In order to approach the matter more holistically, authors find it important to underline main elements of corporate governance as a system, which directs and controls the bank. In Croatian banks, corporate governance is mainly recognized in the processes of**:** strategic planning (66, 7 %), financial reporting (66, 7%) and security of the business system (66, 7%). Hence, corporate governance is recognized in the main processes. When conducting similar research within the joint stock public companies, authors noted similar preferences meaning that strategic planning and financial reporting were always placed as the most important processes within which corporate governance is recognized. (Golja, Paulišić, 2010) Banks from the sample are also publicly traded. This highlights the need of ethical commitment of bank managers. Corporate governance has very strong impact on the definition and implementation of the systems, rules, processes and conditions for managing the bank.

Compared with the research results attained from the joint stock public companies, where the very strong impact of corporate governance was placed on customer support and feedback information on the corporation, the difference can be noted. Basically, managers in other sectors underlined that, for them, customers and their feedback is seen as more important that implementation of supporting systems for managing the company. The FDK Group (2008) believes that well- established corporate governance will enhance the healthiness and the fairness and transparency of the company and increase the value for their shareholders. But, good governance is not simply a matter of adopting a set of rules, but a continuous process of implementing tailored strategic initiatives to maximize long-term value. Principles of openness, responsibility towards environment, participation in decision making, equality and consistently all have great influence on any corporation wanting to have good reputation. However, according to some of the previous researches the state of corporate governance system in the Republic of Croatia has taken its way to recovery but there has still been some place left for improvement and acceleration.

Research results pointed out that according to managers' perspective the extremely important impact on their bank has notably (1) customer satisfaction and (2) gaining profits, while employee satisfaction and community benefits are perceived as important factors influencing the bank. This goes in line with previous researches. Customer satisfaction, being placed as the extremely important factor indicates the level of awareness bank managers place on balancing and fulfilling customer needs. Bearing in mind that customers are becoming more and more interested in the way banks do their business, indicates that they have recognized the responsibility they have towards them.

The research results show that for banks good cooperation with stakeholders is needed. Managers have chosen and defined that for them stakeholder participation means: (1) way of understanding stakeholders, learning and improving the organization within stakeholders' expectations (66,7%) and identification, development and implementation of appropriate strategy, plans and ways of stakeholder engagement (66,7%), (2) identification and understanding of different stakeholders, their engagement possibilities, their expectations (33,3%) and defining ways of stakeholder inclusion in decision process which improves the sustainability of the organization (33,3%) and (3) defining the conflict and dilemmas between different expectations of stakeholders (16,7%). So banks governance is under huge influence of stakeholders. The following graph (Graph 1) presents precise results of their cooperation with different stakeholders whether on a very frequent basis, rarely, often, sometimes or there is no cooperation at all.

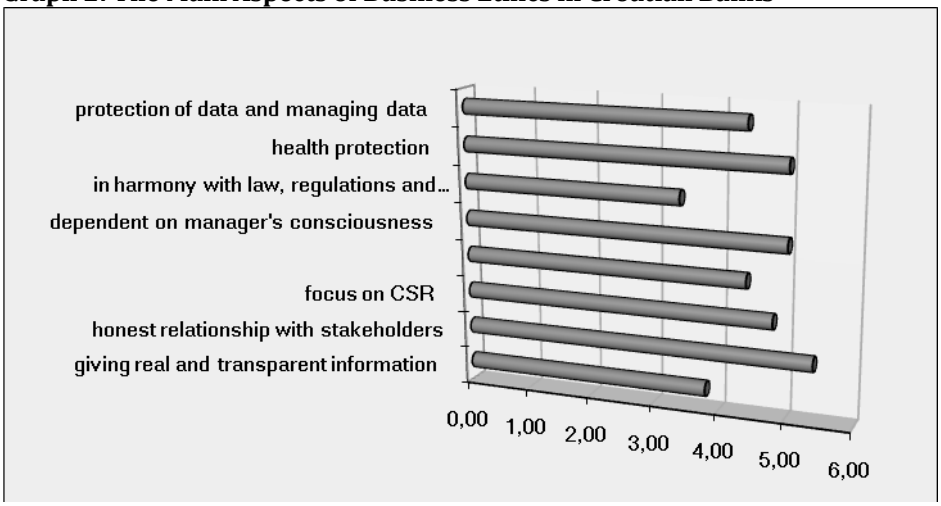
Graph 1: Cooperation with different stakeholders



It could be noted from the above that the banks **always** cooperate with (1) employees and trade unions, (2) financial institutions and (3) customers. Hence, they always cooperate with primary stakeholders. (according to Clarckson (1995) and Weiss (2006)) But shareholders cooperation is not on frequent basis, it means that the shareholders/owners – managers in the banks relationship is built on trust and transparency, as some of key elements of corporate governance. On the other side, bearing in mind these are publicly traded companies, shareholders/owners do believe in the institutional framework and requirements. However, for any group of stakeholders it is necessary to find 'balance' of corporate trust which will raise ethical behavior of the bank. (Paulišić and Golja, 2011, pg. 9) The bank managers think that the extremely distinctive feature of their work is: legitimacy, honesty, professionalism, responsibility, consciousness and competency. Based on the novelty in the field of ethics, these distinctions managers feel about their work are positive and commendable. These are distinctions that go align with main ethical features in business because corporation should be based on trust. But**,** opinion about the same characteristics of work generally in Croatia are concerning.

Recognized weaknesses are: honesty, consciousness, responsibility, improvisation and objectiveness and professionalism – all ethical aspects, so governments' aspiration must as number one priority influence on changes needed in attitude towards work. Managing ethics in the workplace generally must distinguish right and wrong, acceptable and unacceptable practice. From bank managers' point of view unacceptable business practice are corruption (100%); mobbing (80%), and discovering business secret (80%), unequal terms in hiring (60%); and use of alcohol and other stimulants (60%). According to respondents experience and opinion the ethical dilemmas mostly appear on stakeholder and social level - levels which cannot be influenced directly from an organisation and depend on the level of ethics incorporated in society. If we compare with the research results, conducted in April 2010 on joint stock companies in Croatia (Golja, Paulišić, 2010) which shown that their managers think main ethical problem in Croatian economy occurs always or almost always, at first place, because of internal politics (46,6%), we could notice a differences in industry thinking. Bank managers think that the perceptions on the social level or the level of the society are to be blamed for the lack of morality. It is important to recognize that ethics refers to: (Velasquez et. al., 2010) well-founded standards of right and wrong (refrain from rape, stealing, murder, assault, slander, and fraud, honesty, compassion, and loyalty, right to life, the right to freedom from injury, and the right to privacy) that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. This is to be underlined. Forward, main aspects of business ethics (Graph 2) in Croatian banks today are (1) honest relationship with stakeholders, (2) dependent on manager's consciousness and health protection and (3) focused on CSR.

Graph 2: The Main Aspects of Business Ethics in Croatian Banks



Source: Authors' analysis

Also all banks have their own Code of Ethics. For 80% of researchers the main elements of code are confidentially of information, discrimination and money laundering/abuse of sensitive information. For 60% of managers see security of employee, bribe and corruption, protection of owners / shareholders and responsibility for legislation/regulation adherence as important elements of the Code of Ethics. So, Code of Ethics used in Croatian corporation in the future should implement other relevant elements such as: international business practices; management responsibilities; rights and responsibilities of employers and employees; fundamental honesty; internal communication; equal opportunity and affirmative action; sexual and other harassment; product quality; ethics in marketing and advertising; ethics of accounting, expense accounts, corporate citizenship and responsibility to society and protecting the environment.

Table 3:Measures Used to Improve Ethical Culture in Corporation

What measure your corporation is taking to improve ethical clime and CRS?	Response in %
leading by example	80,0%
Code of Ethics	60,0%

Finally, banks are always trying to find measures (Table 1) to improve current situation in case of arising ethical behaviour and culture. A research result implies that for banks is important to be lead by example (80%) and corporation must write and implement Code of Ethics (60%). But there are also other possibilities as building ethical structures, maintaining ethical trainings, assure hot line etc. which want to encourage society to react on inappropriate behaviour. It is a way to include stakeholders in building ethical organisation and society.

5. Conclusion and Recommendations

Fights against corruption, bribery and other negative occurrences have been placed on the top of the national pro-developmental agenda in Croatia. Struggling with ethical problems became main preoccupation in all levels of society. In this contexts, banks has important role in assuring healthy financial system which is a backbone of national developmental strategy. For Croatian bank managers stakeholder participation is primarily seen as way of understanding stakeholders, learning and improving the organization within stakeholders' expectations and identification, development and implementation of appropriate strategy, plans and ways of stakeholder engagement. Hence, bank managers do recognize stakeholders as important in their business. Main aspects of business ethics in Croatian banks today are honest relationship with stakeholders, dependence on manager's consciousness and health protection and focused on CSR. From stakeholder orientation, main attention is given to employees and trade unions, financial institutions and customers. In addition, research results showed that extremely distinctive feature of their work is: legitimacy, honesty, professionalism, responsibility, consciousness and competency. But **for** them working environment generally has weaknesses, missing honesty, consciousness, responsibility, improvisation and objectiveness and professionalism. The working

environment is not favourable and this is alarming. Croatia is still perceived as a country where investments are not favourable due to political instability, lack of good and reliable political and legal infrastructure, fiscal discipline and low level financial market development. This issues should be highlighted and corrected – change of financial structures, entrepreneurship vs. household credit, increase spending on research and development in education, support of innovative SMSs etc. Bank managers are showing high level of ethical awareness but the problem is deeper (as shown above) and cannot be left only on banking sector. For bank managers, the unacceptable business practice is corruption; for 80% mobbing, and discovering business secret. This is demonstrating the instability and bad functioning of main institutions in the Republic of Croatia. Majority of the banks have their own Code of ethics. Managers suggested that for banks is important to be lead by example and that they have written and implemented Code of Ethics. Ethics is important and it is good to know that it has been recognized by bank managers, but in order to develop the ethical climate, strong institutional improvements should be done.

Some of the practical recommendations are noted hereafter:

- Stronger institutional engagement in creating favourable ethical climate for businesses (on the local, regional and national level)
- Blocking of unacceptable business practice
- Stronger fight against corruption
- Stronger engagement in local and regional happenings
- Stronger focus on customer needs and satisfaction ("to hear the customer")
- Constant dialogues with different stakeholders, including shareholders (ideal for brainstorming)
- Strong and morally conscious leaders
- Managers should lead by example
- Stronger focus on employees and their overall satisfaction (working atmosphere in general)
- Building of ethical structures, introducing ethical trainings and hot lines to improve ethical structures
- Code of Ethics used in Croatian corporation in the future should implement other relevant elements such as: international business practices; management responsibilities; rights and responsibilities of employers and employees; fundamental honesty; internal communication; equal opportunity and affirmative action; sexual and other harassment; product quality; ethics in marketing and advertising; ethics of accounting, expense accounts, corporate citizenship and responsibility to society and protecting the environment
- Recognition of values of the community and culture where banks operate

Theoretical background of this paper gives profound explanations why ethics should be considered as important in the financial sector – especially in the banks. The conducted research which supplements the theoretical insights, gives a holistic and concrete picture of the situation in the Croatian banking sector. As such, the paper is particularly important for bank managers, academics, politicians and students who can use it for anticipating changes in the business environment as well as a starting point for further and deeper researches in the field of management and financial sector.

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