

## Ethical Banking and Its Applicability in Turkey\*

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### Abstract

Banks are financial intermediaries that attempt to make profits in intense competition. The ambition to make profits can cause banks to ignore social and environmental factors. In such a case, banks appear to approach people, the environment, and businesses unethically in the long run through unfair competition, unfair policies, and practices that do not care about human values. Ethical banking aims to avoid the damages caused by traditional banks and to make a difference with its transparent and accountable structure, such as where and how savings are used. The aims of this study are to explain ethical banking and its differences from traditional banking and to discuss the applicability of ethical banking in Turkey.

### Keywords

Ethics • Sustainability • Banking • Ethical banking • Sustainable banking

### JEL Codes

G21 • Q01 • Q56

\* This is an extended abstract of the paper entitled “Etik Bankacılık ve Türkiye’de Uygulanabilirliği” published in Turkish Journal of Business Ethics.

**Manuscript received:** May 31, 2018 / **Accepted:** December 25, 2018 / **OnlineFirst:** December 30, 2018.

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**To cite this article:** Gündoğdu, A. (2018). Ethical banking and its applicability in Turkey. *Turkish Journal of Business Ethics*, 11, 255–273. <http://dx.doi.org/10.12711/tjbe.2018.11.2.0011>

Ethical approaches for the banking sector have existed throughout the past, but ethical issues are increasing in this sector with its high profits and competition. Ethical violations in the banking sector directly related to the funding of an active product such as loans against securities (LAS) greatly affect national economies and social structures. The ethics issue is of particular importance for the banking sector, which provides the flow of funds to the world economy and can be described as a kind of artery for the world.

Ethical issues for the banking sector are important not only for customers but also for all bank stakeholders. A bank's unethical activities may affect other competing banks within the system. Meanwhile, unethical practices faced by employees can undermine confidence in banking activities.

Ethical values are essential for the sustainability of banks. The importance of banking activities in the world economy in terms of both quantity and quality reveals how ethical violations can cause negative effects for all stakeholders. In addition to economic factors, banks should be more careful and selective in their banking-sector activities, which is where environmental and social factors are measured. In order to gain more profit in a highly competitive environment, banks have a credit relationship with businesses doing illegal activities and activities that threaten human health; financing projects that cause environmental pollution causes negative developments for sustainability.

This study aims to define ethical banking, discuss the applicability of ethics in banking other than conventional banking by examining ethical banks in the world and Turkey. In the first part of the study, the ethical principles generally accepted for banks are explained, and significant differences between ethical banking and traditional banking have been determined. The study's second part examines ethical banks in the world, and the last section discusses ethical values for banks in Turkey. The study is important in terms of bringing this issue to the agenda in the literature due to its emphasis on the ethical aspects of banking and ethical issues for the Turkish banking sector as well as the world.

The aim of ethical banking is to have banks avoid economic benefits, rather having them choose social benefits. Traditional banks, by means of corporate-social responsibilities, highlight social benefits. Recently, however, these activities have been used as a competitive advantage rather than an ethical element (San-Jose & Retolaza, 2009, p. 3).

The banking sector is the most dynamic and comprehensive institution in the financial market. Continuous developments in the banking system have come alongside technology and globalization. Due to increasing competition and appetite for profit,

banks can exhibit unethical behaviors such as not fulfilling their responsibilities to their employees and customers, applying unfair competition practices towards their competitors, and being insensitive to environmental and social factors. Of course, banks' compliance with laws and deposits is a key element. However, many social and environmental factors exist unregulated by law but having public interest. In this context, ethical banking means not just doing business in accordance with the law. Considering the ethical principles banks must observe in Turkey, one can say these principles remain superficial.

No ethical credit cooperatives, social investment companies, or ethical banks are found in Turkey. Turkey, with its high level of income inequality, has a need for these organizations as they provide services in an ethical framework for disadvantaged people who have problems obtaining bank credit. The existence of ethical banks and financial institutions can help businesses increase their commitment to corporate governance and sustainability.

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