


Chapter 8

The Importance of Ethics and Corporate Social Responsibility in Financial Markets:

A Literature Review and Recommendations for Ethical and Islamic Banking

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ABSTRACT

This chapter mainly focuses on the literature about the relationship between ethics, corporate social responsibility, and financial markets, which is broad and diverse as well as multi-disciplined. Some are concerned only with ethical banking, while others seek to establish a financial system based on social responsibility to society and people. The studies essentially bring attention to the question of how banks should act in the face of the moral-economic dilemma. In fact, ethical aspect is much more valuable than economic profitability and includes a social responsibility approach. In the concept of ethical concerns and corporate social responsibility, the literature has been reviewed and problematic areas discussed for ethical and Islamic banking. Islamic finance and specifically Islamic banking can be seen as a new practice to bring corporate ethical responsibility and social justice into the financial and economic spheres.

INTRODUCTION

One of the main reasons behind formation of financial and economic crisis is unethical behaviors of owners, executives and employees in financial organizations such as government banks, commercial banks, central banks and insurance companies. The relationship between financial institutions and ethics is crucially important for solid financial system in which consumer and firms perform their economic

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activities in mutual trust. Therefore, moral sensitivity as well as legal regulations should be established in financial institutions both in terms of corporate mentality and individually.

Ethical banking is a concept that defines the banking understanding that includes transparency, environmental consciousness and social responsibility practices. While Ethical Banks are trying to make a profit on the one hand, they are trying to do this in line with the principles. The separation between environment, society and economy that undermined socio-economic structure of societies and endangered the continuation of humanity. Ethical banks provide many benefits for a sustainable socio-economic system if they address issues that other traditional banks do not consider. In fact, this ethical aspect is much more valuable than economic profitability and includes a social responsibility approach. Thus, they aimed to contribute to the integration between ethical theory and daily banking practices.

Although ethical banking and Islamic banking have similarities in many ways, Islamic banking has many different principles based on religion. In this context, it is expressed that the growth of ethical banking accelerates Islamic banking. Although many thinkers think that Islamic banking is based on the idea of ethical banking, it can be said that Islamic banking offers an approach stemming from Islamic moral understanding. According to Islamic financing, ethical investments are based on a moral and legal basis that defines the levels of halal and haram, makes a beneficial social contribution to society. With this study, the topic of ethics and social responsibility in financial markets will be researched and problematic areas will be discussed. Thereby the study will be concluded by policy recommendations within conceptual framework discussed.

LITERATURE REVIEW FOR ETHICS AND CORPORATE SOCIAL RESPONSIBILITY IN FINANCIAL MARKETS

Literature Review on Ethics and Financial Markets

The literature about the relationship between ethics and financial markets is multi-disciplined. Some studies theoretical, most of them are econometric and quantitative, others are qualitative. The reasons for conducting these studies are as diverse as the research subject. Some are concerned only with ethical banking, while others seek to establish a financial system based on sensitivity to society and people. In this section; the research topics, scope and findings of the studies conducted in the literature in terms of ethics and banking will be reviewed.

In a survey research conducted by Harvey (1995) with the bank clients on ethical banking in the UK, it was concluded that ethical banks are beneficial if they develop different strategies on issues that other conventional banks do not care about. In a study of sustainable development in the context of environment, society and economy, Giddings et al. (2002) found that the separation between environment, society and economy developed a kind of techno-scientific approach, which undermined socio-economic structure of societies and endangered the continuation of cultural differences. San-Jose et al. (2011) selected 114 banks in 10 European countries as sample groups and examined property-based ethical banks and traditional financial institutions according to the Radical Affinity Index; ethical ideology, transparency of information, guarantee, the portfolio selection of assets and participation etc. and consequently found that ethical banks differ in terms of information transparency and the portfolio selection of assets from conventional financial institutions. In another study, Forseth et al. (2015) investigated the factors of illegal action, fraudulent sales and right selling through exploratory ethnographic method in the period of

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