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Abstract
This study concentrates on the ethical issues and conditions prevailing in the Turkish banking environment. A self-administered mail survey was conducted with 554 top bank managers in Turkey. Scenarios that were developed after a pilot study were factor analyzed. The objective of the study was to identify ethics related organizational, cognitive and affective dimensions that are likely to affect perceptions of bank managers in interpreting the eight factors and the remaining four scenarios. The findings indicate a consensus on ethical sensitivity among the Turkish bank managers. The Banks Association of Turkey has a code of ethics that favorably influences the banks, and the regulatory agency (BRSA) is perceived to enhance the ethical values in the sector. An optimistic view maybe to interpret the ethical banking climate as a desirable after effect of the banking crisis and the regulatory intervention. This development may indicate a deterrence-based shift to a more virtuous Turkish banking sector.

Key Words- business ethics, banking, Turkey

I. Introduction
Ethics is a universally sensitive topic. The importance of ethical behavior in the financial sectors is especially important since business depends as much on reputation as on performance (Brickley et al, 2002). Banking sector, being an intermediary between the depositor and creditor must be more sensitive for the ethicality of its transactions. A respectable bank is expected to have honesty, integrity, social responsibility, accountability and fairness. Banks have to make choices in gray areas of ethics and under high levels of pressure that may damage reputation and may cause financial loss (Carse, 1999; Souter et al., 1994). Accepting bribes in return for loans, lending to connected parties or cheating customers would be claimed as ethical by no bank (Carse, 1999). Ethical values are still not “firmly entrenched and followed” in the banking sector. Bribery and corruption have been one of the root causes of the banking problems.

Banking business is becoming more complex and the borderline between what is legitimate and illegitimate become more blurred (Carse, 1999). Being perceived as trustworthy is crucial for the survival of a bank (Chiami and Fullenkamp, 2002). Banking business depends on trust necessitated by the complexity of the transactions and vulnerability of customers because of imperfect information (Khan 2002). An ordinary bank customer does not have the opportunity and adequate knowledge to understand the banking transactions (Frenkel and Lurie, 2003). For all these, more social responsibility towards the actors of community (government, customers, shareholders, employees) is demanded from financial intermediation (Bernard, 1989). Contracts are based on promises. Promising is an act infused with ethics and carry a moral obligation to be kept. Ethics insists that promises should be kept (Fried, 1981).

Mitchell et al. (1992) identified seventeen categories of unethical behavior in banking: defrauding government, bribery of public officials, interest fraud and float abuse, lies and deception, employee theft, insider trading, bribery of private citizens, discrimination, socially questionable activities, bad judgment in management decisions, corporate politics, unfair trade practices, industrial espionage, environmental harm, safety, conflict of interest, invasion of privacy. It should be noted that most of these dimensions do not fully overlap with the issues identified in the present study for Turkey.

The Turkish banking sector is trying to survive in an unstable environment. The presence of full guaranty on deposits by the Savings Deposits Insurance Fund (SDIF) and the twin crises of 2000 and 2001 affected the entire financial system. However, structural problems and fragilities were more prominent in the banking sector, resulting in systemic banking crisis. Twenty banks were taken over by the SDIF between the years 1997- 2002. The adverse situation aggravated during the last quarter of 2000 and in 2001 largely due to the highly volatile regulatory environment. During the years 1999 and 2002, major shareholders, members of the executive board and top managers of the banks taken over by SDIF were charged with exercising potentially harmful practices, causing bank losses, not protecting the rights and interests of depositors. These people are accused of breaking the Turkish Banking Law and Turkish Criminal Law. Four of these banks were prosecuted by the State Security Court (SSC). In most of these cases bankers defended themselves as their actions not being against the Turkish Laws. The trials continue.

The regulatory risk exists in markets not only when they break the law but also when the rules of the game are not clearly defined or change frequently, parallel with the changes in the standards of what is right or wrong (Carse, 1999). In this unstable environment, it is even more important to provide a solid framework for the banking sector by establishing an ethical climate within the organization, top managers acting as ethical role models, having a widely accepted and referred code of ethics, and regular in-house ethics training.

This study attempts to examine the main ethical dilemmas experienced in the Turkish banking sector. The major aims of the study are :

- To assess ethicality of some Turkish banking practices
- To determine the effect of organizational, cognitive and affective factors that influence ethical climate

In the introduction part, the importance of ethics in financial system with reference to the literature is discusses and information on the sensitivity of the Turkish banking environment is provided. In the second part, methodology is summarized. The findings are presented in part three. Conclusion part interprets current ethical banking climate.

II. Survey Instrument and Sample

The study is generated in a two-stage process. At the first stage, a questionnaire was mailed in the fall of 2002 to thirty-two bank managers to identify situations that might be perceived unethical in the banking community. The managers selected belonged to the researches' network in order to minimize the potentially sensitive nature of bank ethics (Snell, 1995). Potential ethical problems or gray areas were derived from the responses to the pilot questionnaire. The primary benefit of the initial study was to form a firm background about the ethical perceptions and beliefs in the industry. At the second stage, a self-administered survey was mailed in the summer of 2003 among the top 554 managers (board members, general managers, presently employed in the Turkish banking sector) of 53 banks in Turkey. The list of the top managers was gathered from the member list of the Banks Association of Turkey (BAT). The aim of the research was explicitly written as conducting a situation analysis and gathering objective data. Since ethics is a potentially sensitive topic and that the Turkish banking sector is going through a very sensitive period, a self-administered survey was used. Time constraint on the part of managers is another reason for the preference of the self-administered survey.

In this study, completed and usable answers were received from 161 respondents. This represented a response rate of 29 %, which is acceptable for studies of this nature (Soutar et al, 1994). The relatively low rate may reflect reluctance of managers to share time, sensitivity of the issues, lack of a clear organizational "pay-off".

The survey consisted of twenty-two scenarios, an open-ended question and 26 short questions. Twenty-two hypothetical scenarios that "describe possible misconduct" (Dawson, 1997) were developed based on the pilot study findings, in-depth interviews and content analysis of the pleas of the SSC. To enhance face validity, the scenarios were reviewed by a bank general manager and by two lawyers specialized in the area of banking and acted as board members. The scenarios were found to be representative of respondents' actual experiences and to include all relevant features of the actual situation as Liedka recommends (1992). In the scenarios, language specific to the banking sector was used (Randall and Gibson, 1990).

III. Data and Findings

The individual characteristics of the respondents were identified by demographic variables as gender, age, marital status, educational background, number of children, age of children, experience in the banking sector, number of banks worked and number of years in current bank. Respondents (161) included 8%women and 92% men and fell in the following categories with respect to age: 30 to 39 (22%), 40 to 49 (39%), 50-59 (29%) and above 60 (10%). The majority (91%) was married with children. The majority of the respondents were university educated (63%) and 37% had graduate degree. The majority had degrees in the field of business administration and economics (81%). 43% of the managers were working in the banking sector for more than 20 years. Only 7% had been in the banking sector for five or less years. Majority of the respondents (40%) had been in their current bank for less than 6 years. Only 21% had been working in the current bank for more than 15 years. 31% had worked only in one bank. 22% had worked in four or more different banks. This may suggest a high turnover rate in the Turkish banking sector. 33% of the respondents were executive board members or chairs, while 57% were general managers or assistant general managers of the banks.

Organizational characteristics of the banks were analyzed as year of establishment, status of the bank, the size of the bank, possession of code of ethics and the date of the preparation of code of ethics. 35% of the respondents were from small-scale banks with less than 1 billion USD in total assets. On the other hand, 36% of the managers were from large-scale banks with total asset above 5 billion USD. 57% of the banks were established before 1980. In the sample, foreign banks and investment & development (I&D) banks were assumed to be underrepresented. 13% and 6% of the respondents were from foreign and I&D banks, respectively whereas in the population 24% of banks were foreign and I&D banks. However, the sample is also quite inclusive.

Ethics score for each manager and the sample reflects ethical judgment of the sample. An ethical score of "one" represents a very ethical manager whereas a score of "six" represents a very unethical manager. The scores in the sample range from 1.0 to a maximum 4.54. The mean ethics score of the sample is 2.03, indicating that the banking is an industry with high ethical standards, parallel to the findings of Touche Ross (1988), D'Aquila (2001) and the Turkish Ethical Values Foundation (TEDMER) Survey (2002). In the latter study, the respondents rank the banking sector as the fourth most ethical sector in Turkey among forty-three industries.

Vignettes describing ethical dilemmas in banking environment were initially factor analyzed to identify any underlying dimension. The answers given to the 29 questions in 22 scenarios were summarized by Factor Analysis into a fewer number of constructs and these eight factors are presented in Table 1. This analysis indicates the dimensions the ethical dilemmas are interrelated in the respondents' minds. Factor Analysis reduces redundancy by decreasing the probability of multicollinearity among the dilemmas.

Table 1. Results of Factors Analyses

Eight Factors & Five Independent Scenarios	Mean	Std. Dev.
Offshore	1.94	1.10
Information misuse & theft	1.81	0.87
Lending to connected parties	2.00	1.28
Fraud and Forgery	1.12	0.40
Bribery	1.33	0.68
Customer discrimination	2.86	0.98
Power pressure	3.19	2.05
Spreading negative information	8.49	78.66
Refraining from the undesirable information	1.37	0.95
Back-to-Back	1.68	1.35
Environmental protection	1.95	1.41
Money laundering	2.29	1.49
Price setting by the Headquarter	10.00	78.45

Factor analysis is performed by Principal-Components Analysis with Varimax with Kaiser Normalization. For analysis eigen-values greater one were taken. The factors were defined on the basis of highest loaded items and the factors retained explain 65.16% of the total variance. The items with a loading below 0.5 are not considered significant and not associated with the appropriate factors. Each factor is discussed below. Evaluations of the underlying dimension of the respondents' judgments reflect the researchers' subjective evaluation also.

As is observed in Table 1, factor one is named "offshore". It includes dilemmas such as major shareholder forcing the employees for establishment of an offshore branch (loading 0.868), shareholder bypassing legal credit restrictions through offshore branch (0.500) and the employee giving in to the demands of major shareholder to establish an offshore branch (0.828). In factor two, "information misuse and theft" is the common tread. This factor includes a retail banking manager in the headquarter (0.844) and a branch manager (0.834) taking customer portfolio's to their new banks, fiduciary loan with no records (0.595) and an employee buying stocks using inside information (0.586). Factor three is named as "lending to connected parties" with the intention of bypassing credit limits. In these scenarios, major shareholder demanding credit to be given to a third party with the intention of transferring the credit to him (0.782), the third party accepting to be instrumental in this transaction (0.839) and the credit committee acting not to know the intention of the transaction (0.740). In factor four, there are three scenarios related to the issue of major shareholder by-passing legal restrictions: branch manager's forgery of customer signatures to collect deposits for an offshore branch in order to fulfill the general manager's and major shareholder's demand (0.799), the major shareholder establishing a fake company (0.825) and the credit committee granting the requested credit (0.768).

Bribery is the core issue in factor five: a customer offering a holiday trip to the director with whom he has rescheduled his loan payments (0.784), the director accepting the trip offer (0.768) and the branch manager in a small town requesting loan from a customer (0.698). In factor six, "Customer discrimination", senior dealer refrains from selling foreign exchange at the announced quoted rate in the interbank market because of some negative news in the economy (0.695), the bank increases the interest rate of floating rate credit with no specific maturity date from 95% to 156% due to economic crisis (0.604) the general manager intervenes in the recruitment decisions (0.565), bank charges different interest rates to two customers without any change in the market conditions (0.529) and major shareholder requests loans with more favorable conditions for the customers of his real estate company (0.506).

In factors seven and eight only one variable loads above 0.5. Factor seven, "power pressure", is the major shareholder requesting extra effort from the branch manager to collect deposits for offshore branch (0.806). Factor eight, "warning a customer about possible risks in a competitor bank (0.886) is called **"**spreading negative information". The scenarios "refraining from the undesirable information[1]", "back-to-back credit", "environmental protection", "money laundering" and "price setting by the Headquarter[2]" have not loaded above 0.5 in any of the factors therefore, they are taken as the independent factors, I1, I2, I3, I4 and I5, respectively.

The eleven short questions related to the issue of ethics are presented as organizational, cognitive and affective dimensions in Table 2.

Table 2. Means and Standard Deviations of Respondents for Ethics Issues

Organizational Dimension		Frequency	Percent
Presence of code of ethics	Have a code of ethics	120	76.9
	Don't have a code of ethics	36	23.1
The date of prepar. of ethics document	Before 2000	19	27.6
	In 2000	12	17.4
	In 2001	23	33.3
	In 2002	10	14.5
	In 2003	5	7.2
In house ethics training	No in-house training	41	28.3
	Only for new employee	45	31.0
	Annual training	29	20.0
	Other	30	20.7
Cognitive dimension			
Being knowledgeable of TBAT's Ethical Principles	No idea	11	7.0
	Some idea	42	26.6
	Know it	105	66.5
Does the Law Nr. 4389 cover ethical dilemmas fully?	Not at all	20	13.2
	Partially	118	77.6
	Fully	14	9.2
Affective Dimension		3	
The impact of BRSA on ethical values	Reduced the importance of ethical values	0	0
	Had no impact	29	18.0
	Enhanced the importance of ethical values	130	80.7
The impact of the ethical stand of the majority shareholder on ethical stand of the top managers	No impact	11	6.9
	Some impact	97	61.0
	Full impact	51	32.1
The extent of the overlap with managers' ethical values and the Bank's ethical values	No overlap	5	3.2
	Some overlap	16	10.2
	Mostly overlap	68	43.3
	Fully overlap	68	43.3

The main mechanisms for institutionalizing ethics can be listed as the code of ethics, ethics training programs, ethics committees, ethics audits, Judiciary Boards, and internal ethics ombudsmen (Soutar et al., 1995). A code of ethics is a helpful but not sufficient mean for regulating the relations within the bank. Such codes play an important role in creating a corporate culture of openness and responsibility among stakeholders. It is

[1] ignoring to warn that offshore deposits lack full guarantee
[2] changing the agreed price of a foreign exchange transaction because headquarter announces a higher price

believed that top banking managers working in banks with code of ethics will exhibit behavior that is more ethical and this will reflect as more ethical sensitivity in scenario evaluations. On the other hand, there are mixed research results on this issue. Murphy et al. (1992) found a weak relationship between the existence of code of ethics and ethical behavior of top managers. The 1992 Survey conducted in Turkey by Young Businessmen Association of Turkey (TUGIAD) among 500 top companies indicate that some sort of business rules and regulations covering ethical principles exist in 52% of the companies. According to another study, 44% of the domestic companies and 51% of multinational business companies in Turkey have a written code of ethics (Ekin and Tezölmez, 1999). A research conducted by TEDMER (2002) found that 66% of the Turkish workforce has written or verbal ethics standards. In this survey "The extent to which code of ethics had penetrated into the minds" (Schwartz, 2001) of top bank managers was measured and found that in the Turkish banking sector, the 77% of the banks posses a written code of ethics. Of these codes 7% was written in 2003, 15% in 2002, 33% in 2001 and 17% before 2000. The November 2001 dated code of ethics of the Banks Association of Turkey had an encouraging impact on banks to develop their own codes.

The interaction between the factors and the answers to short questions about ethical issues were analyzed by ANOVA (F significant at 5% alpha level). An examination of the responses for eight factors and five independent scenarios reveal a decisively different pattern for ethical value measures. There is a statistically significant difference at the 0.05 level of significance between the answers given to a back-to-back credit dilemma (I-2) by the respondents from banks with code of ethics and without. On the other hand, at the same significance level, the date the banks code is written has impact on neither the identified factors nor the independent scenarios.

Only 7% of the sample claimed they did not have any idea about the content of code of ethics issued by the Banks Association of Turkey, 26% have some idea, whereas 65% are fully familiar with it. The null hypothesis that being knowledgeable about the code of ethics of the Banks Association of Turkey makes difference in the answers to factors named, "information misuse and theft" (F-2), "bribery" (F-5), "customer discrimination" (F-6) and "refraining from the undesirable information" (I-1) at 0.05 significance level. In 31% of the banks, ethics training is given only to new staff. Ethics training is repeated annually in 20% of the banks, whereas no ethics training is given in 28%. It is also statistically confirmed at the 0.05 level of significance that the null hypothesis the banks with ethics training differs lending to connected parties from those with no in-house ethics training. Ethics training is important in strengthening managers' ethical framework and developing their self-discipline when making decisions in ethically controversial situations (Sims, 1992).

12% of the respondents believe that the Turkish Banking Law Nr.4389 covers the ethical dimension of the banking issues, 9% believes the issue to be fully covered, whereas 73% thinks the law covers the ethics issue only partially. Respondents who believe banking law cover ethical dimension of the banking sector has impact on only one independent scenario: the price determination by the Headquarter, (I-5). 81% of the respondents think BRSA to have enhanced the importance of ethical values in the Turkish Banking system. 18% think it had no impact. There is no one who believes the institution to have decreased the importance of ethical values. The different answers given to the question about the impact of The Board of Bank Regulation and Supervision Agency (BRSA) on the ethic values of the Turkish banking system have impact on "bribery" (F-5), "refraining from the undesirable information" (I-1), and "back-to-back credits" (I-2) at the 0.05 significance level.

Ferrel and Weaver (1978) points to the importance of social interactions on ethical behavior within the organization. In organizations, managers are perceived as role models Sims (1992). Newstrom and Ruch in their 1975 study found managers ethical beliefs to be similar to beliefs of top management. The findings of this study convey a similar finding. 93% believe that the ethical stand of the major shareholder has full or partial impact on the ethical attitude of top managers. Only 7% of the respondents thinks major shareholder to have no impact. The responses to the factors and independent scenarios show no difference among the groups on the issue of whether the ethical attitude of the major shareholder has an impact on the ethical stand of the top managers at the 0.05 level of significance. 87 % of the respondents claim their ethics values to overlap fully or mostly with the ethics values of the bank they are working for. This view has impact on "information misuse and theft" (F-2), "bribery" (F5) and "customer discrimination" (F6) and spreading negative information (F8).

IV. Conclusion

The recent ethics research in Turkey indicates an optimistic outlook for the Turkish business. A TEDMER survey indicated that most respondents believe ethics will be more important (51%) in the coming period. Only 17% of the respondents believe it will be less important in the future.

Our study indicates a consensus on ethical sensitivity among the Turkish bank managers, also. Ethics scores of bank managers are high (2.03), indicating managers cluster on the ethical side in scenario evaluation. The Banks Association of Turkey has a code of ethics that favorably influences the banks in the system, and BRSA is perceived to enhance the ethical values in the sector. In Turkey, most banks have a code of ethics (77%) and offer in house training programs (72%).

These desirable, positive findings maybe explained by referring to the social desirability response bias or to the non-response bias. Managers who care less for ethics might not have bothered to answer the questionnaire or may have felt a pressure to choose the socially acceptable alternatives. A more optimistic view maybe to interpret the ethical banking climate as a desirable after effect of the banking crisis and the regulatory intervention. This development may indicate a deterrence-based shift to a more virtuous Turkish banking sector.

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