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# GLOBALISATION AND ETHICAL BANKING: CHALLENGES AND PROSPECTS

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## INTRODUCTION

Globalisation remains topical even though it has appeared in the horizon since early 1960s, and, it will remain a global phenomenon for unforeseeable future, particularly with the unstoppable blossoming of information and telecommunication technology (ICT). While globalisation has shrunk the world into what Marshal McLuhan (1964) called a global village, the ICT has networked everywhere into a cobweb design.

It is widely accepted that we all live in a globalising world where human dynamics, institutional changes, political relations and the global environment have become increasingly more intertwined (Martens, Dreher& Gaston, 2008).Increased global economic integration, global forms of governance, globally inter-linked social and environmental developments are evidences of this globalised world (Martens,*et al*, 2008).

Without much gainsaying, the increased globalization of the world economies has made business practises converge towards some level of uniformity. The structure and organization of firms, manufacturing technologies, thesocial organization of production, customer relations,product development, and marketing – are all becoming increasingly similar (Vogel, 1992). However, it remains a question if the trend is similar with respect to the principles and practices of business ethics involving a set of moral rules that govern how businesses operate. Business ethics is crucial to the survival of businesses particularly for the banking sector which is at the core of this paper.

The banks are mainly private concerns which activities have important implications for growth and development of the economy. Efficiency and ethical conduct in carrying out banking services are of paramount importance for the growth and sustainability of a bank and the economy.Banking ethics which are the moral or ethical principles that certain banks chose to abide by are intended to be applied in all kinds of affairs and relations of banks with each other or with their customers, shareholders, employees, and with other organizations within the context of existing reputation and reliability feeling termed as professional dignity.

Also, to protect and maintain stability, consistency and confidence in the banking sector (Banks Association of Turkey, 2014). Ethics in banking is of paramount importance if the financial sector of a country must remain viable and sustainable. It must not be sacrificed for profiteering.

The kernel of this paper are to identify the challenges faced by operating ethical banking within the space of global unethical operating environment and to look at the prospects of the survival of banks.

## REVIEW OF RELATED LITERATURE - Definitional and Conceptual Issues

### Globalisation

Defined differently based on area of interest, globalisation is often seen as a process. Globalization is an increasing interaction of people through the growth of international flow of money, idea and culture (Albrow& King, 1990). According to Giddens (1991), it is the intensification of social relations throughout the world, linking distant localities in such a way that local happenings are formed as a result of events that occur many miles away and vice versa. It refers to the emerging of an international network, to describe the world becoming more interdependent in its economical and informational dimension (Inosemtsev, 2008). It can also refer to the growth of inter-dependencies between national markets and industries on a worldwide scale with the growing interlinkages between national economies resulting in a trend towards global markets, global production and global competition (Brooks, Weatherston& Wilkinson, 2010). Thus, it can be said to promote international trade rather than local trade.

Stefanovic (2008) defines globalization as intensification of global flows of goods and factors of production being brought about by modern transportation, means of communication and technological progress. Globalization provides a net benefit to individual economies around the world, by making markets more efficient, increasing competition, limiting military conflicts, and spreading wealth more equally around the world. It entails free access to the world market without any parochial or governmental restrictions and by this all societies are interconnected and Industrialists are free to establish industry, trade or commerce home and abroad and hence there is freedom of exchange of capital, goods and technologies among countries.

Globalization involves spreading of ideas or knowledge, practices and technologies seamlessly across the world. It goes beyond modernization or westernization and takes market liberalization in its stride (Cuterela, 2012). It is a phenomenon that has led to the integration of regional economies, societies, and cultures through communication, transport and trade (Gurnani, 2015). These technological changes have made the world to become more interconnected and the changes cut across economic, social, cultural and political which has made the world to become a global village. Kofi Annan, the former secretary general of United Nations says that “arguing against globalization is like arguing against the law of gravity” (Kuepper, 2017).

**Banks and Ethical Banking**

A bank is an organization that fulfils investment and saving functions for the society by playing an integrating and intermediary role between the fund supplying and fund-demanding parties of the society (Mann, 2016). While efficiency demands that banks operate with a view to make profits for its shareholders, ethics are moral principles that govern a bank's behaviour in conducting its activity. Ethics is a systematic approach to understanding, analysing, and distinguishing between right and wrong, good and bad, admirable and deplorable as they relate to the well-being of and the relationship among sentient beings (Butt & Rich, 2016). Thus ethics refers to good character and morality and to generally accept human character and behaviour considered as desirable by contemporary society (Menezes, 2016).

An ethical bank, also known as a social, alternative, civic, or sustainable bank, is a bank concerned with the social and environmental impacts of its investments and loans. Ethical banking encompasses any banking system that embraces environmentally and socially conscious and best practices. While such banks still try to earn profits, they try to do it in the way that is consistent with best practices - commercial or professional procedures that are accepted or prescribed as being correct or most effective or morally right.Money or capital, which is intelligently and wisely invested as an instrument for improving quality of life, can have a major impact on human development and that is the bedrock of ethical banking

Ethical banking comprises of banks, financial institutions that embraces socially and environmentally conscious practises. They are consistent with these practices even when they try to earn profits (Moore, Baldwin,Camm& Cook, 2002)and these policies and principles are usually documented. Most of these practices include community involvement in which banks take special interest in projects that improves community's welfare such as provision of scholarships for students, affordable housing projects, etc.

Also, sustainable practices are encouraged where environmental friendly practices such as afforestation or reforestation, not involving in gambling, fossil fuel, weapons, pornography etc. Client screening is also another banking ethics that cut across in which banks screen their clients to avoid doing business with individuals, organizations with history of unethical and immoral practices. Njeru (2015) recognises six principles that financial institutions should embrace which include; commitment to sustainability, responsibility, accountability, transparency, not to do harm, sustainable market and governance.

**Theoretical Literature**

This section considers theoretical exposition that links human activities socially, economically and politically to natural and man-made inter-relationships within the context of global discourse and conduct. Some empirical observations round up the Section.

The **World System theory** in which capitalism spread across the globe originated around 1500. It is a capitalist world-economy because the accumulation of private capital, through exploitation in production and sale for profit in a market, is its driving force; it is a system that operates on the primacy of the endless accumulation of capital through the eventual trade of everything (Wallerstein, 1998). The key feature of this kind of system is that capitalist world economy has no single political centre.

The **regional trading bloc theory** deals with agreement of group of countries in a geographical area restricting imports from non-members which are of different types: preferential trade agreements (PTAs), free trade area (FTA), customs union, common markets etc. (economics online, 2017). PTAs reduce or eliminate policy-imposed barriers to trade (Baier&Bergstrand, 2008). We can view it in three distinct ways: economics, politics and commitment or credibility (Bagwell and Staiger 2002).

Economically, it can also be seen as restriction of unilateral trade policy, which can affect the welfare of other nations. Politically as limiting the distributional issues of trade policy choices by government. The commitment perspective explains PTAs in the context of increasing the credibility of government actions. These perspectives have a single objective which is to maximize national welfare, subject to different constraints (Snorrason, 2012). The defining characteristic of a PTA is that lower tariffs are imposed on goods produced in the member countries than on those produced outside (Panagariya, 2000).

**The transformationalistsand Postmodernists** view globalization as the relationship between economic processes globally and locally. This theoretical position argues that globalization should be understood as a complex set of interconnecting relationships through which power, for the most part, is exercised indirectly. They suggest that the globalization process can be reversed, especially where it is negative or, at the very least, that it can be controlled. Transformationalists and Postmodernists also see the global media as beneficial because it is primarily responsible for diffusing different cultural styles around the world, for example slave trade, killing of twins in Africa and creating new global hybrid styles in fashion, food, music, consumption and lifestyle.

It is argued that in the global, postmodern world, such cultural diversity and pluralism will become the norm. Postmodernists thus see globalization as a positive phenomenon because it has created a new class of global consumers, in both the developed and the developing world, with a greater range of choice from which they can construct a hybridised global identity.

**The Theory of Social Contract** can be linked to Thomas Hobbes who claimed that in the beginning man lived in the state of nature characterized by fear and selfishness but man has the innate desire for security and order. Inorder to secure self-protection and preservation, man entered into a contract and give up some freedom which is called social contract. Upon conclusion that it is natural and rational for people to give up individual liberty to gain security and self-preservation, he develops a conception of what forms of social organization and political system are consistent with those aims. He defines contract as a mutual transferring of right. The social contract therefore, is the agreement by which individuals mutually transfer their rights.

Hobbes advocates that all subjects should surrender their rights and vest all liberties to the sovereign for the preservation of peace, life and prosperity of the subjects. For him, all law is dependent upon the sanction of the sovereign. All law is civil law, the law commanded and enforced by the authority are brought to the world not to hurt but to assist one another and join together to fight the common enemy (Manzoor, n. d.). This theory underlines ethical banking in that the code of conduct will guide and administer justice for the good of all by improving welfare and discouraging unethical conducts.

**Empirical Review of Related Literature**

Financial globalization has contributed to the economies'Internationalisation which has yielded an unprecedented development of institutional investors (Azkunaga, San-Jose &Urionabarrenetxea, 2013). International banking has attracted keen interest from researchers, policy makers and other stakeholders even before the global financial crisis of year 2007.Since the sector has a greater tendency to benefit from globalization, the risk that it poses on the sector cannot also be undermined.

Sajuyigbe, Alabi and Adewale (2016) for example, examined the effect of globalization on small and medium scale enterprises in Osun state, Nigeria using structured questionnaire and found out that globalization has a positive and significant effect on small and medium scale enterprises. Their result showed that globalization is a strong predictor of SMEs survival in Nigeria which necessitates ethical banking because financial institutions are the back bone of such businesses. If ethical banking is practiced, with appropriate code of conduct, businesses that encourage welfare of the citizens will be financed and hence discourage businesses with negative impact on the society.

Khan and Bhatti (2008) hold that Islamic banking and finance industry, which forms the core of ethical banking, has been making breakthrough improvements to become a truly viable and competitive alternative to conventional systems at the global level. Islamic banking and finance institutions have acquired booming grounds in the Middle East, South East and South East Asia. They posited further that some core factors contributing to the growing success of Islamic banking and finance, include spiralling oil prices worldwide, prolonged boom in the Middle Eastern economies, product innovation and sophistication, increasingly receptive attitude of conventional regulators and information technology advancements that have been acting as a catalyst for the Islamic banking and finance industry to go global.

Since institutions mediate between globalization and the poor, Sindzingre (2005) studied the threshold effect of globalization on poverty through institutional perspective and submits that institutions enhance the impact of globalization and trigger virtuous path to reduce poverty though globalization may induce a positive transformation of institutions. Akinola (2012) also found out using both primary and secondary data that globalization greatly improves banks performance in Nigeria.

Chibuike (2005) traces unethical banking in Nigeria to the emergence of indigenous banking in 1952 and argues that it sums up to the corruption degree in the society. Khan and Bhatti (2008) opined that the current trends of Islamic banking industry worldwide as captured in their paper can tell all about its strength and weakness, future prospects and ambitions to become a truly innovative, competitive and integrated part of contemporary global finance.

## CONTEXTUAL ANALYSIS OF GLOBALIZATION AND ETHICAL BANKING

### The Challenges

Ethical banking is a relatively new sector and this relatively undeveloped nature causes some problems. Because of their mode of operation, they stand to lose a lot of businesses which may not be compliant with their code of ethics. As a result, the banks' capital base may remain weak, lacking resilience in the face of shocks. Thus losing businesses and customers to banks that do not screen businesses for ethical value so strictlyis a major problem.

Ethical banks particularly in the absence of industry wide regulations relating to ethical conduct are often found in a conundrum. The practice of ethical banking within traditional regulations is not attractive to depositors with high interest earning priority and reduces patronage of both investors and prospective shareholders. The low patronage will reduce capital base and profit margins, hence may not be attractive to profit oriented shareholders. Thus, funds available are relatively small and the banks do not enjoy economies of scale in service.

They also have restricted investments because only legitimate investments in line with ethics, which contradicts the nature of typical capitalist activities, are allowed.Though an attractive form of banking, questions remain about the viability of ethical banking particularly in the midst of the globalised economy where capitalists are out to take advantage of every opportunity to make profit while cutting cost at the same time.

With the widespread of globalization, more so into the financial sector, ethical banks may find it impossible to solely rely upon one legal system to determine whether or not a potential client has acted unethically or their future plans are unethical. This is because of the wide range of disparity in laws throughout the world. A business that may be considered lawful in the international settings may be considered unacceptable by ethical banks. Therefore judging what is ethical may become a rather subjective process which may prove detrimental even to the survival of ethical banks.

As ethical banking finds its relevance in the international market, and as the world persistently globalises, the very core of ethical banking might not survive the test of time as posited in this statement by Friedman (2001)"the values and trade interests in globalization have replaced the focus for the environment, democracy, human rights or social justice". The very essence of globalization – capitalism – negates the core of ethical banking.

The institutions may also suffer for lack of manpower with expertise in ethical investment and banking processes, procedures and programmes. Some of the ethical challenges of banking sector, according to Ayozie (2013), include having undue access and tampering with customer's account, outright breach of trust, outsider/insider fraud and management fraud.

**The Prospects**

The global crisis of 2008 shows the credibility of ethical banking with little or no loss of profit.Reports of profits and losses, in the global financial system after the crisis show that most ethical banks in the mode of Islamic banking remained financially solid and operationally sound. The world being a global village, once ethical banking is embraced by all financial institutions, there can be no loss of profit because the same rule holds.

Some of the advantages of globalization includeincrease in foreign direct investment with the tendency to increase growth in world trade, technological innovation, economies of scale which requires some level of integrity and ethical consideration for sustainability. This makes banks with ethical orientation likely candidates for businesses or entrepreneurs that believe in ethical consideration for their operation.

Many banks have over the years been mired in scandal. Big banks have variously been caught out for fraudulent activities such as violating sanctions and manipulating prices of their products. The public is often filled with ire over banks' unethical behaviour, including excessive pay, bonuses, and tax avoidance. In the midst of the chaos in the banking industry is the less known but no less important ethical banking.

The ethical fight against illicit fund transfer globally has also necessitated consideration for ethical banking. There has been stability and growth of ethical banks globally since unethical investments are shunned for ethical investment to thrive. The growing acceptance of ethical banking in the western world will promote ethical banking in Nigeria as well. Many conventional banks in the Western world often operate window for ethical banks like Islamic banks.

The increasing quest for cheap funds for investment most especially by emerging and developing economies, will promote ethical banking. The Islamic banks for example, do not engage in demanding for interest for loans, rather, they operate on interest free mode which eliminates the burden of interest payments on such loans. Thus, the *Sukuk* bond – an Islamic bond, wherever it is sold attract many investors and many developing countries are raising such bond to fund their development programmes.

**Summary and Conclusion**

Ethical banking refers to banking with transparency, accountability, cultural concerns, environmental concerns and societal values which focus on increasing the welfare of the entire society. It encourages sustainable practices, moral practices and wage war against unethical investments and corrupt practices. Challenges abound for acceptance of ethical banking because it contradicts the selfish nature and profit maximization motive of investors and shareholders and even not being able to mobilize enough funds to enjoy economies of scale of services by banks.

However, the fight against global illicit fund transfer will promote ethical banking as well as the quest for cheap funding of investment by developed, emerging and developed economies.Ethical banking will solve the problem of all kind of fraud as outlined by Ayozie (2013) and many investors and participants in the financial markets are coming to the conclusion that ethical issues must be promoted with a view to enshrine transparency and accountability in the global financial system. Thus, the future is bright for ethical banking nationally and globally.

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