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## Study on Ethics in the Banking Sector in Tirana (Albania)

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### Abstract:

*This paper aims to analyze ethics in the banking sector in Tirana. This research focuses on explaining the Code of Ethics in Banking and how adaptable and effective it is. Through this research a better understanding can be achieved on what are the causes that lead to non can achieve moral actions and failure to meet the code of ethics in commercial banks. It also reveals what are the consequences of the unethical and immoral actions in the banking sector. In order to better understand this study and analyze the data, was conducted a literature review, citing different viewpoints of the authors, mainly based on ethical issues, banking ethics, professional ethics, values and management in commercial banks. To examine this topic and collect the data for this study, it is used as a research instrument a questionnaire certified with structured content (St. Clements University, 2005) divided into two parts, where the first part of the answers are given only to confirm or negate (YES & NO) and the second part of the answers are given in a descending scale from (5-1). Some hypotheses have been pointed out in this study and their validity has been tested with the SPSS and STATA programs. According to this study, the most influential factors in non-ethical banking are: Low remuneration or improper use of incentives to eliminate fraud in the bank; Lack of training for ethical banking; information technology.*

**Key words:** Banking sector, ethics, Albania, survey, data analysis, statistical analysis

## **ETHICS IN BANKING**

Commercial banks have an important role in the domestic economy, as the other financial and credit institutions.

Ethics can be defined as a system of criteria and measures that examine the values, norms and rules that underlie individual and social relations on moral grounds, such as right and wrong, or good and bad. Professional ethics regulates the relations of the members with the same profession with each other and with society and defines organizational ethics and internal culture of behavior by imposing certain rules for solving problems coming within or outside the organization.

Performing investment and savings functions by playing the role of a unifying and intermediary in the society between the parties that offer and the ones that seek funds; banks as part of the market primarily aim the principles of profitability and productivity that requires them to operate strictly in compliance with certain principles of professional and organizational ethics. Starting from the objectives of the banking system, such as increasing banking service quality, better resource use, creating a fair competitive environment between banks and preventing unfair competition. Strong ethics is the foundation of the industry and banking culture.

The purpose of the Code of Ethics is to ensure that the provision of banking services is done in a fair and ethical manner, in accordance with the client's interest. This Code also intends to ensure that banks strengthen the trust of clients, businesses and citizens as a whole and promote co-operation within the banking community. Moreover, this Code seeks to enhance a sound and professional relation between banks and their clients, bank employees with their employers and vice versa. The Code of Ethics (Bank of Albania - First National Conference "Statistical Information in Albania", 2-3 November 2000) intends to serve as a guide for all the members of the

Supervisory Council and Bank of Albania staff, regarding the daily actions or decision-making in accordance with the mission, principles and core values. The Code is not a substitute for sound judgment and does not eliminate the various regulations implemented at the Bank of Albania. It connects the wills and daily actions and expresses the sense of commitment to the Bank of Albania Mission. The code is also a tool to encourage ethics discussions and improve attitudes and reactions (those reactions related to ambiguities and ethical uncertainties). "The focus of ethics ... is how to live a human life among human beings and live well." (Fernando Savater) In general, the economic crisis, with its ongoing problems, has also affected the banking sector by highlighting various financial fraud cases and bank scandals, resulting in further low confidence in the sector.

This has raised concerns about structural defects in how banks operate, how they are managed and supervised. Restoring the trust of the investors can require new approaches to redesign incentives, rules and regulations for the financial sector. (OECD October 2012)

## **WHAT IS ETHICAL BANKING?**

The dynamics of technological and scientific developments have enabled access to banks to become increasingly feasible for all strata of society. However, this dynamic has failed to ensure that banking business is cautious and assesses its impact on society and the environment. The recent financial crisis has highlighted the damages that non-cautious banking brings and has once again confirmed the need for a responsible and ethical approach to the financial sector.

Ethical Banking is sometimes encountered as an alternative, responsible or sustainable banking, that takes into account the developmental, social and environmental aspects of the funding. It does not only focus on maximizing the profit.

Thus, ethical banks, unlike traditional banks, are not only interested in the client's potential to repay the loan, nor only in the regulatory aspects of lending; they are interested in the impact that this credit has on economic development, society and the environment. So, an ethical bank finances only those projects or purposes that increase the borrower's capacity to repay the loan or improves the lender's living conditions on the other hand and that don't have any negative impact on society and the environment on the side other. Thus, ethical banking avoids consumer loans, which not only doesn't increase the borrower's financial capacity, but potentially exacerbates it. Ethical banking also means avoiding projects that may have a negative impact on social developments and environmental well-being.

Defined as such, ethical banking is responsible towards customers and accountable to society. The stability of a bank is in direct function of the environment where it operates and only a healthy clientele and a developed economy ensures the stability of the bank, which makes banking ethics more than a moral category, justifies it in terms of pragmatic action being looked at in a longer time horizon than day-to-day business.

## **LITERATURE REVIEW**

The goals of ethical banks extend beyond economic benefits to embrace social objectives in terms of the triple bottom line - people, the planet and profit (Tse 2011). Ethical Banks provide a high level of transparency and more detailed information to interested parties regarding the borrowing of money or cash. To establish an ethical relationship with stakeholders, banks are required to demonstrate accountability in terms of integrity, responsibility and ethics (San-Jose, L., Retolaza, J. L., & Gutierrez-Goiria, J. 2011).

It may be true that most of the banks have approved corporate social responsibility orders (CSRs) but the collapse of

banking sectors in some European countries, which actively reported on CSR activities, is a proof that CSR is a mistake for strategic philanthropy and labeling (San-Jose, L., Retolaza, J. L., & Gutierrez-Goiria, J. 2011) .

The purpose of ethical banks is to achieve economic benefits, including social goals, which are important for the socio-economic system (San Jose, Retolaza and Gutierrez-Goiria May/ June 2014). According to these authors, traditional banks integrate ethical and social aspects through CSR.

(Weber 2011) describes the Social Bank as a positive social impact. Most Social Banks emerged from the crisis much stronger and bigger than they were before. In addition, none of the social banks should be saved with public funds. This always attracts the interest not only of clients seeking safe and sensitive ways to deposit their funds, but also for conventional banks that begin to understand the potential of a more socially-oriented approach to banks. It is a matter of awareness, which forces us to have some views from another perspective.

Economic activity of individuals and companies is done in a social system. According to Hofreiter, economic sociology emphasizes that economic life is consistently placed in a social and cultural context. The concept of setting economic action in a social and cultural context is an appropriate alternative to individualism and economic rationality.

(Benson 1990) defines banks as the most important financial institutions of the economy, which receive deposits, provide loans and offer the widest range of services to all financial institutions. A bank is perceived as an important economic entity that does not play a part in shaping the social system.

(McDowell 1991) further states that the professional side can be targeted but achieving it depends on the acceptance by others. This professionalism continues through a series of steps involving, admission to a vocational school, passing courses, which implies adequate different competences

regarding "Types and levels" of technical expertise to be achieved, passing state exams etc.

(Mejstřík 2008) presents a specific bank property, their security net, which includes: government bank guarantees as a form of deposit insurance, central bank function as a lender of last resort, and the doctrine of "is too big to fail".

In order to build their "reputation capital", banks should act as good corporate citizens that contribute to socio-economic development and meet the requirements for ethical principles from clients, investors and society in general (Nkwankwu 2012). Banks can identify activities that benefit from business and society through long-term investments, which offer prospects for greater credit and added value.

## **METHODOLOGY**

In this issue will be discussed the methodology used in this study. Including design/treatment, data collection method, population identification, sample, size, data analysis method and the research tool.

The research design chosen for this project is the method of the questionnaire. This, because according to (Saunders et al 1996: 243) "the largest use of the questionnaire was done by the survey strategy. The survey method is also a popular and common strategy in Business and Management Research."

This research design has several advantages:

- i) allows the collection of a large amount of data from a sizeable population
- ii) very economical way;
- iii) Based on questionnaires, data are standardized
- iv) Easy to understand;
- v) It gives more control over the research process.

### ***The research design***

The purpose of this study is to analyze those critical factors that affect the Banking Ethics in commercial banks in Tirana.

The key questions that must be answered are:

1. To what extent has affected the code of ethics in the banking industry?
2. What is the enforcement mechanism established to ensure compliance with the Code?
3. What are the roles of inspection departments in banks?
4. Why fraud is still rampant in banks?
5. Why banks do not comply with the code of ethics in the banking sector?

### ***Data collection method***

Data collection is performed in a one-month period since it was difficult by bank employees to find time. The questionnaire certified by the University of St. Thomas Clements (2005) was distributed, which contains 38 questions divided into two main sections. It was used a structured questionnaire to research questions that could reflect a quantitative method used to analyze.

Ethics in the banking sector in Tirana. The first part of this questionnaire has 19 questions to which answers are given only by the affirmative particle or negative (YES & NO), these questions are direct and can be completed by bank employees and the second part of the questionnaire is formulated by other 19 questions, the answers to which are given in descending order from number five to number one respectively as follows. Once all the 161 questionnaires are collected, the data were originally processed by Excel, where for each employee were marked all the answers to the 38 questions.

Then data analysis was done with the statistical program SPSS featuring frequency of the data and corresponding percentages of each kind annex to the questionnaire as profession, age, gender and 38 questions in the

questionnaire. With the program STATA was analyzed the regression of independent variables chosen to analyze eight of them. Those questions were taken from the questionnaire about the dependent variable, which is the question 12 of the questionnaire that has to do with the question: "Has your bank been adhering to the Code of Ethics and Professionalism"?

The sample used in this study was 161 bank employees, from the main branches located in Tirana. It is thought that this sample serves the purposes of this paper and is representative of the range of a close study.

## DATA ANALYSIS

In the following figure are shown all employees who have completed the questionnaire in the respective banks.

**Figure 1. Separation into groups based on position**

Bank employment	Simple employment (1)	Teller (2)	Low management (3)	Medium management (4)	High management (5)	Total t
Banka Raiffeisen sh.a.						
Banka e Bashkuar e Shqipërisë sh.a.	5	4	2	1	1	13
Veneto Banka sh.a.	4	2	2	1	0	9
Banka Kombëtare Tregtare sh.a.	4	4	1	1	1	11
Banka Tirana sh.a.	5	3	2	2	0	12
Banka NBG Albania sh.a	4	3	2	2	0	11
Banka Nderkombëtare Tregtare sh.a.	4	3	1	1	1	10
Banka Alpha Albania sh.a.	3	2	2	1	1	9
Banka IntesaSanpaolo Albania sh.a.	4	3	3	2	0	12
Banka Procredit sh.a	4	2	2	2	1	11
Banka Amerine e Investimeve sh.a.	2	2	1	1	1	7
Banka Kreditit Shqipërisë sh.a.	3	2	2	1	1	9
Banka Credins sh.a.	4	3	2	2	1	12
Banka Société general Albania sh.a.	4	2	2	1	1	10
Banka Union sh.a.	4	2	1	1	1	9
Banka e Investimeve, Albania sh.a.	2	2	2	1	1	8
<b>TOTAL</b>	<b>59</b>	<b>41</b>	<b>28</b>	<b>21</b>	<b>12</b>	<b>161</b>
	<b>36.64%</b>	<b>25.46%</b>	<b>17.39%</b>	<b>13.04%</b>	<b>7.45%</b>	<b>100%</b>



**Statistical analysis**

Descriptive or quantifiable data can be summarized as a two-way table for further analysis. Using chi-x<sup>2</sup> figure, it can use this statistical method technique to do this analysis.

Chi-square (x<sup>2</sup>) enables a researcher to find out whether the values of two variables are independent or linked. It is based on a comparison of the observed values in the table with what can be expected if the two distributions are completely independent (Saunders et al, 1997). It is a reliable tool for determining the probability that two variables are independent or dependent.

One way to model this process is the assumption that there is a constant y \* latent variable such as:

$$y_i = \begin{cases} 1 & \text{if } y_i^* = \mathbf{x}_i\beta + \epsilon_i > 0 \\ 0 & \text{otherwise} \end{cases}$$

The regression was performed with the statistical program STATA as follows:

**\* Probit Y P9 P10 P15 P18 P24 P33 P34 P35 \***

probit regression			
Number of obs = 161			
	LR CHI2 (8)	=	18.60
	Prob> CHI2	=	0.0171
Log likelihood = -80.959102		Pseudo R2 = 0.1030	

First we look at the statistical importance of the model as a whole and this is seen by Prob> ch<sup>2</sup> which in this case it has a value of 0.0171. This means that the model in its entirety, so taking all variables together, is statistically significant at the 5% level (0.0171 < 0.05).

As mentioned above in order to see the effect of each variable on the probability that the bank follows a code of ethics and professionalism, the marginal effects should be made as follows:

**\* Margins, dydx (P9 P10 P15 P18 P24 P33 P34 P35) \***

Average marginal effects				Number of obs = 161	
Expression	:	Pr (O) Predict ()			
dy / dx wrt: P9 P10 P15 P18 P24 P33 P34 P35					

Here we can say that if the departments are inspected every year it brings an increase of 14.2% probability that the code of ethics would be respected. If banks reward employees that inhibit fraud, this brings a reduction in the probability of 10.6% When there are many professional bankers staf, there is an increased probability of 4.2% that the code of ethics would be respected. It is worth noting that when the staff is aware of the code of business ethics there is an increase of 9.5% in the probability that the code of ethics would be applied.

"Lack of professional training may be responsible for fraud in the banking industry," a statement that brings an increase of about 6% in probability.

The role of the Supervisory Board in the implementation of the code of ethics brings a 20% increase in the probability that the bank would follow a code of ethics.

## CONCLUSIONS AND RECOMMENDATIONS

The first limitation of this study is data collection and the sample of 161 employees made at the level of capital taking only access to the main branches of banks in Tirana and does not represent Banking Ethics in a wider range. The limitation in time is the reason that this study is not followed by an extensive literature and other authors, more than the papers taken into consideration. Completion of the questionnaire can be done without integrity by the employees and this brings a diversion from the real results of the whole problem of Ethics.

Banks should be based on trust, transparency and ethical behavior since it is in the best interest of the business, as well as the interests of other stakeholders in the

organization. Ethics and professionalism should be viewed as the hallmarks of a banker. The job of a banker requires competence and ethical behavior. Unethical behavior has terrible consequences for all stakeholders and the whole system on how banks operate.

Therefore, it is not enough to have a code of ethics.

- The code must be ready for all bankers to promote ethical awareness;
- It should also be able to address all ethical issues and problems to appropriate vocational guidance; it has to be often assessed to ensure that it is current and not clumsy.
- It should be applicable to ensure compliance by all professionals and bankers and it must be approved by all banks.

According to this study the factors that most affect the unethical banking are:

- low reward or improper use of incentives to eliminate fraud in the bank.
- Lack of training for ethical banking.
- Information technology.

Regarding the recommendations that we can propose for ethics in the banking system, we can say that:

1. There is still a need to promote a greater awareness of Ethics and Code of Ethics in the banking sector, as this is the best way to promote ethical behavior.
2. The commercial banks Supervisory Board should increase brightness and support for ethical behavior in the banking sector through seminars, training, media and other publications.
3. Banks should stimulate employees if they prevent unethical banking. Monetary authorities should also join this ethics campaign.

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