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# Green Business: Sustainability and Risk Management in Turkish Banking Sector

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**ABSTRACT**

Global warming, climate change, reduction of natural resources, damage to biodiversity all increase poverty and unemployment, amongst other things. Environmental and social problems result from an unconscious lifestyle, excessive production and consumption activities. The starting point of sustainability originates from these environmental problems that have been increasing. Sustainable development means meeting the needs of today without endangering future generations and harming natural resources and attaches importance to environmental and social development as well as economic development. For businesses to survive, they need to consider all dimensions of sustainability. Banking is one sector that has come to the forefront in recent years regarding sustainable management. Although the banking sector does not directly affect the environment, it does have indirect effects. This study aims to examine the extent to which the six banks that signed the Responsible Banking Principles from Turkey pay attention to the dimensions of sustainability in their risk management activities announced on their websites. Although there are studies on sustainable banking or risk management in the literature, there is conceptual confusion when the analysis methods are examined. In this study, the author tries to clarify this issue. Results show that the six banks that signed the Responsible Banking Principles paid attention to the sustainability of the environmental and social aspects in their risk management activities.

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## 1. INTRODUCTION

Rapid population growth, unplanned urbanization, increased and unconscious consumption, and production that have changed dimensions due to technological developments have increased the damage to the world and have become a threat to nature and human health. Many plant and animal species are at risk of extinction because people act unconsciously. For example, deodorants that damage the ozone layer and excessive use of air conditioners have increased the world's temperature every year, so global warming and climate change problems have continued to be on the agenda both in the academic world and in the business world in recent years.

Moreover, thanks to the technological developments experienced after the industrial revolution, the tools used in production have changed, and as a result, production increased, leading to more natural resources and energy being used.

This production and consumption negatively affect ecological life. When the damage caused to the environment by economic activities was ignored, it was understood that the development models, which were only considered economically, were insufficient. With the increase and realization of the effects of environmental problems on human life, the criticism towards the model aiming only at economic development has increased. The search for new methods has begun, and the importance of sustainable development is being understood. Economic growth and development have changed dimensions; people understand the importance of growing without harming future generations. It has become increasingly crucial for businesses to minimize the harmful effects of their activities on the environment. The banking sector, one of the building blocks of any economy, also has indirect effects on the environment. In order to be a sustainable bank, they must give importance not only to economic development but also to sustainable development in their activities.

## 2. THE CONCEPT OF SUSTAINABILITY AND ITS HISTORICAL DEVELOPMENT

Excessive production and consumption negatively affects ecological life. When the damage caused by economic activities to the environment was ignored, it was understood that the development models, which were only considered economically, were insufficient. With the increase and realization of the effects of environmental problems on human life, the criticism towards the model aiming only at economic development has increased. The search for new methods started, and the importance of sustainable development was highlighted. Economic growth and development have changed dimensions. It has become increasingly important for businesses to minimize the harmful effects of their activities on the environment. The banking sector, which is one of the economy's building blocks, also has indirect effects on the environment. In order to be a sustainable bank, they must give importance not only to economic development but also to sustainable development in their activities (Kaya, 2010: p.77). The first thing that comes to mind when one mentions sustainability is to minimize and try to solve all kinds of problems related to the ecosystem (Moore, 2005: p.192). Sustainability is defined as the ability to maintain the functions, processes and productivity of ecology and ecological systems in the future (Chapin, Torn & Tateno, 1996: p.1017).

From a biological perspective, sustainability is considered protecting and ensuring the continuation of biological diversity; in the sociological sense, it ensures social order and justice, which means ensuring the safe and healthy continuation of society. From an ethical point of view, it is defined as taking measures to protect and maintain sustainable natural resources in nature. (Bayraktutan & Uçak, 2011: p.19). The concept of sustainability, which has an important place in all fields of activity, expresses the complete transfer of today's resources to future generations (Kuşat, 2013: p.4896-4916).

In 1972, diplomats, academics, and NGOs from many different countries established the Club of Rome to raise awareness against unlimited consumption with limited natural resources. In the report titled “Limits to Growth”, published by this club, the contradiction between a limited world and unlimited consumption was addressed, and environmentally friendly development options were announced to society (Meadows et al., 1972: p.12). Sustainability was defined as the activity of leaving resources that can be evaluated and produced as much as the sum of all assets owned for future generations (Hannel, 2014: p.62).

According to Meadowcroft (1997: p.168), sustainability is the act of maintaining the continuity of an existing resource. In order to ensure continuity, the activities carried out must not be likely to cause harm, must be scientifically provable, supportable, and existing conditions must be preserved (Ratiu, 2013: p.127). According to Kagan & Verstratete (2010: p.159), ‘sustainability involves taking into account the similarities and the differences in concept, combining the differences and creating a whole means of continuity’. Some significant developments regarding the concept of sustainability can be summarized as follows (SDK Turkey, 2016: p.9):

1713- Hans Carl von Carlowitz first mentioned the concept of sustainability in the book he wrote in the forestry sector.

1972- At the United Nations Conference (1972) on the Human Environment, environmental problems were discussed, and the United Nations Environment Program (UNEP) was established.

1980- The International Union for Conservation of Nature and Natural Resources (IUCN) published the World Conservation Strategy (WCS) document at its meeting. The Limits of Growth had been published, explaining that unlimited growth is impossible in a world where natural resources are limited.

1987- The concept of sustainable development has become necessary with the Brundtland Report and Our Common Future report published by the World Commission on Environment and Development (WCED).

1990- The Human Development Report was published by the United Nations Development Program (UNDP) to clarify the issues that could not be explained economically.

1992- The United Nations Conference on Environment and Development (UNCED), known as the Earth Summit, was held in Rio de Janeiro. At the conference, an action plan called Agenda 21 was drafted, and it was an agreement between the United Nations Convention on Biological Diversity and the United Nations Climate Change Framework.

1997- The Kyoto Protocol was signed for the problems caused by climate change.

Society is well structured when an appropriate balance is created between sustainability and economic, environmental and social goals. The same can be said for businesses. For corporate sustainability, businesses need to balance economic, social and environmental processes and achieve the most appropriate level of success in their three-dimensional studies. In addition to reaching profitability and productivity targets, businesses should also consider natural resources and social responsibility areas. When they consider these three dimensions, they will make progress on the path of sustainable business. The dimensions of corporate sustainability that enable businesses to be sustainable are as follows: economic sustainability: profitability and efficiency, social sustainability: equality and social, environmental sustainability: natural resources and Environment (Torum & Yılmaz, 2009, p.49).

## 3. SUSTAINABLE DEVELOPMENT AND ITS DIMENSIONS

Humans' vital activities are made possible through fundamental functions like eating, drinking, and having shelter. Consumption takes place as a result of this effort. In order to meet consumption needs, certain goods and services need to be produced, thus using a lot of energy (Hekimci, 2012: p.11). As socio-cultural and environmental problems started to threaten humanity, the issue of sustainable development, which includes not only economic development but also sustainability, was brought to the agenda for the first time in the United Nations Stockholm Human and Environment Conference in 1972 (Kaya, 2010: p.77). The United Nations Environment Conference has been accepted as the first environmental conference held in the international arena. One hundred thirteen countries, including Turkey, participated in the conference held in Stockholm under the leadership of the United Nations, and environmental problems were discussed. The Human Environment Declaration argued that economic activities needed to be compatible with the environment and that living organisms needed a better environment. As a result, the United Nations Environment Program (UNEP) was established in 1972 (UN, 1972).

Studies on sustainability did not end with the Kyoto Protocol. Climate Change Conferences are one of the most important agenda items of the European Union. With the declaration of the climate crisis by the European Union, efforts to prevent climate change have gained importance. In addition to national and international practices such as the Paris Agreement and ETS (Emissions Trading System), one of the issues that came to the agenda is the European Green Deal (2021). The aim of the European Union is to be the first carbon-neutral continent by 2050. The work of the European Green Deal, which was presented on December 11 2019, started in 2020. Within this context, the European Green Deal presented its efforts to reduce global greenhouse gas emissions and a carbon tax to its commercial stakeholders to reduce carbon emissions arising from international commercial activities. The European Green Deal aims to introduce strategies of *"Biodiversity", "From Farm to Table", "Clean Energy", "Sustainable Industry", "Construction and Renovation", "Sustainable Movement" and "Pollution Elimination"* (Semtrio, n.d.)

Although different disciplines have defined Sustainable Development from their own perspectives after this was first introduced, the concept's environmental and economic aspects were focused on explaining the concept more clearly (Markandya, 2002: 77). Views on sustainable development vary according to environmental ideologies. When the world is considered a closed system, it is necessary to sustainably use natural resources to ensure the existing system's continuity (Sharpley, 2000: p.6-7).

Sustainable Development is based on the continuous protection of natural resources, the use of renewable resources more than non-renewable resources, the transfer of natural resources to future generations and the protection of the Environment (Çakılcıoğlu, 2013: p.27). Sustainable development must first be conceptualized in terms of economic dimensions and ensure the efficient use of resources. Secondly, sustainability activities should focus on protecting the environment, and thirdly, the sustainability of the socio-cultural dimension, that poverty should be prevented on a global scale and people should be treated equally and fairly. These are economic, environmental and social dimensions (Biswas&Biswas, 1984: p.40). Sustainable development consists of four dimensions: *ensuring justice in economic development and income distribution, ensuring unity and equality in social development, protecting the environment and natural resources, and developing technologies that reduce environmental pollution* (Ghazy, 2015: p.44).

According to Franzoni (2015: p.23), 'the dimensions of sustainable development are discussed in terms of economic, environmental and social aspects, and these dimensions direct the behaviour of the society'. *The economic dimension of sustainable development* is the production of goods and services according to sustainability principles. For sustainability to be fully implemented, it must be ensured that the assets, resources and liabilities are managed. The development of agricultural areas, natural and cultural areas should be ensured so that local development does not fall behind (Harris, 2000: p.5). *The environmental dimension of sustainable* development relates to reduction, recycling and *reuse* (Goldsmith & Samson, 2005: p.30). *The social dimension of sustainability is based on* the basic needs of people. It is necessary to protect and develop society's needs and find solutions when there is a problem. The social dimension can only be realized with a strong society. Standards such as tolerance, solidarity, respect, humility, compassion, obeying the law are the essential elements of the social dimension (Woodcraft et al., 2011: p.16).

## 4. SUSTAINABLE RISK MANAGEMENT AND THE ROLE OF BANKS

Banks, which are included in financial institutions, have an essential role in distributing financial resources (Kaya, 2010: p.76). The role of banks in the economic system is to receive funds from customers and make these funds available to other customers in need through loans. In this sense, there is no direct relationship with the environment in banking activities. The banking sector is one of the sectors with the most negligible impact on the environment compared to mining, pharmacy, chemistry, petroleum, textile, and other sectors (Thompson, 1998: p.245). Financial institutions' social and environmental impacts occur in two ways: direct (internal) and indirect (external). The effects of direct (internal) and indirect (external) activities of financial institutions on the environment are relatively low compared to other sectors. However, when the sector is considered globally, the amount of waste generated is quite high, such as energy, water and stationery consumption (Pinter et al., 2006:p.2).

In addition, considering that the dimensions of sustainable development are economic, environmental and social, it should consider not only environmental but also social issues. On the other hand, banks, which are the building blocks of the economic system, are of great importance in the successful continuation of the development process. Therefore, banks are expected to integrate sustainability into their corporate strategies, respect the environment, contribute to society, and have a transparent relationship with stakeholders (Özçelik&Avcı, 2014: p.189).

Achieving sustainable banking takes place in four stages: *defensive banking, preventive banking, offensive banking, and sustainable banking.* Banks in the defensive banking phase do not take an active role in the sustainable development process with growth, development, and profitability considerations. However, it is aware that they will make potential cost savings with sustainable development in the preventive banking phase. In addition to internal processes, offensive banking also considers sustainability in external processes. On the other hand, sustainable banking is based on the bank's integrating sustainability into all its activities. The expectation of maximum financial return has left its place to economic, environmental, social and sustainability (Kaya, 2010: p.82).

In order to ensure that the strategies and practices of the signatory banks are in line with the Paris Climate Agreement and sustainable development goals, the Principles for Responsible Banking was published in New York on September 22, 2019, with the participation of 130 banks. Garanti BBVA (2021a, 2021b, 2021c), ING (2021a, 2021b, 2021c) Development Investment Bank (2021a, 2021b, 2021c), Şekerbank (2021a, 2021b, 2021c), TSKB (2021a, 2021b, 2021c), and Yapı Kredi (2021a, 2021b, 2021c) from Turkey are the banks that signed these principles. *Responsible Banking Principles*, established by the United Nations Environment Program Finance Initiative (UNEP FI), aims to achieve sustainable targets through banks' changes in target setting, compliance, transparency and accountability, investor relations, and customer communication (Ercan, 2020).

The six banks that signed the principles of responsible banking in this context emphasized the issue's importance by explaining the transformations that banking will make in all business processes and how these transformations will contribute to society and future generations at a joint press conference. The meeting was held with senior managers from the six banks that signed the initiative, together with a Sabancı University Faculty Member and the Director of the Corporate Governance Forum (iklimhaber, n.d.).

Another issue that concerns the banking sector is the risks arising from the activities and the management of these risks. Even an ordinary individual will face risks in daily life which are significant for financial institutions. Therefore, while continuing their activities, banks should try to recognize the risks, prevent the risks they encounter from getting out of control, and even take precautions before they occur. In recent years, the banking sector has been trying to maintain its existence in an environment full of uncertainty and has been faced with many different risks.

The primary purpose of management in the banking sector is to increase the business assets owned by business owners. As in every sector, some risks need to be taken to achieve this goal in this sector. The risks faced by the banking sector can be summarized as interest rate risk, market risk, credit risk, risks arising from off-balance sheet elements, technology and operational risks, exchange rate risk, sovereign or country risk, liquidity risk and bankruptcy risk (Ertürk, 2010: p.62). In the banking sector, in its most general definition, risk management means managing that business itself. The concept of risk management has been on the agenda in the developed countries in the banking and finance sector since the mid-1980s and in Turkey after the 2001 financial crisis. When one tries to explain risk management concretely, it becomes the expression of specific mathematical methods (Yavuz, 2002: p.21). With the increase in environmental and social problems and the demands of stakeholders for them to be sustainable businesses, banks started to take into account the economic dimension and the environmental and social dimension in their risk management activities and integrate these two dimensions into their risk management activities.

## 5. RESEARCH METHODOLOGY

The following section includes the purpose, scope, importance, assumptions and limitations of the research, data collection methods, data analysis and findings.

### 4.1. Purpose, Scope and Importance of the Research

With the participation of 130 banks, the Principles for Responsible Banking was published in New York on September 22, 2019, to ensure that the strategies and practices of the signatory banks are in line with the Paris Climate Agreement and the Sustainable Development Goals. Garanti BBVA, ING, Development Investment Bank, Şekerbank, TSKB, Yapı Kredi signed these principles from Turkey.

The study aims to examine the work of the six banks that signed these principles regarding sustainable risk management from an economic, social and environmental point of view.

Since it would be challenging to evaluate the sustainable risk management studies of 130 banks, the author selected the six banks that signed the *Responsible Banking Principles* from Turkey as a sample.

Banks, which have a fundamental role in obtaining funds by accepting deposits from customers and making these funds available to customers in need through loans, are one of the main building blocks of the economic system. Jul Banks are one of the largest banks in the world. Therefore, banks that play an active role in the successful continuation of the development process should also take into account sustainable development, although their activities are not directly related to the environment, in doing so.

When the literature was reviewed, local authors focussed on sustainability, sustainable development and risk management, amongst other variables. There are many studies conducted in the field; however, studies evaluating sustainable risk management activities, especially for banking and financial institutions, are limited. In addition, although these studies are evaluated by the descriptive analysis method, there are statements in the data acquisition and analysis sections that they evaluate by content analysis; there is a confusion of concepts and information pollution related to the analysis method in the literature. In this context, it is of great importance that the findings obtained from this study fill the gap in the literature, clarify the analysis method and be an example for financial institutions to take part in sustainability studies even if it is not a production enterprise.

### 4.2. Limitations and Assumptions of the Research

This study was carried out within the framework of various assumptions and constraints. This study assumes that the sustainable risk management activities of the six banks that signed the Responsible Banking Principles from Turkey are carried out under *the economic, social and environmental dimensions.* Although the population of the research consists of 130 banks from around the world, only the six Turkish banks that signed the agreement were selected as the sample since there may be difficulties in the evaluation phase. The research process was limited to 01.02.2021-30.06.2021. The findings obtained from the research only cover the six evaluated banks. Therefore, findings cannot be generalized to all financial institutions, and they cannot be generalized to banks abroad that have signed the *Responsible Banking Principles* since they may yield different results.

### 4.3. Research Method

This research was carried out in the type of descriptive research. A qualitative research method was chosen to obtain the necessary data within the scope of the research. The websites of the six Turkish banks that signed the Responsible Banking Principles were subjected to document analysis. Content analysis was chosen as the analysis method because it was suitable for the research to clarify the obtained data. Qualitative research is defined as "research in which qualitative data collection techniques such as observation, interview and document analysis are used, and a qualitative process is followed to reveal perceptions and events in a realistic and holistic way in the natural environment". Qualitative research studies are conducted with a small number of samples without using probabilistic sampling, and there is no concern for reaching definite conclusions or generalizing the results to the society (Yıldırım & Şimşek, 2008:39, p.48-65).

In qualitative research, the determinist approach is not prioritized, cause and effect relationships are not established between events, numerical data statistics are given less space, verbal qualitative analyses are given more place. Qualitative research methods provide flexibility to the researcher in the design and execution of the research. It allows developing new methods and approaches according to the situation at every research stage. Another feature of qualitative research is that they are exploratory. These features are instrumental in illuminating the less studied subjects (Neuman, 2012: p.224, 228).

### 4.3. Data Collection and Analysis Methods

The analysis of written documents in order to obtain data related to the subject examined within the scope of the research is called document analysis (Yıldırım&Şimşek, 2008: p.188). In the study, which was designed as a qualitative one, document analysis was performed as a data collection method. In the document review, data can be obtained from written sources such as books, magazines, articles, surveys and records, as well as from images, photos and video recordings. In addition, documents can also be obtained from electronic sources such as web pages, newsgroups, blogs, and e-mail (Baş & Akturan, 2008: p.118).

In the scope of the research, the data obtained by document analysis were evaluated by the descriptive analysis method. The descriptive analysis method is aimed to organize, interpret and present the data obtained by interview, observation or document analysis to the reader. The data are classified, summarized and interpreted according to predetermined themes. The descriptive analysis consists of four stages. The first stage creates a framework for data analysis based on research questions, research framework, dimensions in an interview, observation or document analysis. Without a previously determined conceptual framework, descriptive analysis will be complicat*ed. In the second stage, the Processing of Data According to the Thematic Framework, the author* reads and organizes data according to the pre-built framework and some data may be left out if considered not significant. At this stage, direct quotations to be used in conclusion are also selected. In the third stage, one defines the organized data, supported by direct quotations. In the fourth stage, there is the explanation, association and interpretation of the identified findings (Yıldırım & Şimşek, 2008: p.224).

### 4.4. Evaluation of Findings

In this part of the study, the banks' practices concerning sustainability and *risk management* published on their websites are summarized, interpreted, and evaluated using direct quotations. The published work of these six banks on risk management are analyzed within the framework of *environmental, economic and social dimensions,* which are the dimensions of sustainability in the literature.

**GARANTI BBVA**

Garanti BBVA (2021c) defines sustainability as: ‘a commitment to create a strong and successful business model for the future by sharing long-term values with customers, employees, shareholders and all audiences in the places where it operates, as well as minimizing negative impacts on the environment and society’. According to Garanti BBVA (2021a,b, c);

> sustainable banking involves technological innovations, management of the environmental footprint of activities, environmental and social risk assessment developed within the risk management framework. On the other hand, they argue that there should be an effective organizational structure and robust corporate governance to achieve sustainability goals with continuous development.

Garanti BBVA’s sustainability policy framework supports the practical identification and evaluation of sustainability risks and opportunities in Turkey. Garanti BBVA’s sustainability policy covering its operations in Turkey has been developed with institutional arrangements under the legislation; It entered into force with the approval of the Board of Directors. Garanti BBVA believes that operating in a sustainable manner will play a fundamental role in the bank's long-term success and aims to promote and implement sustainable banking in Turkey. In order to support sustainable development, Garanti BBVA contributed TL 1.5 million in 2019 to convey information and raise awareness to its stakeholders, including public institutions, private enterprises, universities and non-governmental organizations. It allocated 78.65% of this amount to lobbying activities for climate change, 15.04% for sustainable finance activities, and 6.31% for other lobbying activities (Garanti BBVA, 2021 a,b,c).

The BBVA Group has determined its priority issues based on the analysis outputs completed for global non-governmental organizations and investors. It reached all internal and external key stakeholder groups through surveys, meetings and phone calls, conducted stakeholder analysis and completed the materiality analysis for 2020. As a result of the analysis, capital adequacy and financial performance, climate change, se of personal data, cyber security, COVID-19 have been determined as having more priority than the other 13 issues. Along with these prominent topics, all material issues are grouped under six main headings: Financial Health, Sustainability, Reaching More Customers, Operational Superiority, Best and Most Connected Team, and Data and Technology.

In addition to these six main topics, Corporate Governance and Effective Management of All Risks and the COVID-19 have been integrated with all the units and presented in a report. The COVID-19 pandemic has affected the world and is the biggest crisis since World War II. Realizing that development and growth are impossible without sustainability has been the only positive effect of this pandemic. Enterprises understood that they should conduct more comprehensive studies on risk and opportunity management. The risks and opportunities compiled from the studies conducted within the framework of

Garanti BBVA's risk management approach, through various formal and informal controls, within the framework of the performance sections and the priority issues described in the section entitled "Corporate Governance", are illustrated in the table below (Garanti BBVA, 2021 a,b,c).

**Table 1:** Topics Covered within the Scope of Garanti BBVA Risk Management

| Mega Trends | Risk Factors | Relevant Strategic Priorities |
|---|---|---|
| (1)Work Environment | Customer Empowerment, Remote Working, Competitiveness for Talent, Transparency, Efficiency, Rapid Adaptation, Gender Equality, Next Generation Workforce, Social Media | Operational Excellence, Best and Most Connected Team, Data and Technology |
| (2)Economy | Sustainable Finance, Green Healing, Inclusive Capitalism, Sharing Economy, Financial Health and Inclusion, Circular Economy, Decreasing Globalization | Sustainability, Financial Health, Reaching More Customers |
| (3)Society | 21st Century Talent Gap, Sustainable Development, Increasing Inequalities, Forced Migration, Food Security, Entrepreneurship, Pandemic, Individual Upgrade, Mega Cities, Consumerism | Sustainability |
| (4)Environment | Climate Crisis, Extreme Weather Events and Natural Disasters, Resource Scarcity, Environmental Awareness, Biodiversity, Plastic Pollution, Water Scarcity | Sustainability |
| (5)Technology | Automation, Big Data, Internet of Things and Artificial Intelligence, Cloud, Cyber Security, Blockchain and Cryptocurrencies, Digitization, Privacy and Responsible Use of Data, Increasing Connectivity and Decreasing Privacy | Data and Technology, Operational Excellence |

Source: (adapted by author from Garanti BBVA, 2021 a,b,c).

Garanti BBVA defines sustainability as 'a commitment to create a strong and successful business model for the future by sharing long-term values with its customers, employees, shareholders and all audiences in the places where it operates, as well as minimizing the negative effects on the environment and society' (Garanti BBVA, 2021 a,b,c). One notes that it attaches importance to carbon footprint management and technological innovations in its activities.

When the studies of Garanti BBVA related to risk management are examined, one can see that it defines risk management as environmental and social risk. To support sustainable development and create awareness in public and private institutions, universities, and civil society organizations contributed in cash. When the risks that Garanti BBVA prioritizes are examined, it is seen that it considers the environmental, economic and social dimensions that are the dimensions of sustainability (Garanti BBVA, 2021 a,b,c).

**ING**

ING, one of the banks that signed the United Nations Environment Conference Finance Initiative (UNEP FI), has maintained a zero carbon footprint since 2007. ING Turkey reflects the environmental awareness adopted by the ING Group directly and indirectly to its activities. In this context, ING regularly reports to the ING Group about reducing waste, reducing carbon emissions, saving water, and renewable energy. On the other hand, it has committed to reducing its carbon emissions, global waste and water footprint by 2020. ING obtains about 80% of the electrical energy it consumes from renewable energy. It is amongst the targets of guaranteeing the entire electrical energy supply with an internationally accepted certificate. ING considers that every step taken for nature is a continued investment in the future.

ING Turkey acts in parallel with the "Equator Principles" prepared based on the environmental and social responsibility standards that the ING Group has voluntarily adopted since 2003, taking into account environmental risks in project financing. Furthermore, in order to take the current practices in the financial sector to the next level in Turkey and mobilize all actors for a sustainable future, Global Compact Turkey is within the scope of the “Declaration on Sustainable Financing”; it aims to make social and environmental risk study a part of the credit assessment process in financing investment projects.

To direct its activities within the scope of its social, ethical and environmental vision, ING has consolidated its efforts under the name of Our Environmental and Social Risk Policies, an integral part of ING's credit risk management practices. In other words, it examines all possible social and environmental side effects of its activities in depth. Before the communication process with each customer begins, the first compliance assessment is carried out within the scope of the policies prepared for environmental and social risks and regularly updated. In this context, ING advises clients on potential social and environmental vulnerabilities (ING, 2021c ).

When ING Turkey’s sustainability and risk management activities are examined, one notes that it reflects environmental awareness directly and indirectly. ING Turkey has maintained a zero carbon footprint since 2007. ING Turkey works in waste management, reduction of carbon emissions, water-saving and renewable energy sources. In financing projects, ING Turkey acts within the social and environmental dimension, one of the dimensions of sustainability, by including the social and environmental risk study in the evaluation (ING, 2021a).

## *DEVELOPMENT, INVESTMENT BANK OF TURKEY*

While carrying out its activities, the Development and Investment Bank of Turkey acts in line with Turkey's sustainable development priorities. In this direction, it has adopted meeting the financing needs of entrepreneurs, spreading the capital to the base, contributing to the structural transformation, cooperating with domestic and foreign institutions and providing consultancy support" as its primary mission (kalkinma.com.tr). Among the main objectives of the Development and Investment Bank of Turkey, one finds managing the *risks and opportunities* that may arise from its activities, economic development, and social and environmental dimensions, which are the basic building blocks of sustainable development. In this direction, considering the principles of responsible and sustainable development from a holistic perspective, it helps create common value for all stakeholders with the strategic initiatives it implements and expands its sphere of influence.

The bank provides financing for projects to bring domestic renewable energy sources to the economy and supports projects that reduce the energy/resource use of enterprises producing in sectors with high energy density. In this way, it contributes to sustainable development by supporting enterprises with renewable energy production licenses and investments to effectively use raw materials and water resources.

Development Investment Bank of Turkey approaches the risks and threats within the scope of the environment and sector in which it operates with a comprehensive *risk management* framework. The risk management mechanism established by the bank consists of three stages: *defining the risk, prioritizing, and continuing its activities by minimizing the risk* without deviating from the strategy. The Bank's Risk Management Unit carries out these stages of risk management through risk reports prepared at regular intervals specific to the bank. The three mechanisms on which the bank's risk management is based include *Risk Management Unit, Risk Committees, Implemented/Planned Risk Areas* (Development and Investment Bank, 2021a,b,c).

When the Development and Investment Bank website is examined to obtain the risk management studies, one notes that it acts in line with sustainable development priorities. In this context, the primary purposes of the bank on the website are; (1) The expressions of managing the risks and opportunities that may arise from activities; (2) economic development; and (3) social and environmental dimensions. Based on this finding, it is seen that the bank considers environmental and social dimensions, which are among the dimensions of sustainability, in its risk management activities. Furthermore, when the bank's website is examined, it will be seen that it provides financing for projects aiming to bring renewable energy resources into the economy. Based on this finding, it is understood that the bank attaches importance to the sustainability of economic development.

The expression "*... The Bank approaches risks and threats within the scope of the environment and sector in which it operates, with a comprehensive risk management framework*" is found *on the website.*

(Development Investment Bank, 2021c). In this direction, as mentioned above, the bank manages environmental and economic risks arising from its activities with an effective risk management mechanism.

## *ŞEKERBANK*

With its corporate mission of supporting production and social development, Şekerbank takes a leading role in sustainable banking. The Sustainability Report has supported sustainable development by conducting studies on the digital transformation accelerated by the COVID-19 pandemic on a global scale with its *economic, social and environmental* impacts in front of key stakeholder groups. Şekerbank is one of the 130 banks participating in the Principles for Responsible Banking implemented by the United Nations Environment Programme Finance Initiative (UNEP FI) as a founding signatory from around the world. Within the scope of responsible banking, it has been sharing its sustainability report with its stakeholders and the public every two years since 2013. In order to raise awareness about sustainable development throughout the country, the bank has conducted numerous studies and manages the environmental and economic risks arising from its activities with an effective risk management mechanism.

In 2012, Şekerbank represented Turkey at the Rio+20 United Nations Sustainable Development Conference, as part of the work carried out before the Ministry of Development, with EKOkredi, Turkey's first banking product in the field of energy efficiency. Şekerbank (2021b) has gathered its strategic activities under four groups: "sustainable agriculture", "fighting energy efficiency and climate change", "financial inclusion and women's banking", "supporting production and employment".

In Şekerbank Risk Management System, one finds the risk/return structure of the bank's future cash flows. It also includes the quality/level of activities through the implementation procedures, limits, policies and strategies determined for monitoring, controlling and changing when necessary. The system also consists of the decision-making and implementing unit, which was established to identify, measure, monitor and control the risks that may arise due to the bank's activities and strategies.

The objectives of Şekerbank's Risk Management System are noted here. The system is structured to cover organizational, managerial, operational, and information technology processes and risk awareness is provided. It is associated with all bank activities, and its employees at all levels are held responsible. In addition, it is structured to include subsidiaries and affiliates within the scope of consolidation (Şekerbank, 2021c).

Şekerbank's website was examined for activities related to sustainability and risk management. The website states that "... Sustainable Report supports sustainable development by carrying out studies for the digital transformation accelerated by the COVID-19 epidemic globally, with its economic, social and environmental effects, before the key stakeholder groups". Therefore, it is seen that Şekerbank considers sustainable development in its activities. However, environmental and social dimensions were not directly encountered in Şekerbank's risk management activities.

### *TSKB*

One of the leading entities in sustainable banking, the Industrial Development Investment Bank of Turkey (TSKB), aims to support Turkey's development by defining the concept of sustainability in *social, economic and environmental* dimensions. In this context, TSKB has established its Sustainability Policy, which is determined by the basic principles that guide its activities. Furthermore, TSKB integrates sustainability into all its banking processes and supports the transition to a low-carbon economy by controlling the carbon footprint of operational activities. With this initiative, a commitment letter has been prepared in which the social, environmental and corporate governance principles that financial institutions will implement in their investments are determined. The first bank from Turkey to sign the undertaking, which was approved by more than 170 financial institutions globally, was the Turkish Industrial Development Bank.

In addition to supporting financing models and investment projects within the scope of combating climate change, TSKB also follows an approach that aims to reduce the effects at the source by considering social and environmental issues. By measuring the environmental impacts arising from banking activities every year, measures are taken to mitigate these effects. TSKB is Turkey's first carbon-neutral bank. It publishes its sustainability reports periodically and transparently shares all social and environmental performance results with its stakeholders. TSKB integrates its goals in sustainability with its budget, plans and strategies. Its policies support four main areas, *"financing of sustainability", "management of internal and external social-environmental effects of the bank", "human resources education", and "corporate social responsibility"* (TSKB, 2021a).

*Risk management* is accepted as one of the leading corporate governance functions for sustainable development at TSKB. According to TSKB, risk management is defined as "an essential tool in the process of transferring capital and other resources to placements that will provide maximum returns to shareholders" (TSKB, 2021b). TSKB's risk management aims to systematically provide input at the decision-making stages of bank management using up-to-date analysis techniques that ensure the implementation of profitable and sophisticated banking practices.

The bank, which has ISO 14001 and 14064 certificates, established the Climate Risks Working Group in 2020 to manage the direct and indirect effects. Furthermore, it considers the publications and tools published by TCFD and UNEP-FI on climate risks to include climate risks in all business processes and analyze the indirect effects caused by their activities; it carries out its studies in this context.

Focusing on protecting its stakeholders from the possible effects of the epidemic during the global COVID-19 pandemic, which negatively affected 2020, the bank switched to the remote working model.

It continued to support the Turkish economy. This process also issued a lease certificate for the food industry.

According to the evaluations made by Sustainalytics, TSKB has been ranked first among Turkish Banks with its *environmental, social and governance* (ESG) risk rating. Furthermore, it came within the second percentile worldwide with an ESG rating of 16.7, putting the bank in the sixth position among 372 banks.

On the other hand, awareness is increasing that the risks arising from climate change are financial risks and will force businesses on a micro-scale and significantly affect the world's economic and financial stability on a macro scale. TSKB aims to integrate climate-related risks and opportunities into its business processes by following the effects arising from its activities and cooperating with its stakeholders. In 2020, TSKB established the Climate Risks Working Group under the Sustainability Subcommittee. In addition, it carries out its studies on sustainability with working groups affiliated with the Sustainability Subcommittee. It also established the Green Swan Platform to bring together all stakeholders to raise awareness about climate change (TSKB, Climate Risks Report, 2021: p.8).

In order to access TSKB's sustainability and risk management related activities, the website has been reviewed "*... TSKB aims to support the development of Turkey by defining the concept of sustainability in social, economic and environmental dimensions*". In this context, TSKB controls the carbon footprint of its operational activities by integrating it into all its processes where it can be maintained and supports the low-carbon economy.

*According to the website, "TSKB ranked first among Turkish banks with its environmental, social and governance risk rating"*.

Based on this finding, it can be said that TSKB carries out risk management effectively and pays attention to environmental and social dimensions. *Furthermore, the website also states that "TSKB established the Climate Risks Working Group under the Sustainability Subcommittee in 2020"*. From this statement, it is understood that TSKB considers the environmental dimension of sustainability in its risk management activities.

## *YAPI KREDİ*

Yapı Kredi seeks to create sustainable value for all its stakeholders and integrates this into all business forms. Evaluating the effects of its sustainability performance on business processes and results, Yapı Kredi develops its business strategies in line with sustainability principles. Yapı Kredi benefits from Koç Holding's experience in sustainability. It secures sustainability studies with measurement, monitoring, evaluation and reporting processes. Yapı Kredi Sustainability Committee is responsible for creating the bank's economic, social and environmental sustainability strategy, integrating this strategy into business processes, and monitoring sustainability activities.

While determining Yapı Kredi's sustainability priorities, "GRI Reporting Standard" considers the expectations of stakeholders, sectoral and global developments, and corporate strategic targets. Priority issues are updated with *the "Identification of Sustainability Priorities Study"* organized every year. Concerning construction loans, the bank received a B (Management) grade from the Climate Change Program, with the report being submitted to the *Carbon Disclosure Project (CDP),* the world's largest environmental reporting platform, in 2019. In addition, it received an A- (Leadership) grade from the Water Programme. The bank also received the highest score in the Turkish Finance sector in the Yapı Kredi CDP Water Program. Furthermore, it was amongst the CDP 2019 Turkey Water Leaders, where it became one of the banks with the highest rating.

In the banking sector, loans are where the leverage effect is felt most intensely, and the sustainability effect is the widest. Yapı Kredi develops environmentally friendly goods and services that create sustainable value for the society in which it operates. In the projects it has financed, it is obligatory to fulfil social and environmental standards beyond the requirements and legal requirements determined by the Banks' policies. In order to achieve this, the *Environmental and Social Risk Assessment System,* which was structured in 2016, was implemented in 2017.

In addition to this policy, the Sustainability management system was developed under "the identification of environmental and social risks of lending activities". A request for a construction loan of over $10 million needs to be evaluated under the investment, social and environmental aspects of project finance loans. Within the framework of "Determination of Environmental and Social Risks of Lending Activities", the risk category of the project is determined, and monitoring and action plans are created in accordance with this category. Corporate and Commercial Loans management assumed primary responsibility for risk assessment and categorization operations. Within the scope of the Environmental and Social Risk Assessment Model, risks are grouped into three categories: high, medium, low. Category A - high - represents adverse severe social and environmental risks and jobs that may have irreversible consequences. Category B -medium- represents works specific to the general project location, are mainly reversible, and mitigation measures can be applied and may have limited negative social and environmental risks and impacts. Category C - low- represents jobs with minimal or zero environmental, social and environmental risks and impacts (Yapi Kredi, 2021a,b,c,d,e).

When Yapı Kredi's website is examined, statements about sustainability and sustainability reports are encountered. Again on the bank's website, "… the Environmental and Social Risk Evaluation System, which was structured in 2016 in order to achieve this, was implemented in 2017". In addition to these policies, "Detection of Environmental and Social Risks of Lending Activities" developed within the scope of the Sustainability Management System… was encountered. Based on this finding, it is understood that the environmental and social dimensions of sustainability are taken into account in the risk management activities of Yapı Kredi bank.

## CONCLUSION AND RECOMMENDATIONS

The invention of steam engines and the developments in information technology accelerated industrialization. A production model that did not consider the environment and natural resources led to unplanned urbanization and unconscious consumption. The price of unconscious production and consumption has been paid by the depletion of natural resources and damage to the environment. Environmental and social dimensions have not been considered while carrying out economic development. When the relevant literature is examined, one notes that the relationship between the environment and economic development has started to be brought to the agenda since the 1970s.

Global warming, climate change, reduction of natural resources, damage to biodiversity, unemployment, rapid population growth, and other environmental and social problems are the reasons for this awareness. Other environmental and social problems mentioned and not listed here have forced businesses to make environmentally friendly decisions and consumers to develop conscious purchasing and consumption behaviour. Efficiency in resource use, recycling, waste management, and sustainability issues are on the agenda of many businesses. Attention to these issues is reflected in sustainability reports.

The role of banks in the economic system within financial institutions is to provide loans to people through the money other customers deposit with the bank. From this point of view, banks do not affect the environment in such a direct way as a production enterprise. However, banks are one of the building blocks of economic growth. They affect the environment, albeit indirectly, in the business processes they perform. Therefore, banks need to consider the environment in their activities and attach importance to sustainable development. This means meeting the needs of the present without compromising the needs of future generations. Therefore, banks need to be sustainable by integrating economic, environmental and social dimensions within their development framework.

On the other hand, banks face many different risks arising from their activities while reducing their effects. This is achieved with effective risk management. Moreover, considering their activities' environmental and social impacts, banks should emphasize sustainability in their risk management activities.

This study investigated the extent to which the six banks that signed the *Responsible Banking Principles* from Turkey integrate sustainability into their risk management activities. Then risk management activities and the three dimensions of sustainability, economic, environmental and social dimensions, are examined together.

It is understood from the findings obtained as a result of the analysis that Garanti BBVA pays attention to the environmental and social dimensions in risk management and carries out extensive studies.

ING Turkey has gathered its credit risk management activities under the name of our Environmental and Social Risk Policy. In addition, ING Turkey has included environmental and social risk studies in the credit evaluation process in financing investment projects. Based on these findings alone, it is seen that ING Turkey has included the environmental and social dimensions, which are the dimensions of sustainability, into its risk management activities.

The author also found that the Development and Investment Bank of Turkey manages the risks and opportunities that may arise from its activities by considering the environmental and social dimensions, which are the basic building blocks of sustainable development. Based on this finding, it is understood that it integrates risk management and sustainability.

Şekerbank has established a comprehensive risk management policy against risks and threats in the sector and environment in which it operates. No statements regarding the economic, environmental and social dimensions, which are the dimensions of sustainability, were encountered in Şekerbank's risk management activities. However, the bank prepares a sustainability report.

It would not be correct to say that Şekerbank does not consider risk management's environmental and social dimensions since only websites are considered. However, the reason can be explored if the bank does not consider the environmental and social dimensions in its risk management activities.

It is seen that TSKB attaches importance to sustainable development, prepares sustainability reports, and measures its environmental impacts in economic, environmental and social dimensions. In addition, the fact that the bank ranks first among Turkish banks with its environmental, social and governance risk rating in the assessment made by *Sustainalytics* shows that it integrates risk management activities and sustainability.

Yapı Kredi also has a sustainability committee. Yapı Kredi launched the *Environmental and Social Risk Assessment System* in 2017. The bank strives to integrate economic, environmental and social strategies into all business processes, demonstrating that it is on its way to becoming sustainable banking. In addition, by preparing the *Environmental and Social Risks Determination procedure of Lending Activities*, Yapı Kredi determines the risk category of the project in financial consultancy services and takes action accordingly.

Based on all these findings, it is seen that the six banks that signed the Responsible Banking Principles from Turkey attach importance to sustainable development in all their activities, support sustainability-related projects and prepare sustainability reports. On the other hand, when the risk management activities, which are the main subject of the study, are examined, it is seen that all six banks carry out effective risk management. Almost all of them have established teams related to risk management and prepared written policies and procedures.

Risk management is a field that requires financial expertise and must be applied carefully, rather than a process by which banks will only detect and carry out financial risks. When the literature part of the study and the findings obtained as a result of the research are compared, the issues prioritized by the six banks and all the risk management processes of these six banks are essential for the continuation of profitability and sustainable development.

The risk management activities of banks that did not sign the Responsible Banking Principles are not included in this study. In addition, the issue of why banks do not sign the Responsible Banking Principles is another research topic. Nevertheless, it is crucial as it reminds all banking institutions in Turkey that they should attach importance to sustainability in their sustainability studies and risk management activities.

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