



Innovation in Participation Banks: A Review on Turkey*

Katılım Bankalarında İnovasyon: Türkiye Üzerine Bir İnceleme

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Abstract: Innovation is defined as a change that makes money. Innovation increases the competitive power of businesses and provides significant advantages in the competition process by creating different products that are provided by the competitors. Innovation is more prominent in the manufacturing sector, however, the importance of innovation has also been increasing rapidly in the service industry in recent years. As the share of the banking sector increases in the service industry, the banks also gain an importance in the service industry. Thus, innovation in banking is very important in diversifying financial instruments and increasing productivity. Increased level of financial success has been observed with the implementation of the financial innovation process in the banking sector. It is stated that the share of participation banking in the world banking sector is increasing day by day in the studies related to banking activities. Participation banking, also referred to as Islamic finance, is developing new financial instruments in accordance with Islamic rules to compete in the world banking sector. Participation banks, which offer interest-free banking services to their customers, have developed innovative products and are offering these services to their customers to provide a better quality service. From this point on, the first part of this study reveals the historical development of the participation banks from the beginning of their establishment up until today. The role of participation banking and its importance in the banking sector have been examined from a financial standpoint. In this study, innovation procedures in participation banks are explained. The effect innovation processes have on the financial income and expenses have been examined. Despite the increase in the incomes of the banks, it was seen that the innovative processes did not directly affect the profitability of the bank. It is recommended for new models to be developed for profitability-enhancing innovative processes.

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Structured Abstract: *Introduction and purpose of study:* Concepts which define Islamic finance such as Islamic finance, interest-free banking and Islamic economics have attracted the attention of researchers in recent years. In addition to the interest that arises from economic growth, another reason for this is religious reasons, along with the 2008 financial crisis. Interest-oriented financial institutions were especially affected during this crisis period for moral reasons and unacceptable situations. These can be another reason for why Islamic finance is garnering attention. Religious reasons that have played an important role in the emergence of Islamic finance have made it possible to profit interest-free. Therefore, those who want to participate in the economy without getting involved with interest have formed organizations that are based on the principle of profit and loss. The first contemporary example of this can be found in Egypt. As elsewhere in the world, the interest in Islamic finance has recently seen an increase in Turkey as well. After explaining the position of participation banking in Turkey and the world, the innovative processes in participation banking have been examined. The financial situations of participation banks in Turkey have been evaluated with innovation processes and the effect of innovation processes has been examined.

Conceptual Framework: The first part of this study reveals the historical development of the participation banks from the beginning of their establishment up until today. The role of participation banking and its importance in the banking sector have been examined from a financial standpoint. In this study, innovation procedures in participation banks are explained. The effect innovation processes have on the financial income and expenses have been examined. Despite the increase in the incomes of the banks, it was seen that the innovative processes did not directly affect the profitability of the bank. It is recommended for new models to be developed for profitability-enhancing innovative processes.

Method: The role of participation banking and its importance in the banking sector have been examined from a financial standpoint. Innovative transactions of banks which operating in participation bankin in Turkey. In this study, innovation procedures in participation banks are explained. The effect innovation processes have on the financial income and expenses have been examined. Despite the increase in the incomes of the banks, it was seen that the innovative processes did not directly affect the profitability of the bank. Correlation test was performed on the 7-year data of the participation banks covering the period 2012-2018. It is recommended for new models to be developed for profitability-enhancing innovative processes.

Findings and discussion: Albeit not as much as conventional banks, participation banks offer innovative products to their customers. This is because participation banks want to implement innovations that are in accordance with Islamic values and are interest-free. Research shows that participation banks make use of conventional banks' profitability theories in their products. Therefore, participation banks need to develop interest-free, innovative products and move away from simply imitating conventional banks. Innovation has many branches in participation banking. The most important of these fall within the scope of Fiqh. Participation banking has fewer financial implementations in practice than conventional banking, but the wealth of the participation banking theory has not been adequately reflected in practice (Polat, 2009: 113). On the other hand, nowadays the technology conventional banks use is equal to those of participation banks. Participation banks in Turkey which have advanced banking systems stand out with their practices in the fields of mobile banking and payment systems. In recent years, participation banks have been using digitalization as much as possible, and the unmanned decision-making mechanisms are accelerating the process.

Conclusion and suggestions: The development of interest-free innovative products by participating banks is possible by moving away from imitating conventional banks. Innovation in participation banking has many different branches, but in general, there are not as many innovative operations in participation banks as conventional banks. On the other hand, nowadays the technology conventional banks use is equal to those of participation banks. Participation banks in Turkey which have advanced banking systems stand out with their practices in the fields of mobile banking and payment systems. In recent years, participation banks have been using digitalization as much as possible, and the unmanned decision-making mechanisms are accelerating the process. The innovation in participation banks is not enough to compete with conventional banks. Conventional banks increase their profitability by using consumer loans in particular. However, it is not possible for participation banks to meet this need of customers since they do not offer this product. This situation causes participation banks not to be preferred.

Keywords: Participation Banking, Innovation, Innovation Management, Financial Analysis.

Öz: Para kazandıran yenilik olarak tanımlanan inovasyon, rakiplerden farklı ürünler üreterek, işletmelerin rekabet gücünü artırmakta ve rekabet sürecinde önemli avantajlar sağlamaktadır. Daha çok üretim sektöründe ön planda olan inovasyonun, son yıllarda hizmet sektöründe de öneminin hızla arttığı görülmektedir. Bankacılık sektörünün hizmet sektöründeki payının artması, bankaların hizmet sektörü içinde önem kazanmasında etkili olmaktadır. Böylece bankacılıkta inovasyonun finansal araçların çeşitlendirilmesi ve verimliliğin artırılmasında önemi oldukça yüksektir. Çünkü bankacılık sektöründe inovasyon sürecinin başlamasıyla finansal başarı düzeyinin arttığı tespit edilmektedir. Bankacılık faaliyetleriyle ilgili yapılan çalışmalarda, katılım bankacılığının, dünya bankacılık sektöründeki payının her geçen gün arttığı ifade edilmektedir. İslami finans olarak da ifade edilen katılım bankacılığı, dünya bankacılık sektöründe, rekabet edebilmek için İslami kurallara göre yeni finansal araçlar geliştirmektedir. Müşterilerine faizsiz bankacılık hizmeti sunan katılım bankalarının, daha kaliteli hizmet sunmak adına inovatif ürünler geliştirdikleri ve müşterilerinin hizmetine sundukları görülmektedir. Bu noktadan hareketle, çalışmanın ilk kısmında katılım bankalarının kurulduğu andan itibaren günümüze kadar tarihi gelişimi açıklanmaktadır. Katılım bankacılığın, bankacılık sektöründeki yeri ve önemi finansal boyutuyla incelenmektedir. Katılım bankalarında gerçekleştirilen inovasyon işlemleri açıklanmaktadır. Bankaların, inovasyon işlemlerinin bankaların finansal gelir ve giderleri üzerindeki etkisi incelenerek bankaların gelirlerinin arttığı tespit edilerek, inovatif işlemlerin bankanın kârlılığı üzerinde etkili olabileceği düşünülmektedir. Kârlılığı artırıcı inovatif işlemlerin yapılması için yeni modellerin geliştirilmesi önerilmektedir.

Anahtar Kelimeler: Katılım Bankacılığı, İnovasyon, İnovasyon Yönetimi, Finansal Analiz.

Introduction

The interest-free banking system has emerged as an alternative to the traditional banking system and this system aims to meet the needs of the society that is sensitive to interest. Economically speaking, the main objective of Islamic finance is to stop the oil revenue of Islamic countries from going to the West, and to accelerate the economic development of these countries, to avoid trading with banks that only have a commercial interest. Furthermore, this system is based on a partnership that shares the profit and the loss instead of interest (Kalayci, 2013: 61). In Islamic banking, the concept of justice is the first thing that comes to mind when it comes to social purpose. The term justice signifies the moral system that lies at the heart of Islamic economics. Inhuman and immoral profiting and unjust enrichment signify a society without a sense of justice. Islamic finance aims to eradicate unethical economic activities. The fact that the value of dependent on time and money loses its value with time forces an interest-based system to be created and this causes inflation, which brings interest with it. Interest arises from the fact that the value of money is the time value; however, the Islamic economy accepts no time value of money. An interest-based banking system leads to a massive economic and social depression in the society, and this leads to the emergence of the Islamic finance system. Economic injustice will be prevented in society with this system. In Islam, an economic person is not just a person who produces and consumes. The idea of an economic person here can be summed up as an individual who finds the best solutions to people's needs. The essential thing is to act in the most appropriate, peaceful and fraternal way while carrying out these needs. Solving any problems that might arise according to traditions and customs, and within a framework of the law and ethical behavior is vital (Tunc, 2010: 90). Suppliers looking out for the people in pricing, the division being made according to equal rights, and the distribution of the capital to all parts of the society equally are the characteristics that form the basis of the Islamic economic model.

Concepts which define Islamic finance such as Islamic finance, interest-free banking and Islamic economics have attracted the attention of researchers in recent years. In addition to the interest that arises from economic growth, another reason for this is religious reasons, along with the 2008 financial crisis. Interest-oriented financial institutions were especially affected during this crisis period for moral reasons and unacceptable situations. These can be another reason for why Islamic finance is garnering attention. Religious reasons that have played an important role in the emergence of Islamic finance have made it possible to profit interest-free. Therefore, those who want to

participate in the economy without getting involved with interest have formed organizations that are based on the principle of profit and loss. The first contemporary example of this can be found in Egypt. As elsewhere in the world, the interest in Islamic finance has recently seen an increase in Turkey as well. Islamic financial institutions in Turkey were first institutionalized as private financial institutions in the 1980s, and then from the 2000s onwards, they began to operate under the name of "Participation Banking." This financial system showed significant improvements from its establishment to the present day and it continues its banking activities not only in the Islamic world but also in many other countries with other religions.

Participation banking, one of the broadest areas of Islamic finance, has been examined in this study. After explaining the position of participation banking in Turkey and the world, the innovative processes in participation banking have been examined. The financial situations of participation banks in Turkey have been evaluated with innovation processes and the effect of innovation processes has been examined.

Participation Banking in Turkey and The World

As the financial system grows throughout the world, the interest-free finance system emerged as an alternative to the current system and is becoming more and more important each passing day. As of 2015, a total of 1329 companies operate in the global interest-free finance system, and 480 of these are participation banks which offer services on the basis of interest-free banking. 322 of these are Takaful companies and 527 are other financial institutions (TKBB, 2016: 36-38). In terms of the distribution of assets in Islamic finance, the total assets of the interest-free banking sector amounted to 73% with 1,451 billion USD, the total value of the Sukuk market assets amounted to 17% with 342 billion USD, the total value of interest-free funds were 3%, assets subject to Takaful were 2%, and other interest free financial institutions amounted to %5 (TKBB, 2016: 37). Saudi Arabia leads the interest-free financial assets in the world with assets of 446 billion US dollars and is followed by Iran with assets of 434 billion US dollars and Malaysia ranks third with assets of 414 billion US dollars, while Turkey ranks eighth with assets of 52 billion US dollars (TKBB, 2016: 38).

The interest-free financial system continues to grow not only in Islamic countries but also in many other parts of the world. Five banks operate in the field of participation banking in Turkey, one of the locomotive countries of the Islamic world. According to the 2016 annual report of the Participation Banks Association of Turkey, the total assets of the Turkish banking sector amount 2.731 billion liras, and the total assets of participation banks amount to 132.776 million liras, with a share of 4.86% in the banking sector. The total of shareholders' equity of participation banks amount to 11.495 million liras and has a 3.8% share in the Turkish banking sector. The funds collected by participation banks are 81.505 million liras and the funds allocated by participation banks are 84.880 million liras (TKBB, 2016). In the same year, the amount of loan allocated by the banking sector is 1.734 billion liras and the share of participation banking in the banking sector is 4.89%. Participation banks in Turkey operate through 959 branches and have 14.465 employees (TKBB, 2016). In the same year, the other banks of the Turkish banking sector operated through 11.747 branches and had 210.010 employees (TKBB, 2016). Personnel who work in the participation banks make up 6.88% of the personnel of the banking sector.

It is shown the operational indicators of Participation Banking in Turkey for 2018 in Table 1.

Table 1: Operational Indicators of Participation Banks in Example

Various Indicators	Albaraka Turk	Kuveyt Turk	Turkiye Finans
Establishment Years	1985	1989	1991
Number of Branches	230	402	306
Number of Employees	3998	5689	3661

Reference: (Own- Prepared from the annual reports of banks)

Albaraka is the oldest participation banks in Turkey. It has the least number of branches in the other banks in the sample. Kuveyt Turk is the bank with the most branches and employees. Turkiye Finans is the latest established bank compared with the others. It has number the most number of branches in second rank.

The profits and profitability of participation banking increase with each passing year. Activities such as increasing credit card usage, internet and mobile banking activities reaching the same level of usage with traditional banks, increasing product diversity, widespread use of lease certificates, increasing the liquidity ratio and geographical access have been influential in the development of participation banking (TKBB, 2016). Activities in especially Sukuk and Murabaha fields have increased and the total volume of Sukuk issuances between 2010 and 2017 has reached 44.4 billion liras. In 2015, the total amount of Sukuk market assets was 342 billion US dollars. Meanwhile, the Gulf Cooperation Council countries, Malaysia, Indonesia, Pakistan, and Turkey exported 32 billion US dollars of Sukuk in 2015 and this amount increased to 40 billion US dollars in 2016 (TKBB, 2016: 40). It is estimated for the interest-free finance system to reach a volume of 3.5 trillion USD in 2021 with an average growth rate of 12% per annum (TKBB, 2016: 41). In addition, the volume of Islamic insurance in the world has surpassed 18.4 billion USD in 2013, and it is expected to exceed 20 billion USD in 2017 (Akhter, 2017: 1402).

It is possible for the sector to grow and to increase profits in participation banking by increasing awareness of the interest-free financial system and training, and also refining corporate governance practices. For example, it is believed that the development of mobile banking and payment systems will also have a significant effect on the development of participation banking (TKBB, 2016: 43). Moreover, as seen in the global financial crises, crises have emerged and the economy has been damaged in situations where the traditional banking sector has made mistakes. For this reason, the increase of participation banking's share in the banking sector is considered to be beneficial to get rid of the negative effects of traditional banking. In addition, the successful management of the global financial crisis of 2008 in Turkey shows how strong the banking system in our country is (Bulut and Er, 2012: 23). Moreover, the legal regulations of the states can have a negative effect on the operations of participation banks (Kassim, 2016: 66). For this reason, innovative products need to be developed for participation banks to be able to compete with traditional banks.

Islamic Finance Products and Participation Banking

Interest-free financing methods are used in Islamic finance. Financial instruments based on a trading philosophy in accordance with Islamic rules have been developed in an interest-free finance system. Islamic finance is based on the methods of partnership and allocation of funds. These methods have been shown below (TKBB, 2012):

- Qard al-Hasan: Repayment is for the same amount as the amount borrowed.
- A'riyah: Loan of a property without use, without anything taken in exchange when the time comes to give it back.
- Mudarabah: Known as the Islamic finance application of venture capital (Donduren, 2008: 10). It is a partnership in which the supplier of the capital provides the capital and the expert and the establishment provide management expertise. Profits are shared in line with the profit sharing ratios stated in the agreement. Losses are paid for from the capital if the person conducting the activity has not caused intentional harm and damage.
- Musharakah: A joint partnership that is based on one or more parties forming an enterprise that they cannot embark on their own. Profit is divided according to contract rates; meanwhile, losses are divided according to capital shares.

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- Installment sales: The seller can sell a commodity or product not only in cash but also on credit. In case of an installment sale, the price added to the cash sale amount is the profit made from the sale.
 - Murabaha: The sale of a commodity or a right for a given price plus a profit margin (Akkaya and Curuk, 2011: 398). Assets such as equipment and machinery that are needed by the commercial and manufacturing enterprises are bought by the participation banks at a pre-paid price and a certain profit share is put on them and financed by being sold to a commercial business (Bulut and Er, 2012: 30). It has an important influence on the growth of small and medium-sized enterprises which operate with an interest-free finance principle in the business life (Sbahan et al., 2016: 1).
 - Salam: The sale of a standard product that has not been produced but will be produced after a certain period of time by a person who urgently needs the money at a pre-paid price and delivers products when it arrives.
 - Ijarah (Finance Lease): The purchase of an investment good according to the interest-free finance principles, and the payment of the installment at a certain fixed price by the ownership of the goods in the buyer and the transfer of the goods at the determined price at the end of the contract. The owner owns the property and the leaser has the right to use it. After the lease ends the goods are transferred to the leaser with the specified price in the contract. Therefore, an entity that leases a good or a right by purchasing it places a profit share on the price it receives and rents it by dividing it by installments at a price above the market value.
 - Individual Funding: Funding real people get from participation banks to meet their needs such as buying automobiles, homes, lands, and durable goods (Bulut and Er, 2012: 30). It is a Murabaha transaction in a way. Participation banks sell their own shares to the customers in installments with a certain profit share by purchasing them together with the customer in the context of the said partnership. Thus, the bank provides the financing the customer needs.
 - Sukuk: It is the document that expresses a partner and owner of a revenue-generating property and has a definition of a commercial asset through securitization and sale through certificates.
 - Takaful: Islamic insurance means that persons who are subject to certain risks agree on compensation for damages that may arise from the occurrence of these risks. In the context of this agreement, the participants are collecting money coming together. Later if one of the participant's damages, this fund is compensated for participant damage (Aslan, 2015: 98).
 - Muzara: To make a partnership agreement by putting the land of one of the parties in the other and is to share the crop that will emerge from the peak activity according to their initial contract (TKBB, 2019: 46).
 - Musaqat: A side with fruit trees and the other one to undertake the maintenance and irrigation of this orchard will make a partnership agreement and share the harvested crop under the terms of this contract (TKBB, 2019: 6).
 - Precious Metal: There are various participation accounts based on gold. For example, the points earned by credit card are loaded as gram gold on the customer's credit card.

Financing by supplying new funds as in traditional banking methods is rather difficult in Islamic finance. Because producing new products in an interest-free finance system extensive research needs to be done in the fields of finance and fiqh. For this reason, Islamic finance has not

yet developed a financial instrument for every need as traditional banking sector has done. It is very important using assets efficiency for traditional and participation banking (Cam, 2015: 152-153). It would be beneficial for the Islamic finance sector of the world to establish a union and carry out a joint operation for the development of financial instruments in the subjects which Islamic religion has allowed.

Innovation and Participation Banking

Innovation has become an important concept for many fields such as industries, agriculture, information technologies, tourism, banking, and finance. Innovation is a factor that increases productivity and competitiveness, economic growth, and shapes economic activities (Kucuk, 2019: 3211; Sahinli and Kilinc, 2013: 332). Businesses constantly need to change and renew their products and production methods to ensure their continuity. In this respect, innovation plays an important role in the development of countries and in the successes of enterprises (Cinar and Toker, 2019: 2121; Bulut and Er, 2012: 73). The Turkish Language Institute defines innovation as "a process of becoming new" (TDK, 2017). Innovation is defined as the application of new ideas to products, processes or other high added value aspects of business operations (Sahinli and Kilinc, 2013: 336). In other words, innovation is a change that makes a profit or provides added value to the economy. Therefore, every change should not be considered an innovation.

Innovation is grouped as organizational, technological and presentational innovation. Organizational innovation is the development of operational methods or increasing the competitiveness of a business by implementing new methods. Technological innovation covers both the technological product or service and process. Along with creating a new product or developing a process, important changes made in existing products and processes are also regarded as technological innovations. Presentational innovation is the creation of new marketing methods and designs or the adaptation of existing methods and designs to increase the competitiveness of the business (Bulut and Er, 2012: 73). As banking is a service industry in a way, innovations in information and communication technologies positively affect the performance of the banking system (Tan et al., 2016: 52; Gundogdu and Taskin, 2017:16).

The crises experienced in the global financial system in the late 20th century have reduced the confidence in the capitalist financial system and has triggered new pursuits in both the national and the global financial system. The fact that the Islamic finance sector is not so much affected by the global financial crises increases the interest in the interest-free and Sharia-compatible Islamic finance sector (Kendirli et al., 2017: 455). The changing competition conditions which are increased as a result of the new economic order in the global financial markets requires innovation in participation banking which is also known as Islamic finance (Kusat, 2014: 1-18). Hence, for participation banks to compete with other banks, they need to provide innovative products which are in accordance with Islamic values, and also diversify these. Cornaggia et al. (2015) state that innovative processes are effective for traditional banks and that it creates differences in competition levels (Cornaggia et al., 2015: 189). For this reason, in recent years, participation banks have been developing innovative financial instruments in line with Islamic values and interest-free principles. In particular, participation banks in Turkey (Albaraka Turk, Kuveyt Turk, Turkiye Finans, Vakif Participation, and Ziraat Participation) are implementing innovations for financial customers that are sensitive to interest. In this context, a great place is given to Fintech innovations in participation banking in Turkey. These innovations are aimed to diversify products and expand the client base. Among these are SME and equivalent credit platforms, payment-related innovations such as interpersonal payments, digital incentives, and digital accumulation management. It is believed that FinTech innovations can meet the reliable information needed by top financial managers (CFOs) in data management and analysis (Canko, 2017: 57-58).

Innovation Applications in Participation Banks

This section describes the innovative transactions of banks which operating in participation banking in Turkey.

Kuveyt Turk which owns two R&D centers in Turkey is developing important projects in the FinTech field and investing in R&D and innovation. It offers career and training opportunities in the field of information technologies to newly graduated engineers and prospective graduates who produce innovative thinking and innovative ideas. It is creating innovative managers with the Techno MT (Management Trainee) program. Thus, by increasing the efficiency in participation banking, they offer their customer easier and faster solutions.

Kuveyt Turk became the first participation bank to initiate forward application with currency pegging in forward foreign exchange transactions in 2007. As the first and only participation bank in the Istanbul Gold Exchange, they began to sell gold in grams and thus have taken the first step in Gold Banking. In 2008, it introduced innovative products such as Gold Swap, Gold for Gold and Gold Cheque to the market (Kuveyt Turk, 2017: 12-14). The success of the bank has been registered and it has been the only participation bank to have been accepted into the London Bullion Market Association with an "Expert" status in the world and has also been the first and only Turkish bank to have been accepted as well (Kuveyt Turk, 2017: 9).

Participation banks are developing various innovative projects to support their employees by realizing innovations. Albaraka Turk, one of these projects, supports internal entrepreneurship projects within the scope of the "Discover Internal Entrepreneurship" program, which employees have implemented with the aim of supporting innovation projects. With this program, Albaraka Turk leads the creation of new business opportunities by enabling innovative ideas coming from employees to be tested with the minimum amount of resources and in the shortest time possible by considering the needs of company and sector (TKBB, 2017: 14).

Albaraka Turk has established the "Albaraka Garage Startup Acceleration Center" in order to ensure the realization of innovative ideas in the field of technology and to support entrepreneurs in this field, reshaping all of the business life and production methods, especially the banking sector. Albaraka Garage, which is the first startup acceleration center in the world, aims to support entrepreneurs with innovative ideas, incubation and acceleration facilities that are working on technological applications and want to bring innovative solutions to the banking sector (Gunen, 2017: 1).

Albaraka Turk implemented the Murabaha Sukuk method for the first time in Turkey in 2013 and provided subordinated loans. In 2015, the first subordinated Sukuk in compliance with the Basel III criteria was issued in Turkey. Albaraka Turk's Mobile Branch and Mobile Branch Touch ID projects were completed (Albaraka Turk, 2017: 9).

In 2016, Albaraka Turk's Albatros (New Main Banking System) project won "The Best Technology Utilization in Retail Banking" award. Albaraka Turk has redesigned its technology infrastructure by taking its needs into account and diversified its products within the scope of the Albatros project. Albaraka Turk has improved and developed its internet banking, ATM, mobile branch and call center functions. The project was implemented on all the channels at the same time in one night. This project has been one of the largest conversion projects of this scale to have occurred in Turkey (Albaraka Turk, 2017: 16).

In 2007, Turkiye Finans launched "Business Card" and "Commercial Card" two commercial credit cards which targeted both the corporate and commercial customers. In 2008, the bank launched its SMS Banking service with an electronic signature. In 2010, Turkiye Finans launched "Organic IPS (Individual Pension Scheme)", Turkey's first interest-free Individual Pension Scheme (IPS). In 2012, the bank launched "Financiers", the first of its kind in participation banking that provides the

consumer financing in a card form. In 2013, they launched the card fee-free credit card Happy Zero and also the first credit card of Turkey aimed for mothers, Happy Mom. Haremeyn Card which offered privileges in Hajj and Umrah visits, and Haremeyn Sua card, which showed the qibla with its compass were launched. "Handsel (first sale of the day) Card" was launched, offering SME customers the option of installment purchases over cash payment price, and also "Faal Card," which targeted tradesmen and businesses. In 2014, Turkiye Finans issued the first Sukuk in Malaysian Ringgit, which was worth 800 million MYR. This issuance was the largest Sukuk issued by a foreign institution in Malaysian Ringgit. Turkiye Finans Customer Contact Center began to offer services in Arabic after English and therefore began to provide telephone banking services in 3 languages. In 2016, the new internet branch of the bank began to offer fast, user-friendly and uninterrupted services to its customers that exceeded the customer expectations (Turkiye Finans, 2017: 8-9).

As of 2016, money depositing transactions can be done in Turkish, English, German, Arabic and Russian from all Ziraat Participation ATMs. To ensure that customers are not exposed to ATM fraud, a Card Copying security application is used in all ATMs. The "Instant Account Opening" option for applications was introduced to allow potential customers of the Bank to be an instant customer. The opportunity to switch from individual internet banking to the e-Government portal, which provides access to the services offered by the public institutions and organizations in electronic media from a single point, was provided without a need for an e-Government password. The Ziraat Participation Mobile Banking application was made available for iOS users with the "Participation Mobile" brand on 17 December 2016, with the aim of helping customers with its innovative and customer-oriented digital strategy. Many banking transactions such as account activities, money transfers, bill payments and password transactions can be performed with the Participation Mobile. Ziraat Participation has implemented many operational transactions in 2016 such as Ziraat Money Demand, QR Coded Cheques, and Video Electronic Cheque Processing and Clearing which make the participation banking's product and service process easier and faster (Ziraat Participation, 2017: 26-30).

Although private pension, insurance, and portfolio management companies are important for the participation banks, participation banks also continue to contribute to the sector in the lease certificate market. In this context, the participation banks of Turkiye Finans, Vakif Participation, Ziraat Participation and Kuveyt Turk are issuing lease certificates (TKBB, 2017: 14).

Also known as the Islamic financing certificate, Sukuk is one the most important innovations participation banks have developed nowadays. It is evident that Sukuk has played an important role in the success of participation banks in the recent years. Thanks to product innovations compatible with Islamic values, such as Sukuk (interest-free bonds), the facilitation and development of the Islamic capital market is a positive development in terms of the global financial market (Kusat, 2014: 10). In Turkey, the banks of Albaraka Turk, Kuveyt Turk, Turkiye Finans, Vakif Participation and Ziraat Participation offer a Sukuk service to their customers. Kuveyt Turk was designated as the "Largest Issuer of Sukuk" in Turkey by the Association of Turkish Capital Markets in 2016 (Kuveyt Turk, 2017: 81).

Participation banks also place an importance on social responsibility and cultural development as well as digital innovations, finance, institutional work and various innovations. For this purpose, Kuveyt Turk has hosted an exhibition consisting of mother-of-pearl, metal engraving, wooden decoupage art and calligraphy to bring lovers of the Turkish-Islamic art together in an event called "50th Age, 50th Exhibition, 50 Works." Kuveyt Turk supports all the traditional arts, especially calligraphy (TKBB, 2017: 13).

Albeit not as much as conventional banks, participation banks offer innovative products to their customers. This is because participation banks want to implement innovations that are in accordance with Islamic values and are interest-free. Research shows that participation banks make

use of conventional banks' profitability theories in their products. Therefore, participation banks need to develop interest-free, innovative products and move away from simply imitating conventional banks. Innovation has many branches in participation banking. The most important of these fall within the scope of Fiqh. Participation banking has fewer financial implementations in practice than conventional banking, but the wealth of the participation banking theory has not been adequately reflected in practice (Polat, 2009: 113). On the other hand, nowadays the technology conventional banks use is equal to those of participation banks. Participation banks in Turkey which have advanced banking systems stand out with their practices in the fields of mobile banking and payment systems. In recent years, participation banks have been using digitalization as much as possible, and the unmanned decision-making mechanisms are accelerating the process.

The innovation practices and innovation types related to participation banks are summarized that innovations are classified in three types as organizational, technological and presentational in the direction of literature in Table 2.

Table 2: Innovation Applications of Participation Banks and Innovation Types

Participation Banks	Innovation Application	Innovation Type
Kuveyt Turk	FinTech Projects- Career and Training Opportunity	Organizational Innovation
	Techno MT (Management Trainee) Program	Organizational Innovation
	Forward Application with Currency Pegging	Technological Innovation
	Gold Banking (Gold Swap, Gold for Gold, Gold Cheque etc.)	Technological Innovation
	50th Age, 50th Exhibition, 50 Works	Organizational Innovation
	Sukuk (Interest-free Bonds)	Technological Innovation
	Lease Certificate	Technological Innovation
	Private Pension	Technological Innovation
	Artificial Intelligence-Based Chatbots	Technological Innovation
	Blockchain Apps	Technological Innovation
	API Markets	Technological Innovation
	Fintech Entrepreneurship	Organizational Innovation
Albaraka Turk	Discover Internal Entrepreneurship Program	Organizational Innovation
	Albaraka Garage Startup Acceleration Center	Organizational Innovation
	Murabaha Sukuk Method	Presentational Innovation
	Mobile Branch and Mobile Branch Touch ID Projects	Technological Innovation
	Albatros (New Main Banking System)	Technological Innovation
	Sukuk (Interest-free Bonds)	Technological Innovation
Turkiye Finans	Business Card, Commercial Card	Technological Innovation
	SMS Banking	Organizational Innovation
	Organic IPS (Individual Pension Scheme)	Technological Innovation
	Financiers	Technological Innovation
	Happy Zero, Happy Mom	Technological Innovation
	Haremeyn Card, Haremeyn Sua Card	Technological Innovation
	Handsel (First Sale of the Day) Card, Faal Card	Technological Innovation
	Arabic Telephone Banking, Internet Banking	Technological Innovation
	Malaysian Ringgit Sukuk	Technological Innovation
Ziraat	Lease Certificate	Technological Innovation
	Turkish, English, German, Arabic and Russian ATMs	Technological Innovation
	ATM Card Copying Security Application	Organizational Innovation
	Instant Account Opening Application	Presentational Innovation
	E-Government Application	Presentational Innovation
	Participation Mobile	Technological Innovation
	Ziraat Money Demand, QR Coded Cheques, Video Electronic Cheque Processing, Clearing	Technological Innovation
	Sukuk (Interest-free Bonds)	Technological Innovation
Vakif	Digital Banking	Technological Innovation
	Sukuk (Interest-free Bonds)	Technological Innovation
	Private Pension	Technological Innovation
	Insurance and Portfolio Management	Technological Innovation

Reference: (Own- Prepared from the annual reports of banks)

When Table 2 is examined, it is seen that participation banks have the highest technological innovation. This results show that participation banks should focus on other types of innovation. In addition, the Kuveyt Turk has made more innovation than other banks.

The Contribution of Innovation to The Economy in Islamic Finance

Innovative movements in Islamic finance are rather limited. The development of innovative products in participation banking is slower than traditional banking, as the development of financial instruments that are in accordance with Islamic law is difficult. It is not quite possible to directly determine the contribution of the banks' innovative operations to their financial positions. However, in general, it is considered that innovative processes are reflected in the financial situation of participation banks, taking into consideration the fact that the participation banks are in a stage of continuous development. Therefore, the total assets, the shareholders' equity, collected and allocated funds, the profit share income and expenses, the net profit, and the capital adequacy ratio of participation banks operating in Turkey between 2014 and 2018 were examined using the indicators listed above. This study was aimed to investigate all five participation banks in Turkey. However, since the data of the two of the participation banks which were established in 2015 are missing, only three of the participation banks have been included in the analysis. They are Albaraka Turk, Kuveyt Turk and Turkiye Finans. Firstly, financial indicators of Albaraka Turk between 2014 and 2018 are shown in Table 3.

Table 3: Financial Indicators of Albaraka Turk (Thousand Turkish liras)

Financial Indicators	2014	2015	2016	2017	2018
Total Assets	23.046.424	29.561.999	32.850.738	36.229.077	47.223.652
Funds Collected	16.643.218	20.346.178	23.155.134	25.309.840	28.623.473
Funds Allocated	16.183.692	19.505.392	22.722.054	24.456.382	26.184.989
Shareholders' Equity	1.790.927	2.103.914	2.279.593	2.481.506	3.261.451
Profit Share Income	1.502.306	1.935.159	2.218.804	2.658.587	3.019.738
Profit Share Expense	803.332	1.049.478	1.195.186	1.390.788	2.000.179
Net Profit	252.631	302.863	217.609	237.092	133.968
Capital Adequacy Ratio	14,15%	15,27%	13,46%	17,10%	17,06%

Reference: (Own- Prepared from the annual reports of banks)

Albaraka Turk's total assets showed around a 105% increase in a five-year term. Shareholders' equity has shown an increase of 82% in the same period. The average annual growth rate of the bank is 21%. The funds collected by the bank from customers have increased at a rate of 72%, 62% of the funds collected have been allocated. Profit share income has increased 101%, and profit share expenses have increased 148%. The bank's assets and shareholders' equity have increased with the bank's innovative operations. Although the amount of funds collected and allocated has increased every year, but the profit of the bank has decreased by about 46% in a 5-year period. It is not quite possible to say that the assets have been used efficiently. It is expected for the allocated funds and the net profit to increase even more with the growth of the bank. Therefore, although there has been a significant improvement in the financial performance of Albaraka Turk in a 5-year-period, it is not possible to say that the desired performance outcome of the innovations has been achieved. Table 4 shows the financial indicators of Kuveyt Turk between 2014 and 2018.

Table 4: Financial Indicators of Kuveyt Turk (Thousand Turkish liras)

Financial Indicators	2014	2015	2016	2017	2018
Total Assets	34.008.175	42.052.507	48.476.955	57.554.456	75.012.986
Funds Collected	22.144.164	28.122.666	31.901.763	40.246.079	55.230.018
Funds Allocated	20.575.082	25.851.000	28.412.441	38.686.230	46.968.143
Shareholders' Equity	3.022.870	3.402.490	3.912.064	4.627.105	4.610.815
Profit Share Income	2.018.781	2.564.838	3.110.435	3.875.720	6.043.165
Profit Share Expense	877.547	1.096.026	1.440.566	1.717.000	2.857.709
Net Profit	370.450	444.681	541.966	637.702	809.543
Capital Adequacy Ratio	15,09%	14,23%	17,06%	17,32%	17,22%

Reference: (Own- Prepared from the annual reports of banks)

Kuveyt Turk is one of the oldest banks that have been operating in Turkey. It is the largest participation bank in Turkey in terms of asset size. Its total assets increased by about 120% over a 5-year period. Its total assets increased from 30.01 billion liras in 2014 to 75.01 billion liras in 2018. Its shareholders' equity increased by 52%. Funds collected during this period increased by 149%, while the funds allocated increased by 128%. The increase in the shareholders' equity and allocated funds of Kuveyt Turk is higher than rest of the banks. The Bank's net profit also is increased by 118% over the same period. Compared to the other banks, Kuveyt Turk has been operating with a higher profit share in a 5-year period. The capital adequacy ratio has also increased since 2014 in line with the increase in shareholders' equity and has reached its highest level in 2018. Kuveyt Turk is more successful than other banks with its good performance in the financial situation in a 5-year period. With a strong shareholders' equity and an increase in its net profits, Kuveyt Turk is the most successful bank that is operating in Turkey. The share of Kuveyt Turk's innovations is quite high in the success of the bank. It has an important position among all banks in Turkey especially with the innovation processes carried out in the field of gold banking. Customers can buy gold from the ATMs at any time. Innovation transactions are often reflected in the bank's financial position and have a significant share in the success of the bank. Table 5 shows the financial indicators of Turkiye Finans between 2014 and 2018.

Table 5: Financial Indicators of Turkiye Finans (Thousand Turkish liras)

Financial Indicators	2014	2015	2016	2017	2018
Total Assets	33.494.790	38.576.299	38.807.717	39.080.897	47.052.484
Funds Collected	19.112.760	22.177.414	21.064.781	22.030.496	26.862.479
Funds Allocated	23.056.422	27.014.513	25.599.230	25.438.310	30.088.212
Shareholders' Equity	3.153.847	3.356.757	3.663.014	4.060.598	4.323.181
Profit Share Income	2.169.968	2.780.246	2.981.301	2.902.629	3.937.713
Profit Share Expense	1.072.136	1.375.984	1.471.762	1.451.193	2.191.887
Net Profit	334.228	261.076	296.243	375.360	444.750
Capital Adequacy Ratio	12,47%	13,51%	15,58%	18,22%	16,62%

Reference: (Own- Prepared from the annual reports of banks)

It is the third largest bank in Turkey when its total assets in 2018 are compared with the other participation banks in Turkey. The total assets of the bank are increased by 40% and its shareholders' equity by 37% in a five-year period. During the same period, the bank's net profit increased at a rate of about 33%. The increase seen in total assets and shareholders' equity can be seen in the net profit. The Bank has increased its net profit every year since 2014, but in 2015, it achieved a lower profit than the previous year. Profit share income has increased by 40,5% and profit share expenses have increased by 30,5%. For this reason, there has not a lot of profit has been made from the funds allocated. As a result, there was only a slight increase in the net income.

Innovation is expressed as value-adding or money-saving novelty. For this reason, it is assumed that innovation increases productivity. Researches show that innovation has a positive effect on productivity. Adam Smith acknowledges innovation as the most important source of productivity growth. According to Chang and Robin, there is a positive relationship between innovation and productivity (Onder, 2017: 18). Innovation is a process in which changes and improvements take place. This process reduces costs and increases productivity by contributing to the increase in demand. Thus, the profit and profitability of the enterprise increases (Keskin, 2018: 189). In this study, net profit and capital adequacy ratio were used as the criterion for productivity. When Table 3, Table 4 and Table 5 are analyzed, it is seen that net profit and capital adequacy ratio scores increase year by year. This shows that productivity increases due to the increase in innovation in participation banks. When Table 3, Table 4 and Table 5 are analyzed, it is seen that net profit and capital adequacy ratio scores increase year by year. This result shows that productivity increases due to the increase

in innovation in participation banks. However, this increase in productivity is not directly related to the increase in innovation. Therefore, it is recommended to develop a model that can measure the relationship between innovation and productivity in participation banks. On the other hand, according to the international audit and consultancy company Earnst & Young (EY) 's Innovation in Financial Participation report; increased spread to the base of the financial participation of banks as the global 2020 revenues of \$ 200 billion, raise the \$ 8 billion in Turkey. For this reason, participation banks need to innovate in service channels and balance branches-digital channels in order to provide more customers with lower cost access in order to increase financial participation. (EY, 2018:1).

Correlation test was performed on the 7-year data of the participation banks covering the period 2012-2018. It is given that the correlations test of the various financial data of Albaraka Turk, Kuveyt Turk and Turkiye Finans participation banks in Table 6.

Table 6: Correlation Rest Results of Participation Banks in Turkey

		Total Assets	Funds Collected	Funds Allocated	Shareholders' Equity	Profit Share Income	Profit Share Expense	Net Profit	Capital Adequacy Ratio
Net Profit	Pearson Correlation	0,777**	0,822**	0,790**	0,775**	0,613**	0,742**	1	0,463*
	Sig. (2-tailed)	0,000	0,000	0,000	0,000	0,003	0,000		0,034
	N	21	21	21	21	21	21	21	21

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

When the correlation test results are examined, it is determined that there is a correlation between all variables except capital adequacy ratio in significant at the 0,05 level. The net profit increases as assets are used efficiently. The higher the funds collected, the higher the net profit. There is a correlation between equity and net profit. As the profit increases, the shareholders' equity increases. Therefore, banks' innovations are thought to be effective in increasing their profits.

Conclusion and Assessment

Participation banks also offer innovative products to customers, albeit not as much as conventional banks. The reasons behind participation banks not being able to develop innovative products as much as conventional banks are because they want to implement innovations that are interest-free and in accordance with Islamic values. The development of interest-free innovative products by participating banks is possible by moving away from imitating conventional banks. Innovation in participation banking has many different branches, but in general, there are not as many innovative operations in participation banks as conventional banks. On the other hand, nowadays the technology conventional banks use is equal to those of participation banks.

Participation banks in Turkey which have advanced banking systems stand out with their practices in the fields of mobile banking and payment systems. In recent years, participation banks have been using digitalization as much as possible, and the unmanned decision-making mechanisms are accelerating the process. The innovation in participation banks is not enough to compete with conventional banks. Conventional banks increase their profitability by using consumer loans in particular. However, it is not possible for participation banks to meet this need of customers since they do not offer this product. This situation causes participation banks not to be preferred.

The development of an interest-free financing model that fits customers' cash needs is expected to fill a significant gap in participation banking. It would also be beneficial for the Islamic finance sector of the world to establish a union and carry out a joint work for the development of financial instruments that are allowed by Islam. Therefore, for the development of participation

banking, it is proposed to establish a central bank specifically for the participation banks. Thus, the competitiveness of participation banks will increase.

The effect of innovation processes of participation banks on their financial income and expenses have been examined, but even though the incomes of banks have increased, innovative transactions have not directly affected the profitability of the bank. Therefore, new models need to be developed to create profitable innovation processes. Furthermore, it is seen that participation banks have the highest technological innovation. Participation banks need to realize innovations in organizational and presentation types. To conclude with, it is thought that this theoretical study will contribute to the importance of innovation in participation banks and also to the empirical work to be done within the scope of innovation management in the literature.

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