

Corporate Social Responsibility Practices of Malaysian Islamic Banks from the Shariah Perspective: A Focus on the Key Dimensions

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Abstract

This study examines the corporate social responsibility (CSR) disclosure practices of Islamic banks in a developing economy, i.e., Malaysia. Specifically, the study focuses on all three full-fledged Islamic commercial banks over the years 2004–2010 and constructs a CSR Disclosure Index to score the disclosure level of the banks. The findings reveal that Bank Islam has a higher disclosure practice than other banks since 2006. Disclosures on dimensions such as corporate vision, employment, and product are found to be strong, while disclosures on environmentally related information tend to be weak. Generally, the Islamic banks studied indicate that their CSR disclosure practices have low compliance with the Shariah principles, a clear sign that there is a need for more dynamic

enhancement in the practice. Such an effort is deemed crucial for the banks to retain their credibility and reputation as Islamic business organizations.

Keywords: Corporate Social Responsibility, Disclosure, Malaysia, Islamic banks, Shariah

Introduction

Corporate social responsibility (CSR) is essentially a concept wherein companies mark a target to practice and conduct activities for the greater good of society and the natural environment. In general, the public has positive perception that CSR may contribute to good governance practice and ensure employee rights (including continuous education and training). At present, CSR strategies and activities are utilized by

business corporations as initiatives to respond to numerous business-related and non-business-related pressures. Dusuki and Abdullah (2007) highlight that the CSR framework sets a standard of behavior to which a company must subscribe in order to impact society in a positive and productive manner. CSR has taken its stronghold among business corporations in developed countries, especially in the United States and the United Kingdom, and in Europe. For emerging nations, the practice of CSR is generally progressing but remains challenging to the business managers.

In recent years, a considerable development has occurred in the Islamic banking sector within emerging and Middle Eastern countries. The main factor underlying the establishment of Islamic banks relates to how the economic system runs based on the values and principles of Shariah. The main difference between Islamic banks and conventional banks is that the latter is based on the conventional interest-based principle, whereas the former follows the principles of interest free and profit and loss sharing to perform their business as intermediaries. Usmani (2000) states that the underlying philosophy of Islamic banks is to ensure justice that is free from all forms of exploitation. Despite the fact that the primary reason for establishing Islamic banks relates to managing the banking sector according to the values and principles of Shariah, to a certain extent, the Islamic banking sector utilizes conventional CSR to direct their CSR strategies and practices. CSR in banks specifically involves a variety of relationships with both internal and external stakeholders. To provide general guidance on disclosure for Islamic financial institutions (IFIs) in performing their reporting accountability, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) introduced the Financial Reporting and Governance Standard (1998, 2005), which provides guidance to Islamic banks/financial institutions with respect to reporting, including the reporting of their CSR activities.

Malaysia has successfully portrayed to the world its ability to become the world's first economy that has established a full-fledged Islamic financial system operating in parallel with a conventional banking system. The strength of becoming the world's most advanced Islamic financial market has led to wider attraction among foreign financial institutions in choosing Malaysia to conduct Islamic banking businesses in. Accordingly, such national potential has transformed the country into one of the most viable Islamic banking markets in the world. Given that Islamic banks are based on divine revelation, Dusuki and Abdullah (2006) argue that the concept of CSR should be naturally embedded and instilled in Islamic banking practices. In this context, there is an increasing challenge for Islamic banks to play a significant role in economic progression, environmental protection, and social stewardship. Notably, Islamic banks have the dual ability to redistribute and allocate wealth to selective investments that contribute to the betterment of society, that is, to operate banking services while caring for the people and planet as part of a corporate citizen that upholds accountability to God. Such stewardships denote the distinction between Islamic banks and conventional banks.

At present, Islamic banks in Malaysia are using the conventional CSR framework and dimensions to guide their CSR strategies and practices. However, the current CSR framework offered today in mainstream economics was developed in isolation from Islamic input and may not offer full guidance because it is operating in a dissimilar philosophy. Farook (2007) argues that, other than to avoid *riba* and *gharar*, Islamic banks are uncertain about the form of CSR practice expected from them based on Islamic prescriptions. Even if Islamic banks are conducting their social responsibility activities, they may not practice effective disclosures of CSR information to the respective stakeholders, hence leading to an expectation gap. As consistent Islamic-based entities, understanding the CSR practices of the Islamic banks from the Shariah perspective is

therefore crucial. Accordingly, this study seeks to investigate the CSR practices and disclosure of Islamic banks operating in Malaysia on the basis of an Islamic disclosure framework. It specifically aims to examine current CSR disclosures according to the identified key dimensions.

This paper is organized into four main sections. The subsequent section proceeds with the background of the research. The third section provides the literature review of the study, while the fourth section discusses the methodology. The following section presents the results and discussion, and the final section offers the concluding comments.

Literature Review

Corporate Social Responsibility: An Islamic Theoretical Perspective

From an Islamic perspective, CSR derives itself from core principles in the Holy Qur'an. The primary principles for Islamic-based CSR comprise unity (tawhid), vicegerency (khalifah), accountability, and justice (Alam, Hassan & Said, 2015; Farook, 2007). The concept of unity arises from the belief in one God. God has entrusted mankind to the use of all available resources, in line with the faith that God owns everything. In return for the luxury of utilizing the physical universe, mankind agrees to be accountable for how the universe is used (see DeLorenzo, 2002). Such an agreement calls for strong and mutual responsibility among individuals to perform their duties following Islam. Based on the axioms of Unity, the primary objective of social responsibility relates to the demonstration of responsibility to Allah (SWT), which requires a single and clear direction of a unified spirit in adhering to Shariah (Moten, 1990).

Say: Truly, my prayer and my service of sacrifice, my life and my death are all for Allah, the Cherisher of the Worlds. (Al Quran 6: 62)

The concept of khalifah denotes that mankind is required to act on and be the representative of Allah on earth. The Almighty has created everything in the heaven and on the earth for man. Mankind must carry out His Will, and as such Allah has entrusted mankind with the stewardship of His possession. From the perspective of a business corporation, this concept of khalifah envisages the entities to function as stewards or caretakers. Apart from being accountable for shareholders' financial resources, businesses are also deemed to care for society's economic resources, holding their property in trust for their benefit as a whole and ultimately attaining the blessing of God. This mission of "business and khalifah" implies the crucial need for firms to instill good CSR practices, including encouraging good environmental practice, occupational safety, philanthropic contributions, socially beneficial and harmless activities, and initiatives. Failure to do so is equivalent to disrespecting and offending God's will, with all the attendant consequences in this world and in the Hereafter (see Dusuki, 2008). Allah states this principle in the Holy Qur'an:

Do you not see that Allah has subjected to your (use) all things in the heavens and the earth, and He has made His bounties flow to you in exceeding measure, both seen and unseen? (Al Quran 31: 20)

It is Allah Who has made for you the earth as the resting place and the sky as a canopy, and has given you shape – and made your shapes beautiful – and has provided for you sustenance, of things pure and good... (Al Quran 23: 64)

I will create a vicegerent on earth... (Al Quran 2: 30)

It is He who hath made you the inheritors of the earth. (Al Quran 6: 165)

The concept of divine accountability links

closely with the vicegerency principle, in which mankind is accountable to Allah for all of their actions on the Day of Judgment. This concept represents the basis for Muslims' actions and the actions of respective representative organizations of Muslims (Farook, 2007). This principle is clarified in several verses of the Holy Qur'an:

Allah takes careful account of everything. (Al Quran 4: 86)

Then shall anyone who has done an atom's weight of good shall see it and anyone who has done an atom's weight of evil, shall see it. (Al Quran 99: 7-8)

The concept of justice is a sense of balance among various facets of a man's life toward achieving the best social order, which can be achieved through morality purpose. This concept encompasses aspects of fulfilling promises, deals, and contracts. Allah says:

The Believers, men and women, are protectors one of another; they enjoy what is just (accepted), and forbid what is unjust (rejected)... (Al Quran 9: 71)

You are the best of peoples, evolved for mankind, enjoying what is just (accepted), forbidding what is unjust (rejected), and believing in Allah. (Al Quran 3: 110)

In relation to business, as Islam condemns cheating and lying, companies are expected to act accordingly and be straightforward in all their dealings and transactions (Khan & Karim, 2010). The entire chapter of the Holy Qur'an through the Surah Al-Mutaffifeen focuses on fair dealings, wherein fraudulent dealers are threatened with divine wrath. The principle of enjoining good and forbidden evil encapsulates the responsibilities that Allah places on Muslims as trustees and vicegerents (Farook, 2007).

Allah says:

God commands justice and good conduct... (Al Quran 16: 90)

O you who believe, be upright for God, and (be) bearers of witness with justice! (Al Quran 5: 8)

We sent Our Messengers with clear signs and sent down with them the Book and the Measure in order to establish justice among the people... (Al Quran 57: 25)

The manifestations of such social responsibility, particularly in institutional settings such as Islamic banks, require an overwhelming Shariah paradigm. In fact, Islam provides a comprehensive moral framework and guidance by spelling out the good and bad values, as well as what is and is not desirable from moral, spiritual, and social perspectives (Ahmad, 2003).

CSR Disclosure Practice by Islamic Banks

The disclosure of CSR activities is expected to be vitally practiced by IFIs because they have responsibility to the society at large (Mohd-Sanusi, Ismail, Hudayati, & Harjito, 2015; Mashhour, 1996). Social role is crucial for Islamic banks, as it reflects the importance of Islamic principles and in what way banking operation and management activities reduces social issues (see Maali et al., 2006). Haniffa and Hudaib (2004) comment that the disclosure practice functions as an opportunity to demonstrate business commitment in meeting the needs of the Muslim community. Hence, through the disclosure of social responsibility activities, Islamic banks will be able to fulfill the information demands from the society at large.

The AAOIFI guidelines identify nine relevant CSR activities from the Islamic perspective and specify that Islamic banks are expected to disclose related programs and activities. The Islamic-related CSR activities are as follows:

1. Islamic ethical behavior;
2. Good governance, including efficient board of directors and Shariah Supervisory Board (SSB);
3. Good customer relations;
4. Fair dealing with those in the supply chain;
5. Staff protection, encouraging talent, ensuring diversity, keeping international labor standards, and providing safety and security in the workplace;
6. Provision of Zakah (religious tax) and charity funds;
7. Fostering strong links with the community through public service announcements, sponsorships, etc.;
8. Balancing corporate goals with activities to enhance environmental protection, including investment in environmentally friendly projects, developing Shariah-compliant green products, etc.; and
9. Research, development, and training.

Both CSR-related literature from the Islamic perspective and the AAOIFI guidelines recognize the importance of disclosing information relating to corporate social issues on financial statements. Haniffa and Hudaib (2007) highlight five primary features that differentiate Islamic banks from mainstream conventional banking. These features encompass underlying philosophy and values, provision of interest-free products and services, restriction to Islamic acceptable deals, focus on development and social goals, and subjection to additional reviews by the SSB. Hasan and Harahap (2010), who adopt Haniffa and Hudaib's (2007) research framework, examine the CSR disclosure of Islamic banks based on eight dimensions, as below:

1. Ethical behavior, stakeholder engagement, and customer relations;
2. Good governance;
3. Interest-free, lawful products, and services;
4. Shariah Supervisory Board (SSB);
5. Development and social goal;
6. Employees;
7. Environment; and
8. Research and development.

Hasan and Harahap (2010) also argue that Islamic banks should disclose all the above mentioned information under the CSR disclosure policies to facilitate users' evaluation and assessment of the financial position and performance of an Islamic bank. In fact, Islamic banks should be proactive in disclosing information that would enable users to make an economic decision from their accounting reports.

The literature highlighted above generally focuses only on the CSR disclosures of Islamic banks in a number of selected countries. For instance, Haniffa and Hudaib (2007) study the CSR disclosures of Islamic banks in six countries around the Arabian Gulf region and find minimal communication concerning ethics-related information. Hasan and Harahap (2010) investigate the CSR activities among Islamic banks in seven selected countries and conclude that the banks exerted minimal effort in CSR disclosure practices. Maali et al. (2006) also discover similar findings on CSR disclosures made by 29 Islamic banks operating in 16 countries. The current study seeks to examine the CSR practice of Islamic banks in a developing economy, i.e., Malaysia. A focus on this country is consistent with its growing establishment as a potential global Islamic finance and halal hub. With a thorough exploration of CSR disclosure practices, the research findings may put forward ideas and knowledge that pertain to inclusive Islamic CSR-based practices among Islamic banks in the country.

Methodology

The research approach involved content analysis of annual reports of three full-fledged local Islamic banks operating in Malaysia, namely, Bank Islam Malaysia (BIMB), Bank Kerjasama Rakyat Malaysia (BKRM), and Bank Muamalat Malaysia (BMM). The seven-year reporting period of study from 2004 to 2010 enabled an examination of the trends in disclosure practices on CSR-related activities among local Islamic banks from its early stage of establishment. This study period is relevant to understanding the progress of corporate CSR disclosure practice because it covers the time Bursa Malaysia introduced its CSR framework. Thus, it is hoped that the range of years may help discover meaningful company reports. Content analysis of companies' annual reports is one of the most reliable ways to obtain significant measures of social and environmental activities (e.g., Wiseman, 1982; Madi & Kamaluddin, 2003; Hackson & Milne, 1996) and has gained acceptance from researchers as the data collected are objective, systematic, and reliable (Gray et al., 1995).

Drawing on AAOIFI guidelines (2005), Haniffa and Hudaib's (2007) five distinctive features of Islamic banks, and Hasan and Harahap's (2010) eight dimensions of CSR disclosure, this study conducted a pilot study to examine the disclosure of CSR activities of the Malaysian Islamic banks on the basis of six key thematic measurement areas, i.e., dimensions:

1. Strategy
2. Governance
3. Product
4. Community Development and Social Goals
5. Employee
6. Environment

The six key dimensions used are in line with Bursa Malaysia's requirements, in which Malaysian companies must report their CSR activities based on four dimensions (i.e., Workplace, Marketplace, Community

Involvement, and Environment) and taking into consideration a move toward integrated reporting. This framework requires companies to link their organizations' strategy, governance, and financial performance with the social, environmental, and economic contexts within which they operate.

Figure 1 diagrammatically describes the framework of this study. The Islamic core principles are used as the fundamentals in exploring CSR disclosure practices of Islamic banks in Malaysia with a focus on the six identified CSR dimensions.

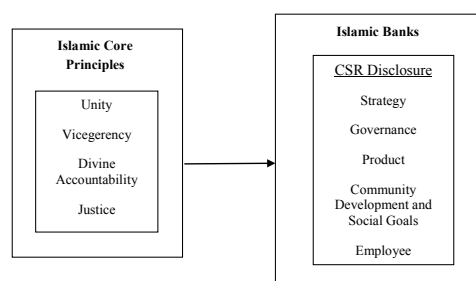


Figure 1: Research Framework

The scoring of CSR disclosure in this study is assessed using an equal-weighted index, which means that a point is awarded for each CSR disclosure theme in relation to any of the key elements considered. The disclosure score for each company is totaled but not given any specific percentage as it is considered that each item of disclosure is equally important. The CSR disclosure score indexes are constructed as follows:

$$\sum_{i=1}^m \frac{d_i}{N}$$

The index indicates the level of disclosure for a company, where N is the maximum number of relevant items a company may disclose, d_i is equal to 0 if there is no disclosure, and is equal to 1 if there is disclosure. Table 1 presents the key elements for each of the six thematic measurements and the maximum score for each key element. In total, 78 constructs were developed as indicators of the index.

Table 1: CSR Disclosure Index

Key Theme	Key Elements	Score
Strategy	• Corporate Vision	4
Governance	• Board of Directors and Top Management • Shariah-compliant	15 15
Product	• Product, Services, and Fair Dealing with Supply Chain	8
Community Development and Social Goals	• Strategic Social Development • Research, Development, and Training	13 5
Employment	• Employees	10
Environment	• Environment	8
TOTAL SCORES		78

Table 2 presents the detailed constructs developed for the CSR disclosure index. The use of the disclosure index was deemed relevant to study the CSR disclosure practices because it allows an objective measurement of disclosures and the development of a systematic numerical basis for further examination of disclosures (see Bewley & Li, 2000; Hughes et al., 2001). The modified CSR disclosure index constructed, as shown in Table 2, is pertinent to facilitate the aim of the study. This index provides specific items related to the six key CSR dimensions studied, i.e., Strategy, Governance, Product, Community Development and Social Goals, Employee, and Environment. This research instrument enables the investigation of CSR disclosures by the Islamic banks in Malaysia.

Table 2: Detailed Constructs for the CSR Disclosure Index for Islamic Banks

Key Theme	Key Elements	Items
1. Strategy	Corporate Vision	<ul style="list-style-type: none"> • Operates within Shariah principles • Focus on stakeholders and distribution of profit • Appreciation for shareholders and customers • Building long-lasting relationships with customers
2. Governance	Top Management	<ul style="list-style-type: none"> • Name of the board of directors • Position of the board members • Academic qualifications of board • Profile of the board of directors • Remuneration of the board of directors • Shareholding of the board of directors • Various subcommittee exists and number of meeting held • Audit committee exists • Multi-directorship exists among board of directors • Name and position of the management team • Member in the subcommittee of the management team members • Academic qualifications of the management team • Governance structure of the Islamic bank including committees under the highest governance body responsible for specific task, such as setting strategy or organizational oversight • Mechanism for shareholders and employees to provide recommendations or direction to the highest governance body and annual general body meeting • Risk management practices

	Shariah -compliant	<ul style="list-style-type: none"> • Name of Shariah Supervisory Board (SSB) members • Qualifications of SSB members • Number of SSB members • Remuneration of members • Report signed by all members • Number of meetings held • Examination of documents based on sample • Examination of all documents • No defects in products • Report defects in product • Report of SSB • Nature of unlawful transactions • Certification of distribution of profits/ losses complying to Shariah • Zakah calculated according to Shariah • Shariah screening during investment
3. Product	Product, Services, and Fair Dealing with Supply Chain	<ul style="list-style-type: none"> • Introduction of SSB-approved new product • Basis of Shariah concept on new products • Glossary/definition of new product • No investment in non-permissible activities • Nature of unlawful transaction • Fair dealing with those in supply chain • Promotion of Research and Development • Market survey and feasibility report
4. Community Development and Social Goals	Strategic Social Development	<ul style="list-style-type: none"> • Funding organizations that provide benefits to community for social equity • Fostering strong links with the community/public service • Creating job opportunities • Amount spent in community activities • Participation in government-sponsored social activities • Zakah payment - monetary • Zakah payment - beneficiaries • Qardh-Hassan - monetary • Qardh-Hassan - beneficiaries • Sadaqah - monetary • Sadaqah - beneficiaries • Community cohesion • Debt policy and amount of debts written off
	Research, Development and Training	<ul style="list-style-type: none"> • Capacity building • Regular performance and career development report • Strategy formulation and decision making support to the top management • Standardize training curriculum • Database management

5. Employment	Employees	<ul style="list-style-type: none"> • Equal opportunities policy • Employees welfare • Ensuring diversity • Training: Shariah awareness • Training: professional skill • Encouraging talent • Keeping policy of international labor standard • Reward for employees • Employees' appreciation • Focus on safety of staff
6. Environment	Environment	<ul style="list-style-type: none"> • Introduction of green product • Glossary/definition of green product • Investment in recycling bin project (recycling for nature) and other sustainable development project • Amount of donation in environmental awareness • Financing in any project which may lead to environmental damage • Investment in sustainable development projects • Initiatives to mitigate environmental impacts of product and services, and extent of impact mitigation • Focus on risk-based corrective actions

The modified CSR disclosure index constructed, as shown in Table 2, is pertinent to facilitate the aim of the study. This index provides specific items related to the six key CSR dimensions studied, i.e., Strategy, Governance, Product, Community Development and Social Goals, Employee, and Environment. This research instrument enables the investigation of CSR disclosures by the Islamic banks in Malaysia.

Results and Discussion

Table 3 provides the total disclosure scores for all three full-fledged Islamic banks in Malaysia, namely, BIMB, BKRM, and BMM. In general, the Islamic Corporate Social Responsibility (i-CSR) disclosures for all three banks gradually increased from 2004 to 2010. However, BIMB experienced a sharp increase between 2005 and 2006, creating a preliminary idea that the bank gave an early positive reaction to the global and national calls for CSR reporting in Malaysia. Although BIMB was reported to have the least i-CSR in 2004, when compared to BKRM and

BMM, the bank emerged as the highest i-CSR reporter among the three studied banks in 2010. Generally, the total scores for all three banks were above 50 percent of the total 78 i-CSR items of disclosures.

Table 3: Disclosure Scores of Full-Fledged Islamic Banks in Malaysia

Islamic Bank	Year						
	2010	2009	2008	2007	2006	2005	2004
Bank Islam Malaysia (BIMB)							
Total Score	61/78	59/78	55/78	46/78	43/78	23/78	22/78
Percentage (%)	78	76	71	59	55	29	28
Bank Kerjasama Rakyat Malaysia (BKRM)							
Total Score	51/78	44/78	40/78	36/78	29/78	29/78	27/78
Percentage (%)	65	56	51	46	37	37	35
Bank Muamalat Malaysia (BMM)							
Total Score	48/78	46/78	40/78	36/78	34/78	31/78	24/78
Percentage (%)	62	59	51	46	44	40	31

Table 4 demonstrates the average scores for i-CSR disclosures by BIMB from 2004 to 2010 based on the six key themes investigated. The disclosure practice throughout the studied period generally presents an upward trend. In the early years of study, i.e., 2004 and 2005, disclosures pertaining to community development and social goals and employment were the least made available to the public; this was followed by disclosures on environment and product. Corporate vision was first disclosed only in 2006 but was then maintained through 2007 to 2010. Among all themes, employment-related disclosures went through a sharp improvement over the years. In comparison, environmental-related disclosures showed the least progress, with scores maintained for 2006 to 2010. Overall, corporate vision scored the highest average score in 2010, followed by employment and product, while the least disclosed in that year was the information relating to environment.

Table 4: Average i-CSR Disclosure Score: Bank Islam Malaysia (BIMB)

	CV	CG	PR	CDS	EM	EN
2010	1	0.73	0.88	0.83	0.9	0.38
2009	1	0.73	0.88	0.83	0.8	0.38
2008	1	0.7	0.63	0.78	0.8	0.38
2007	1	0.63	0.38	0.67	0.5	0.38
2006	0.75	0.63	0.5	0.61	0.3	0.38
2005	0	0.57	0.25	0.11	0.1	0.13
2004	0	0.53	0.25	0.11	0.1	0.13

Note: CV-Corporate Vision; CG-Corporate Governance; PR-Product; CDS-Community Development and Social Goals; EM-Employment; EN-Environment

Table 5 exhibits the average scores for i-CSR disclosures by BKRM from 2004 to 2010. Corporate vision scored the highest average scores throughout the years studied compared to other key i-CSR disclosure themes. Corporate governance experienced rather a steady increment over 2004–2010, while product-related i-CSR disclosures had two stable trends in which the average scores were similar from 2004 to 2007, increased in 2008, and maintained throughout until 2010. Community development

and social goals and environment type of i-CSR showed inconsistent trends. However, a drastic improvement is seen in the employment-related i-CSR disclosure between 2009 and 2010. This disclosure theme began as the least reported one in 2004 and became the second most reported i-CSR disclosure in 2009 and 2010. In comparison with the i-CSR disclosures by BIMB, it is rather interesting to view that environment is the least disclosure for BKRM, especially in the recent 2010 corporate reporting.

Table 5.0: Average i-CSR Disclosure Score: Bank Kerjasama Rakyat Malaysia (BKRM)

	CV	CG	PR	CDS	EM	EN
2010	1	0.73	0.63	0.56	0.8	0.25
2009	1	0.63	0.63	0.67	0.2	0.25
2008	1	0.6	0.5	0.56	0.2	0.25
2007	1	0.6	0.5	0.44	0.1	0.13
2006	1	0.57	0.5	0.11	0.1	0.13
2005	1	0.5	0.5	0.22	0.1	0.13
2004	1	0.5	0.5	0.17	0.1	0.3

Note: CV-Corporate Vision; CG-Corporate Governance; PR-Product; CDS-Community Development and Social Goals; EM-Employment; EN-Environment

BMM's trend of average scores for all six key themes of i-CSR disclosures is rather similar to that of BKRM (refer Table 6). Corporate vision obtained the highest scores since 2005, while employment was the second highest disclosures made by the bank, and environmental-related information was the least reported information throughout the seven years. Such a finding put forward a question of whether environment has been the least priority in the bank's business strategic planning and management. Hence, it is interesting to further explore the reasons behind such minimal reporting practice and investigate whether the reasons relate to low governance, weak financial resources, or low pressure from stakeholders.

Table 6.0: Average i-CSR Disclosure Score: Bank Muamalat Malaysia (BMM)

	CV	CG	PR	CDS	EM	EN
2010	1	0.73	0.5	0.5	0.8	0.13
2009	1	0.7	0.5	0.44	0.8	0.13
2008	1	0.7	0.5	0.44	0.2	0.13
2007	1	0.7	0.5	0.28	0.1	0.13
2006	1	0.7	0.5	0.17	0.1	0.13
2005	1	0.67	0.4	0.11	0.1	0.13
2004	0.5	0.5	0.4	0.11	0.1	0.13

Note: CV-Corporate Vision; CG-Corporate Governance; PR-Product; CDS-Community Development and Social Goals; EM-Employment; EN-Environment

Generally, the average i-CSR disclosure scores according to the six dimensions for all three Islamic banks studied are rather similar for all dimensions, with the highest disclosures being corporate vision and the lowest one being the environment.

Figure 2 shows the average scores for i-CSR disclosure on theme 1 (Strategy). Among the three banks, BKRM scored the highest average score over the seven years, followed by BMM and BIMB. Nevertheless, disclosures related to “operate within Shariah principles” and “building long-lasting relationships with customers” dominate over the last five years for the three banks. Additionally, disclosures on “appreciation to shareholders and customers”

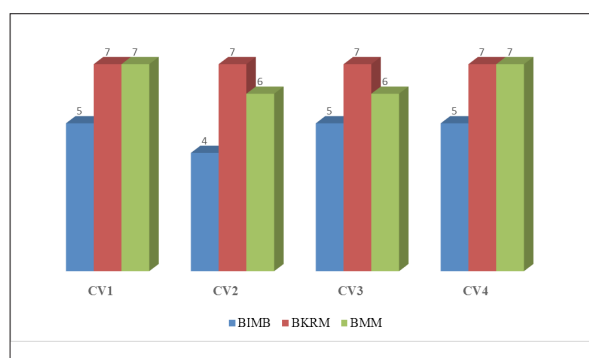


Figure 2: Average Scores for i-CSR Disclosures on Theme 1 (Strategy)

were the second most disclosed item. A huge difference of average score for disclosures pertaining to “focus on stakeholders and distribution of profit” was found between BIMB and BKRM, with BIMB scoring the least disclosed information.

Figure 3 illustrates that with reference to the theme “Governance,” all the three banks had highly disclosed information related to “Board of Directors and top management” with a steady increment over the seven years. Under the element of Shariah-compliant, the highest disclosed information is found to be in relation to the background of the SSB members, the number of SSB members, the report signed by all members, examination of all documents, reported by SSB, certification of profit and losses distribution complying to Shariah, zakat calculated according to Shariah, and Shariah investment screening. Despite such findings, overall results indicate that the level of disclosure on Shariah compliance for the three banks was still below the desirable level. This low level of disclosure poses a question on the effectivity of the Islamic banks, which are expected to be accountable and transparent in their practices. Shariah compliance procedures in particular should be disclosed comprehensively, because the information will enable details relating to the procedures taken to achieve Shariah compliance on each product or transaction made known to the respective stakeholders.

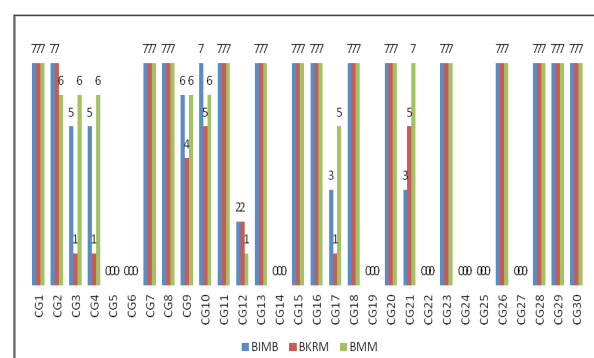


Figure 3: Average Scores for i-CSR Disclosures on Theme 2 (Governance)

All three banks disclosed the majority of the information items of the third theme (i.e., Product) (refer Figure 4). The most disclosed information is related to “no investment in non-permissible activities” and “fair dealing with those in supply chain.” This finding indicates that the reporting practices of these banks are predominantly focused on details of their investment and financial activities. None of the banks throughout the seven years disclosed any information that pertained to the “nature of unlawful transactions,” while only BIMB disclosed the “glossary/definition of new product.” Overall, the three banks ranged in the scores, with the highest scored disclosure for BIMB and the lowest for BMM.

Referring to Figure 5, the highest score for i-CSR disclosure under the theme “Community Development and Social Goals” for seven consecutive years was achieved by BIMB. Overall, BIMB disclosed most of the required items as compared to BKRM and BMM, and it was the only bank that provided attestation regarding the financial reports in their SSB report. BKRM and BMM, instead, made high disclosures for information related to “fostering strong links with the community/public service” and “community cohesion,” an initial signal that these two banks have high focus on the development and impacts to the wider community. All the banks, however, failed to disclose information on “Qardh-Hassan-

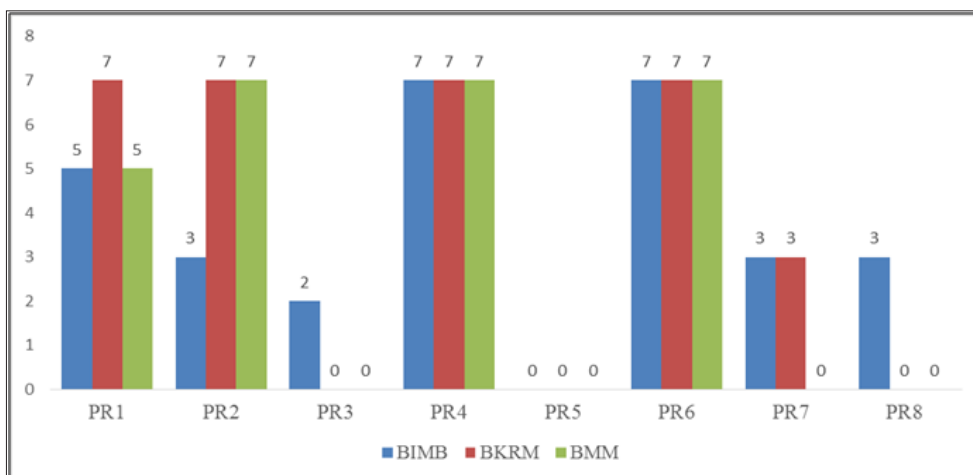


Figure 4: Average Scores for i-CSR Disclosures on Theme 3 (Product)

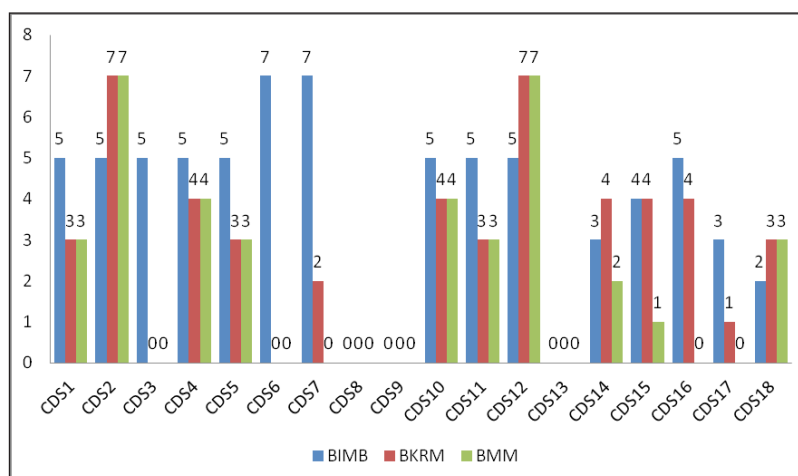


Figure 5: Average Scores for i-CSR Disclosures on Theme 4 (Community Development & Social Goals)

monetary” and “Qardh-Hassan-beneficiaries.” One unique feature of Islamic banks is the provision of qardh al hassan (benevolent funds), which relates to the provision of loans without expecting any extra payout over and above the repayment of sources and benevolent uses. This form of financial concept focuses on the less-advantaged groups in society, who should be given priority in accessing such funds if social justice is to be upheld by the Islamic banks. Unfortunately, such activities were not reflected and communicated by the three banks. Apart from that, the three banks did not disclose any information pertaining to their debt policy and types of lending activities.

In relation to the fifth theme, i.e., Employee, Figure 6 demonstrates that all banks disclosed the majority of the items of disclosures, except for information on “keeping policy of international labor standard.” Additionally, BIMB was found to be the sole full-fledged

bank to have disclosed about “focus on safety of staff.” This finding indicates that BIMB is concerned about the safety of its employees, thus caring for the internal stakeholders of the company.

With reference to Figure 7, the “Environment” theme was discovered to be the least disclosed form of information by the three banks. Minimal information was disclosed, and such a finding reflects the companies’ limited effort to demonstrate ethical identity, care for the natural environment, and ultimately, betterment of society, as they claim for being Islamic.

Overall, Figures 2–7 show the detailed i-CSR disclosures of the three full-fledged Islamic banks studied. BIMB led the i-CSR disclosure practices over the years of study. In all six i-CSR dimensions examined, all the banks studied clearly concentrated least on the “environmental” dimension.

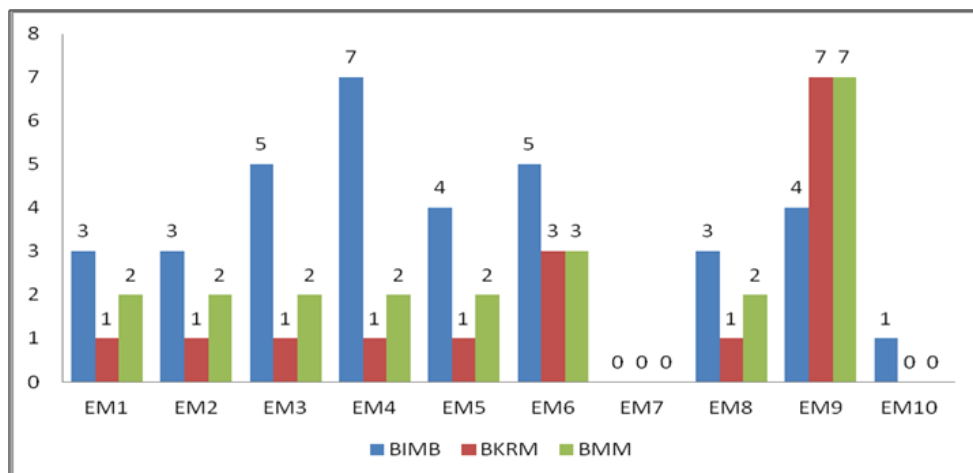


Figure 6: Average Scores for i-CSR Disclosures on Theme 5 (Employee)

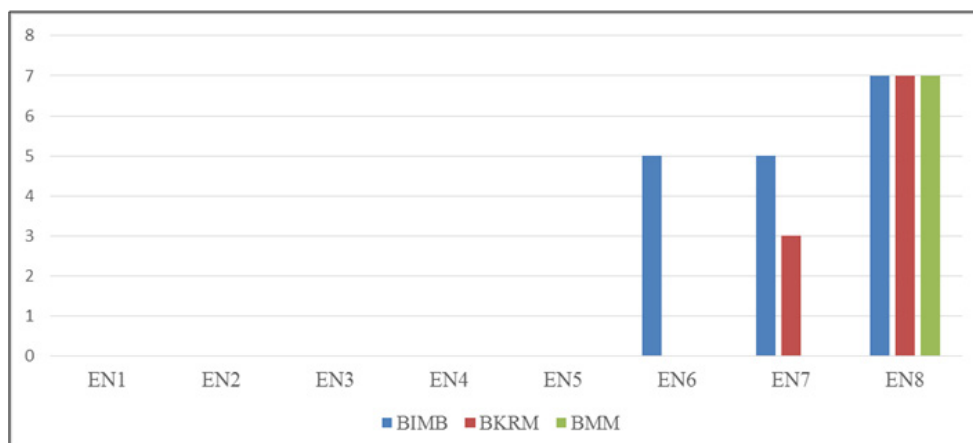


Figure 7: Average Scores for i-CSR Disclosures on Theme 6 (Environment)

Conclusion

The modified Islamic CSR disclosure index developed from the prevailing literature and from AAOIFI guidelines was used as the framework to explore and understand the current i-CSR practices of three full-fledged Islamic banks in Malaysia. BIMB showed good progress in its i-CSR disclosure practice over the seven years of the study period compared to BKRM and BMM. Based on the i-CSR disclosure themes, this study discovered that dimensions such as corporate strategy and vision, employment, and product are strong, while the dimension related to environment tends to be rather weak. Further analysis on the specific i-CSR disclosure themes indicated a mixed level of disclosures among the three Islamic banks studied. These results offer specific insight into each Islamic bank and hence provide insights about their trend of i-CSR disclosure practices over 2004 to 2010. These findings likewise offer inputs pertaining to the performance of the banks in every key dimension and give input for strategizing the way to move forward in ensuring compliance to Shariah principles.

Overall, the study findings suggest that the current i-CSR practice of the Islamic banks must be improved further toward full compliance with the Islamic vis-à-vis Shariah principles. Particularly, Islamic banks in Malaysia have to realign their activities and priorities to ensure that they reflect the Islamic principles they claim to follow. This step is vital to retaining their credibility and reputation from an ethical standpoint and, more importantly, from the perspective of Islam. Such an initiative is crucial to realizing the country's mission in establishing a world-class Islamic finance hub.

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