Exploring corporate social responsibility disclosure: the case of Islamic banks

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Abstract

Purpose – The purpose of this paper is to explore whether any discrepancy exists between the corporate social activities disclosed in the annual reports of Islamic banks and the corporate social responsibility (CSR) disclosure index which has been developed based on the Islamic business ethics framework.

Design/methodology/approach – This paper reports on a survey of annual reports of seven Islamic banks using the method of content analysis to measure the volume of CSR disclosure.

Findings – The results show the overall mean CSR disclosure index of one Islamic bank out of seven to be above average and the issues of CSR are not of major concern for most Islamic banks.

Research limitations/implications – CSR disclosure in the Islamic banks is experimental and could be explored in greater depth in future studies.

Practical implications – The findings have important implications for academics and researchers, as they pave the ways for further investigation. The results also have important implication for Accounting and Auditing Organisation for Islamic Financial Institutions in developing a CSR reporting standard if Islamic banks are to enhance their image and reputation globally, as well as to remain competitive.

Originality/value – The paper contributes to the growing debate on CSR in ethical perspective and key underlying issues associated with the emergence of new disclosure practices for Islamic financial institutions. Through this paper, new visibilities explored, and competing dilemmas opened up.

Keywords Corporate social responsibility, Disclosure, Islam, Banks

Paper type Research paper

1. Introduction

Corporate social responsibility (CSR) is an area of intense and increasing interest both in the practice and academic fronts. Investor interest in businesses that engage in CSR activities has grown dramatically. Studies analysing the bottom-line value of CSR have demonstrated that it adds substantial economic and social returns to businesses when it is carefully thought out, executed, and periodically evaluated as part of a holistic institutional policy (Deegan, 2002; Hummels and Timme, 2004).

In Islam, the fact that a business organisation is a fictitious entity does not diminish the responsibility of its stakeholders or their representatives (managers) for its action. For example, should a business organisation engage in areas of business that are prohibited (haram) in Islam such as the production/sale of alcoholic drinks, pork, gambling, unlawful entertainment, etc.; then, a share holder should withdraw his/her...
investment from that business and invest in other, permissible areas of businesses. As the representatives of the stakeholders, managers too are responsible for safeguarding the investments of the shareholders because of the amanah (trust). They need to ensure that the business organisation engages only in halal activities, looking after the welfare of employees, interests of share holders, participating in societal well-being and that day-to-day business activities are conducted in a transparent and ethical manner along the criteria of adl (justice), qist (equity), and ihsan (benevolence).

On the other hand, CSR disclosure plays an important role in society because it provides information in demonstrating the organisation’s ethical accountability to its stakeholders to aid them in their decision making. Recognising this fact, the governments of many Muslim countries are considering changes to “Company Law” so that environmental and social performances have to be reported alongside financial performance. In this regard, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) is developing a standard of CSR disclosure which will give guidance to Islamic banks/financial institutions in respect of reporting the activities specifically relating to enhancement of societal well-being and economic development efforts (Alchaar, 2007).

In his study, Ahmad (2004) provides empirical evidence that Islamic financial system is gradually and firmly becoming acceptable beyond political, geographical, and religious boundaries. Therefore, Islamic perspectives of accounting standard, disclosure, and corporate social reporting began to receive substantial attention, especially in the area of Islamic banking and finance. In order to enhance their image and remain competitive globally, there is an exigent need for a thoughtful development of CSR dimension of Islamic banking and financial system.

Despite the importance of corporate social reporting in assisting management, auditors and the Shari’ah (moral law) Supervisory Board (SSB) members in demonstrating their accountability to the stakeholders and society in their Islamic ethical decision making, little is known of CSR disclosure practices in the annual report of Islamic banks. The main objective of this study is to provide an index which objectively measures CSR disclosures of the Islamic banks. Using Haniffa and Hudaib’s (2007) methodology, we attempt to measure the degree of variation of CSR activities reported in the annual reports of Islamic banks. In order to achieve this, annual reports of the seven leading Islamic banks have been analysed. By looking at the CSR disclosure on their annual reports, it can be determined which Islamic banks undertake what type CSR activities and disclose information.

Our CSR disclosure benchmark was developed based on eight issues or dimensions:

1. ethical behaviour, stakeholder engagement, and customer relations (EBSE&CR);
2. good governance;
3. interest-free, lawful products, and services;
4. SSB;
5. development and social goal;
6. employees;
7. environment; and
8. research and development.
Some of these disclosure items are the requirement of the financial reporting standard promulgated by AAOIFI (1998, 2005). However, in this study, we are not primarily investigating compliance with standards; rather, our main concern is whether Islamic banks disclose relevant information on CSR activities and how far these activities are already covered under the present AAOIFI standards of disclosure. The results of our analysis and discussion will constitute a further contribution in the area of CSR disclosure for Islamic financial service industry which will in turn help the regulatory bodies and the AAOIFI in developing a governance standard on CSR disclosure.

The paper proceeds as follows. Section 2 provides literature review. Section 3 discusses in brief the concept of CSR, CSR in Islamic perspectives and the AAOIFI standard of reporting. Section 4 develops a benchmark based on Islamic perspectives of accountability, CSR justice, and ownership for social disclosures. Section 5 describes the methodology of the study. Section 6 discusses the empirical results. Sections 7 and 8 provide recommendations and conclusion, respectively.

2. Literature review
CSR forms a major financial reporting issue in developed countries and it is still in the “being understood” stage in developing countries. CSR reporting is variously called social accounting, socio-economic accounting, CSR disclosure, social auditing, social review, social reporting, sustainability reporting, and environmental accounting. Although the concept of CSR is still in the early stages in developing countries, there appears to be a growing recognition within the business community of the importance key stakeholders attach to the social, environmental, and ethical behaviour of companies (Zadek et al., 1997).

2.1 Definition of CSR
While there is no single, commonly accepted definition of CSR, it generally refers to business decision making linked to ethical values, compliance with legal requirements, respect for people, involvement in social activities, communities, and the environment. One of the early academic definitions was by McGuire (1963) who defines CSR as.

“The idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations” (p. 17). Later, Sethi (1975, p. 61) suggests that these extra responsibilities involved: “[…] bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values and expectations”. Thus, CSR is concerned with understanding and managing a company’s social performance, which are the economic, environmental, and social impacts on society, positive and negative, actual and potential.

Naylor (1999, p. 8) defined social reasonability as: “[…] the obligation of the managers to choose and act in ways that benefit both the interests of the organisation and those of the society as a whole”.

Whereas, CSR disclosure is:

[…] the process of providing information designed to discharge social accountability. Typically this act would be undertaken by the accountable organisation and this might include information in the annual report, special publications or even socially oriented advertising (Gray et al., 1987, p. 4).
This indicates that CSR disclosure is a method by which management can interact with the broader society to “influence external perceptions about their organisation” (Deegan, 2002, p. 292).

According to Jones (1995) and Jones and Wicks (1999), proactive CSR initiatives positively influence financial performance through creation of intangible assets such as good reputation, trust, and commitment which drive the long-term success of the business. This subsequently improves the firm’s ability to attract resources, enhance performance, and build competitive advantages while satisfying its stakeholders’ needs (Fombrun et al., 2000). Stakeholders satisfaction mediates the relationship between the CSR and the firms’ financial performance.

2.2 Benefit
CSR benefits the firm in various ways. First, Cragg (2002) intimates that the disclosure of CSR values and objectives in corporate statements and goals enhances the appeal of the firm’s shares to the socially responsible investors. Second, it provides a clear informational signal about the stance and beliefs of the firm, mitigating uncertainty about long-term risks and actions. Third, Sethi (1975) argues that CSR disclosure attends the investors’ need for ethical and social information, while Hummels and Timme (2004) state that it provides a road map for better long-term investment decisions. Fourth, Fombrun (1996), Fombrun and Foss (2004) and Hillman and Keim (2001) note that it is a valuable tool for creating reputational capital in form of good corporate image and enhanced reputation, which affords the firm a competitive advantage. Fifth, a clear statement of what the firm stands for can elicit trust and commitment between shareholders and top managements, reducing opportunistic behaviours and transactional costs (Hosmer, 1994). Sixth, Orlitzky et al. (2003) and Waddock and Graves (1997) state that investor may interpret a CSR statement as a positive signal regarding the resources of the firm.

In this way, the firms can be embarked as a socially responsible enterprises. In other words, CSR has an important informational value and investors are expected to incorporate CSR information on their assessment of the firms’ value.

2.3 CSR traits
CSR disclosure criteria in Islamic finance have been little discussed in literature. Among the few, Wilson (2002) describes five major area of general CSR disclosure concern: human rights, armaments, trade and social involvement, environmental impact, and animal welfare. However, his study concludes that Islamic banks are deficient in translating religious justice into economic justice, are less involved in “fair trading”, and fall short of proper disclosure norms with its clients about its aims and objectives. On the contrary, Beekun and Badawi (2005) explain three major criteria of relevance to CSR: justice and balance, trust, and benevolence.

Haniffa and Hudaib (2007) identify five distinctive features that differentiate Islamic banking from mainstream conventional banking:

(1) underlying philosophy and values;
(2) provision of interest-free products and services;
(3) restriction to Islamically acceptable deals;
(4) focus on developmental and social goals; and
(5) subjection to additional reviews by the SSB.
Ideally, Islamic banks should show these five aspects of traits, drawn from both Shari'ah and business ethics, in their economic and social activities.

2.4 Less inclination to social clauses
Although business objectives and charitable objectivities may be separated from each other (Usmani, 2002), there has been a number of studies examining the tendency of socio-economic role of Islamic banks played into business transactions (Metwally, 1992; Aggarwal and Youssef, 2000). Still, Islamic banks have been found to be less inclined to social causes, which raise questions about their socially responsible underpinning. Such lapse of CSR practices among Islamic banks necessitates a better understanding and practice of CSR disclosure of Islamic banks.

3. CSR disclosure in Islamic perspectives and AAOIFI standard
There are a few distinctive key CSR issues which include: corporate governance, environmental and social impact, stakeholder engagement, employees and community relation, social equity, etc. CSR implies that a company is responsible for its wider impact on society (Frankental, 2001). In other words, CSR describes the company’s commitment to its stakeholders and establishes a method by which the stakeholder can hold the company accountable for its actions. By setting such standards, businesses can manage the economic, social, and environmental impacts of their operations.

3.1 CSR disclosures in Islamic perspectives
Islamic banking refers to a system of banking which is consistent with the principles of Islamic moral law (Shari'ah). Shari'ah governs every aspect of a Muslim’s life, e.g. spiritual, economic, political and social, and faithful execution of duties and obligations. The Shari'ah is concerned with promoting justice and welfare in society and seeking God’s blessings, with the ultimate aim of achieving success in this world and the hereafter. Therefore, the tenets of CSR are not foreign to Islamic banking. For example, an Islamic bank is expected to provide transparency and documentation explaining its compliance to Shari'ah (moral law) tenets which dealing with customers. Hence, Islamic banks, as economic and social institutions, must portray aspects of these CSR traits in their activities. Furthermore, Shari'ah compliance mandates that businesses give back to the community and operate under the highest moral standards.

CSR discloser and reporting takes place within a framework of social relations. Therefore, the Islamic perspective of CSR disclosure is an understanding of the concepts of accountability, social justice, and ownership that are central to social relations. This understanding will then allow us to develop a benchmark for the content of CSR disclosers that businesses claiming to comply with Shari'ah could reasonably be expected to make.

3.2 The issues between AAOIFI and CSR disclosure
Based on the principle of full disclosure and social responsibility, Islamic banks disclose both qualitative and quantitative information in their annual reports. According to the AAOIFI Financial Reporting and Governance Standard (1998, 2005), the following items concerning Islamic value information need to be disclosed:

- basic information about the ethics of Islamic bank;
- unusual supervisory restriction;
• earning expenditure prohibited by Shari'ah;
• the method used by the Islamic bank to allocate investment profit (or loss) between unrestricted investment account holders and the Islamic bank as an investor with its own funds;
• statement of changes in restricted investment;
• statement of sources and uses of funds in the Zakah (religious tax) and charity funds; and
• statement of sources and uses of funds in respect of Qardh-Hassan (benevolence loan).

On the other hand, corporate social responsible activities form the core issues of CSR disclosure. Some of the items concerning CSR activities in the Islamic perspective, which an Islamic bank is expected to disclose under the CSR reporting standard, are:

• Islamic ethical behaviour;
• good governance, including efficient board of directors and SSB;
• good customer relations;
• fair dealing with those in the supply chain;
• a focus on protecting staff, encouraging talent, ensuring diversity, keeping international labour standards, and providing safety and security in the workplace;
• provision of Zakah (religious tax) and charity funds;
• fostering strong links with the community through public service announcements, sponsorships, etc.;
• to balance corporate goals with activities to enhance environmental protection, including investment in the environment friendly projects, developing Shari'ah complaint green products, etc; and
• research, development, and training (RD&T).

Both CSR-reporting literature in Islamic perspective and AAOIFI have recognised the importance of disclosing information relating to corporate social issues on financial statements. However, the Islamic financial disclosure/reporting standard is an emerging model prominently represented by AAOIFI. In this regard, it is high time that the AAAOIFI should focus on a new standard setting which will include among others things: a clear cut account of how a company maintains its ethical behaviour, customer relation, diversity and environmental policies, etc. Since the majority of the dimensions which define an effective CSR strategy are in line with those of a Shari'ah compliant structure, the AAOIFI should therefore incorporate some of the features of CSR such as transparency, accountability, and partnership with stakeholders into their financial disclosure items. Islamic financial institutions should embrace and demonstrate their social responsibility by reporting these features.

4. Designing a descriptive model of CSR disclosure benchmark for Islamic banks

Islamic banking has developed phenomenally in recent years not only in the Muslim world, but also in the West. In the recent years, London and New York have become
the largest international centres for Islamic finance outside the Muslim world, largely as a result of their role as the centre for Middle Eastern and Asian banking (Wilson, 2007). There are no precise figures that show the market size of the Islamic banking and finance industry, but according to an estimate by the Islamic Financial Service Board and other Islamic institutions, at the end of the 2006, more than 300 Islamic financial institutions in more than 65 jurisdictions managed financial assets in a Shari'ah compatible manner, which totalled between $700 billion and $1 trillion. From this figure, Islamic banking and finance industry represents a modest 1-2 percent of global financial assets, but its growth in recent years is notably impressive. Islamic banking and finance-related assets have continued to grow at a robust 10-15 percent per annum on average since the mid-1990, and are expected to maintain this speed of expansion over the next few years.

Islamic banks play an important role in economic regeneration and social justice (Siddiqi, 1995). This is acknowledged formally by many Islamic banks: “Social activities are emphasized in Islamic banks’ articles of association among their objectives and functions” (El-Ashker, 1987, p. 45). Therefore, expectation of the stakeholders towards any bank that claims to be Islamic is unambiguous. The claimed importance of CSR provides us with an opportunity to explore the nature of disclosure and to what extent Islamic banking system follows our model of CSR disclosure index (CDI) in respect of CSR reporting.

It is true that the matter of disclosure of CSR by Islamic banks will depend on a number of factors, focusing on the role of information and disclosure in the relationship between the organisations, the State, individuals, and the Muslim community. However, Islamic banks should have a policy of disclosure that encompasses the provision of information on human resource aspects, products and services, involvement in community activities, and environmental reporting. Furthermore, the Islamic banks should play a catalytic role in influencing corporate governance and social and environmental behaviour of other companies. Therefore, the Islamic banking community has to play an important role in the promotion of CSR disclosure.

There are six broad objectives that can be used as the basis for identifying the CSR disclosure of Islamic banks:

1. to adhere to Islamic Shari'ah principles in their business, having stakeholders engagement and governance policy;
2. to make provision of Riba (usury)-free and lawful transactions, building long-lasting relationships with customers, and dealing fairly with those in the supply chain;
3. to give due importance to the SSB’s opinions, treatment of Zakah, and charity funds;
4. to focus on developmental, social, and communities’ goals;
5. to maintain good relations with employees; and
6. to keep balanced corporate goals and enjoining environmental protection.

Such objectives will now be used as the basis for proposing a benchmark for CSR disclosure of Islamic banks. This benchmark is based on the broader concept of accountability that Islamic banks accept. Islamic banks, as economic and social institutions, should portray these six objectives drawn from both Islamic business
ethics and CSR activities published in annual reports. The features of these objectives form our model benchmark of CSR disclosures used in this study and are classified in the following eight dimensions.

Ethical behaviour, stakeholder engagement, customer relations, and good governance

Islamic banks mobilise savings and invest them into the deficit saving units of the economy. They have been entrusted with the safekeeping of depositors’ savings and shareholders’ capital and using the money for productive purposes. Therefore, they are not only financially accountable but also morally accountable for their business behaviour. As such, it is expected that Islamic banks should disclose such information so as to assure stakeholders that Islamic banks are committed: to engage in investment activities that comply with Shari‘ah principles; to fulfil contractual relations with various stakeholders, including customer relations via contract statement, etc.

The stakeholders and fund depositors would ideally like to assess and judge the credential of those who have been entrusted with their funds and who have full authority in making economic decisions on their behalf in enforcing Shari‘ah principles. Furthermore, those who manage and govern Islamic banks are expected to be committed persons imbued with piety and righteousness. They should have knowledge and competence in the relevant fields associated with banking as well as knowledge of Shari‘ah. Hence, it is expected that Islamic banks should disclose the following aspects of management to their stakeholders:

- ethical corporate objectives, balanced board, having ethical commitment and Shari‘ah compliant audit committee, limited multiple directorship, and shareholdings; good customer relations; and
- names, positions of the board members, and top management – profile of board members and top management as indicators of their knowledge and competence in Islamic banking; risk management practices.

Interest-free, lawful products, and services

Various financial instruments developed by Islamic banks have been based on two principles: the profit-loss sharing principle and the mark-up principle. The financial instruments based on the former principle include mudarabah (venture capital) and musharakah (partnership contract), while instruments based on the latter include murabahah (resale with pre-agreed profit), bay‘al-salam (forward sale contract), ijarah (leasing), and ijarah wa iqtina (operating and financial lease). In order to remain competitive in the market, Islamic banks have been innovative in their offering of products but they must not violate Shari‘ah principles. With fierce competition, more sophisticated markets and demand for more transparency by stakeholders, one of the ways in which Islamic banks can deal with those matters is to report effectively on: details of investments and any new products that have been introduced, whether they have been approved by the Shari‘ah (moral law) supervision board, as well as explanation of the basis of the Shari‘ah concept legitimising the new products:

- details of investment activities, and if new products have been introduced, the basis of Shari‘ah concept legitimising the new product;
- engagement in Islamically acceptable deals only; and
- fair dealing with those in the supply chain, depositors and investors.
Opinion of Shari’ah Supervisory Board

Each Islamic bank has an SSB whose role is to ensure that any new formulations and modalities are in line with Shari’ah principles and within the ambit of Islamic norms. Hence, the SSB acts as an internal control mechanism and its primary objective is to give credibility to the operations of Islamic banks by authenticating their legitimacy from the Shari’ah point-of-view. The SSB performs duties include: setting the Shari’ah rules for the conduct of banking business; examining all or part of the bank’s transactions to ascertain whether there have been breaches of the Shari’ah rules; and issuing a statement in the annual report of the bank as to whether or not the bank has conducted its business in compliance with the Shari’ah. Thus, it is expected that Islamic banks should disclose the SSB’s opinion and reports should ideally disclose:

- name, background and Shari’ah expertise of the SSB members; their remuneration and number of meetings held during the accounting year;
- whether there are defects in the products offered and if so, what are their recommendations to rectify the defects and the actions taken by management as well as the basis of examination of the documents;
- certification of distribution of profit-loss complying Shari’ah rules and calculation of Zakah; and
- attestation that all operations, revenues, or profits are gained lawfully by Islamic banks.

Development and social goal

Islam emphasises social justice. Therefore, Islamic banks are expected to be more socially responsible than their conventional counterparts. Under CSR disclosure, Islamic banks should disclose in their annual report the items like Zakah, Qardh-Hassan, charity and other social activities, strategic social development, research and training, etc.:

(1) Zakah (religious tax). One of the indicators of Islamic banks’ social goal is their contribution to and management of Zakah. Zakah is one of the five pillars of the Islamic faith and the spending of the proceeds and the beneficiaries are specified in the Quran. However, there have been mixed opinions as to which party is liable for Zakah; banks or individuals. Regardless of who is liable, what is more important is for the Islamic banks to disclose the following details:

- the bank or depositor: which party is liable for Zakah;
- whether Zakah has been paid, sources of Zakah funds and the uses of the Zakah fund; and
- attestation from the SSB that they have been properly computed and that the sources and uses of the funds are legitimate based on OIC Fiqah Academy rulings.

(2) Qardh-Hassan (benevolent loan). Providing Qardh-Hassan for socially beneficial causes is an important social contribution that Islamic banks may make, especially to the local community in which they operate. Therefore, Islamic banks may be required to disclose the following information under CSR reporting standard:
the bank’s policies in providing Qardh-Hassan funds and how non-repayment of such funds will be dealt with; and
the amount of Qardh-Hassan, the sources, and uses of such funds.

(3) Charity and social activities. Unlike Zakah (religious tax) which is obligatory, charity (saddaqa) is voluntary in nature and can be used for purposes allowed by Shari’ah for the benefit of society. Furthermore, debtors receive special attention in Islam. Lenders are asked to be lenient with their debtors and in certain circumstances, debtors are entitled to receive some funds (such as Zakah) and debts should be written off as charity. These activities come under CSR and therefore Islamic banks are expected to disclose the following information in respect of charity activities:

- amount, source, and uses of charity funds, separate from Zakah funds;
- debt or default non-performing loan policy of Islamic banks; and
- type of debt and amount of debts written off.

(4) Strategic social development. Public duties in Islam are seen as part of the general meritorious and great thawab (reward) in the hereafter (life after death). Under CSR policies, the circumstantial needs of the community within which the Islamic banks operate should first be catered to. Therefore, Islamic banks need to disclose the following commitments to society under the CSR disclosure policies:

- supporting organisations which benefit society and participating in social activities, and community welfare activities sponsored by the government;
- sponsoring Islamic educational and social events;
- creating job opportunities;
- supporting poverty-alleviation programmes;
- sports, Islamic art, and culture; and
- social solidarity and promoting employee volunteer work.

(5) RD&T. Promotion of research and development should be an important agenda for the Islamic banks. Under the CSR disclosure policy, Islamic banks should be required to disclose the following information into their annual report:

- policy formulation;
- strategic decision-making support;
- standardised training curriculum;
- market survey and feasibility report;
- database management; and
- supporting the RD&T conducted by universities and academics.

Employees
According to Islamic business ethics, employees are the greatest assets of the business and their welfare should be given due attention. It is the responsibility of employers to ensure that employees are paid fair wages, not overworked, and have the opportunity to fulfil their spiritual obligations. Equal opportunity is also stressed in Islam. For Islamic banks to be successful in a highly competitive services sector, there must
be consistency between the brand values and the staff behaviour. An adequate supply of capable, trained staff with knowledge and understanding of Islamic banking is one of the ingredients for success of an Islamic bank. Therefore, Islamic banks should disclose following CSR activities in the annual reports:

- training and development opportunities, amount and proportion spent on training, provision of special training on Shari’ah aspects;
- recruitment and fair service conditions complying with the norms of international labour standard;
- equal opportunities;
- promotion and reward to employees; and
- supporting employees to fulfil their Shari’ah obligation, e.g. Hajj (pilgrimage to Makkah).

**Environment**

It is prohibited in Islam to destroy or damage the physical environment which is considered harmful to an individual or community. Therefore, Islamic banks are not expected to finance activities which lead to harming the environment. Furthermore, Islamic banks should provide funding in preservation of environmental related projects. Although Islamic banking is unlikely to cause direct harm to the environment like nuclear industries do, under the CSR policies, the users of Islamic banks will require assurance that the activities of these banks have affects on the well-being of society. Therefore, it is expected that Islamic banks disclose the following information under CSR disclosure policies:

- to enhance environmental protection using recycling and environmentally friendly suppliers;
- to enhance and promote energy saving projects;
- nature and amount of any donation or activities undertaken to protect the environment; and
- whether Islamic banks have financed any projects that may lead to environmental destruction.

Islamic banks should disclose all the above-mentioned information under the CSR disclosure policies that would facilitate users in their evaluation and assessment of the financial position and performance of an Islamic bank. The Appendix, Table AI summarises expected CSR disclosures. Some of these are requirements of AAOIFI standard; others have been derived from the CSR and Islamic business ethics literature. In fact, the Islamic banks should bear responsibility to disclose information that would enable users to make economic decision from their accounting reports.

5. **Research methodology**

Our sample population of study consists of seven Islamic banks from seven countries whose annual reports for the year 2006 have been considered. The countries are Bahrain, Bangladesh, Indonesia, Malaysia, Saudi Arabia, Kuwait, and the United Arab Emirates. Sample banks are Al-Rajhi Bank (ARB), Al-Shamil Bank (ASB), Bank Islam Malaysia (BIM), Bank Muamalat Indonesia (BMI), Dubai Islamic Bank (DIB),
Islami Bank Bangladesh (IBB), and Kuwait Finance House (KFH). These Islamic banks are leading banks and are very popular among the people of these countries.

To discover what the leading Islamic banks of our sample are doing in terms of CSR activities, the annual reports for the year 2006 were observed for any type of CSR disclosure. The researchers of this study independently reviewed the annual reports and took note of all CSR activities, which have then been compared to ensure some degree of reliability. The CSR contents of the annual reports are produced to keep the organisation’s own image intact (Gray et al., 1995). After first viewing the annual reports, it was noticed that they all actually included some CSR information. After looking at the annual reports for any comments on CSR, in pages with corporate governance, ethics, community responsibility codes or guidelines. From these, a number of observations have been made. We chose Islamic banks’ annual reports rather than other media of communication in assessing CSR disclosure because they offer a snapshot of management’s mindset in a particular year (Neimark, 1992) and set used by a number of stakeholders as the sole source of certain corporate information (Deegan and Rankin, 1997).

In order to explore the disclosure practices of Islamic banks in the sample, the method of content analysis has been used. It is a method of codifying the content of a piece of writing into various categories depending on selected criteria (Weber, 1988; Haniffa and Hudaib, 2004). Content analysis has a strong foundation in the CSR disclosure literature (Gray et al., 1995; Haniffa, 2002; Haniffa and Hudaib, 2004; Campbell et al., 2003; Maali et al., 2006; Cetindamar and Husoy, 2007). An essential element of content analysis is the selection and development of categories into which content units can be classified. The categories and items are drawn mainly on our understanding of CSR literature and Islamic perspective of a social responsibility framework (The Appendix, Table AI).

We also considered items required by the AAOIFI standards. Naturally, some of the information of CSR disclosures have common features with accounting and reporting standard of AAOIFI. Many Islamic banks have also adopted the recommendations of the AAOIFI standards when they set out their statement of objectives of financial accounting for Islamic banks and financial institutions.

Since our interest is to examine the CSR disclosure practices of seven Islamic banks against the benchmark of CSR disclosure, we designed our research instrument (checklists) to cover aspects of the six themes constituting CSR activities disclosure as discussed in Section 4. The six themes have been extended into eight dimensions.

The first theme, “ethical behaviour and good governance”, consists of two dimensions:

1. corporate vision – stakeholders’ value, engagement and fair dealing with supply chain; and
2. details of board of directors and top management including corporate governance.

The second theme, “opinion of the SSB” has one dimension. The aspect of the third theme, “interest-free, lawful products and services” is addressed under the dimension of “products”. The fourth theme, “development and social goals”, consists of two dimensions:

1. commitment to community development; and
2. RD&T.
The fifth and sixth themes have one dimension each, i.e. “employee” and “environment”, respectively. The final CSR disclosure checklist instrument consists of six themes, eight dimensions, and 78 items (please see the Appendix, Table AI).

There are two methodological issues which are related to content analysis. They are reliability and validity. The problem of reliability may arise due to ambiguity of meanings or category definitions, while validity problems are related to the extent to which measures the construct the investigator intends it to measure (Weber, 1988). Therefore, precautionary measures have been taken to improve both reliability and validity.

The method of improving reliability which Holsti (1969) recommended is to use multiple coders. In order to enhance validity, items/categories have been carefully developed from both CSR and Islamic business ethics literature perspectives. Following the approach used by Inchausti (1997), Haniffa and Cooke (2002) and Haniffa and Hudaib (2004) items specifically disclosed have been given a score 1, and 0 if it is not. Each item in the CSR disclosure is given equal weight. To ensure that the judgement of relevance is not biased, the entire annual report was read before any decision is made.

There is extensive use of disclosure benchmarks (indexes) in accounting literature (Cooke, 1989; Inchausti, 1997; Baydoun and Willett, 2000; Depores, 2000). Disclosure indexes of these studies have been weighted according to the perceived relative importance of each item. Since the decision usefulness approach is not a central concept of this study, therefore, each item in our CDI is given equal weight following the method of Haniffa and Hudaib (2007).

Information contained in the annual report of our sample Islamic banks were synchronised and analysed CSR standards into eight different dimensions as followed by Haniffa and Hudaib (2007). The annual reports are carefully analysed by identifying specific statements describing each dimension of CSR disclosure. In order to explore CSR disclosure practices of Islamic banks in the sample, we expressed the scores in the form of an index, which we call CDI, as follows:

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\text{CSR Disclosure Index (CDI}_{jt} = \frac{\sum_{i=1}^{n} X_{ijt}}{N}
\]

where:
- \( \text{CDI}_{jt} \) = CSR disclosure index for dimension \( j \) and period \( t \).
- \( X_{ijt} \) = Variable \( X \) from 1 up to \( n \) for dimension \( j \) and period \( t \).
- \( N \) = number of variables/statement (78) and \( X_{ij} = 1 \) if \( i \)th item is not disclosed, that 0 \( \leq I \).

The Islamic bank is ranked based on the CDI. The higher the CDI, the less the variation between the bank’s actual CSR disclosure in the annual report and the CDI. In other words, a high CDI suggests that the Islamic bank has adopted disclosure strategy that fits the CSR activities of disclosure, while low CDI suggests the need to improve its disclosure strategy to enhance its business reputation and to gain competitive advantage.

### 6. Results

Table I presents the result of the overall CDI and ranking for the seven Islamic banks for the year 2006 examined in this study as well as the mean of the CDI and overall ranking.
### Table I. Annual CDI and dimension-wise ranking of Islamic banks

<table>
<thead>
<tr>
<th></th>
<th>ARB</th>
<th>ASB</th>
<th>BIM</th>
<th>BMI</th>
<th>DIB</th>
<th>IBB</th>
<th>KFH</th>
<th>Mean index</th>
<th>dimension-wise</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EBSE &amp; CR</td>
<td>0.11</td>
<td>0.33</td>
<td>2</td>
<td>0.33</td>
<td>2</td>
<td>0.33</td>
<td>2</td>
<td>0.33</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2. CG-BD &amp; TM</td>
<td>0.08</td>
<td>0.62</td>
<td>2</td>
<td>0.55</td>
<td>3</td>
<td>0.10</td>
<td>7</td>
<td>0.69</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>3. SSB</td>
<td>0.25</td>
<td>0.70</td>
<td>1</td>
<td>0.54</td>
<td>3</td>
<td>0.27</td>
<td>6</td>
<td>0.50</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>4. P-S&amp;FDSC</td>
<td>0.13</td>
<td>0.25</td>
<td>6</td>
<td>0.71</td>
<td>2</td>
<td>0.40</td>
<td>3</td>
<td>0.30</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>5. Environment</td>
<td>0</td>
<td>0.14</td>
<td>2</td>
<td>0.14</td>
<td>2</td>
<td>0.29</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>6. Employee</td>
<td>0.12</td>
<td>0.22</td>
<td>6</td>
<td>0.44</td>
<td>2</td>
<td>0.33</td>
<td>4</td>
<td>0.44</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>7. Community</td>
<td>0.33</td>
<td>0.67</td>
<td>3</td>
<td>1.0</td>
<td>1</td>
<td>0.67</td>
<td>3</td>
<td>0.33</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>8. R-D&amp;T</td>
<td>0.20</td>
<td>0.50</td>
<td>2</td>
<td>0.80</td>
<td>1</td>
<td>0.36</td>
<td>4</td>
<td>0.38</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Overall CSR discl. index</td>
<td>0.14</td>
<td>0.43</td>
<td>0.61</td>
<td>0.38</td>
<td>0.29</td>
<td>0.45</td>
<td>0.33</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall rank</td>
<td>7</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>2</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AAOIFI in use</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: CSR = Corporate Social Responsibility, AA = Annual Audit, IF = Islamic Finance
It can be seen from Table I that the highest CDI goes to BIM, followed by IBB and ASB, which achieved second and third positions, respectively. ARB has lowest CDI. The results also show the variation and inconsistencies between the actual disclosure in the annual report and CDI. This means that BIM had 61 percent of the constructs under the eight dimensions in the CSR activities being disclosed in its annual report while ARB addressed only 14 percent. In the other words, the over all mean CDI of 0.61 suggests that BIM outperformed the benchmark, while the mean CDI of 0.14 suggests that Al-Rajhi underperformed the benchmark. As such, ARB may need to emphasise CSR disclosure strategy to enhance the strength of its image and reputation in order to stay competitive.

Out of 78 expected CSR disclosures of Islamic banks, 26 disclosures are required at the financial reporting/governance standard promulgated by the AAOIFI. Only two of the seven banks studied claim to follow AAOIFI standards. However, this study does not primarily investigate the compliance of standards, but rather the main concern is whether Islamic banks disclose the CSR activities, and what activities they undertake.

Table I also presents the CDI ranking and mean CDI under each dimension (rows one to eight). The last column of the table shows overall mean CDI and ranking based on seven observations for each dimension. Further, CSR dimension-wise results are discussed below.

**Ethical behaviour, stakeholders’ engagement, and customer relation**
Under this dimension, BIM scored the highest CDI. Three banks scored the second highest index: ASB, DIB, and IBB. ARB and KFH had the lowest in score.

On the other hand, only two items under this dimension of CSR disclosures are covered by AAOIFI standards: operation of Islamic banks within Shari‘ah principles; and focus on stakeholders and distribution of profit. Most of the Islamic banks disclosed the information of the former item only.

**Corporate governance – board of directors and top management (CG-BD&TM)**
Under this dimension, IBB scored the highest CSR disclosure (0.69), followed by ASB (0.62). Both BMI and BIM scored third highest (0.55). The mean CDI for the seven Islamic banks under this dimension ranged from 0.08 to 0.69, the lowest being ARB. As per the results, unfortunately none of the Islamic banks disclosed personal details of their board members and top management. Furthermore, five Islamic banks disclosed the risk management practices. Overall, it seems that good corporate governance practice is still lacking among our sample Islamic banks.

The items under this dimension of CSR disclosure covered by the AAOIFI standards are: name of board of directors, position of board members, academic qualifications of board members, and profiles of board of directors. Out of four items, three were disclosed in brief, “profile of the board of directors” was not.

**Shari‘ah compliant corporate governance – SSB**
Under this dimension, four Islamic banks namely, ASB, IBB, BIM, and DIB, scored 0.70, 0.63, 0.54, and 0.50, respectively. These results show that the banks are sound to disclose information related to Shari‘ah compliant corporate governance. Our observation suggests that the driving force behind the better disclosure of ASB and IBB on Shari‘ah board aspect may be attributed to adoption of AAOIFI’s standard.
CDI of BMI (0.27) and ARB (0.25) are significantly lower than the rest, indicating potential problems of CSR disclosure on Shari‘ah board activities. The SSB reports of ASB, DIB, IBB, and KFH indicated that distribution of profit and loss was in line with Islamic business ethics. These Islamic banks also indicated the calculation of Zakah as per Shari‘ah board’s direction.

Under this dimension of CSR disclosure, the items covered by the AAOIFI standards are: name of the SSB members, qualifications of members, number of meetings held, examination of documents based on sample, report of SSB, nature of unlawful transactions, distribution of profits/losses complying with Shari‘ah and Zakah calculated according to Shari‘ah rules. It seems all the Islamic banks are very committed to disclose this information in their annual reports.

**Product, services, and fair dealing with supply chain (PS&FDSC)**
The most significant feature of the Islamic banks is related to the type of products and services that they offer. These have to be different from the products and services offered by conventional banks. Islamic banks need to be transparent and fair dealing with shareholders, depositors as well as other stakeholders and their supply chain. They have to give full and accurate information about their products and services and to keep interested parties informed. As per Table I, the results show that KFH and BIM to have the highest CDI with the former getting a full score with regard to this dimension. Both Bank Muamalat and DIB scored 0.40, IBB scored 0.30, and ASB 0.25. We found that ARB scored lowest with 0.13.

Only two Islamic banks clearly stated no involvement in non-permissible activities. Three Islamic banks disclosed that they have introduced new products and services. Only four Islamic banks clearly indicated that the new products had been approved by the Shari‘ah board.

Under this dimension of CSR disclosure, four out of the six items are covered by the AAOIFI standard: introduction of SSB-approved new product, investment activities, nature of unlawful transaction, and fair dealing with those in the supply chain.

**Environment**
The results in Table I indicate that BMI had the highest CDI score (0.29) with regard to this dimension. The general trend seems to be less interest on the part of the Islamic banks in environment, related CSR activities or no such disclosure for most of the Islamic banks surveyed. Out of the seven banks in our sample, four (ASB, BIM, IBB and KFH) had the second highest score (0.14) in the environment dimension. ARB and DIB did not disclose any information on this dimension (scored 0). Despite environmental protection agenda forming an integral part of the CSR activities, it is surprising to find that Islamic banks are not disclosing much on this important aspect in their corporate annual reports.

Under this dimension of CSR disclosure, no item is required to be covered by AAOIFI standards, but except ARB and DIB, all Islamic banks in our sample are slightly concerned about environmental protection.

**Employees**
The results in Table I indicate that IBB has the highest CDI score (0.67) followed by both BIM and DIB (0.40). Similarly both BMI and KFH had third highest CDI
(each scored 0.33) in this dimension. The results also show ASB (0.22) and ARB (0.12) being lowest in disclosing information related to employee’s welfare. In respect of the training of the employees, four Islamic banks indicated that they provide training for their staff to enhance their understanding of the Shari’ah transactions.

Although under this dimension of CSR disclosure, no item is required to be covered by the AAOIFI standard, it seems that IBB, BIM and DIB are concerned about employees’ welfare to some extent.

Strategic social development
The highest score (1.00) of CDI under this dimension goes to both BIM and KFH followed by ASB (0.67) and BMI (0.67). The lower level of disclosure by ARB (0.33), DIB (0.33), and IBB (0.33) may be attributed to dispute regarding Zakah realisation and distribution.

For Muslims, payment of Zakah is one of the acts of worshiping God. Besides Zakah, God encourages man to spend their wealth on charity. According to some Shari’ah scholars in Saudi Arabia, Kuwait, and UAE, payment of Zakah is not the responsibility of the Islamic bank but that the shareholders. Only ARB and DIB disclosed the appropriation of Zakah. Two Islamic banks disclosed balance on Zakah and charity funds. Furthermore, the disclosure of sources and uses of charity was minimal except for KFH.

Islamic banks have provision of Qardh-Hassan (benevolent loan). This loan may be provided without expecting any extra payment over and above repayment of the principal. Four Islamic banks provided the statement of sources and uses of Qardh-Hassan. However, some of the uses of such loan are questionable, especially where they appear to be for extravagant purposes. The less advantaged in society should be given priority in accessing such loans if social justice is to be upheld by the Islamic banks. Besides donating to charitable causes, three Islamic banks also indicated commitments to participate in government-sponsored social welfare activities.

Under this dimension of CSR disclosure, the items covered by the AAOIFI standards are: funding to organisations that provide benefits to community for social equity, amount spent in community activities, Zakah payment (monetary), Zakah payment (beneficiaries), Qardh-Hassan (monetary), Qardh-Hassan (beneficiaries), sadaqah (monetary), and sadaqah (beneficiaries). Despite the importance of Qardh-Hassan in Islam, only two Islamic banks provided information and a further three Islamic banks in our sample reported brief statements about this loan. Although AAOIFI requires Islamic banks to provide a statement of Qardh-Hassan as part of a full set of financial statements, but none of the two Islamic banks claiming to follow AAOIFI standards did this.

Research, development, and training
The results in Table I indicate that BIM has the highest CDI score (0.80) followed by ASB (0.50), DIB (0.38), BMI (0.36), and KFH (0.31) are second, third, fourth, and fifth highest disclosure, respectively, to this dimension. The results also show that IBB (0.25) and ARB (0.20) being lowest in disclosing the information related to the research and development.

Under this dimension of CSR disclosure, no item is required to be covered by AAOIFI standard, but the results in the table show that BIM, ASB, and DIBs have shown interest in the area of R&D which are reflected in their annual reports.
Overall, Islamic banks are lacking clarity and consistency in reporting a substantial amount of CSR activities. In our sample, only two Islamic banks claimed to follow AAOIFI accounting standards. The remaining five banks voluntarily followed the AAOIFI standards.

7. Recommendations

CSR is a framework in which businesses align their core values with the expectations and needs of their stakeholders. This study have focused on the bottom-line value of CSR and demonstrated that it adds substantial economic and social returns to business when it is carefully thought out and executed and periodically evaluated as part of a holistic institutional policy. The majority of the tenets that define an effective CSR strategy are in line with those of a Shari’ah compliant structure. Therefore, Islamic banks should have leverage and incorporate some conventional CSR features such as transparency, accountability, and partnership with stakeholders into their disclosure and reporting system, especially since they are already engaged in similar practices by adhering to Shari’ah principles. To be effective, Islamic banks should embrace and demonstrate their social responsibility by adopting:

- **The equator principles.** “Equator principles” is a financial industry benchmark for determining, assessing, and managing social and environmental risk in a project financing (www.equator-principles.com). Wider acceptance by Islamic banks of the “equator principles” will serve to promote Islam’s commitment to the community and also shape how financing for a project will be allocated and governed in the future. Furthermore, integrating the “equator principles” into the Islamic banks will serve to provide an avenue for them to join the global debate on defining the ethical space within which financial institutions will operate for years to come.

- **Ethical supply chain audits.** In recent years, most big brand retail conventional bankers have accepted the need to take responsibility for the social and ethical performance of their supply chain. They are also recognising the benefits of a proactive approach to supplier performance improvement and the benefits of the application of ethical supply chain audit. The ethical supply chain audit can also help to ensure and demonstrate Shari’ah compliance with internal and external standards, legislations, procedures, and codes of conduct while providing instant and real-time visibility of the compliance profile of Islamic banks. Risk managers, compliance departments, boards of directors, investors, and customers can identify legal and other requirements, audit, and report and improve compliance across Islamic banks’ business.

- **Strategic social investments.** Incorporating social responsibility into Islamic banks’ operation (financing poverty-alleviation programmes through Islamic micro-finance, Waqf development projects, etc.) will provide a platform to demonstrate their commitment to society while furthering the refinement and evaluation of CSR and virtues of Shari’ah compliant business practices in the workplace. This will serve as best-practice model for others to emulate, especially since Shari’ah-governed Islamic banks will have an easier time executing CSR principles because they are bound to do so.
8. Conclusion
Accounting and reporting activities involve both human and non-human resources as well as interaction between management and stakeholders. As a major mobiliser of funds and investors in the communities, it is important for users of Islamic banks’ annual reports, especially prospective shareholders and fund depositors, to assess and judge the credential of those who have been entrusted with their funds. With the help of this information, the users have full authority in making economic decision. In this study, our main concern was whether any discrepancy exists between the actual corporate social activities reported in the annual report of Islamic banks and model CDI and how far CSR activities are already covered by AAOIFI standards of financial disclosure.

Using content analysis on the basis of the disclosure items of CSR activities of seven Islamic banks, empirical findings suggest that the issues of CSR are not of major concern for most Islamic banks. Our results in Table I indicate the highest and lowest mean CDI to be 0.61 (BIM) and 0.14 (ARB). This means that 61 percent of constructs of the checklist of CSR activities (index) have been reported in the case of BIM and 14 percent for ARB. The mean for the remaining five Islamic banks ranged from 0.29 to 0.43 suggesting a large disparity between the actual disclosure and the check list of CDI. We also found the largest incongruence between actual corporate social disclosure in the annual reports and CDI to be under four dimensions: strategic social development; disclosure to EBSE&CR; RD&T; and corporate governance related to top management. These results are similar to the findings of Haniffa and Hudaib (2004) who conducted survey of the annual report of five Islamic financial institutions in four countries in the gulf region; as well as of Harahap and Gunawan (2005) who conducted research on Malaysian, Indonesian, and Australian Islamic financial institutions.

The results in Table I also show that out of 78 expected CSR disclosures of Islamic banks, 26 disclosures are required by accounting disclosure standard promulgated by the AAOIFI. Out of seven samples, only two Islamic banks claimed to follow AAOIFI standards. Similarly, Islamic banks not complying with AAOIFI standards tend to provide relatively more CSR disclosure (in some cases only) than Islamic bank following AAOIFI standards though difference in volume of disclosure is not found to be significant.

The top management of Islamic banks may need to reflect accountability and justice not only to society but also to God. Unfortunately, some Islamic banks put little effort into disclosing their CSR activities in a consistent manner and ensuring congruence between their rhetoric in the annual reports and the CSR disclosure benchmark. It seems that there is a need for developing a standard on CSR disclosure applicable to the Islamic financial institutions. Since by communicating CSR activities publicly, stakeholders and other parties will have more confidence and trust in the ability of Islamic banks (Alchaar, 2007). By observing CSR-related issues presented in the annual report of Islamic banks, we strongly suggest that the AAOIFI should develop a new standard on CSR reporting on par with international standards.

Limitation of the study and future research
The results of this exploratory study are subject to several limitations. First, the sample is small. Second, our CSR benchmark and checklist may not be robust as there have not been many studies on Islamic banks’ CSR disclosure practices for us to refer to. Third, this study highlights only on comparing the communicated and ideal CSR disclosures.
Our findings have important implications for academics and researchers in the area, as they pave the ways for further investigation. Therefore, future research could consider a larger sample comparing between:

- actual and disclosed; and
- actual and ideal CSR disclosures.

Such comparisons could provide evidence of the extent to which Islamic banks engage in intentional distortions in their annual reports in efforts to enhance their disclosers.

This study focuses only CSR disclose in the annual reports even though it is known that management utilises other disclosure mechanisms. Therefore, future research should also consider disclosures in the newspapers, in-house magazines, and circulars. Furthermore, future research may consider survey methods involving more detailed interviews with management and stakeholders which may help to enhance the understanding of the CSR disclosures in the Islamic banks.

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Webpage (Annual Reports, accessed by the authors during the month of January, 2008):
- www.bankislam.com.my/
- www.muamalathbank.com/
- www.islambankbd.com/
- www.kfh.com/
- www.shamilbank.net/
- www.equator-principles.com

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<table>
<thead>
<tr>
<th>Area/dimensions</th>
<th>Items to be disclosed under CSR</th>
<th>Disclosure under AAOFI standard</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EBSE&amp;CR</td>
<td>(i) Operates within <em>Shari’ah</em> principles (ii) Focus on stakeholders and distribution of profit (iii) Appreciation to shareholders and customers (iv) Building long-lasting relationships with customers</td>
<td>Required</td>
<td>Required by AAOIFI as standards</td>
</tr>
<tr>
<td>2. CG-BD&amp;TM</td>
<td>(i) Name of the board of directors (ii) Position of the board members (iii) Academic qualifications of board members (iv) Profile of the board of directors (v) Remuneration of the board of directors (vi) Shareholding of the board of directors (vii) Various subcommittee exists and number of meeting held (viii) Audit committee exists (ix) Multi-directorship exist among board of directors (x) Name and position of the management team (xi) Member in the subcommittee of the management team members (xii) Academic qualifications of the management team (xiii) Governance structure of the Islamic bank including committees under the highest governance body responsible for specific task, such as setting strategy or organisational oversight (xiv) Mechanism for shareholders and employees to provide recommendations or direction to the highest governance body and annual general body meeting (xv) Risk management practices</td>
<td>Required</td>
<td>Required by AAOIFI as standard</td>
</tr>
<tr>
<td>3. <em>Shari’ah</em> compliant corporate governance – SSB</td>
<td>(i) Name of the SSB members (ii) Qualifications of members (iii) Number of the SSB members (iv) Remuneration of members (v) Report sign by all members (vi) Number of meetings held (vii) Examination of documents based on sample</td>
<td>Required</td>
<td>Required by AAOIFI as standards statement</td>
</tr>
</tbody>
</table>

(continued)
### Table AI. Area/dimensions Items to be disclosed under CSR

<table>
<thead>
<tr>
<th>Area/dimensions</th>
<th>Items to be disclosed under CSR</th>
<th>Disclosure under AAOFI standard</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(viii) Examination of all documents</td>
<td>Not required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ix) No defects in products</td>
<td>Not required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(x) Report defects in product</td>
<td>Not required</td>
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<tr>
<td>(xi) Report of SSB</td>
<td>Required</td>
<td></td>
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<tr>
<td>(xii) Identity of unlawful transactions</td>
<td>Required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report of SSB</td>
<td>Required</td>
<td></td>
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<tr>
<td>(xiii) Certification of distribution of profits/losses complying to Shari‘ah</td>
<td>Required</td>
<td></td>
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<td>(xiv) Zakah calculated according to Shari‘ah</td>
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<tr>
<td>(xv) Shari‘ah screening during investment</td>
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<td></td>
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</tr>
<tr>
<td>4. PS&amp;FDSC</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(i) Introduction of SSB-approved new product</td>
<td>Required</td>
<td></td>
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</tr>
<tr>
<td>(ii) Basis of Shari‘ah concept on new products</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Glossary/definition of new product</td>
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<td></td>
</tr>
<tr>
<td>(iv) No investment in non-permissible activities</td>
<td>Required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(v) Nature of unlawful transaction</td>
<td>Required</td>
<td></td>
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<tr>
<td>(vi) Fair dealing with those in supply chain</td>
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<td>5. Environment</td>
<td></td>
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<tr>
<td>(i) Introduction of green product</td>
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</tr>
<tr>
<td>(ii) Glossary/definition of green product</td>
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<td></td>
<td></td>
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<tr>
<td>(iii) Investment in recycling bin project (recycling for future) and other sustainable development project</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Amount of donation in environmental awareness</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(v) Financing in any project which may lead to environmental damage</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(vi) Investment in sustainable development projects</td>
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<td></td>
</tr>
<tr>
<td>(vii) Initiatives to mitigate environmental impacts of product and services, and extent of impact mitigation</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(viii) Focus on risk-based corrective actions</td>
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<td></td>
</tr>
<tr>
<td>6. Employees</td>
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</tr>
<tr>
<td>(i) Equal opportunity policy</td>
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<tr>
<td>(ii) Employees welfare</td>
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</tr>
<tr>
<td>(iii) Ensuring diversity</td>
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<td></td>
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</tr>
<tr>
<td>(iv) Training: Shari‘ah awareness</td>
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(continued)
<table>
<thead>
<tr>
<th>Area/dimensions</th>
<th>Items to be disclosed under CSR</th>
<th>Disclosure under AAOIFI standard</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(v) Training: professional skill</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(vi) Encouraging talent</td>
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<tr>
<td>(vii) Keeping policy of international labour standard</td>
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<td></td>
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<tr>
<td>(viii) Reward for employees</td>
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<td></td>
</tr>
<tr>
<td>(ix) Employees appreciation</td>
<td>Not required</td>
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<td></td>
</tr>
<tr>
<td>(x) Focus on safety of staff</td>
<td>Not required</td>
<td></td>
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<tr>
<td>7. Strategic social development</td>
<td>(i) Funding to organisations that provide benefits to community for social equity</td>
<td>Required</td>
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<td></td>
<td>(ii) Fostering strong links with the community/public service</td>
<td>Not required</td>
<td></td>
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<tr>
<td></td>
<td>(iii) Creating job opportunities</td>
<td>Not required</td>
<td></td>
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<tr>
<td></td>
<td>(iv) Amount spent in community activities</td>
<td>Required</td>
<td></td>
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<tr>
<td></td>
<td>(v) Participation in government-sponsored social activities</td>
<td>Not required</td>
<td></td>
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<tr>
<td></td>
<td>(vi) <strong>Zakah</strong> payment – monetary</td>
<td>Required</td>
<td></td>
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<tr>
<td></td>
<td>(vii) <strong>Zakah</strong> payment – beneficiaries</td>
<td>Required</td>
<td></td>
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<td></td>
<td>(viii) <strong>Qardh-Hassan</strong> – monetary</td>
<td>Required</td>
<td></td>
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<tr>
<td></td>
<td>(ix) <strong>Qardh-Hassan</strong> – beneficiaries</td>
<td>Required</td>
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<td></td>
<td>(x) <strong>Sadaqah</strong> – monetary</td>
<td>Required</td>
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<td></td>
<td>(xi) <strong>Sadaqa</strong> – beneficiaries</td>
<td>Required</td>
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<td></td>
<td>(xii) Community cohesion</td>
<td>Not required</td>
<td></td>
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<td></td>
<td>(xiii) Debt policy and amount of debts written off</td>
<td>Not required</td>
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<td>8. RD&amp;T</td>
<td>(i) Promotion of research and development</td>
<td>Not required</td>
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<td></td>
<td>(ii) Capacity building</td>
<td>Not required</td>
<td></td>
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<td></td>
<td>(iii) Regular performance and career development report</td>
<td>Not required</td>
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<td></td>
<td>(iv) Strategy formulation and decision making support to the top management</td>
<td>Not required</td>
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<td></td>
<td>(v) Standardize training curriculum</td>
<td>Not required</td>
<td></td>
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<td></td>
<td>(vi) Market survey and feasibility report</td>
<td>Not required</td>
<td></td>
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<tr>
<td></td>
<td>(vii) Database management</td>
<td>Not required</td>
<td></td>
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</tbody>
</table>

Statement required by AAOIFI standards include **Zakah**, **Qardh-Hassan** and charity together.