An Empirical Study of Corporate Social Responsibility and its Disclosure in Islamic Financial Institutions

By

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بسم الله الرحمن الرحيم

In The Name of Allah, Most Gracious, Most Merciful

DEDICATION

My Beloved Parents

"My Lord! Bestow on them Your Mercy as they did bring me up when I was young" (Quran, S17: 23-24)

Dear Wife

For her continuous love, support and patience

My Little Angels

Aisha, Noor and Yahya

Beloved Sisters, Brothers and their Families

For their incessant support, encouragement and love

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Above all, my sincere thanks to Almighty *Allah* for providing me with the strength to carry out this research and to overcome obstacles during this long process.

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ABSTRACT

Corporate Social Responsibility (CSR) and Corporate Social Responsibility Disclosure (CSRD) have received much attention in the literature. However, a review of previous studies has revealed that the current discussions on CSR and CSRD do not go beyond the disciplinary perspective (e.g. management, accounting, and ethics) and ignore the possibility of conceptualisation of CSR and CSRD based on other values, such as religion. Many of these studies have proposed different theories to explain why corporations disclose or do not disclose social responsibility information. The various CSRD theories exclude religion as a foundation in explaining why organisations should disclose social responsibility information, and also in making assessment of the performance of organisations in terms of fulfilling their obligation to God. These theories have been developed mainly in the context of the liberal market, and may not offer full justification of CSR and CSRD practices in a dissimilar socio-culture, such as the case of Islamic financial institutions (IFIs).

While values and principles that have been central to Islamic teaching and philosophy are directly related to the notion of CSR, there are some empirical studies that have attempted to investigate the relationships between those values and CSR and CSRD. The mainstream of existing studies has tended to examine the gap between the expectation of social disclosure and the actual disclosure practice in Islamic business organisations such as IFIs. In order to understand the practice of CSR and CSRD by IFIs, it is also important to investigate the perception of the managers who are in charge of producing corporate reports, and to understand the reasons and rationales behind disclosing or non-disclosing social responsibility information. In addition, there is a lack of comprehensive studies comparing the practice of CSRD in IFIs with its conventional counterparts, as such a comparison offers an insight into the nature of CSRD in IFIs, which are influenced by the value of Islam.

To achieve this objective, this study conducted a mix of qualitative and quantitative research. On the quantitative part, 42 financial institutions, divided equally between IFIs and conventional financial institutions (CFIs), were studied. The content analysis method was utilised to compare the extent and level of CSRD in the annual reports between IFIs and CFIs. On the qualitative research side, interviews were utilised to seek the perspectives, attitudes and opinions of IFIs' managers on CSR and CSRD.

This study presents evidence that Islamic values have driven the business practice of IFIs and consequently influenced CSR and CSRD. The principle of accountability to Almighty *Allah* was found as the prominent driver for CSR and CSRD in IFIs. This accountability is based on the relationship between individuals and businesses, and Almighty *Allah*. Accountability in this context means not only a duty to report performance, but performing ethically in the first place. This notion of accountability from an Islamic perspective provides a different dimension to the concept of CSR and CSRD, which was not identified in the existing framework and literature. This study has therefore contributed to our understanding and knowledge of CSR, and CSRD in particular, in the business environment of IFIs.

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List of Abbreviations

AAOIFI	Accounting, Auditing, Organisation for Islamic Financial Institutions
BMA	Bahrain Monetary Agency
CIBAFI	General Council for Islamic Banks and Financial Institutions
CFIs	Conventional Financial Institutions
EU	European Union
IASB	International Accounting Standards Board
GAAP	General Accepted Accounting Principles
IAH	Investment Account Holder
IFIs	Islamic Financial Institutions
OECD	Organisation for Economic Co-operation and Development
SSB	Shari'a Supervisory Board
SSBR	Shari'a Supervisory Board Report

Chapter One
Introduction to the Research

1.1 Introduction

1.2 Background and Justification of the Study

1. 3 Objectives and Questions of the Research

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Chapter One
Introduction to the Research

1.1 Introduction

Corporate social responsibility (CSR) refers to the relationship of corporation with society as a whole. CSR is therefore a dramatically expanding area of activity for management and academics (Webb *et al.*, 2009). One of the operational tools which companies can use to demonstrate this social responsibility is corporate social responsibility disclosure (CSRD). It has been recognised as the communication of an organisation's social and environmental impact through annual reports or different media. The global support for CSR and CSRD has been the subject of substantial accounting research (Hall, 2002). Even though the practices of CSR and CSRD have gained increasing importance in the literature over the last three decades, there is no universally accepted theoretical framework that can be used solely to justify this practice.

This chapter is organised into five sections. The second section provides an overview of the background of the research problem, the relevant studies and justification for the research. The research objective and questions are explained in the third section. The fourth section states the research method used in this study. The final section contains the organisation of the thesis.

1.2 Background and Justification of the Study

The concept of CSR brings in a new dimension of business (Glautier and Underdown, 2001). CSR has been defined by McWilliams and Siegel (2001, p.117) as "actions on the part of a firm that appears to advance the promotions on the part of some social good beyond the immediate interests of firm and beyond legal requirement". Several theoretical frameworks have been developed to explain the concept of CSR. The classical view of CSR generally perceives companies as accountable only to its shareholders (Friedman, 1962), where its sole social responsibility is to maximise the economic value of the company. This classical view of business has under growing criticism since the corporate has become one of society's most influential and apparently effective institutions (O'Dwyer, 1999). Another approach in the literature views CSR as a strategy for long-term profit maximisation. This approach recognises the significance of CSR in relation to the maximisation of profit (Glautier and Underdown, 2001). Proponents of this view argue that companies can avoid the risk of damaging their public image and potentially increase their social capital as they gain greater social responsibility (Burchell and Cook, 2008).

The stakeholder approach recognises the increase in emphasis upon social and ethical responsibility, and has resulted in changing the focus from shareholders to wider stakeholders (Blair, 1998). As a result, several international business principles have been developed: for example, United Nations Global Compact, Accountability-AA1000, Organisation for Economic Co-operation and Development (OECD) Guidelines, European Union (EU) principles. These principles have evolved to solve some business issues, such as employee rights, pollution, and business ethic. Thus, companies are challenged to demonstrate their social responsibility to a wider range of stakeholders.

Empirical studies in the field of CSR have examined the association between CSR and some company characteristics, such as company size, financial performance and type of industry, and offered a positive association in most cases. They have also revealed that companies are engaging in CSR activities because they are encountering extensive pressure from local communities, consumers, employees, suppliers, non-governmental organisations (NGOs) and institutional shareholders (see for example, Bhambri and Sonnenfled, 1988; Guay *et al.*, 2004; L'Etang, 1994; O'Dwyer, 2003; Whithouse, 2006; Webb *et al.*, 2009).

However, the majority of the current studies have been conducted in Anglo-Saxon or Developed European countries, which are influenced to a large extent by their cultural values as well as their political, economic and social environments. There is a lack of studies examining CSR from the perspective of different sets of culture. Undoubtedly, the expectation from business varies from culture to culture and from environment to environment. Employing theories which evolved in an environment and context 'which might not exist in other regions' in an attempt to understand the concept and the practice of CSR would be inappropriate. The current literature does not recognise cultural factors such as religion in viewing and understanding the concept of CSR and its practice. Religion could be an integral part of CSR; for example, the Islamic philosophy and teaching are rich in values pertaining to CSR. Thus, excluding religion in viewing CSR leaves a gap in the existing literature to understand the concept based on broader cultural factors.

One of the operational tools by which a corporation can demonstrate social responsibility is via CSRD, which is defined as "Provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports" (Guthrie and Mathews, 1985, cited in Hackston and Milne, 1996, p.78). Another definition was offered by Gray *et al.* (1987, p.9) "the process of communicating the social and environmental effects of an organisation's economic action to particular interest grouping within society and to the society at large". Thus, CSRD is a communication tool of the organisation's social and environmental impact through different media. CSRD also plays a significant role in different aspects of business, including enhancing corporate transparency, developing corporate image and providing useful information for investment decision making (see, e.g. Gray *et al.*, 1988; Patten, 1990; Gray *et al.*, 1995a; Owen, *et al.*, 1997; O'Dwer and Gray, 1998; Alnajjar, 2000; Friedman and Miles, 2001; Gray and Bebbington 2001).

CSRD has been studied from different perspectives. The theoretical frameworks of CSRD have prompted much debate among researchers. From a review of the literature, it is clear that various theories, including agency theory, stakeholder theory, legitimacy theory, political economy theory, accountability theory and institutional theory, have been employed by researchers to justify companies' disclosure of CSR information (Guthrie and Parker, 1989; Ness and Mirza, 1991; Gray *et al.*, 1995, 1996; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Adams and Harte, 1998; Buhr, 1998; Ince, 1998; Deegan *et al.*, 1999; Deegan, 2002 & 2006).

These theories have been developed mainly in Anglo-Saxon or developed European countries. The use of theories that originated in a political, economic and culture context to explain disclosure practices in a different social, political and economic setting is arguable (Hofstede, 1981, 1983; Perera, 1989; Ali, 1996; Ahmed, 2004). The application of these theories may not offer an explanation for CSRD practices in other social, political and economic environments. In this regard, Gray *et al.* (1996), Adams and Harte (1999) and Milne and Chan (1999) argue that there is no universally accepted theoretical framework for CSRD. Mathews (1997) draws attention to the need for further research to examine, for instance, if other theoretical justification can be used to explain the disclosure of social and environmental information.

Moreover, the empirical studies of CSRD are concentrated mainly in Western countries. In addition, the majority of international comparative studies of CSRD have focused on the analyses of the differences and similarities of CSRD practices in these countries only (Tsang, 1998). It is apparent that less attention has been given to developing countries generally and to the influence of religion as an 'environmental/cultural' factor particularly. Unlike modern Western countries, where religion is viewed separately from the state, to Muslims, besides being a religion, Islam is also considered as a way of life, which integrates all aspects of life, including politics, law, and economy. The influence of Islam on daily business practice is well documented in the Holy Qur'an and *Sunnah*[1]. Islamic business values, such as justice, socio-economic measure, human wellbeing, honesty, etc., are considered to be the core of CSR.

Islamic financial institutions (IFIs) are considered as having ethical identity, and they have different social and economic objectives since the foundation of their business is based on religion (Haniffa and Hudaib, 2007). The general objective of IFIs is to contribute to the development of the economy within the boundary of Islam. Within the range of *Shari'a* (Islamic law), IFIs are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and the wellbeing of society (Dusuki and Dar, 2005).

Some studies have attempted to link Islam with CSR and CSRD (e.g., those of Haniffa, 2001; Maali *et al.*, 2006; Mohammed, 2007). However, from a review of those studies, it is apparent that there is a notable absence of studies pertaining to the perception and attitude of IFIs management towards CSR and CSRD. Few studies have examined empirically the motivation for CSR and CSRD in IFIs. It is worth examining the managers' perceptions, since managers make the decision to engage in CSR and disclose its information. Investigating the perception(s) of management will provide a deeper understanding of such phenomena in IFIs. In addition, there is a lack of comprehensive study comparing the practice of CSRD in IFIs with its conventional counterpart. Such a comparison will offer a better understanding of the nature of CSRD in IFIs, which are influenced by the value of religion. Therefore, one of the aspirations of this study is to fill the gap by first revealing and investigating the nature of CSR and CSRD in the context of IFIs, and then examining the religious explanations for this CSR and CSRD practice using managerial perspectives on CSR and CSRD.

[1] *Sunnah* linguistically means path. In this context it means the saying, actions and approvals of prophet Mohamed pray and peace upon him.

1. 3 Objectives and Questions of the Research

The main aim of this research is to examine the influence of Islam on CSR and CSRD. To achieve this objective, it first compares the extent and the level of CSRD of IFIs with those of conventional financial institutions (CFIs) both operating in Arabic Gulf countries with similar economic, political and social environments. Second, it investigates the perception of the IFIs managers on CSR and CSRD.

Two primary research questions will be explored:

(I) To what extent does Islam have an influence on CSR and CSRD? In order to address this research question, the following sub-questions will be empirically examined, with the approach of content analysis:

- What are the differences of CSRD between IFIs and CFIs?
- What kinds of CSRD are mostly disclosed by IFIs?
- What types of news (bad, neutral, and/or good) were disclosed mainly by the disclosing companies?
- What forms of evidence (monetary, quantitative, and qualitative) were disclosed by companies?

(II) What is the management's perception of the motivation for CSR and CSRD? In order to address this research question, the following sub-questions will be empirically investigated, with the interview approach.

- What motivates IFIs's managers to become involved in CSR activities?
- What are the factors that influence management decisions to disclose CSR information in their annual reports?
- What are the reasons behind the absence of 'if any' CSRD?

1.4 Research Method

This section provides a brief summary of the research methods employed in this thesis. A detailed specification of the methods, including the rationale for the selection of the research methodology, is provided in Chapter Five. In order to answer the research questions and develop a fuller and richer picture of the phenomena under study, two methods were utilised in this study: content analysis and interview.

Considering the first research question, content analysis was used in this research. Content analysis is defined by Krippendorff (1980, p.21) as "a research technique for making replicate and valid inferences from data to their context". It has been used in many fields (literature, history, journalism, political science, education, psychology, etc.) (Neuman, 2003). Because content analysis has been used broadly in previous studies of CSRD (see Table 5.1), and because content analysis allows CSRD to be classified and compared systematically, which is useful for determining trends (Milne and Adler, 1999), it is used in this study to measure the level and examine the nature of CSRD.

In this study CSRD was measured through numbers of words disclosed and classified into eight themes (employee, community, philanthropy, products and services, customer, *Shari'a* supervisory report, environmental issues, and other disclosures); three categories of evidence (monetary, quantitative, and qualitative); and three type of news disclosed (bad, neutral, and good). This approach was derived from an extensive review of the pevious literature in general, and the study of Ernst and Ernst (1978), Guthrie and Parker (1990), Gray *et al.* (1995 a, b) and Hackston and Milne (1996) in particular (see Chapter five).

Moreover, in seeking the answer to the second question of this research, the researcher used an in-depth interview, which was carried out in order to explore the views and perceptions amongst managers of IFIs regarding key features and aspects related to CSR and CSRD, particularly the motivation of CSRD. The use of the in-depth Interview method gives a significant opportunity to the interviewees to express their perceptions in their own words and to explore their problems. The interview, according to Gibert (1993, p. 135), "has a strong claim to being the most widely used method of research". It is often thought to be the best way to gather data, because it enables the researcher to capture a deeper insight into the problem (Yin, 1994).

The semi-structured interview was adopted in this study, because it allows space for discussion and encourages participants to elaborate on an important related issue. Moreover, a semi-structured approach appears friendlier and less intimidating (Cohen and Manion, 1980). Semi-structured, face-to-face interviews were conducted with those at corporate management level and accountants in IFIs in order to examine their perception and attitude toward CSR and CSRD.

1.5 The Structure of the Thesis

This thesis is structured into nine chapters as follows:

Chapter One: Introduction

Chapter one provides an introductory outline of the research background, problems and the purpose of the study. A summary of the methodological approach undertaken, as well as the structure of the thesis, is also provided in this chapter.

Chapter Two: Islamic Financial Institutions (IFIs)

The purpose of this chapter is to explain the characteristics of Islamic financial institutions. This chapter provides the necessary information about IFIs including a brief history of IFIs, the method(s) that they use in doing their business, the corporate structure, and details about Islamic accounting.

Chapter Three: CSR and CSR Concepts, Drivers behind These, and Theoretical Justification

The aim of this chapter is to examine the relevant literature. It deals with the concept and the theoretical framework of CSR and CSRD by reviewing the previous studies that are relevant to CSR and CSRD and highlights a number of drivers behind CSR and CSRD practices in the literature. It has covered three issues: the concept and definitions, theoretical explanations and justifications for CSR and CSRD and the drivers behind CSR and CSRD. The various theoretical frameworks presented in this chapter do not recognise religion as a basic in explaining why organisations should engage and disclose CSR information.

Chapter Four: CSR and CSR from Islamic Perspective

Chapter four focuses on the concepts of CSR and CSRD from an Islamic perspective. It covers a number of previous studies relating to the CSR and CSRD in the context of an Islamic environment. This chapter is structured into two main parts. The first part covers CSR from an Islamic perspective. The second part presents the previous and the key studies of CSRD in an Islamic environment. The existing gap will be identified at the end of the chapter.

Chapter Five: Research Method

Chapter five describes the methods adopted by the researcher in carrying out the present study, namely content analysis and in-depth interview. Thus, this chapter provides an overview of each method. In addition, the chapter highlights the advantages and disadvantages of each method, and justifies the use of each technique in order to investigate empirically the relationship between Islam and CSR and CSRD.

Chapter Six: Content Analysis Results

This chapter reports on the results of the content analysis of corporate reports of surveyed companies. It provides a detailed description of the total level, main categories, evidence and type of news of CSRD in both

IFIs and CFIs. The result indicates that there are, to some extent, differences in the levels and types of disclosure between IFIs and CFIs.

Chapter Seven: Manager's Perception on CSR and CSRD

This chapter includes the results of the in-depth interviews conducted with senior managers in IFIs. The perceptions of managers on CSR and CSRD are reported through analysing the interviews. It provides a detailed description of the managers' views with respect to the CSR, and CSRD, and highlights the reasons for disclosure and non-disclosure of social responsibility information. The results indicate that there is to some extent a consensus among the interviewees that religion has an impact on social responsibility. However, different rationales, reasons, and explanations were offered by the managers as motivation to disclose or not disclose CSR information in their corporate reports.

Chapter Eight: CSR and CSRD an Application of Islamic Accountability Theory

This chapter discusses in details the findings incorporated in the preceding two chapters, and considers possible explanations for CSR and CSRD practice in IFIs. Thus, the main purpose of this chapter is to investigate the extent to which environmental contexts influence CSR and CSRD practice in IFIs. Under Islamic accountability theory, CSR and its disclosure are embedded in the concept of accountability to Allah.

Chapter Nine: Conclusion

This chapter summarises the findings of the two major research questions outlined in section 1.3. It considers each research question separately, and presents a potential explanation for the CSR and CSRD results, based on content analysis results and the interview findings that are reported in Chapters Six and Seven respectively. It also highlights some of the limitations of this research and suggests areas for further research.

Chapter Two

Islamic Financial Institutions (IFIs)

Chapter Two
Islamic Financial Institutions (IFIs)

2.1 Introduction

The IFIs, which conduct their business according to Islamic principles, are expected to reflect the socio-economic objectives of Islam. In this regard, Lewis (2001) noted that Islam has provided a comprehensive list of ethics that governs how business should be conducted, how banking and finance are to be arranged, and, alternatively how accounting ought to be undertaken. The main purpose of this chapter is to give a brief background to the Islamic financial institutions (IFIs) and their characteristics. The main body of this chapter is divided into three main sections. The first section presents a definition and background of IFIs; the second section outlines the concept and the mechanism of IFIs; the final section discusses the notion of Islamic accounting and its importance for IFIs.

2.2 Definition and Background

The terminology of IFIs today is associated with those financial institutions applying the *Shari'a* business code of conduct and dealing with interest-free banking. IFIs evolved in order to create a substitute financial system to conventional banking for those Muslims who seek to conduct their financial affairs in accordance with Islamic *Shari'a* (BMA, 2002). The establishment of the Islamic financial system took place in the seventh century in the Muslim world. However, this type of financial services was used individually between traders. The service of Islamic finance declined during the period between the 15^{th} and 20^{th} centuries and this was the result of the colonisation which took place during the 16^{th} and 17^{th}

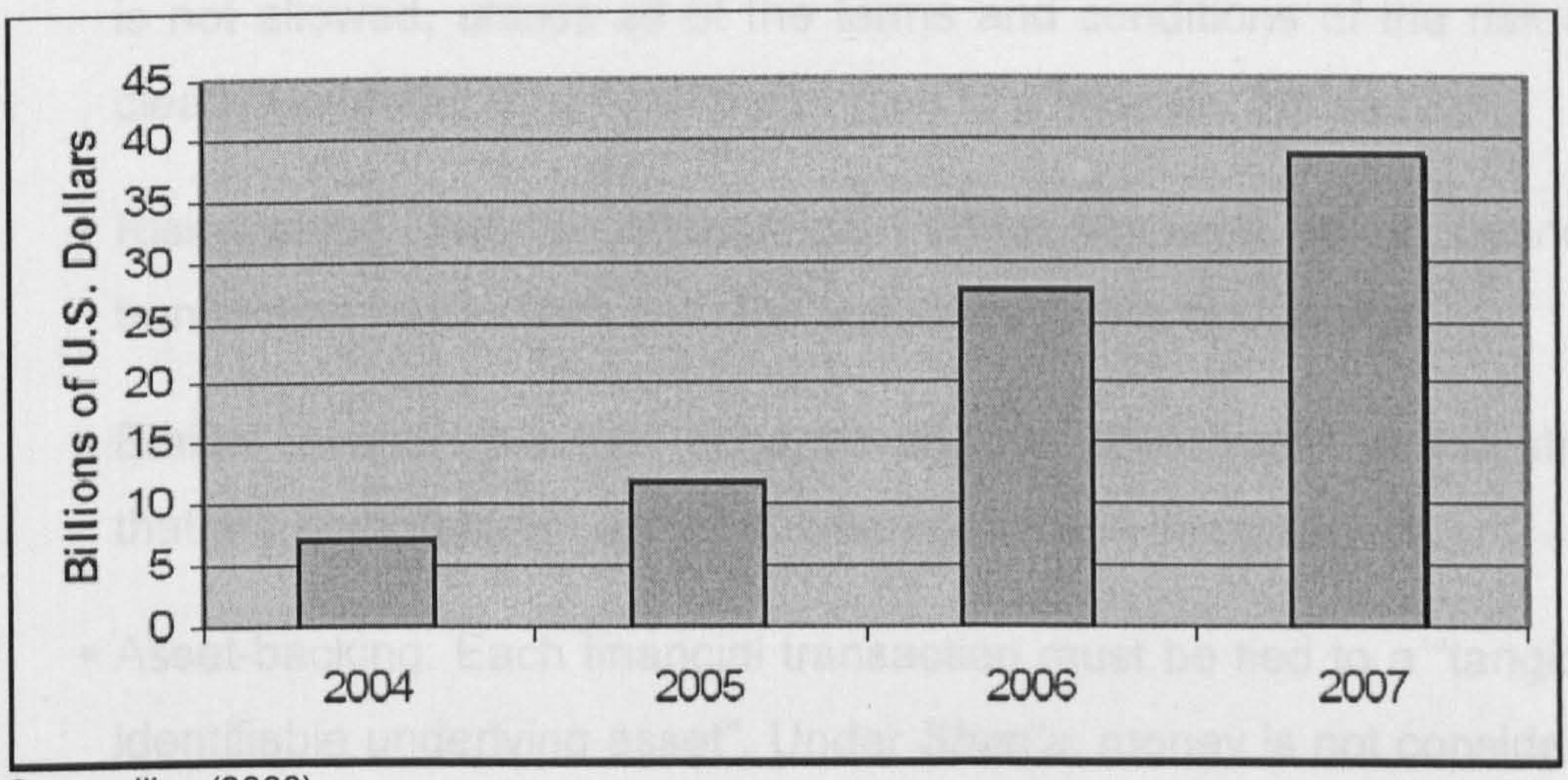
centuries, which delayed the development of the Islamic financial model (Bjorklund, 2004).

According to Al-Mehmadi (2004), IFIs in the modern context first emerged in 1963 when the Mit Ghamr Savings Bank in Egypt started an experimental project offering interest-free banking in Egypt. The project was successful and the bank opened four new branches. In the same year, eight new banks were established, all offering interest-free banking. However, for political reasons, they were forced to close down in 1967, because the success of the Islamic banking project was seen as a threat to the political regime in Egypt at that time (Al-Mehmadi, 2004). In 1974, the concept re-emerged in Pakistan at the Islamic Summit of Lahore. The outcome of this Summit was the recommendation for the establishment of the Islamic Development Bank (IDB), which was established in Saudia Arabia to support the economic development and social progress of Muslim countries (Al-Mehmadi, 2004).

Since then, IFIs have grown rapidly. Currently, Islamic finance industry represents a growing segment of the global finance industry. The Islamic finance industry has grown by about 15 percent on average over the last three years in response to the increased in demand for investments that comply with *Shari'a* (Jobst *et al.*, 2008). Currently, more than US$800 billion are lodged in Islamic banks, mutual funds, insurance schemes, and Islamic branches of conventional banks (Oakley *et al.*, 2008). The most popular form of Islamic finance is commonly referred to as Sukuk[1] (see Figure 2.1). The global market for Sukuk is estimated to be US$70 billion and is projected to be US$100 billion by 2010 (Ilias, 2008).

[1] Sukuk are wholesale, asset based capital market securities. The sukuk do not pay interest; however, they generate returns through actual transactions based on a profit-and-loss principle. Thus, the difference between Sukuk and conventional asset-backed securities of covered bonds is that the income from Sukuk must be generated from real business risk rather than guaranteed return (Jobst *et al.*, 2008).

Figure2.1: Global Issuance of Islamic Bonds, 2004-2007



Source Ilias (2008)

2.3 IFIs Concepts and Mechanisms

IFIs are governed by Islamic law. The general objective of IFIs is to contribute to the development of the economy within the boundary of Islam. According to Olson and Zoubi (2008), the most important feature of IFIs is the prohibition of *Riba* (interest), regardless of its form or source. IFIs can therefore under this circumstance provide financial services on the basis of a free interest system. The *Shari'a* encourages the concept of undertaking business risk in return for reward, with the understanding that the level of the expected reward is related to the level of the business risk (BMA, 2002). In this system, investors are not guaranteed any pre-fixed profit from the bank, nor any pre-determined income or interest (BMA, 2002). In contrast to conventional banking institution, IFIs do not recognise the time value for money. The concept that money is worth more in the future than the present implies that it will earn or pay interest. Since IFIs are based on the principle of *Shari'a*, there are major differences between IFIs and conventional financial systems. Ilias (2008, p.1) summarises the major differences thus:

- The ban on interest: In the conventional forms of finance, a distinction is made between acceptable interest and usurious interest. In contrast, under Islamic law, any level of interest is considered usurious and is prohibited.

- The ban of uncertainty: Uncertainty in contractual terms and condition is not allowed, unless all of the terms and conditions of the risk are clearly understood by all of the parties to a financial transaction.
- Risk-sharing and profit-sharing: Parties involved in a financial transaction must share both the associated risks and profits.
- Ethical investments that enhance society: Investment in industries that are immoral from an Islamic perspective is discouraged.
- Asset-backing: Each financial transaction must be tied to a "tangible, identifiable underlying asset". Under *Shari'a*, money is not considered an asset class because it is not tangible and thus, may not earn a return.

This raises the question of how IFIs can generate income. IFIs use different financial instruments which have different risk levels and redemption periods. The most common among these themes are *Mudarabe*, *Musharka*, *Murabaha*, and *Ijara*. These financial instruments are based on trading, leasing, and direct financing in profit-and-loss sharing contracts. The next section introduces these instruments.

2.3.1 Financing Instruments in IFIs

2.3.1.1 *Mudaraba*

Mudaraba is a profit sharing contract. It is a form of financing agreement between two parties, in which one party provides the funds to the other for investing in a commercial enterprise. It usually occurs between those who have capital and those who have expertise, where the first party (*rabbu-al-mal*) provides the capital and the other party (*mudarib*) provides the expertise with the purpose of generating earnings. *Mudharaba* is considered to be an essential mode accredited by the IFIs in their relationship with depositors who tender their money to the bank as a capital owner so that the money will be invested by the bank as *mudharib* on the basis of the profit-and-loss sharing, according to a specific agreement upon ratios (Al-hajji, 2003). Under a *Mudaraba* contract, the bank provides the capital needed to finance a project, and the *Mudarib* (client) provides the expertise, management and labour. The *Mudarib* has to utilise the capital in an agreed manner and returns to the *bank* the capital and pre-agreed share of the profit. Thus, the emphasis in this case is not on the payment on demand at a set interval in time, but rather on the long time success of the joint venture (Akacem and Gillian, 2002). However, in the case of loss, the total loss is borne by the bank (Chong and Liu, 2008). IFIs may operate a two-tier *Mudaraba* system in which they provide fundas to an entrepreneur, or they may act as an entrepreneur who invests the fund received from investors (Lewis and Algaoud, 2001).

2.3.1.2 *Musharaka*

Musharaka is profit-sharing joint venture between an IFIs and its client. Under a *Musharaka* contract, which is normally of limited duration, both IFI and the entrepreneur contribute jointly to the financing and management of this particular project. The proportion of profits to be distributed between the partners must be agreed upon at the time of effecting the contract. The joint venture is an independent legal entity, and the bank may terminate the joint venture gradually after a certain period or upon the fulfilment of the agreed condition (Chong and Liu, 2008).

2.3.1.3 Murabaha (Mark up)

Murabaha is also known as a mark-up or cost-plus form of financing. *Murabaha* is a contract of sale between the IFI and its client. *Murabaha* is usually a short-term financing contract. Under the *Murabaha* contract, the bank finances the purchase of goods or an asset on behalf of its client, and adds mark-up before reselling it to the client on a cost-plus based contract. It envisages the sales of goods at disclosed cost, plus a certain agreed profit known to both the vendor and the purchaser. The *Murabaha* is to some extent distinguished from the above mentioned financial instrument, since it is a unique type of sale in which the seller expressly mentions the cost of the sold commodity. The basic element of *Murabaha* is that the seller reveals the cost he or she has incurred in acquiring the commodity, and then adds some profit thereon. The price is usually paid back by the buyer in deferred payments as a mode of financing. However, it is important that the seller possesses the goods before selling them to the client. According to the Institute for Islamic Banking and Insurance (IIBI), the *Murabaha* form of financing has been used widely by IFIs to satisfy various kinds of financing requirements. *Murabaha* was also used by IFIs to issue a letter of credit and import trade.

2.3.1.4 *Ijara* (Leasing)

Ijara is a popular financial instrument in IFIs representing 15% of all transactions (BMA, 2002). The term *Ijarah* is synonymous to the English term *leasing*. Under this mode of financing, the financial institution purchases equipment or property and as per specification provided by the client, and leases it to the client. The financial institution may either rent the equipment or receive a share of the profits earned through its use (BMA, 2002). The period of lease may be determined by mutual agreement according to the nature of the asset. At present, many IFIs employ different kinds of lease, one of which is the Ijara wa Iqtina (lease to purchase) agreement. A Ijara wa Iqtina lease is more or less the same as Ijara, except that the lessee can acquire ownership of the asset by making instalment payments.

2.3.1.5 *Salam*

Salam is a short-term agreement in which a financial institution makes full payments for future delivery of specified quantity of goods on a specified date (AAOIFI, 2005). It is a type of sale in which the price, known as *Salam* capital, is paid at the time of contracting while the delivery of the item to be sold is deferred. Thus, *Salam* is the purchase of a commodity for deferred delivery in exchange for immediate payment (BMA, 2002).

2.3.1.6 *Istisna*

Istisna is a contract of sale of specified items to be manufactured or constructed, with an obligation on the part of the manufacturer or builder to deliver them to the customer upon completion (AAOIFI, 2005). The difference between *Istisna* and *Salam* is that the former is a contract that entails a sale of particular items that have by character to be manufactured or constructed. Salam, on the other hand, is a contract of sale of specified goods, the validity of which is not attached to a condition that the goods must be manufactured or constructed (AAOIFI, 2005).

2.3.1.7 *Sukuks*

Sukuks stands for proportionate beneficial ownership. The characteristics of *Sukuk* are similar to those of conventional bond, the difference being that they are asset backed (BMA, 2002). For a defined period, the risk and return associated with the cash flows are generated from the asset belonging to the *Sukuk* holder.

IFIs are unlike CFIs, who lend money on an interest-based system and do not make an effort to participate in the risk of the project being financed. As interest-based systems are considered unethical in Islam, the financial instruments in IFIs are based on a profit-and-loss sharing system and in compliance with the Islamic ethical and moral code. By providing finance based on the Islamic ethical and moral code, IFIs contribute to the public interest and will boost the economic development of society while meeting its ethical needs. The social contribution created places emphasis on *Zakah* (see Chapter Four), the prohibition of usury, the prohibition of *gharar* (uncertainty), and the prohibition of the investment in any unethical activities from an Islamic perspective.

2.3.2 Source of Fund in IFIs

2.3.2.1 Current Account

The current account is a safekeeping account. It is quite similar to a current account in conventional banks (Olson and Zoubi, 2008). Current accounts are based on the principle of *Alwadiah*, whereby the depositors are guaranteed payments of their funds, and have instant access to their funds. At the same time, the depositors do not receive interest for depositing funds in a current account. Restrictions are imposed on how the funds can be used. For example, the funds cannot be used for a profit-and-loss-sharing venture. Rather, the funds accumulating in these accounts can be used only to balance the liquidity needs of the bank (Mohammed, 2007).

2.3.2.2 Saving Accounts

The deposits under this account are fixed-term profit and risk sharing arrangements that cannot be cashed before the maturity date without a substantial penalty. The bank guarantees the nominal value of the deposit. However, a return is not guaranteed as it is based on profit and risk sharing. The depositors will not receive any premium if the bank incurs a loss on its investment projects (Zineldin, 1990).

2.3.2.3 General Investment Accounts

This account differs from a general saving account, as it requires a higher fixed minimum amount and longer duration of deposit (Mohammed, 2007). An investment account offers a higher rate of return than an ordinary saving account, in return for a higher risk from investment operations. This account is also based on profit and risk sharing arrangements, and the depositor will not receive any premium if the bank incurs a loss on its investment projects.

2.3.2.4 Special Investment Account

A special investment account follows the principle of a *Mudaraba* account. This account is usually directed toward large investors and institutions. The difference between this account and a general investment account is that this account is related to a specific project and the investor has a choice to invest directly in a preferred project carried out by the bank. In addition, the modes of investment and the distribution of profits can usually be negotiated individually.

2.3.3 Corporate Governance in IFIS

Corporate governance refers to the system by which a company is directed and controlled. It is a process by which directors and auditors manage their responsibility toward their shareholders and wider company stakeholders (Maier, 2005). Thus, good corporate governance is very important to the ability of a business to protect the interests of its stakeholders (Grals and Pellegrini, 2006). These interests may extend beyond the financial interest to the stakeholders' ethical, religious or other values (Grals and Pellegrini, 2008).

Enhancing the value of stakeholders is an essential purpose for any business, including financial services (Grals and Pellegrini, 2006). In the context of IFIs, the stakeholders expect their operations to be carried out in accordance with the principles of *Shari'a*. This raises the need to assure stakeholders that the institution's activities comply fully with the precepts of Islamic jurisprudence. Thus, the uniqueness of corporate governance of IFIs stems from two principles: (1) a faith-based approach that mandates the conduct of the business to be in accordance to *Shari'a;* (2) provides motivation that recognises business and investment transactions and maximisation of the shareholders' wealth (Akhtar, 2006).

Since one of the core missions of IFIs is to meet the desire of its stakeholder's to conduct their financial affairs according to *Shari'a* principles, a corporate structure that enables IFIs to implement *Shari'a* compliance operation is essential to the success of IFIs (Grais and Pellegrini, 2006). This raises the need for a corporate governance mechanism to assure the stakeholders that the necessary safeguards are in place (Grais and Pellegrini, 2006). The governance structure under IFIs is slightly different from that of their counterparts for two reasons. First, financial arrangements in IFIs require different investment contracts and relations with depositors[2], and thus a different governance structure (Mohammed, 2007). Second, the IFIs have to meet the expectations of stakeholders by operating in accordance with Islamic principles. Therefore, IFIs employ a *Shari'a* Supervisory Board (SSB) to act as supervisors and assurance source for different stakeholders.

2.3.3.1 *Shari'a* Supervisory Board (SSB)

Long before the age of complex legal documentation, Islam prescribed the concept of writing contracts in financial transactions, and emphasised that no party on any contract or exchange should be exploited (Akhtar, 2006). This inheritance offers IFIs the foundation of good corporate governance, which can be well blended and integrated in all transactions and contracts. In this vein, SSB play a vital role for IFIs. According to Grais and Pellegrini (2006), the role of SSB covers five main areas, including: certifying permissible financial instruments throughout fatwas[3] , verifying that transactions comply with issued fatwas, calculating and paying *Zakah,* disposing on non-*Shari'a* compliant earnings, and advising on the distribution of the of income or expenses among shareholders and investment account holders.

The aim of SSB is to satisfy the ethical expectations of the stakeholders, and ensures that the IFIs follow the Islamic principles in their business. Thus, the SSB is given a wide authority, such that it can examine activities, transactions, etc. According to Ibrahim (2006, p. 10), "the secular governance practices are not relevant for the transaction that a firm would do in the ordinary course of business (except for related party). Nevertheless, *Shari'a* [SSB] would first look at the transactional structure to see whether the transaction involves elements that invalidate the gains

[2] The depositors in this context deposit their money to be invested by the bank which acts as a *mudharib* based on profit and risk sharing according to specific agreed upon ratios. Thus, their interests need to be protected.

[3] A religious opinion on Islamic law issued by an Islamic scholar

of profit". However, the opinion of SSB may prohibit the bank from engaging in some profitable transactions or impose a reallocation of illicit income to charity, resulting in poorer overall financial performance (Grais and Pellegrini, 2006). This appears to be the basic argument supporting the contention that strict adherence to Islamic morals will act as a counter for an incentive issue. In other words, the adherence to *Shari'a* will prevent IFI management to behaving in a way which is ethically unsound (Mohamed, 2007).

The SSB is an independent board. This board generally comprises at least three Islamic scholars who are specialised and well versed in Islamic jurisprudence (AAOIFI, 2005). Generally, the members of SSB are appointed by the Board of Directors. At the end of each financial year, the SSB issues an audit report which is considered by users as a source of evidence that the bank has adhered to Islamic principles in conducting their businesses (AAOIFI, 2005). Should the SSB report state that the IFI has violated Islamic principles, IFI would lose the confidence of the majority of its stakeholders (Ibrahim, 2006).

2.4 Islamic Accounting

The development of accounting in the Islamic state between 624 and 1500 A.D was religiously motivated and associated with the imposition of *Zakah* (Zaid, 2004). According to Napier (2009), the historical evidence on Islamic accounting is becoming increasingly available, and is reflecting research into the main archives that have survived, as well as many treatises and other secondary material on accounting. Hayashi (1989, p.71) suggested that "Islamic accounting thinks of the society before the business enterprise, whereas conventional accounting thinks of individual profit before the social profit". Baydoun and Willett (2000, p.81) stated that "private accountability and limited disclosure (western accounting criteria) are insufficient criteria to reflect the ethical precepts of Islam law. Consistency of disclosure practices with Islamic law requires application of the more all-embracing criteria of social accountability and full disclosure".

Since the inception of the IFIs, there has been a call for the development of special accounting standards for IFIs (Karim, 1990; Omar, 1997). Several studies consider accounting concepts from an Islamic perspective (e.g., Gambling and Karim, 1986; Hamid *et al.*, 1993; Zaid, 1995; Adnan and Gaffikin, 1997; Lewis, 2001). Islamic accounting has been described as "a system of information that communicates the economic position and result of operation of an entity, and ensures that the information presented is correct, complies with *Shari'a* and is free from any misleading information" (Harahap, 2003, p.70). From an Islamic perspective, it is critical that the accounting principles applied in Islamic organisations to conform to *Shari'a* (Al-Hajjai, 2003). The *Shari'a* is clearly specifies when the revenue should be recognised and when the asset should be transferred. The nature of financial instruments and transactions in IFIs are not addressed in the conventional General Accepted Accounting Principles (GAAP) (Al-Mehmadi, 2004). This is because the functions of IFIs are different from those of their counterparts who have adopted the Western model of banking (AAOIFI, 2005). The relationship between investors and IFIs is based mostly on profit and loss sharing which is different from CFIs. According to AAOIFI (2005), conventional financial accounting does not offer all the information required by those who need to make decisions concerning business. This is because of the nature of financial accounting processes[4], and those related to cost and benefit[5]. Thus, accounting standards developed for CFIs may not be relevant for IFIs. Some new accounting regulations need to be designed to cater for this uniqueness of IFIs financial instruments and contracts. Therefore,

[4] The limitation owing to the nature of the financial accounting process are as follows (1) financial accounting is concerned mainly with measuring the financial effect of the transactions and other events on the entity's financial position, results of operation and cash flow. Therefore, financial accounting is not always able to provide information to help in the evaluation of the business ability to achieve its objectives that are not capable of financial measurement; (2) financial accounting does not differentiate between business performance and management performance (3) financial accounting relies to a great extent on estimation which is based on management assumption when measuring the financial effect of its transactions (for example depreciation) (AAOIFI, 2005).

[5] Cost consideration affects the information which financial accounting produces. This results in the emphasis on the production of general purpose financial reports to serve the common information needs of several external users (AAOIFI, 2005).

AAOIFI standards have been developed to overcome the limitation of conventional accounting standards for IFIs.

2.4.1 Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI)

AAOIFI was established in accordance with the agreement of an association which was signed by Islamic financial institutions on 26 February, 1990, in Algiers. It was registered on 27 March, 1991 in the State of Bahrain. As an independent international organisation, AAOIFI is supported by institutional members (155 members from 40 countries so far) including central banks, IFIs, and other participants from the international Islamic banking and finance industry worldwide. The objectives of AAOIFI are:

1. The development of accounting and auditing thought relevant to IFIs.

2. To disseminate accounting and auditing thought relevant to IFIs and its applications through training, seminars, publication of periodical newsletters, carrying out and commissioning of research and other means.

3. To prepare and promulgate accounting and auditing standards for IFIs.

4. To review and amend accounting and auditing standards for IFIs. (AAOIFI, 2005).

Those objectives are carried out in compliance with Islamic *Shari'a*. The AAOIFI has gained assuring support for implementation of its standards, which are now adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Qatar, Sudan and Syria. The relevant authorities in Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and

South Africa have issued guidelines that are based on AAOIFI's standards and pronouncements (AAOIFI, 2005).

2.5 Summary

Islamic finance is an old concept. The main difference between conventional financial institutions and IFIs is that the latter operate in accordance with *Shari'a,* which implies social and economic justice. This chapter has discussed the principles and the key features of IFIs. The main feature of IFIs is operating in compliance with Islamic business ethics and moral principles. This includes, among others, the ban of interest, uncertain transactions and excessive speculation. The chapter highlights how IFIs are guided by the Islamic economic worldview and *Shari'a*, which have reflected on its modes, transactions and even governance structure. Those modes and transactions imply the notion of social responsibility and justice from an Islamic perspective. Thus, besides having their economic role in society, IFIs have at the same time a social role.

Chapter Three

Literature Review of CSR and CSRD

Chapter Three
Literature Review of CSR and CSRD

3.1 Introduction

The purpose of this chapter is to review the literature on CSR and CSRD. This review is perceived to be important in that it provides the context and justification for the proposed research. The review of the nature of CSR acts as an essential preface to the investigation of CSRD undertaken in this research, given that CSRD is often seen as a manifestation of CSR (Gray *et al.*, 1996). This chapter is divided into two main parts: the first part deals with the literature on CSR in general, while the second part covers the relevant literature on CSRD.

3.2 CSR Definition and Background

The importance of conglomerates in global society was emphasised in the 1960s and 1970s (Roberts, 1992), given that the business had become one of the society's influential and apparently effective institutions (O'Dwyer, 1999). The classical view of the business entity generally perceives firms as accountable to its shareholders only; its sole social responsibility is to maximise the economic value of the firm, and managers who act as agents for the owners have no right to engage in socially responsible projects that do not increase the income of the business (Friedman, 1962). Thus, any expenses on social grounds are an abuse of the management's responsibility to shareholders in the sense that such spending does not lead to higher shareholders' wealth, and the competitive intensity of the business is weakened by embarking on social tasks (Post *et al.*, 1999).

CSR is a topic that has gained increasing attention in recent decades (Sethi, 1995). Since the second half of the 20th century, a long debate on CSR has been taking place (Carriga and Mele, 2004). Recently there has been a shift in the terminology and the concept of CSR (Garriga and Mele, 2004). It has moved from a state of mere focus on wealth maximisation to looking beyond narrow economic nature, and taking the wider social concern into consideration, and proceeding from the a state of compliance to a mode of engagement (Luetkenhorst, 2004; Jackson and Nelson, 2004). However, the concept of CSR is still emerging and elusive for academics and a challenging issue for business managers (O'Riordan and Fairbrass, 2008).

Various CSR definitions have been developed in the literature. This goes back over the last 50 years. The definitions are based on a variety of theoretical perspectives, ranging from agency theory, stakeholder theory, legitimacy theory and political economy theory. By reviewing the related literature, the studies of CSR concepts and motivation can be classified under three main approaches. The first approach originates in the classical economic theory, which suggests that profitability is the ultimate social responsibility of the business. Under this approach, a firm has only one responsibility that to maximise profit in an ethical way and in accordance with the rules and regulations. In this regard, Friedman (1962) argues that there is only one social responsibility of the business, to use its resources and engage in activities that are designed to increase its profits in the long term. Likewise, Arrow (1973) argues that firms 'ought to' maximise profit according to their social obligation, since business profit represents the net contribution that a business makes to society.

The second approach recognises the significance of CSR in relation to maximisation of profits. This view was further shown by Steiner (1971), who defined CSR thus: "the assumption on social responsibilities is more of an attitude, of the way a manager approaches his decision-making task, than greater shift in the economics of decision making. It is a philosophy that looks at the social interest and enlightened self-interest of business over the long run as compared with the old, narrow, unrestrained short-run self interest" (p.164). In the same vein, Meznar *et al.* (1991) argue that maintaining long-term legitimacy requires the corporation to balance both an economic surplus and social surplus. This approach reflects the classical view of CSR, and therefore, such a view is narrow as it views CSR as strategy for generating long-term owner value. However, although the second approach recognises CSR, it is perceived as a means for a long-term strategy for maximising profits.

The third approach regards profit as a means to meet the needs of stakeholders and not as an end itself (Kakabadse and Kakabadse, 2007). This approach reflects the increase in attention given to CSR since the end of the twentieth century. The collapse and the scandal of big companies, such as WorldCom and Enron, and the impact of climate change on the environment have been the tipping points that have pushed many businesses into fundamental reassessment about their responsibilities towards various stakeholders rather than focusing on shareholders (Silberhorn and Warren, 2007). Hence, the new view of CSR considers contemporary aspects of business such as the increase of the importance of stakeholder relation, and reflects the increasing call upon corporations to be socially and environmentally, sustainable and transparent (Mohammed, 2007). New broader definitions under this approach have been offered by a number of bodies. For example, The World Business Council for Sustainable Development (WBCCD) defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their family and local communities" (WBCSD, 2001). This definition implies that the core aim of CSR is to meet the needs of wider stakeholders of the business (Waddock *et al.* 2002).

The European Commission has defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on voluntary basis" (European Commission, 2002). The ISO Strategic Advisory Group considers that CSR "is taken to mean a balanced approach for organisation to address economic, social and environmental issues in a way that to benefit people, community and society". Given the above definitions, it seems that there is a consensus among the above definitions that the fundamental idea of CSR is to work toward meeting the needs of a broader array of stakeholders. However, the European Commission's definition gives more attention to voluntary rather than compulsory CSR. This might be owing to the absence of mandatory requirements for such activities in most countries of the EU.

Garriga and Mele (2004) attempted to view the concept of CSR by classifying the main CSR theories and related approaches into four groups, as follows:

(1) Instrumental theories, in which the business is viewed as only an instrument for wealth maximising. Under these theories, the relation between companies and community is based on the economic aspect. Thus, CSR is viewed as a strategic tool to achieve economic objectives;

(2) Political theories. This approach underlines the social power of businesses. In this approach, theories give more attention to the responsible use of business powering the political arena. They study the interactions between business and society and focus on the power and position of corporations and their inherent responsibility;

(3) Integrative theories. These theories are based on the argument that companies are dependent on society for their existence and continuity. Therefore, social demands are considered as a way in which business interacts with society. In other words, those businesses focusing on the satisfaction of social demand use CSR as a tool for legitimacy; and

(4) Ethical theories. This is based on the ethical responsibility of corporations toward society and on the ethical requirements that shape

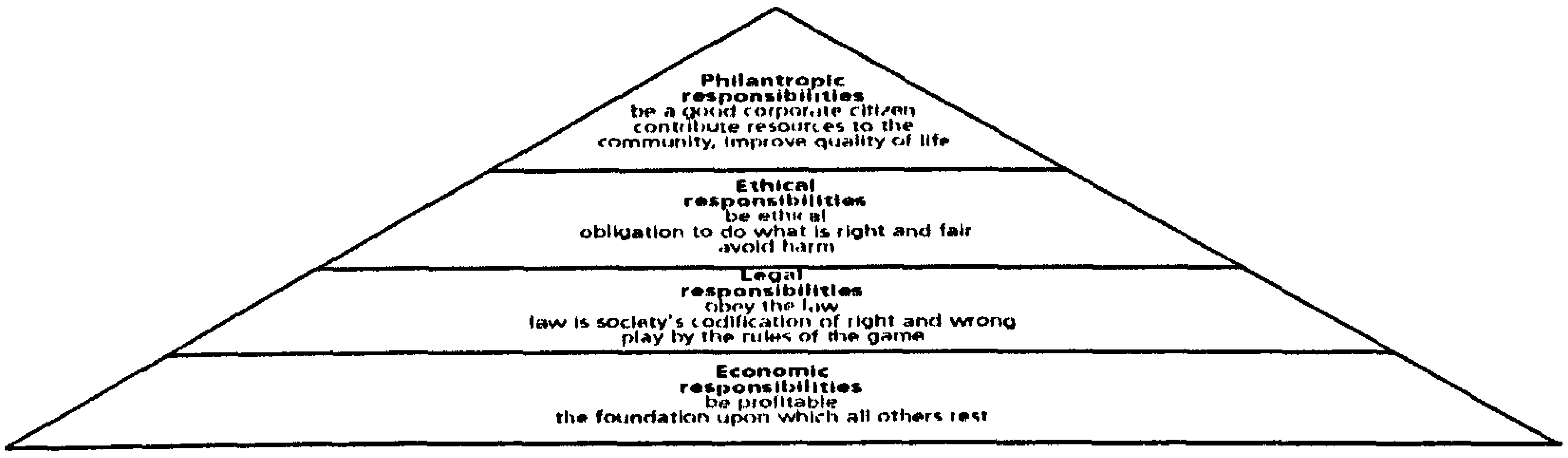
the relationship between companies and society. Thus, this approach views CSR as an obligation by businesses above any other concern.

By reviewing the concept of CSR, it is evident that existing definitions have been developed in Anglo-Saxon or European countries and, therefore, reflecting distinct social economic and political environments, whereas different countries and societies have different sets of cultures and values and therefore their expectations from businesses are varied. Votaw (1972, cited in Carriga and Mele, 2004) stated that "Corporate social responsibility means something but not always the same thing to every body". Similarly, Moon (2002, p. 3) argued that "there are no contending names, concepts or appellations for corporate social responsibility".

3.2.1 CSR Framework

This section presents some of the key theoretical frameworks, which have been adopted to generate a model for CSR. Carroll (1979) proposed a conceptual model of CSR, which differentiates between four categories of CSR namely: economic, legal, ethical, and discretionary (see Figure 3.1). The economic category views business as an economic unit which assimilates providing a return for investments to shareholders, creating new jobs, creation of new products, innovation. etc. The legal category entails compliance with legal requirements, and society expects businesses to fulfil their economic objectives within the legal framework (Jamali and Mirshak, 2007). The ethical responsibility perceives business as being moral. Therefore, ethical responsibility covers constraints in the legal category (Solomon, 1994). The final type of categories is discretionary responsibility, which focuses on the activities of corporations in respect of donations to the community. This category was modified by Carroll (2004) and renamed 'Philanthropy'. Carroll (1991) argues that these four categories can be depicted as a pyramid, in which economic responsibilities are the base upon which all other responsibilities are depicted.

Figure 3.1 Carroll Model



Source Carroll (1999, p. 42)

Based on Carroll's (1979) framework, Wartick and Cochran (1985) attempted to build a general model for Corporate Social Performance (CSP). They defined CSP as underlying integration among three areas: the principles of social responsibility (using Carroll's four categories of social responsibilities), the process of social responsive (i.e. reactive, defensive, accommodative, and proactive), and the policies developed to address the social issues (social issue management) (see Figure 3.2). According to Wood (1991), this definition represents a conceptual advance in this field of research into business and society. However, Wood (1991) further argues that this definition, which integrates these various concepts, could not define CSP itself unless the action component was added to the definition. In other words, there is a limitation in this definition, as it does not include the action of CSR.

Figure 3.2 Wartick and Cochran Model

Principles	Processes	Policies
Corporate Social Responsibilities (1) Economic (2) Legal (3) Ethical (4) Discretionary	Corporate Social Responsiveness (1) Reactive (2) Defensive (3) Accomodative (4) Proactive	Social Issues Management (1) Issues Identification (2) Issues Analysis (3) Response Development
Directed at: (1) The social contract of business (2) Business as a moral agent	Directed at: (1) The capacity to respond to changing societal conditions (2) Managerial approaches to developing responses	Directed at: (1) Minimising 'surprises' (2) Determining effective Corporate Social Policies
Philosophical Orientation	Institutional Orientation	Organisational Orientation

Source Wartick and Cochran (1985, p. 767)

Wood (1991) constitutes a model for CSR which considers the principles that motivate CSR at three levels of analysis as follows:

(1) Institutional: the motivation of the company stems from maintaining its legitimacy, where the company described as a social institution that must avoid abusing its power;

(2) Organisational: the motivation under this principle comes from an organisational sense of public responsibility, in which two areas of managerial organisational involvement with society were identified. The first area is primary involvement, and includes the company's behaviour and transactions that arise directly from the firm's specialised functional role. The second area of involvement includes the impacts and effects not central to the character of the organisation but generated by its primary involvement activities; and

(3) Individual: the motivation could stem from the choice of individuals and their personal responsibilities. According to Wood (1991), responsiveness complements the normative and motivational components of social responsibility (Jamali and Mirshak, 2007). It encompasses three sides: environmental assessment, stakeholder management, and issue management. The outcomes of corporate behaviour, according to Wood (1991), are divided into three types: the social impact of corporate behaviour, the programme companies use to implement responsibility and the policies developed by companies to deal with social issues and stakeholder interests.

Although the above models are well recognised in the literature, Carroll's model has been the most durable and widely cited in the literature because it is easy to understand and has been empirically tested and largely supported (Visser, 2005). However, this study will not restrict itself to any of the above models. Therefore, CSR is viewed in this study as a broad concept, which includes business ethics, CSP, stakeholder management, business sustainability, and corporate citizenship.

3.2.2 Factors Influencing CSR

Several studies in the field of CSR have examined different factors which might have a relationship with CSR. Some studies (e.g. those of Miles, 1987; Ibraham, 2003; Cramer *et al.*, 2004; Hemingway and Maclagan, 2004; Papasolomou-Doukadis *et al.*, 2005) tended to examine the perceptions of CSR in relation to the management group. Miles (1987) argues that top management philosophy appeared to be critical for the adoption of CSR. Ibrahim *et al.* (2003), suggest that the company directorial type influences CSR policies. Cramer *et al.* (2004), in an attempt to identify managers' perceptions on CSR, found that managers defined CSR in a different way. Hemingway and Maclagan (2004), found that manager's personal values strongly influence CSR policies. Papasolomou-Doukadis *et al.* (2005) suggest the importance of managerial initiative as being key in the adoption of CSR.

Studies such as those of Pinkstone and Carroll (1996) and Levy, and Shatto (1980) have discovered that company size influences philanthropic activities. Their findings support the argument that large companies have greater economical and social power (Garriga and Mele, 2004). Supporting this, Pava and Krausz (1996) found that the socially responsible firms were significantly larger than non-socially responsible groups. Another stream of research (e.g. that of Papasolomou-Doukadis et al., 2005; Frooman, 1997; Griffin and Mahon, 1997; Key and Popkin, 1998) examined the relationship between CSR and financial performance, and found that there is a positive relation between companies' financial performance and CSR. In addition, several studies suggested that the company's industry sector had an influence on the attitude and behaviour of CSR (Bhambri and Sonnenfled, 1988; L'Etang, 1994).

Moreover, in recent years, corporations have been facing external pressure from consumers, media, suppliers, Non-Governmental Organisations (NGO) and institutional shareholders to engage in CSR

(Paul and Siegel, 2006). O'Dwyer (2003) found that firms from industries with high environmental impact have had to respond more to the external pressure than other companies. According to Whithouse (2006), NGOs have the potential to influence CSR policies through their use of the Social Responsibility Investment strategy[1]. According to the Social Investment Forum, at least 538 institutional investors allocate funds using social screening criteria (Krausz and Pava, 1996). In the same vein, Keim (1978b) and Belkaoui (1976) argue that social responsibility endeavours may be consistent with the wealth maximization motivation of the firm. They state that, in a social environment that anticipates all firms to demonstrate concern for social aims, firms that do not do so could be penalized. Similarly, Guay *et al.* (2004) state that NGOs play a key role in Social Responsibility Investment. In summary, the above discussions indicate that different factors have influenced companies to be socially responsible.

3.3 CSRD Concept and Definition

CSRD is far from being a new phenomenon; it has been seen as a means of communicating information about social reality for use by decision makers both inside and outside the reporting corporation (Guthrie and Parker, 1990). A significant number of research studies have focused on the nature of and motivation for companies to implement CSRD. A large number of these studies indicate that the overriding attitude towards CSRD has changed radically in recent years. Before elaborating on the discussion of CSRD, it may be useful to clarify the terminology first.

The term "social accounting" is used by many authors to refer to or represent corporate social information disclosure (see, for example, Gray *et al.*, 1987; Zeghal and Ahmed, 1990; Parker 1991, 1993 Mathews 1993). Mathews and Perera (1995, p. 364) state that "at the very least, social accounting means an extension of disclosure into non-traditional areas

[1] Guay *et al.* (2004.p. 126) defined Social Responsibility Investment as "a subset of broader investment theory, with the ethical component made explicit and expressly specified"

such as providing information about employees, products, community service and the prevention or reduction of pollution". Gallhofer and Haslam (2003, p.113) argue that "Social accounting is demarcated as an accounting going beyond the financial economistic, notably in the assessing of business performance. It is differentiated from an accounting constrained to reflect what are conventionally assumed to be the interests of the shareholders. Social accounting here reflects a presumption, at least on the face of it, that the goal of the business organisation properly goes beyond the narrow and conventional focus upon profit or financial wealth maximisation in current or envisaged contexts. Social accounting goes beyond an accounting for the use of shareholders only, with other users, including the public at large, and hence multifarious usage, being envisaged". According to Gray *et al.* (1996, 1997), social accounting relates to the presentation of information about organizational activity, and involves a mixture of four types of accounting:

- Accounting for things other than economic events;
- Accounting in different media;
- Accounting for different individuals or groups, including employees, consumers, government departments and agencies, local communities, and even society at large;
- Accounting for different purposes.

In general, the term 'social accounting' has been used broadly to cover all forms of accounts, going beyond economic forms, and for all the different names under which it appears, including social responsibility accounting, social audits, corporate social reporting, human resource reporting, stakeholder dialogue reporting environmental accounting and reporting (Gray, 2002; Maccarrone, 2003). This could lead to some confusion, as it might be used to denote very different things.

Since this study focuses on the area of corporate social responsibility disclosure, in order to avoid any confusion, it is important to look at and discuss, in depth, the meaning of this particular term. CSRD has been defined as "provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports" (Guthrie and Mathethew, 1985). Gray *et al.* (1987, p.ix) defined CSRD as "the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders". However, Ince (1998, pp.12-13) stated that CSRD definition "should be flexible, open-ended and should be changed through time. This proposition may also suggest that the CSR definition should be changed according to time when a CSR definition is required for the purpose of a study being carried out. That is to say, it should be purpose-driven. The purpose of one writer may be different from that of another".

Thus, CSRD is a broad term. CSRD might comprise community involvement related disclosure; product and customer relations; environment and energy related disclosure; human resources related information (see for example, Ng, 1985; Epstein and Freedman, 1994; Gray *et al.*, 1995b; Hackston and Milne, 1996; Williams and Pei, 1999; Deegan, 2002; Gao *et al* , 2005). It might also incorporate ethical issues and ethical investment (see for example, Kamla, 2005; Maali *et al.*, 2006; Parsa and Kouhy, 2008). This supports the argument that the manner in which the role of corporation and its stakeholders is defined in a society will affect the extent and the quality of CSRD (Smith *et al.*, 2005).

3.3.1 The Need for CSRD

The recent development of corporate social responsibility has had a significant impact on the role of business, and resulted in the change of accounting practices. Conglomerates are no longer established only to generate profit for their shareholders. They are more accountable nowadays for the ways in which they might generate this profit (Zain, 1999). There is a growing concern within the business community concerning the significance of the key stakeholders attached to socially, environmentally and ethically responsible behaviour by business enterprises (Zadek *et al*, 1997). The pressure on companies to be accountable to a wider audience of stakeholders is coming from a number of resources: for example, the ethical investors, a growing number of pressure groups, consumer associations, as well as the growing number of United Nation and European Community Directives (Gray *et al* .,1988). As a result, public expectations of CSR has increased, and has forced companies to become more concerned about their relationship with societal interest groups and their corporate social responsibility (Held, 1970).

Hence, companies are no longer seen by society as an instrument for their shareholders only, but as organisations that operate within society with a responsibility to ensure socio-economic justice (McDonald and Puxty, 1979). As businesses realise the significance of stakeholders' non-financial anticipation, the role of CSRD has become more important, as a means of discharging accountability (Gray *et al.*, 1996). In this sense, Haniffa (2002) argues that social responsibility reporting can be seen as a response by companies to the changing expectations of the society within which they operate. Nevertheless, it could be argued that social reporting is used as a tool to change the perception without changing the fact.

While public concern over the social and environmental consequences of corporate activities has increased, this has resulted in a situation in which two essentially new factors have been introduced into investment decision-making (Spicer, 1978). The first is that public interest over the side effects of corporate activities has led to new and increasingly stringent sanctions against certain types of corporate activities. The second is the growth in the number of investors who are on the moral or ethical predictions of businesses. Thus, CSRD is intended to serve as a basis for the formulation, implementation, and control of business social policy by management, and also as a database for dialogue with constituencies of the business interested in the performance of the company in the social arena (Dierkes and Antal, 1986). CSRD also plays an important role in other different aspects of business including enhancing corporate transparency, developing corporate image and providing useful information for investment decision making (see for example Gray *et al.*, 1988; Friedman and Miles, 2001; O'Dwyer, 2005). In addition, it has been asserted that CSRD is seen as a means by which business enterprises may attempt to manage their stakeholders in order to gain their support and approval (Deegan, 2000; Parker, 2005).

3.3.2 Theoretical Perspective of CSRD

Several theoretical perspectives have been articulated in support of CSRD (Hackston and Milne, 1996). Several approaches have therefore been presented in the related literature in order to explain this phenomenon. In an attempt to place the empirical investigation of CSRD, three categories of theories have been identified (Tinker *et al.*, 1991; Gray *et al.*, 1995a; 1996). These include:

a) Decision usefulness;
b) Economic theory; and
c) Social and political studies.

The first two fit into a functionalist paradigm, which is based on neo-classical theory (see Guthrie and Parker, 1990; Tilt, 1994). According to the functionalist perspective, CSRD is seen as essential only if it significantly contributes to enhancing the business organisation's reputation or image (Gray *et al.* 1988). The social and political studies can be further sub-divided into either "**radical**" or "**middle of the road**" studies (see Gray *et al.*, 1987; 1988; Tinker *et al.*, 1991). The **radical/critical** studies tend to be dominated by what has been termed Political and Economy Theory, while Legitimacy Theory, Stakeholder Theory and Accountability Theory have all been classified as "middle of the road".

3.3.2.1 Decision Usefulness

Most of the decision usefulness studies focus on financial user participation and financial user behaviour (Cowan, 2007), and thus, they are inclined to fall into one of two groups: (1) the decision model emphasis and (2) the decision makers' emphasis (Deegan, 2006). However, studies under decision model emphasis are inclined to identify whether social and environmental disclosures are significant to the financial market (see, e.g. Blacconiere and Northcutt, 1997; Shane and Spicer, 1983). On the other hand, studies under the decision maker emphasis tend to investigate what financial users demand (Deegan, 2006). Owing to its reliance on the reactions of different user groups, it has been noted that decision usefulness studies raise the importance of CSRD (Gray *et al.*, 1995b). However, Maali *et al.* (2003) argue that this approach by the studies does not explain why firms produce social information. In addition, Gray *et al.* (1995b) believe these studies to be 'miss-specified and under theorised'.

3.3.2.2 Economic Agency Theory

Agency theory suggests that where there is a separation of ownership and control of a firm, the potential for agency costs exists because of the conflicts of interest between principals (owners) and the agents (managers) (Hossain *et al.*, 1995). Each party, thus, chooses its actions optimally in its self-determined goals (Ince, 1998). The main hypothesis of agency theory suggests that "managers will disclose social information only if it increases their welfare, that is, when the benefits from the disclosure outweigh the associated costs" (Ness and Mirza, 1991, p.212). Several studies used agency theory to explain the decision to disclose social and environmental information (e.g., Shane and Spicer, 1983; Belkaoui and Karpik, 1989; Ness and Mirza 1991). However, the application of agency theory in the discussion of CSRD has been described as "not only empirically implausible but also highly offensive" (Gray *et al.*, 1995a). Gray *et al.* (1995a) consider such failures to be a significant motivation factor relating to the initial uptake of CSRD and they refute its predication that a morally bankrupt form of short term self-interest motivates all actions.

3.3.2.3 The Political Economic Theory

The main theme of political economy theory is that political, economic and social contexts are inseparable and should all be considered in social and environmental disclosure research (Guthrie and Parker, 1990). Political economy, in its broadest sense, has a very long historical tradition and can be defined differently (Gray *et al.*, 1995, p.52). As a framework, political economy theory does not concentrate exclusively on market exchanges. Rather it first of all analyses exchanges in whatever institutional framework they occur and, second, analyses the relationships between social institutions such as government, law and property rights, each fortified by power and the economy, i.e. the system of producing and exchanging goods and services (Gray et al., 1995a, p.52). The main concern of this theory is on the exchange that occurs in any framework (e.g., the market) and the relationships among social institutions participating in such exchanges (Gray *et al.*, 1995 b). Thus, CSRD is seen as a tool for constructing and affecting the political and economic environment surrounding the firm. This means that "corporations appear to respond to government or public pressure for information about their social impact" (Guthrie and Parker 1990, p. 172).

Gray *et al.* (1996) further categorise this theory into 'bourgeois' and classical political and economy theory. The bourgeois political economy approach perceives the world as essentially pluralistic (Gray *et al.*, 1995 b, p. 53). It generally ignores sectional interests, structural inequity, conflict and the role of the State (Cowan, 2007). Deegan (2006, p. 274) describes the classical political economy theory thus "to perceive accounting report and disclosures as a means of marinating the favoured position of those who control scarce resource, and as a means of undermining the position of those without scarce capital. It focuses on the structural conflicts within society".

3.3.2.4 Stakeholder Theory

The stakeholder concept focuses on the assumption that the behaviour of various stakeholder groups encourages management to relate corporate needs with its environment. Freeman (1983) initially refers to stakeholder theory when he stated that "a stakeholder is any group or individual who can affect, or is affected by the achievement of organisations' objectives", and suggested that corporations should identify their direct and indirect stakeholders. Later, he indicated that the stakeholder theory could be used as a metaphor or a compilation of different narratives; thus it cannot be described as one theory owing to the various interests of the stakeholders involved. It is becoming increasingly apparent that stakeholders have the ability to influence the way in which corporations conduct themselves, and ultimately influence their 'licence to operate' (Wilson,1997). This implies that if a firm dissatisfies a relevant stakeholder, this stakeholder can apply pressure on the firm to meet its expectations. According to Ullman (1985), the greater the importance of stakeholders' resources or support for an organisation, the greater the probability that the stakeholders' expectations will be incorporated in an organisation's operation. In other wards, the level of stakeholders' power increases as the importance of meeting stakeholders demands increases (Deegan, 2000).

Stakeholder theory reflects "the incorporation of social responsibility into the corporate planning framework, attempting to develop a corporate strategy that meets the approval of an organisation's key stakeholder groups and also provides the potential explanation of [social and environmental accountability] disclosure in terms of corporate responsiveness to the intensity of stakeholder demands, corporate strategic orientation towards its social and environmental responsibilities, and trade-off between corporate economic and social /environmental objectives" (Parker, 2005, p.845). Several studies have investigated whether any putative relationship between social disclosure and stakeholder theory could be expected (e.g. Freeman, 1983; Adams and Harte, 1999). Adams and Harte (1999), using stakeholder theory to explain the decision to disclose certain social and environmental information, found that firms would not disclose social information, if there was little demand for such information or that those who demand it were not considered highly prominent by the organisation.

However, stakeholder theory was criticised as being supportive for corporate disclosure being primarily responsive to the most powerful and influential stakeholders (Deegan, 2002; Gray *et al.*, 1995, 1997). Although there are limitations in stakeholder theory, it has been conceded that stakeholder theory is useful in that "it defines the influencing/influenced groups for us and explicitly defines what accountability the organisation itself is willing to recognise and discharge" (Gray *et al.*, 1997, p.333).

3.3.2.5 Legitimacy Theory

Legitimacy theory asserts that "organisations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is they attempt to ensure that their activities are perceived by outside parties as being legitimate" (Deegan, 2000, p.253). Suchman (1995, p.574) defines legitimacy theory as "a generalised perception or assumption that the action of any entity are desirable, proper, or appropriate within some socially constructed system of norms, value, belief and definitions". According to legitimacy theory, a firm operates in society via a social contract where it agrees to carry out various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival (Guthrie and Parker, 1989). Deegan (2000, p. 254) argues that the "social contract is not easy to define but the concept is used to represent the multitude of implicit and explicit expectations that society has about how the organisation should conduct its operation".

Proponents of this theory feel that society is placing increasing demands on business to practise social responsibility and that will culminate in many, if not most companies having to legitimate their existence (Thompson and Zakaria, 2004). If a company fails to operate within the boundaries set by the social norms, the society may revoke its contract and prevent it from continuing its operation (Parsons, 1956; Deegan and Rankin, 1996; Dowling and Pfeffer, 1975; Guthrie and Parker, 1989). Thus, the interpretation of these studies suggests that the disclosure of social information seems to be proof for companies to provide information on their activities to legitimize their behaviours. It needs to disclose enough information to assess whether it is good corporate citizen (Maali *et al.*, 2003). Several studies have sought to employ legitimacy theory as a drive for disclosure (e.g., Deegan and Rankin, 1996; O'Dwyer, 2002; Campbell *et al.*, 2003; Staden, 2003; Ahmad and Sulaiman, 2004; Ogden and Clark, 2005; De Villiers and Staden, 2006; Branco and Rodrigues, 2008). However, Gray *et al.* (1995) and Deegan (2002) assert that legitimacy theory overlaps with political economy theory and institutional theory. In addition, legitimacy theory has been criticised for lacking specificity, and it is uncertain ability to anticipate and explain managerial behaviour (Parker, 2005).

3.3.2.6 Accountability Theory

The framework of accountability was adopted by Gray *et al* (1996). According to this perception, CSRD is employed to enable organisations to discharge their social accountability, therefore raising the transparency of firms. This framework conceives CSRD as a means by which the democratic functioning of information flows about these responsibilities can be developed (Gray *et al.*, 1988; Owen *et al.*, 1997; Tilt, 1998 and 2001). Thus, accountability is viewed as seizing the potential to empower the wider stakeholders in their decision making and actions to "seek more benign organisational activity" (Gray *et al.*, 1997, p.329). The development of CSRD as the mechanism of accountability is perceived consequently as "contribute to the normative position of more justly organised and better informed democracy" (Gray *et al.*, 1996, p.42).

To emphasise the importance attached to CSR accounting and accountability, Gray *et al.* (1996) assert that both of them are required factors, but not sufficient conditions to advance social change and a greater level of democracy (see also Burchell *et al.*, 1982). However, according to Tricker (1983) there is no accountability due unless the accountee (the principal) is able to enforce accountability. He further argues that, in the case that an accountor (the agent) voluntarily decides to disclose information that an assumed accountability may demand and the accountee cannot enforce that disclosure, such disclosure should be perceived as "ex gratia" disclosure.

In addition, the accountability approach is normative and does not explain why companies do not disclose CSRD. Accountability in this approach ends with providing an account (i.e. information) which may be considered short and may also be ineffective (Perks, 1993; Carnegie and Wolnizer, 1996; Gendron and Cooper, 2001). However, from the Islamic perspective, the concept of accountability is broader, as it pertains to the responsibility of the individual before Allah before standing in front of other accountees. Accountability in this context is not only a duty to report performance, but it is a duty to perform or not perform certain actions (Ibrahim, 2000). In support, Stewart (1984) argues that public accountability requires both the provision of information and evaluation of the action to be taken as a result of providing information.

3.3.2.7 Institutional Theory

Several studies refer to institutional symptoms in corporate social reporting behaviour (see Rahaman *et al.*, 2004; Bin Amran and Devi, 2007). Institutional theory studies the role of social pressure in determining company behaviour (Ingram and Simons, 1995; Oliver, 1997). According to this theory, the environmental factors persuade companies that social and environmental disclosure are something important to be carried out (Bin Amran and Devi, 2007).

Proponents of this theory argue that the institutional theory provides a rich and complex view of an organisation. According to Bin Amran and Devi (2007), institutional theory holds that companies are influenced by normative, coercive and cognitive pressure. Institutional theory predicts that companies will be influenced by informal pressure, such as that arising from the behaviour of industry leaders, peers, and network associates as well as formal pressure to conform to societal standards (Pfarrer .*et al*, 2005). Thus, CSRD is used as a mechanism by companies to demonstrate that it is acting within the bounds of what is considered acceptable from the stakeholders' perspective (Branco and Rodrigues, 2008).

However, institutional theory has little to offer as a basis for explanation of CSRD. The main hypothesis of institutional theory, assumes that organisational behaviour is significantly influenced by external environmental pressure, and thus CSRD exists to represent management endeavours to legitimise their function to different external parties. It can be argued that institutional theory could be partly overlapping legitimacy theory and political economy theory. In addition, institutional theory seems to be failing to provide a comprehensive basis for an explanation of CSRD. It fails explicitly to consider the inter-organisational factors (internal factors include corporate characteristics and management attitude and cognition), which have an important role in CSRD practices in a business culture such as IFIs.

The question of why companies disclose or do not disclose social and environmental information has been explored, using various theoretical perspectives. However, there is a lack of an agreed theoretical framework or unifying paradigm, which, in turn, has led to a lack of substantive, systematic conclusions about its practice (Adler and Milne, 1997; Gray *et al.*, 1995a). Adler and Milne (1997) attribute the difficulties in establishing a theoretical framework to the failure to collect sufficient evidence to test the ideas. However, very little attention has been given by those theories on developing countries, as they have been mainly developed in Anglo-Saxon and European countries. The use of such theories that were originated in to some extent a particular political, economic, and culture environment to justify disclosure practice in other different environment is questionable (Hofsted, 1983; Perera, 1989). In addition, there has been very little attempt to link CSRD with cultural factors. Moreover, the various theoretical frameworks do not recognise religion as the foundation to explain why organisations should disclose social information, and also in making an assessment of an organisation's performance in terms of fulfilling its obligation to God, society and the eco-system (Haniffa, 2001).

3.3.3 Company Characteristics

Several empirical studies have examined the relationship between CSRD and company characteristics. Results on these studies have found relations between CSRD and some corporate characteristics (e.g., size, profitability, country of ownership). Different theories (e.g. agency theory, stakeholder theory) were employed to justify these relationships.

3.3.3.1 Company Size

There is a stream of empirical research that has documented a significant and positive relationship between firm size and amount of social and environmental disclosure (see, e.g. Trotman and Bradley, 1981; Arlow and Gannon, 1982; Cowen et al, 1987; Freedman and Jaggi, 1988; Belkaoui and Karpik, 1989; Gray *et al.*, 1995a; Hackston and Milen, 1996; Pava and Krausz. 1996). Trotman and Bradley (1981) examined the evidence that supports the contention that large companies tend to disclose more social information, and found positive results. Supporting this, Arlow and Gannon (1982) believe size to be a significant variable associated with CSRD. Cowen *et al.* (1987:121) state that "Corporate size appears to have significant impact" and argue that social disclosure are correlated to company size for the reason that large companies have more stakeholders who might have concerns about the social activities undertaken by the company. Belkaoui and Karpik (1989: 47) extend this line of argument and contend that "large firms are more politically sensitive than small firms and face differential incentive in their choice of accounting procedure". Hackston and Milne (1996) found that size is highly correlated with the actual measured page amount of social disclosure.

More recent studies conducted by, e.g. Purushothaman *et al.*, 2000; Cormier and Gordon, 2001; Gray *et al.* 2001; Haniffa and Cooke, 2005; Gao et al , 2005 ; Branco and Rodrigues, 2008; Parsa and Kouhy, 2008, found that large companies disclose more CSRD than smaller ones. Nevertheless, Roberts (1992), found no correlation between size and level of disclosure in a sample of US companies. Freedman and Jaggi (1988) found that big companies are more likely to report environmental information if they have poor economic performance, and therefore, environmental disclosure could be used to rationalise poor economic performance.

Thus, different justifications were offered for the relationship between size and CSRD. Cook (1989) stated that larger companies face higher demands for information from stakeholders. In addition, the cost to produce information is lower in large companies. However, Meek *et al.*, (1995) attribute the positive relationship between size and CSRD to the fact that big companies have more diverse ownership, and therefore higher agency costs which management will try to reduce by disclosing more voluntary information.

3.3.3.2 Economic Performance

Several studies have identified the relationship between CSRD and profitability (see e.g. Patten, 1991; Robert, 1992; Mangos and Lewis, 1995; Gray *et al.*, 2001; Haiffa and Cooke, 2005; Parsa and Deng, 2008). Researchers who accept this perspective recognise the market reaction to the announcement of social information (Parsa and Deng, 2008). In this sense, the profitability of the business is seen as a factor that drives management to reveal to shareholders more social responsibilities programmes (Maheshwari, 1992). In other words, companies use CSRD to distinguish themselves from others, thereby increasing demands for their securities and lowering their cost of capital by conveying favourable information to investors (Dye, 1985; Verrecchia, 1983, cited in Gelb and Strawser, 2001). However, this positive association between CSRD and profitability was rejected by others (see e.g. Brammer and Pavelin, 2008; Purushothaman *et al.*, 2000). Ullman (1985) indicates that the reason for these contradicting results lies in the weakness in methodology for most of the studies.

3.3.3.3 Type of Industry

Several empirical studies have found a positive relationship between CSRD and industry affiliation (see e.g. Cowen et al, 1987; Hackston and Milne, 1996; Clark and Gibson-Seet, 1999; Gray *et a.,l* 2002; Newson and Deegan, 2002; Branco and Rodrigues, 2008; Parsa and Kouhy, 2008; Wanderley *et al.*, 2008). The findings of these studies indicate that companies from different industries do have significantly different level and type of disclosure. This could be a sign for stakeholder pressure (Patten, 1991), or to meet certain regulation imposed on some industries (Dierkes and Preston, 1977).

Thus, industry affiliation has been considered as a factor that could influence CSRD. Ingram (1978) believed that the motivation for the companies to disclose vary in relation to the different alternatives available to management which are likely to be more similar among companies in the same industry than companies in different industries. Patten (1991) states that the type of industry influences political visibility and this drives disclosure toward undue pressure and criticism from social activists. Thus, they are under more pressure to act in a more sociably desirable manner (Parsa and Kouhy, 2008). As contended by Dierkes and Preston, (1977) and Zain (1999), companies whose economic activities modify the environment, such as extractive industries, are more likely to disclose information about their environmental impacts than companies in other industries. Similarly, Cowen *et al.* (1987) believe that certain industries are likely to disclose more social information because of their nature. They argue that consumer-oriented firms can be expected to exhibit more concern by demonstrating their social responsibility to their community, since this is likely to enhance company image and increase sales.

3.3.3.4 Country of Ownership

In general, previous studies have suggested that a country in which the company reporting and the country of ultimate ownership may have some effects on the theme and the amount of corporate social disclosure. Going in line with this perception, Zain (1999, p. 63) argues that companies "are developing a series of subsystems of social disclosure to match the perceived importance of constituents, and to respond to public expectation as a strategy that may delay or avoid imposition of regulation". Andrew *et al.* (1989) indicated that there is an association between the amount of disclosure and country of ownership. Guthrie and Parker (1990) provide a comparative analysis of key aspects of disclosure types and practices in the UK, the US and Australia. They conclude that significant international differences are noted regarding total disclosure level, social content themes, methods, and locations of disclosure. However, it is difficult to draw a firm conclusion without applying a systematic test using multiple measures (Lindsay, 1995) as the previous studies had been conducted in different time periods, employing different sample and measurement techniques (Hackston and Milne,1996).

More recent studies have investigated the relationship between CSRD and country of origin (see e.g. Adams, 2002; Holland and Foo, 2003; Xiao *et al.*, 2005; Wanderley *et al.*, 2008). Adams (2002) found that the process of decision making appears to depend on country of origin. Holland and Foo (2003) conclude that voluntary environmental disclosures have created many differences between UK and US environmental practice. Similarly, Xiao *et al.*, (2005) found that UK companies disclose more CSRD than their Hong Kong counterparts. Likewise, Wanderley *et al.* (2008) concluded that CSRD is strongly influenced by country of origin. Indeed, country culture and regulation play a significant role on a company's disclosure, and this could explain the differences in the level of disclosure between samples based in different countries.

Based on the above discussion CSRD does not appear to be a systematic action. However, there appear to be several characteristics that may be related to the tendency to disclose CSR information. These include for example company size, country of origin, industry affiliation. However, these studies are not sufficiently consistent to assert what these effects might be (O' Dwyer, 1999). Gray *et al.* (1995a) summarised the relationship between CSRD and company characteristics thus:

- CSRD does appear to be related to company size but results are not reliable.
- The country of origin seems to have a significant effect on CSRD.
- There is evidence of industry effect, but the studies are not clear.
- CSRD does not appear to be related to profitability, but some evidence suggests that it might be related to lagging profits.

The current discussion on CSR and CSRD ignores the possibility of the notion of CSR and its disclosure arising based on other different value systems. The various theoretical frameworks do not recognise religion as the foundation in explaining why organisations should engage in and disclose CSR information. There is a need for more research on the social cultural determinants of CSR and CSRD. Thus, considering cultural factors such as religion in studying the phenomena of CSR and its disclosure would contribute to the development of this field of research.

3.4 Summary

This chapter has examined the relevant literature to provide a background to and understanding of the dynamics of the present study. It has covered three issues: the concept and definitions, theoretical explanation, justification for CSR and CSRD and the drivers behind CSR and CSRD. The relevant previous studies were briefly analysed in this chapter. The various theoretical frameworks presented in the chapter do not recognise religion as the foundation in explaining why organisations should engage and disclose CSR information, and do not go beyond the problems facing the corporate institutions. In the next chapter, the researcher will review the concept of CSR and CSRD from an Islamic perspective. The aim is to provide an insight into CSR and CSRD from an Islamic perspective, what other researchers have found, and then determine if there is any gap in these related studies.

Chapter Four

CSR and CSRD from an Islamic perspective

Chapter Four
CSR and CSRD from an Islamic Perspective

4.1 Introduction

From the review of the literature of CSR and CSRD, we can see that CSR and its disclosure are about the responsibility of business toward its wider stakeholders, including customers, suppliers, employees, communities and other stakeholders. This responsibility is seen to extend beyond the statutory obligation to comply with legislation, and voluntarily take care and disclose information to those stakeholders and to wider society. Several theories have been proposed to justify the nature of CSR and CSRD actions. Yet, these phenomena are still a key topic for academics, organisations, and policy makers (Capron and Gray, 2000). This is the result of the overlapping of these theories and different emphasis inherent in each study (Gray *et al.*, 1996; Haniffa, 1998; Milne and Chan, 1999).

This chapter focuses on the relationship between Islam and CSR and CSRD. The chapter is divided into two parts. The first part presents CSR from an Islamic perspective. The second part outlines the previous and the key studies of CSRD from an Islamic perspective and highlights the existing gap.

4.2 Corporate Social Responsibility in Islam

Islam provides guidance to its followers in all aspects of life, in spiritual as well as material activities (Hamidullah, 2005). Islam is intensely concerned with the problem of economic development, but treats it as an important part of a wider problem (i.e. total human development) (Ebrahim and Joo, 2001). Therefore, the primary objective of Islamic economics is a social and economic justice, equitable distribution of wealth, and elimination of exploitation in business activities by banning all sources of unfair enrichment (Sarker, 1999). The emphasis on the welfare of the community is very significant from an Islamic perspective. Accordingly, working for the welfare of the others is the best way of extending one's usefulness in pleasing *Allah* (Suliman and Willett, 2003). In line with this argument, the Holy *Qur'an* states "You will never come to piety unless you spend of things you love" (Qur'an S3:92), "Ah, what will convey unto thee what the Ascent is: (it is) to free a slave, and to feed in the day of hunger an orphan, near of kin or some poor wretch in misery (Qur'an: S90:20). The next sections will review the relevant literature, and highlight how the moral and ethical values from the Islamic point of view are integrated into Islamic business conduct.

4.2.1 Social and Economic Justice

Socio-economic justice is essential to Islam. The objective of Islam is the formation of a just society (Ibrahim, 1998). This was clearly stated in the Qur'an: "We send our Messengers with clear signs and sent down with them the Book and the Balance (Right and Wrong), that men may stand forth in justice" (Qur'an S57:25). Islam aims at building a socio-economic order based on justice, and considers economic activities as a means to an end and not an end in itself (Ebrahim and Joo, 2001). According to Al-Gazzali, a famous scholars of the 11th Century, the purpose of *Shari'a* is "to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect, their prosperity and their wealth" (cited in Kamla, 2005, p,112). Adhering to this view, another Islamic scholar, Ibin Al Qayim al-Jawziyyah, contends that "the *Shari'a's* basis is wisdom and welfare of the people in this world as well as the Hereafter, which lies in the complete justice, mercy, well-being and wisdom. Anything which operates from justice to oppression, mercy to harshness, welfare to misery and from wisdom to folly, has nothing to do with the *Shari'a*" (cited in Ibrahim, 2000, p.57). Social responsibility and justice based on the Islamic concept of human well being and good life, stress brotherhood/sisterhood and socio-economic justice, and require a balanced satisfaction of both the material and spiritual needs of all humans (Chapra, 1992). The significance to pay *Zakah*, the encouraging of charity, the prohibition of *Riba* (usury), and the encouraging of *Al-qard al-hassan* (free interest loan) are clear examples of the Islamic emphasis on social justice (Maali *et al.*, 2006). With regard to *Alqard al-hassan*, the Holy Qur'an states "He who will give Allah *al qard al hassan*, which Allah will double into his credit and multiply many times" (Quan, S1:245).

4.2.2 Ownership in Islam

According to Islam, Allah is the absolute owner of everything on the earth and in heaven, and He appointed the human being as Allah vice-regent on the earth or as trustee for God. Islamic economy takes the midway between the two extremes of Capitalism and Communism. Islam recognises that it is human nature to possess property in order to satisfy one's needs, and ensures free trade. In this sense, private property is encouraged under Islam, and its usage to provide a just reward for its owner is permitted (Lewis, 2001). It has been stated in the *Holy Qur'an* that wealth belongs to Allah and He has put human beings in charge of this wealth. Accordingly, the main aim of an Islamic economy is to allow people to earn their living in a fair method and profitable way without exploitation of others, so that the all of society may benefit (Lewis, 2001). Islam accepts disparity in wealth within a rational limit but does not tolerates this difference arising so that some people spend their life in luxury, while the majority of people are left to lead a life of misery and hunger (Taheri, 2003). However, individuals are only trustee and they must use their wealth in accordance with the commands and guidance of Allah (Rahman, 1999).

The concept of *Khilafah* (Vicegerency) defines the person's responsibility to Allah, the community, and to himself or herself. According to Chapra (1992), the implication emanating from the concept of *Khilafah* is that the individual is regarded as the trustee of God's resources. This leads to a totally different meaning to private ownership as understood in a materialistic perspective (Suliman and Willett, 2003). Man, therefore, will ultimately be accountable to God for his actions as he agrees to assume his great responsibility in a covenant with God (Hamid, 1993; Lwise, 2001). Allah empowered individuals to possess, enjoy and transfer what He has granted to them. Thus, Islam perceives wealth as a grant, which has been given as a trust from Allah into the hands of human beings, and therefore should be utilized in the most sufficient and efficient way to produce the maximum output and to fulfil Allah's guidance of establishing prosperity and justice on earth (Metwally, 1997).

4.2.3 *Zakah*

Zakah, which literally means purification (Saheeh, 2000), is one of the five pillars of Islam. It is a property paying of which achieves a spiritual value (an-Nabhani, 1999). The *Zakah* is enunciated in many verses in the Holy *Qur'an* and *Sunah.* Ibrahim and Yaya (2005, p.10) define *Zakah* as "a religious obligation and a levy accepted by Islam on a Muslim income and wealth to be distributed to the defined beneficiaries such as the poor and indigent". It is collected from Muslim individuals and businesses and paid to the poor, needy, and for the interest and welfare of the community. Thus, the main purpose of *Zakah* is redistribution of wealth. In general, *Zakah* has a social objective, which implies the most important instrument for the redistribution of wealth (Lewis, 2001). Unlike in some cases where tax is avoided (Rahaman, 1999), Muslims consider *Zakah* as one of a principles of welfare system and a means of taking care of the poor and needy in society (Bjorklund, 2004). The payment of *Zakah* creates in the mind of the payer the virtue of sharing wealth with others. It uplifts the giver from material pursuits to a life endowed with moral purpose (Mohamed, 2007).

The significance of *Zakah* in Islam is different from a welfare programme, and it is different from general tax as it is understood today by some people (Lewis, 2001). It is, rather, a specific type of fund that must be paid to the Treasury whether there is a need for it or not (an-Nabhani, 1997).

The Islamic state may assume responsibility for collecting and distributing *Zakah*, but where this is not the case, individuals and businesses are still obliged to pay it for the interest and welfare of the community (Maali, 2005). However, its payment is obligatory on the Muslim individuals and businesses subject to fulfilling certain conditions and after deducting debts and needs (an-Nabhani, 1997). It is payable once every year at the end of the *Zakah* period (i.e., one lunar year). According to Clark *et al.* (1996), it is payable on a productive asset that has been possessed for a full year; however, assets which being used or consumed are exempt, provided they are not being used for trade purposes (Rahman, 1999). Thus, *Zakah* is considered as an act of worship; therefore, it is significant from the Muslim point of view to avoid underestimating their wealth. Many IFIs are involved in *Zakah* either by setting aside a percentage of their profits for charitable activities or through administration of *Zakah* funds (Bjorklund, 2004).

4.2.4 *Riba* (Usury)

Linguistically the word *Riba in* Arabic language means an increase or a growth. While this does not apply to any growth of money, growth from trading is permitted and even encouraged by Islam. The purely linguistic meaning of *Riba* in this context is thus an increase or a gain on capital loan at a predetermined rate, which a lender receives from a borrower following a deferring of credit terms and allowing the borrower to use his or her financial assets for a period of time (Amjad, 1999). In the same vein, El-Ashker (1987, p.38) defines *Riba* as the difference between the amount borrowed and the amount due to be paid back. The prohibition of *Riba* is clearly stated in many verses of the Holy *Qur'an* as well as *Sunah*. The prohibition of *Riba* is one of the key elements of the Islamic finance systems.

In Islam, *Riba* is regarded as a prominent source of unjustified advantage (Sarker, 2000). Therefore, prohibition of *Riba* is one way of establishing an economic system in which no forms of exploitation or unjustified enrichment are presented (Bjorklund, 2004). It is interpreted as a form of oppression (Al-Buraey, 1990; Mannan, 1986), unfairness, exploitation, and damage to the economy (Ward, 2000). In other words, *Riba* causes unfair distribution of income in favour of the rich (financiers) who have the capital as interest guaranteed return for the lender without taking any risk, while the borrower or the entrepreneur pays interest irrespective of the result of the business or investment (Attiah, 1989). Thus, the prohibition of *Riba* is a way to establish justice between the financers and the entrepreneurs (Bjorklund, 2004). The vast majority among all Islamic schools of thoughts agree that the term *Riba* stands for interest in all types and forms (Chapra, 1992; Hamdi, 1986). Supporting this argument, the Islamic Research Centre (1996 cited in Maali, 2005) announces that banking interest is the same as *Riba*. However, some Islamic scholars argue that *Riba*, as mentioned in the Holy *Qur'an*, refers to excessive rates of interest and does not pertain to the interest charged by banks (e.g. Ahmad, 1989; Hindi, 1996).

4.2.5 Business Ethics

Unlike in some societies where there is a separation between religion and state, which led to the consideration of religion as a private matter "so called value free society" (Rice, 1999, p. 345), Islam influences the decision making of its followers in every context including business. The influence of Islam on daily activities, including business practice, is well documented in the Holy *Qur'an* and *Sunah*, which are the main sources of business ethics in Islam (see Table 4.1). Many Islamic business values, such as justice, socio-economic benefits, human well being, honesty etc., are the core of CSR. Islam is not merely a personal religion, but also an organisation for society and its institutions, as well as a guide for the conduct of individuals within that institutional and social context (Tinker, 2004). Giving that *Shari'a* identifies the standards of human conduct and how business should deal with its external environment, Muslims are expected to conduct their business activities in accordance with the requirement of *Shari'a* to be fair, honest and just toward others (Rahman, 1994; Hussain, 1999).

Table 4.1 Some examples of Ethical Principles in Islam

Ethical principle	Related business practice
The Holy Prophet said "I will be foe to three persons on the day of judgment, one of them being the one who, when he employs a persons that has accomplished his duty, does not give him his due" (Al Bukhari, No .2109). No Arab has superiority over a non-Arab and no non-Arab has any superiority over an Arab; no dark person has superiority over a white person and no white person has superiority over a dark person. The criterion of honour in the sight of God is righteousness and honest living (saying of prophet Muhammad- pray and peace upon Him) (Sallam and Hanafy, 1988).	Employee fair treatment, equal opportunity and non-discriminatory behaviour
God likes that when someone does any thing, it must be done perfectly well (saying of the prophet Muhammad-pray and peace upon Him) (Sallam and Hanafy, 1988).	Excellence and quality of work
God does command you to render back your trusts to those to whom they are due (Quran 4:54).	Fulfilling obligations and trust in business relationships and workplace.
"Give just measure and weight, nor withhold from the people the things that are their due……" (Qur'an 11:85).	Give full measure and weight.
"He who cheats is not one of us." (saying of the Prophet Mohamed-pray and peace upon Him) (Keller, 1994).	Whoever knows of defect in something is obliged to disclose it.
"… do not outbid one another in order to raise the price, …..don't enter into a transaction when other have already entered into that transaction and be as brothers one to another." (saying of prophet Mohamed-pray and peace upon Him).	Fairness in contracts negotiation

The acquisition of knowledge is a duty incumbent on every Muslim, male and female (saying of the prophet Muhammad-pray and peace upon Him) (Sallam and Hanafy, 1988)	Importance of knowledge seeking, research and development, scientific activities, training programme

Adapted from Rice (1999, pp. 350)

4.2.6 Environment

About 1427 years ago, the Holy *Qur'an* warned against the negativity of spoiling the environment: "Mischief has appeared on land and sea because of (themed) that the hand of men have earned" (Qur'an S30:41). Islam advocates that mankind should have concern for everything created by Almighty Allah, as it is part of the submission to Allah. In relation to environmental responsibility in Islam, the Holy *Qur'an* states the importance of taking care of the environment. The *Qur'an* says in this regard "do not mischief on the earth, after it has been set in order, and invoke Him with fear and hope; Surely, Allah's Mercy is (ever) near unto the good-doers", (Qur'an, S7:56). Thus, Islam as a way of life expects human beings to conserve the environment because the environment is Allah's creation which Muslim scholars consider deserves protection. In Islam, mankind has been entrusted with the responsibility of protecting the earth. This trusteeship is seen as onerous and no other creature would accept it. Allah says "We offered the trust unto the heavens and the earth and the hills, but they shrank from bearing it and were afraid of it and man assumed it" (S33:72).

Bagader *et al.* (1994, p.viii) stated that "Islam offers great advantage for environmental conservation, protection and sustainable development in that it is a source for law that is consistent with cultural values of Islamic society and can be imported with ease into environmental policy that is both effective and implementable". Five hundred verses in the Holy *Qur'an* relate to environmental issues and the manner in which such issues are to be addressed (Masri, 1992, cited in Haniffa, 2001).

According to Haniffa (2004), the concepts of *Mizan*, *Itidal* and *Khalifa* stress the concepts of balance, moderation and responsibility to protecting the environment, and any act of exploitation of the environment is condemned in Islam. Natural resources, therefore, must be disposed of in such a way as to protect everyone's well being (A-Faruqi, 1976, cited in Rice, 1999). Moreover, the Prophet, pray and peace upon Him, declares that "the world is beautiful and verdant, and verily Allah, be He exalted, has made you His stewards in it, and He sees how you acquit yourselves". Consequently, Muslims recognise the value of nature from the inception of their state.

Islam generally prohibits the waste and misuse of resources. In this context, the Holly Qur'an state "Verily, all things We have created by measure" (Qur'an S54:49). The concept of trusteeship in Islam, which is similar to the notion of sustainable development, does not regard natural resources as a free good to be wasted at the free will of any nation (Rice, 1999). No one has the authority to waste or corrupt the resources: "Eat and drink, but waste not by excess; Verily He loves not the excessive" (Qur'an:S7:31). This indicates that excessive consumerism in Islam is considered to be a form of corruption whereby the earth suffers.

4.2.7 Accountability

According to Haniffa (2001), under the Western accountability models, companies are accountable to their stakeholders. In this model, the responsibility and therefore accountability are not considered to extend beyond human society, and therefore such frameworks do not envisage any accountability to God. From an Islamic perception, the perceived relationship of individuals and firms with God affects the concept of accountability (Maali, 2006). Muslims, as required by Islam, have to question their actions or hold themselves accountable before being held accountable by Allah on the Day of Judgment for what they have done in their life (Abdul-Rahman and Goddard, 1998). The word *Hesab* in Arabic, which is a synonym to account, is repeated more than eight times in different verses in the *Holy Qur'an* (Askary and Clarke, 1997). According to Lewis (2001, 2006), the basic similarity between *Hesab* or 'account' and accounting lies in the responsibility of individuals and businesses to carry out duties as prescribed by Islam.

Accountability in this context means accountability to the Islamic community at large, which has the right to know about the effects of the operations of organisations on its well-being (Lewis, 2006). Ibrahim (2000) elaborates this aspect of accountability as follows: "Accountability is the duty of an entity to use (and prevent the misuse) of the resources entrusted it in an effective, efficient and economical manner, within the boundaries of the moral and legal framework of the society and to provide an account of its actions to accountees who are not only the person(s) who provided it with its financial resources but to groups within society and society at large".

4.2.8 Previous Studies on CSR from Islamic Perspective

There have been several conceptual studies on Islamic business ethics which show several values within Islam that are compatible with the notion of CSR (see, e.g. Gambling and Karim, 1991; Rice, 1999). In general, these studies stress that within the *Shari'a* sources (the Holy Qur'an and Sunah), there is much which should form the Islamic approach to business ethics. However, the majority of these studies were concerned with the overall business practice from an Islamic perspective, and lacked in-depth discussion and analysis of the elements involved pertaining to CSR.

Parveze and Ahmed (2004) attempted to explore from an Islamic perspective the underlying reasons for the existence of a weak sense of CSR. They argue that one of the possible explanations may lie in the narrowness of the problem-solving approaches that are employed by business organisations in addressing ethical and social issues. Further, they argue that the existing problem-solving approaches have emerged from a materialistic mindset that perceives social reality in a material form only. They conclude that a problem-solving approach is needed to incorporate spiritual dimensions.

Zinkin and Williams (2006) investigated whether the tenets of Islam are consistent with the ten principles of responsible business outlined in the UN Global Impact. They conclude that there is no divergence between the tenets of Islam and the principles of the UN Global Impact. Using an in-depth interview with the management of Islamic banks located in different parts of the world, Mohamed (2007) explores the consistency of the conceptual framework of CSR in Islam with contemporary business practice. His study reveals that many current practices of Islamic banks mirror the conceptual framework of CSR in Islam.

Yet, the above studies lacked any 'quantitative' evaluation for the implication of CSR, which leaves an existing gap in the Islamic literature. This gap needs to be explored to advance the understanding of the CSR concept in a broad cultural and spiritual context.

4.3 Previous Studies in Islamic CSRD

The accounting literature on the relationship between Islam and accounting (e.g., Hamid, 1993; Ibrahim, 2000; Lewis, 2001, 2006) almost exclusively perceives accounting from the Islamic principles and Islamic code of ethics, and examines the relationship between Islam and accounting disclosure. The author conclude that there are several basic elements in Islamic values toward business matters that differ from the Western perspective. Lewis (2001 and 2006) emphasise that if the purpose of accounting information is to serve the public interest, this therefore implies that, in an Islamic context, the *Umma* (community) has the right to know about the effect of the operations of the enterprises on its well-being and to be advised within the requirements of *Shari'a Islamiah* as to how this can be achieved.

Within this distinctive focus, there are some studies which generally focus on corporate social responsibility reporting from the Islamic point of view. Haniffa (2001) adopts an ethical normative approach to develop a conceptual framework of CSRD based on the *Shari'a*. She further argues that the use of this framework is to fulfil both accountability and transparency objectives by tackling three interrelated dimensions: seeking God's pleasure in establishing socio-economic justice, realising benefit to the community by fulfilling obligation, and pursuing wealth. As such, it addresses the relationship between Man and Allah, Man and Man and also Man and Nature. This framework takes into account the material, moral, and spiritual aspects. According to Haniffa (2001), Islamic social responsibility disclosure practice should be different from conventional social reporting, because the underlying principles are different, although the basic concepts of social responsibility and accountability are addressed in both instances. She then suggests two broad objectives of Islamic CSRD. First, it is to demonstrate accountability to Allah and the community. Second, it is to demonstrate transparency in business activities. However, Haniffa (2001) does not empirically examine the impact of Islamic values on the extent of CSRD.

Suliman and Willett (2003) point out that social responsibility and environmental accounting issues would be essential components that need to be disclosed in Islamic corporate reports. They interpret the Global Reporting Initiative (GRI) sustainability reporting guidelines as a basis for providing social and environmental performance indicators of an Islamic corporate reporting model, since the GRI provide a very comprehensive list of social and environmental issues that a company needs to disclose. However, they emphasise that, for the specific case of Islamic corporate reporting, the GRI requires to be enhanced by adding in dictates of *Shari'a Islamiah*.

Based on the Islamic text and relevant previous studies, Kamla *et al.* (2006) elaborate and discuss some key Islamic principles, and they conclude that Islam pays great attention to environment from the holistic perspective. Further, they argue that Islamic principles have very general relevance in respect of concerns to govern our environment with its accounting implications. However, the above studies are mainly conceptual. It is therefore necessary to investigate empirically the religious influence on CSRD in practice, which is likely to be stronger in those organisations which conduct their business according to *Shari'a*.

Several previous empirical studies have tried to examine this relationship using IFIs annual reports (e.g. those of Anuar et al, 2004; Yahya et *al.*, 2005; Haniffa and Hudib, 2007; Maali *et al.*, 2006). Anuar *et al.* (2004) provide evidence that supports the view that Islamic religion has an effect on corporate environmental reporting. Using content analysis, they compare the environmental practice of *Shari'a* approved companies, which conduct their activities in strict accordance with Islamic principles with the environmental practice of *non-Shari'a* approved companies that operate in Malaysia. The results provide some evidence that the former have a higher level of environmental reporting, compared with *non-Shari'a* approved companies. The findings of this study, therefore, suggest that the higher extent of environmental reporting amongst *Shari'a* approved companies may be reflective of an attempt by such companies to practise corporate reporting which embodies the Islamic principles of full disclosure and social accountability. However, the study conducted by Anuar *et al.* (2004) was limited to examining the influence of Islam on environmental disclosure only, and their sample was based on industrial companies, excluding Islamic financial institutions. It is important to study the influence of Islam on CSR and CSR in IFIs because IFIs follow *Shari'a* in their activities and transaction. They hold two positions in community, religious and financial (Al-Mograbi, 1996). Islamic banks therefore are seen by stakeholdesr as having as a social as well as economic role (Maali *et al.*, 2006).

Haniffa and Hudaib (2004, 2007) conducted a longitudinal study of the annual reports of seven IFIs in four Arabian Gulf region countries. They used content analysis to examine how effective Islamic banks were in communicating their ethical identity. They investigated whether any discrepancy exists between the communicated (based on information disclosed in the annual reports) and ideal (disclosure of information deemed vital based on the Islamic ethical business framework). Accordingly, they expect that IFIs must comply with the precepts of *Sharia Islamiah* in their reporting. It is interesting to note that their findings fall far short of what would enable ethical and social communication in the context of IFIs. However, they describe the reports as "vary(ing) across the 3-year period, suggesting that communication is not static and often minimal. This may be attributed to a lack of pressure from and an indifferent attitude of stakeholders and also the prevailing secretive culture in the region" (Haniffa and Hudaib, 2007, p.111). Similar to an earlier study, their result was limited to content analysis with a small sample. Accordingly increasing the size of the sample would provide more useful insights into the plausible reason for minimal and lack of clarity and consistency disclosure practice by IFIs (Haniffa and Hudaib, 2004). In addition, their study was limited to a comparison of the actual with what 'ought to be' based on their ethical identity index. It would be useful to study the perception of management on the CSR and CSRD. This is because the way management views CSR would reflect on their perception and decision on disclosing this information (see chapter Nine).

Yahya *et al.*, (2005) measured the level of CSRD in *Shari'a* approved companies in Malaysia. Of the 194 companies in their sample, only 102 companies disclose their social activities in the annual reports. They further investigated the relationship between the level of CSRD and the number of Islamic equity fund-holding shares in the same companies. Their results reveal that the percentage of the number of Islamic equity funds investing in any company is parallel to the level of social activities disclosed by the company. The study of Maali *et al.* (2003 and 2006) is one of the earlier empirical studies that attempted to investigate the influence of Islam on social reporting. Based on Islamic principles and the Islamic code of ethics, Maali *et al* (2006) derived a benchmark for social disclosure which they would expect Islamic banks to provide. However, their results indicate that the extent of social disclosure by Islamic banks falls far short of their benchmark. Their findings indicate that there is a considerable variation in voluntary social reporting across Islamic banks. Maali *et al.* (2006) conclude that "with a few expectations, Islamic banks have a long way to go to meeting the expectations of the Islamic community" (P.31). However, since corporate reporting practice, including corporate social reporting, varies across countries (Hope, 2003, Xiao *et al.*, 2005; Wanderley *et al.*, 2008), comparing the volume and the extent of CSRD between Islamic banks operating in Islamic countries (developing countries) with those operating in non- Islamic countries (developed countries) would not be accurate. This is because such comparison does not take into account the differences of environmental factors between different countries. Therefore, there is a need to replicate this study in countries which have similar business and social environments. The present study includes a sample in Arab Gulf countries where the business and social environments are similar. In addition, the present study compares the extent of CSRD of IFIs with that of non-IFIs operating in the same countries (the same political, economic and social environments) to examine the influence of Islam values on CSR and CSRD. Using this approach will help the researcher to identify the influence of Islam values on CSR and CSRD.

Farook and Lanis (2005) aimed to measure the CSRD level of 47 IFIs operating in 14 countries and ascertain the determinants of that disclosure. Using the disclosure index derived from Maali et al (2003), they measured CSRD in IFIs, and they further developed a model linking CSRD to socio-political influences and corporate governance factors. Their results show differences in disclosure level within the sample. The major sources for the variation are the socio-political context within which the IFIs operate, while the most significant driver for CSRD is the pressure from the relevant public. However, it is difficult to generalise about business practice across the ethnically diverse countries of the Islamic world which are at very different stages of development (Mohamed, 2007). The present study investigates the influence of Islamic values on CSRD in two phases. First, it compares the extent of CSRD in IFIs with that of non-IFIs. Second, it examines the management perception of CSR and CSRD.

Based on the review of previous studies on CSRD, it shows that the majority of these studies (see Table 4.2) limited their research to measure social disclosure using the content analysis technique. They tended to examine the gap between the expectation of social disclosure and the actual disclosure practice in IFIs. In order to understand the behavior of CSRD by IFIs, it is also important to study the perception of the management who are in charge of producing corporate reports and to understand the reasons and rationales behind the disclosure or non-disclosure of social information.

Overall, the previous studies leave scope to extend further the research of CSRD in the context of IFIs, and provide an opportunity to contribute further to the knowledge of CSR and CSRD. This study therefore aims to investigate empirically the relationship between Islam and CSR and its disclosure. It will peruse this by measuring the disclosures and examining the management perception on CSR and CSRD in IFIs. This study conducts a comparison on CSRD between IFIs and CFIs. By doing so, it helps to identify the extent to which religion has influenced the CSR and CSRD of IFIs. It is important to examine both CSR and CSRD, because some companies are very proficient in CSR initiatives, but may be less successful in recording and reporting practices (Cornelius et al, 2007).

Table 4.2 Related Studies on CSR and CSRD from an Islamic Perspective

Author(s)	Objective(s)	Research method	Conclusion
Haniffa and Hudaib (2007)	To examine whether any discrepancy exists between communicated (based on information disclosed in seven IFIs' annual reports) and the ideal ethical disclosure based on Islamic business framework.	Content analysis	One out of the seven company annual reports to be above average. The remaining six companies suffered from disparity between the communicated and the ideal ethical disclosures.
Kamla et al. (2006)	To elaborate and discuss the key Islamic principles and highlight their implications to accounting for the environment.	Conceptual paper	Drawing from key Islamic texts and relevant literature, they delineate what key suggest for accounting for the environment
Maali et al. (2006)	To develop a benchmark set of social disclosure appropriate for IFIs. Then they compare the actual social disclosure in the annual report of twenty-one IFI to this benchmark.	content analysis	Their results indicate that social reporting by Islamic banks fall short of heir expectations.
Yahya (2005)	This study has two objectives. First, it seeks to investigate the actual practice of CSRD in IFIs. Second, it attempts to examine the relationship between CSRD and Islamic unite trust shareholdings in those companies.	Weighted disclosure Index	Out of 194 companies, only 102 companies disclose their social activates. In addition, the t-test shows there is a significant difference in CSRD between companies invested and those that are not invested by Islamic unit trust.
Farook and Lanis (2005)	They aim to measure CSRD level of forty-seven IFIs operating in fourteen countries and ascertain the determinants of that disclosure.	Disclosure index	Their results show differences in disclosure level within the sample, and they suggest major sources for the variation is the socio-political context within which the IFIs operate
Anuar et al. (2004)	To examine the difference in environmental disclosure between *Shari'a* approved companies and non-Shari'a approved companies	Content analysis	The results provide some evidence that the shari'a-approved companies have a higher level of environmental reporting compared with *non-Sharia* approved companies.
Haiffa (2001)	To develop a conceptual framework based on Shari'a for	Conceptual paper	They suggest that Islamic social responsibility

	Islamic social and environmental disclosure.		disclosure practice should be different from conventional social reporting because the underlying principles are different

4.4 Summary

The relevant previous studies in the literature were briefly reviewed and analysed in this chapter. Most of the previous studies are either conceptual studies or studies which focused on examining the gap between the expectation of CSR and CSRD and the actual disclosure practice in IFIs. There is a lack of studies on the perception of the management on CSR and CSRD. The existing gap was identified which has given an impetus for this study and needs to be bridged, as follows: (1) the need for a new approach of analysis: precisely, a three-dimensional analysis that includes the interaction between the theoretical concept, the disclosure measurement and management perception; (2) the need for examining management perception(s) on CSRD in IFIs where no previous has been study conducted; (3) the need for comparing CSRD practice between IFIs and their conventional counterparts operating in the same environment in order to examine the influence of religion on the ethical identity of IFIs.

Chapter Five
Research methodology

Chapter Five
Research Methodology

5.1 Introduction

This chapter describes the research methods underpinning the study. The research method adopted for this study is a mixture of both qualitative and quantitative approaches, by use of content analysis and interview method. Content analysis was employed to answer the first question of this research; it is therefore used to measure and analyse CSRD in the annual reports of both IFIs and CFIs. The interview is then employed to investigate corporate management perceptions of CSR and CSRD.

5.2 Research philosophy

Every piece of research is based on a specific philosophical assumption. Burrell and Morgan (1985) argues that approaching the real world to understand how and why events happen involves adopting either explicitly or implicitly certain assumptions regarding the nature of both social science and the nature of society. These assumptions are related to ontology, epistemology, human nature and methodology (Burrell and Morgan, 1985). It has been argued that these assumptions have direct implications on the research methodology adopted, the way in which investigations are carried out and how knowledge concerning the social world is acquired.

Ontological assumption is related to the nature of reality (Hopper and Powell, 1985). According to Creswell (1998), ontology is concerned with the nature of reality when is something conceded as being real. The basic ontological question is concerned with whether the 'reality' to be explored is external to the individual or only a product of individual consciousness (Burrell and Morgan, 1985; Hopper and Powell, 1985). Epistemology is related to the nature of knowledge and the evidence that forms that knowledge (Hopper and Powell, 1985). It relates to what is accepted as valid knowledge (Hussey and Hussey, 1997). Epistemology addresses the relationship between the researcher and what is being studied, whether independent or not (Crewel, 1998). On one hand, knowledge can be acquired through observation and built up piecemeal (objective position). On the other hand, knowledge is attributed with a more subjective and personal nature (Chua, 1984; Powell, 1985, cited in Kamla, 2005). A human nature assumption is related to the relationship between the human being and the society in which the researcher lives (Burrell and Morgan, 1985). The two major elements identified in this assumption are determinism and voluntarism. "Are people's behaviour and experience completely determined and constrained by their external environment? Or are people potentially autonomous and free-willed in creating their own environment" (Hopper and Powell, 1985, cited in Kamla, 2005, p.20). Methodology refers to the "process, principles, and procedures by which we approach problems and seek answers.... [and] applies to how one conducts social research".

According to Burrell and Morgan (1979), there are two main methodological choices: "nomothetic" and "ideographic". The nomothetic methodology is a product of realist ontology, positivistic epistemology and deterministic human nature. Accordingly, ontologically, the social world is seen as existing independent of an individual's perceptions and appreciations. Here, epistemology is underpinned by a positivistic approach. Under this approach, the social world is explained by law, casual relationships and regularities between elements. The assumption about human nature is deterministic in nature where individuals and their experiences are deemed products of their environment (Burrell and Morgan, 1979). On the other hand, ideographic methodology is a product of nominalist ontology, an anti-positivist epistemology and voluntarism human nature (Burrell and Morgan, 1979). Nominalist ontology deemes that reality is not external to the individual but rather within us (Hussey and

Hussey, 1997). Contrary to the nomothetic methodology, epistemology here is deemed subjective and not independent of observation (Morgan and Smircich, 1980). The human nature assumption here is voluntarism that views individuals who create the environment as having free-will (Burrell and Morgan, 1979).

5.3 The Philosophical Assumption Underpinning the Current Study

The suitability of any research approach depends on the nature of the social phenomena to be explored (Morgan and Smircich, 1980) where the methodological choice is influenced by the nature of the problem of the research and the extent of the available of resources (Gill and Johnson, 1997). It has been recommended by Hussey and Hussey (1997) that employing different assumptions and methodological approaches would provide a broader view of the research issue. In the same vein, Laughlin (1995) argues the choice of a form of middle-range position of all philosophical assumptions.

Consistent with Laughlin's (1995) argument, the current study takes a middle-range position. The ontological assumptions of the current study are perceived to take a medium position between nominalism and realism, as outlined by Laughlin (1995), but, however, closer to nominalism. As for epistemological assumptions, the study takes a middle-range position. The researcher believes that knowledge comes primarily but not totally from individuals who are involved in particular activities by investigating their perspectives. Thus, the orientation of the study ranges from anti-positivist to positivist. Therefore, qualitative and quantitative knowledge are important to describe reality. With regard to human nature assumptions, the researcher would be in the mid-point between voluntarism and determinism. The study does view human nature running from voluntarism to determinism. Thus, human beings are neither controlled by their particular situation nor they are free-willed (Hanafi, 2006).

The current study is primarily informed by a middle-range methodology between the nomothetic objective and the ideographic subjective methodologies. Accordingly, this study employs more than one type of method to achieve its objectives. Both content analysis and interview (qualitative and quantitative[1]) were utilised in this study (see, Figure 5.1). Content analysis will be used as a quantitative method to measure and quantify CSRD and its characteristics in terms of predetermined categories in both IFIs and CFIs, and to examine the relationship between the CSRD and Islam. The interview method is employed in an attempt to understand the views, perceptions and behaviours of management of IFIs on CSR and CSRD. Such a combination of methods might ensure the validity and reliability of the research.

5.4 Quantitative and Qualitative Research

Quantitative research usually concentrates on measurements and numbers. It aims to study the association between variables in the population. It relates generally to the research that emphasises "the measurement and analysis of causal relationships between variables with inquiry ... purported to be within a value-free framework" (Denzin and Lincoln, 2000, p. 8). Quantitative methods entail "the use of standardized measures so that the varying perspectives and experiences of people can be fit into a limited number of predetermined response categories to which numbers are assigned" (Patton, 1990 p.14). However, with standard quantitative designs "there is an effort to limit the role of personal interpretation for that period between the time the research design is set and the time the data are collected and analysed statistically sometimes thought of as a 'value free' period (Stake, 1995, p. 41). Such a research strategy emphasises the quantification in the collection and analysis of data; it therefore generates numerical data or data which could be

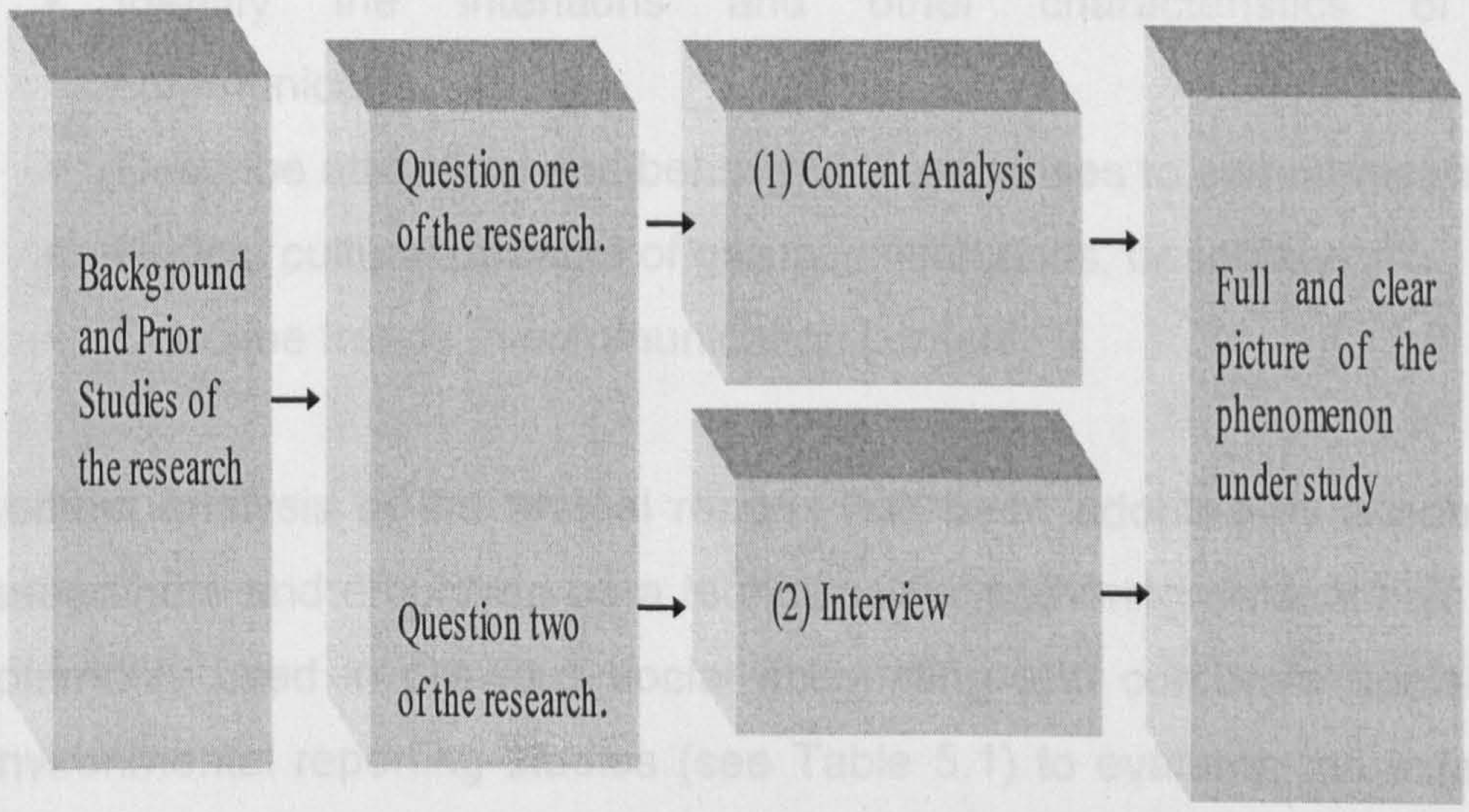
[1] Qualitative and quantitative methods can be seen as complementary rather than as adversaries (Sieber, 1973; Smith, 1975; Jick, 1979; Denzin, 1978; Van Maanen, 1983; Ghauri *et al.*, 1995).

converted to figures while the researchers remain distant and independent.

The qualitative method refers broadly to the "research that produces descriptive data: people's own written or spoken words and observable behaviour" (Taylor and Bogdan, 1984, p.5). It concentrates on words and observations to articulate reality, and endeavours to describe people in nature and in natural situations (Amaratung *et al.*, 2002). In contrast to the quantitative research, it produces non-numerical data. Qualitative methods may be employed to explore and understand people's attitude and behaviour. Denzin and Lincoln (2000, p.3) state that qualitative researchers "study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them." They argue that this kind of research involves the studies that use collection of a diversity of empirical materials case study; personal experience; introspective; life story; interview; artifacts; cultural texts and productions; observational, historical, interactional, and visual texts which describe routine and problematic moments and meanings in individuals' lives.

However, Stake (1995) divided the main differences between qualitative and quantitative method into three areas. The first is related to the distinction between explanation and understanding as the purpose of the inquiry. Quantitative researchers are concerned with explanation as the main purpose of the inquiry, while qualitative researchers are mainly interested in understanding the complex interrelationships between different variables. The second area of difference is associated with the distinction between knowledge discovered and knowledge constructed. Proponents of quantitative research believe that knowledge is constructed rather than discovered, while qualitative researchers see this methodology as a useful tool to expose actors' meanings and interpretations. The third major difference between qualitative and quantitative methodologies is about the distinction between the personal and impersonal role of the researcher. The role of the researcher is different in both quantitative and qualitative research. The influence of researchers on the research setting is limited in quantitative research, while it is more broadly recognised in qualitative research.

Figure (5.1) Research Method



5.4.1 Content Analysis

The content analysis method was employed in this study as the first research method in order to collect quantitative data on CSRD via the annual reports of IFIs and CFIs. The popularity of content analysis has arisen, because it is a powerful tool that has been used in the analysis of documents and texts that seek to quantify content in terms of predetermined categories and in a systematic and replicable manner (Bryman and Bell, 2003). It has been stated that content analysis is considered particularly helpful in exploratory research, where there may be no set of theoretical perspective being adopted, or where there is no need to make generalisations (Kolbe and Burnett, 1991). According to Morris (1994), content analysis can be used to extract data from a wide range of communications media. Berelson (1952, cited in Weber, 1985) pointed out many situation in which content analysis can be used, as follows:

- Disclose international differences in communication content.
- Compare media or "levels" of communication.
- Audit communication content against objectives.
- Code open-ended question in surveys.
- Identify the intentions and other characteristics of the communicator.
- Describe attitudinal and behavioural responses to communications.
- Reflect cultural patterns of groups, institutions, or society.
- Describe trends in communication content.

Content analysis of the annual reports has been adopted by accounting researchers and employed as a technique for gathering data. It has been commonly used in previous social accounting and corporate social and environmental reporting studies (see Table 5.1) to evaluate the extent of disclosure of different items (Guthrie *et al*, 2004)

5.4.1.1 Definition of Content Analysis

Several definitions of content analysis have been propounded. Berelson (1952) stated that content analysis can be used to describe objectively, systematically, and quantitatively the manifest content of communication. Kassarjian (1977, p.10) defined it as "a scientific, objective, systematic, quantitative, and generalisable of communication content". Abbott and Monset (1979, p.504) defined content analysis as a "technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales at varying levels of complexity". The above three definitions highlighted a need for a quantitative description of data. However, Krippendorff (19980, p. 21) shifted the emphasis by defining content analysis as "a research technique for making replicable and valid inferences from data to their context". Weber (1985, p. 9) defined it as "a methodology that utilises a set of procedures to make a valid inferences from text". A more recent definition was given by Neuendorf (2002, p.25): "summarizing, quantitative analysis of messages that relies on the scientific method (including attention to objectivity-intersubjectivity, a priori design, reliability, validity, generalizability, replicability, and hypothesis testing) and is not limited to the types of variables that may be measured or the context in which the messages are created or presented".

The above definitions have being reviewed in addition to other definitions of content analysis given in the literature (see, for example, Weber, 1990, p. 9; Kolbe and Burnett, 1991, p.243; and Riffe *et al.*, 1998, p. 20), it is apparent that there is a consensus among authors that an essential purpose of content analysis is to make inferences from the message (textual or spoken). Content analysis aims to analyse language of or the text by reference to incidence with certain pre-selected recording units. According to Wolfe (1991), carrying out a content analysis may provide some advantages to the researcher. These advantages are summarised as follows:

- Content analysis is unobtrusive; neither the sender nor the receiver of the messages analysed is aware that the messages will be analysed;
- Content analysis of various types of documents produced on a regular scheduled basis presents an opportunity to develop longitudinal data bases;
- Content analysis allows the researcher to work directly on a core human and organisational behaviour-communication (Weber, 1985);
- Content analysis may facilitate researchers of differing methodological and theoretical persuasions to work together, thus potentially contributing to the convergence of theoretical and empirical perspectives;
- Analysing naturally occurring language has advantages over numerical analyses for understanding and describing many organisational phenomena (Daft and Wiginton, 1979);

- Content analysis facilitates linking summary statistics to natural language, thus resulting in research outcomes having face validity and meaning to everyday actors as well as scientists (Gephart and Wolfe, 1989).

Table (5.1) Selected Studies of CSRD

Study (ies)	**Documents analysed**	**Measurement Unit**				
Paper	**AR**	**NW**	**NS**	**NL**	**% P**	**other**
Parsa and Kouhy (2005, 2008)	*					*
Haniffa and Hudaib (2007)	*					*
Maali (2006)	*		*			
Mashat (2005)	*				*	
Ahmed and Gao (2005)	*	*				
Gao et al (2005)	*					
Xiao et al (2005)	*	*				
Anuar et al. (2004)	*		*			
Campbell (2004)	*	*				
Ahmad (2004)	*					
Holland and Foo (2003)	*		*			
Unerman (2003)	*				*	
Raar (2002)	*		*		*	
Imam (2000)	*			*		
Nikam & Wickramarachchi (2002)	*	*				
Belal (2001)	*			*		
Alnajjar (2002)	*					*
Belal (2000)	*			*		
O'Dwyer (2000)	*				*	
Abu-Baker and Naser (2000)	*				*	
Williams (1999)	*				*	
Tsang (1998)	*		*			
Adams and Harte (1998)	*					
Buhr (1998)	*		*			
Choi (1998)	*			*		
Neu et al, (1998)	*		*			
O'Dwyer and Gray (1998)	*				*	
Burritt (1997)	*	*	*			

Ince (1997)	*	*				
Hackston and Milne (1996)	*		*			
Thomas and Kenny (1996)	*					*
Deegan and Ranking (1996)	*	*				
Deegan and Gordon (1996)	*	*				
Adams et al, (1995)	*				*	
Gray et al, (1995a)	*				*	
Guthrie and Parker (1990)	*				*	
Disu and Gray (1998)	*				*	
Guthrie and Parker (1989)					*	
Cowen et al, (1987)	*	*				
Trotman and Bradley (1981)	*					*
Abbott and Monsen (1979)	*					*
Ernst and Ernst (1978)					*	

<u>Notes:</u> **AR**= Annual Report; **NW**= Number of Words; **NS**= Number of Sentences; **NL**= Number of Lines; **% P**= Per cent of Pages.

5.4.1.2 The Basic Steps of Content Analysis Method

According to Weber (1985), the researcher initially has to identify the research question to be investigated. The first research question for the current study is "***To what extent does Islam have an influence on CSR and CSRD***". In seeking to answer this question, this study will evaluate and compare the practices of CSRD by IFIs with their conventional counterparts. There are seven essential steps or processes in any content analysis of corporate social disclosure (Wolfe, 1991). These steps are: (1) to determine the sampling units; (2) to determine the recording unit; (3) to determine the theme (s) to be coded; (4) to determine the categories to be coded; (5) to determine the coding mode; (6) to test coding on a sample of text; and (7) to assess reliability and validity (Weber,1985; Wolfe, 1991).

5.4.1.3 Determine the Sampling Units

In this stage of content analysis, a decision needs to be decided concerning the source of the document to be analysed (data source) (Unerman, 2000). Deciding which document(s) to analyse is an essential stage in any content analysis study (Krippendorff, 1980). CSRD can be made through a variety of channels, such as advertising and promotional leaflets, company websites, interim reports, press releases, discussions etc (Zeghal and Ahmed, 1990; Abu-Baker and Naser, 2000; Gao *et al.*, 2007; Joshi and Gao, 2009). However, a substantial proportion of the studies in this field of research has employed the annual report as the data source, and accepted it as an appropriate source of a company's attitudes toward social reporting (see Table 5.1). Such studies ignored other corporate communications regarding social and environmental issues, as the annual report is generally considered to be the most reliable source of information about corporate activities (Owen, 1994; Deegan and Rankin, 1997). In this regard, Gray *et al.*, (1995b, p.83) state that "The annual report is used as the principle focus of reporting. There is some justification for this. The annual report not only is a statutory document, produced regularly, but it also represents what is probably the most important document in terms of an organisation's construction of its own social imagery".

Proponents of the use of the annual report (see, e.g. Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Zeghal and Ahmed, 1990; Tilt, 1994; Holland and Foo, 2003) argue that it is considered virtually impossible to identify all corporate communications on social activities conducted by companies over a long period of time, and it is therefore uncertain of how complete non annual report data are (Unerman, 2000). Holland and Foo (2003) state that the annual report is a most effective means of communication and possesses a degree of credibility not associated with other forms of advertising. However, there is some recognition in the literature that this focus on the annual report may not give a full picture of all CSRD practice (Roberts, 1992; Unerman, 1998; 2000). For example, Campbell *et al* (2003, p. 566), state that "disclosure of social information in the annual report represented a small proportion of the company's total social reporting". Zeghal and Ahmad (1990) examined corporate brochures and advertisements as well as annual reports, and found that firms do communicate social and environmental information through other media. However, Abu-Baker and Naser (2000) pointed out that in developing countries, other disclosure channels (such as Internet, advertising and promotional leaflets) are of little use to most companies, and it is very likely that one will see most of the information presented in the formal annual report. Accordingly, and in keeping with the majority of the literature in this field of research, this study will focus on the annual report as a source of text.

5.4.1.4 Determine the Recording Unit

Having decided "what" and "where" of CSRD, it is essential to determine how to capture data (i.e. to identify the method to be used to quantify CSRD). The previous research generally indicates that most studies follow one of two paths: the number of CSRD disclosures[2] or the amount of CSRD disclosure[3] (Gray *et al.*, 1995b). The empirical investigation in CSRD literature has attempted to capture either incidence or amount. According to Gray *et al.*, (1995b), both approaches have their significance. While the latter approach provides more data sets and in many cases encompasses automatically the first (Cowen *et al.*, 1987; Guthrie and Mathews, 1985 cited in Gray *et al.*, 1995b), the former approach, however, fails to indicate the extent of reporting of the entity's involvement in CSRD (Xiao *et al.*, 2005). It is worth mentioning that, in order to measure the extent of disclosure in the reports, two methods have been used: either the weighted disclosure approach or the un-weighted disclosure approach. The weighted method is based on the perceived relative importance of each item (Maali *et al.*, 2006; Wiseman, 1982); thus, it gives different weight to the different disclosure items in the corporate reports. However, some arbitrariness is clearly inherent in the use of any weighted method. In addition, "any method of assigning weights to individual disclosure items

[2] This method focuses on "the attribution of the incidence on an event as indicated by the mention of the event under question in the literary document.....the resulting scale varying between zero and the number of attributes being investigated" (Abbott and Monsen, 1979, p.504).
[3] This method quantifies the volume of disclosure using words, sentences or pages to different themes.

is misleading because the importance of any disclosure item varies from company to company, industry to industry and time period to time period" (Spero, 1979, p.42). In this study, the items were not weighted because of the potential score biases and scaling problem of weighting and it is consistent, therefore, with some previous studies (e.g., those of Cook, 1989; Ahmed and Nichols, 1994; Haniffa, and Hudib, 2004, Ahmed, 2004).

Defining the recording units is one of the most fundamental and important decisions in the process of content analysis (Weber, 1985). Different measuring units can be used in content analysis. Previous studies (see Table 5.1), have used a number of methods, including words, sentences, lines, pages, per cent of pages, or a mixture of these units, as each method has its own advantage(s) and limitation(s). There is indeed no single accepted unit of capturing (measuring) the amount of CSRD. A detailed debate of the virtual merits of different approaches of data capture is beyond the purpose of this study. In this study word count, is used because words have the advantage of leading themselves to more exclusive analysis (Xiao et al, 2005). Moreover, words are a preferred measure when it is intended to measure the amount of total space devoted to a topic and to ascertain the importance of the topic (Krippendorf, 1980). In addition, using words will enable the researcher to record the volume of disclosure in greater detail (Deegan and Gordon, 1996; Zegal and Ahmed, 1990 cited in Unerman, 2000).

Nevertheless, there are more arguments against measuring CSRD in terms of number of words, since "that will result in any non-narrative CSRD disclosure (such as Photographs or Charts) being ignored. Any unit of measurement which can not take account of graphs, charts or photographs will omit from the CSRD study these potentially powerful and highly effective methods of communication (Beattie and Jones, 1992, 1994; Preston *et al.*, 1996)" (Unerman 2000, p. 675). However, in this study, pictures and graphics reflecting social and environmental activities did not exist in the analysed reports. This gives, in addition to the advantages of using words as mentioned above, more impetus for using word as the unit of measurement.

5.4.1.5 Determine the Theme (s) to be Coded

Categories of analysis (recording units and sub-units) are employed to facilitate analysis of content of each sampling unit (Unerman, 1999 cited in Kamla 2005). Guthrie and Mathews (1985) stated that "content analysis involves the selection of analytical categories to characterise the content of written material. According to Tilt (1998), the choice and development of categories into which data capture units can be classified is an essential element of research design in content analysis. The CSRD content analysis literature does not provide a clear reference to themes of CSRD, as most studies build their categories or framework of analysis on the framework of previous studies. This raises the necessity for an objective definition of CSRD in addition to the determination of a set of categories, which will define this social disclosure (Mshat, 2005). To discharge the objectivity criterion suggested by Krippendorff (1980), the CSRD which is provided by the categories should facilitate and enable an independent researcher to determine what is and what is not CSRD.

In an attempt to evaluate the practice of CSRD in the documents analysed (annual reports), it was essential to develop a list of possible themes and sub-themes, including descriptions of those themes for the ease of coding and explicability. The literature provides a different variety of themes (see, for example, Ernst and Ernst, 1978; Gray *et al.,* 1995b; Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Hackston and Milne, 1996). However, CSRD is an evolutionary process, and the themes list should account for any potential changes (Hetherington, 2002). According to Belal (1999), it is difficult to apply the social reporting practice of developed countries, to those of the developing countries, and to apply the results from industrialised countries to those of less developed countries because of the impact of the stage of economic development, and the differences in cultural and national aspects which might affect accounting practice

(Tsang, 1998). This study like previous studies drew upon the previous literature on corporate social disclosure (e.g. Ernst and Ernst, 1978; Gray *et al.*, 1995a; Hackston Milne, 1996; Gao *et al.*, 2005; Parsa and Kouhy, 2005, 2008) and studies on social and environmental disclosure from an Islamic perspective (e.g., Kamla, 2005; Maali, 2006; Haniffa and Hudaib, 2007) to design the initial themes (see Table 5.2). Nevertheless, the initial instrument falls short to capture the unique nature of social reporting in the sample. Therefore, some of the themes and sub-themes required certain adjustments to be relevant to the Gulf countries context in which the sample of this study is based. Discussions were then held with three accounting academics to verify the check list. Their feedback was used to refine the list of themes. It is worth mentioning that some of the themes in the checklist are also the themes required by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). However, AAOIFI standards are not mandated in the sample of all the countries and the distinction between voluntary and mandatory disclosure is beyond the scope of this study.

Table 5.2 Definitions of CSRD Themes

Employee	This theme describes the impact of organisational activities on those who constitute the human resources of the organisation. This form of disclosure includes reporting on matters such as employee numbers and remuneration, equal opportunities, employee share ownership, employee benefit, pension, end service indemnity and work place environment. It can also cover disclosures on employee consultation, training.
Community	The community theme comprises any reference to community, that including information relating to community investment, contribution to national economy (e.g. financing projects that lead to the economy development), free interest loans to low income people, social activities support, as well as, support for established community activities such as support for health, and education.

Philanthropy	Disclosure under this theme, covers any information considering charity donation and *Zakah*, and any other philanthropy related activities.
Customer	This theme covers items such as customer service (e.g., provision for customer convenience). It also includes meeting customer needs, providing special services or branches, customer complaints/satisfaction, as well as specific customer relations, such as policy for late payment by the client.
Products and service	This concerns the qualitative aspects of the products, for example product development, product and service quality, ISO or any other award for product and services.
Environment issue:	Environmental policy, lending and investment policy, conservation of natural resources.
***Shari'a* Supervisory Board Report (SSBR)**:	The main reason for having SSB is to make sure that the company conducts its business according to Islamic morals, and avoiding any transaction that contradicts with Shari'a[4]. Disclosure under SSBR includes items such as background of SSB members, examination of documents, provision of fatwa and consultation, and compliance with *Shari'a*.
Other	This theme includes any CSRD, which is not covered in the above themes, for example, commitment to ethical conduct, general statement of CSR, etc.

5.4.1.6 Determine the Categories to be Used in Coding

In order to enrich the content analysis data and to provide a detailed in-depth analysis, an effort must be made to capture the quality and type of

[4] According to the Oxford dictionary, the definition of ethics is "moral principles that control or influence a person's behaviour".

disclosure. Consistent with previous studies (see e.g. Guthrie and Mathews, 1985; Gray *et al.*, 1995b; Guthrie and Parker, 1990; Zeghal and Ahmed, 1990), the theme(s) were further analysed under three dimensions/categories (1) evidence (e.g. monetary; qualitative; quantitative); (2) type of news (good; neutral; bad); and (3) amount (i.e. number of words).

Table 5.3 (Panel 1) Evidence of CSRD

Evidence	Definition
Monetary	Disclosure will be classified as monetary if it includes monetary value or measure.
Quantitative	Disclosure will be classified as quantitative if it is expressed in quantitative terms.
Qualitative	Disclosure that is not classified as monetary or quantitative, such as general statement of an opinion.

Table 5.3 (Panel 2) CSRD type of news

Type of Disclosure	Definition
Good news	Disclosure which includes, for example, details where these details have a creditable reflection on the company, any statements which reflect credit on the company, upbeat analysis/discussion/ statements, etc.
Neutral news	Disclosure will be counted as neutral news if it refers to general policy statements or intent within a statutory minimum with no details of what or how; statement of facts whose credit/ discredit to company is not obvious, unaccompanied by editing.
Bad news	Any statement, which reflects/might reflect discredit on the company. Include, for example, numbers made redundant (Gray *et al.*, 1995).

5.4.1.7 Determine the Coding Mode

There are two types of coding mode: (1) coding by humans; (2) coding by computer. The computer-based interpretation has its advantages, including the speed, minimum error, and formally comparable results (Wolf, 1991). Hetherington (2002) adds that the use of a computer base in coding has the potential to adopt the research questions throughout the research, without having to analyse the entire report. However, for the purpose of this study, it was decided to focus on human interpretation. This is because it is complex for the computer to pick up on implicit or tacit meanings, or themes, and provide only explicit data (Carney, 1972; Wolfe, 1991).

5.4.1.8 Test Coding on Sample of Text (pilot test)

Testing a sample of documents as a pilot study prior to conducting the main content analysis will give the researcher practical experience that may add to increase the reliability of content analysis results (Weber, 1990). In addition, this will enable the researcher to become more familiar with the process of content analysis. Random annual reports were chosen and analysed to ensure the usability of the framework. The researcher then analysed the content of annual reports of three surveyed companies as part of pilot work completed prior to gathering the primary data for this study. The reports were coded based on the initially selected and defined content categories. Throughout the pilot work, difficulties concerning, *inter alia*, the interpretation of the decision rules were noted and clarified. Solutions were discussed with the supervision team and other academics who have previous experience in using content analysis.

5.4.1.9 Assess Reliability and Validity

Reliability and validity refer to a measuring procedures, which provides the same results on repeated trails (Neuendorf, 2002). In other words, reliability and validity are determined to ensure that different researchers will code the text in the same way and therefore diminish the chance for inaccuracy and biases. Yin (2003) describes reliability as the extent to which a test or procedure produces similar results under contrasting conditions on all occasions. According to Krippendorff (1980), there are three types of reliability for content analysis: stability, reproducibility and accuracy (see Table 5.4).

Table (5.4) Types of Reliability

Type of reliability	Reliability Designs	Errors assessed	Relative strengths
Stability	Test-retest	Intra-observer inconsistencies	Weakest
Reproducibility	Test-test	Intra-observer inconsistencies and Intra-observer disagreements	
Accuracy	Test-standard	Intra-observer inconsistencies; Intra-observer disagreements and systematic deviations from a norm	Strongest

Source: Krippendorff (1980, p.131)

Stability refers to the ability of a judge to code data in the same way over time. It is the weakest form of reliability test (Milne and Adler, 1999). Reproducibility refers to inter-rater reliability (Milne and Adler, 1999). It reflects on the measurement of the extent to which coding is the same when using different coders (Weber, 1988). High reproducibility is the minimum standard for content analysis (Weber, 1990). Accuracy involves assessing coding performance against a predetermined standard[5] (Milne and Adler, 1999). Guthrie and Mathews (1985) noted that there are no identified standards for social responsibility disclosure and therefore no correct performance or measure. Hence, to ensure the strong form of reliability in this study, it was essential to include reproducibility and stability.

[5] The predetermined standards could be employed in prior studies or set by expert researchers.

The reliability of the coding decisions on a pilot sample could be shown to have reached an acceptable level before the coder is permitted to code the main data set. Several steps were taken to ensure reliability:

1- Well specified coding instruments, with well-specified decision rules (see Appendices One and Two) have been developed in order to minimise discrepancies and fulfil objectivity[6].

2- The researcher, 'main coder', has undergone an extensive period of training prior starting the process of analysing in order to have a better understanding of the subject;

3- To ensure reproducibility, five annual reports were tested by different coders [7]in a pilot test. Ambiguities were discussed with the author, who endeavoured to ensure that all coders used the same coding rules; and any points made were used to develop the framework of analysis.

4- Each step in the research process must be fulfilled on the basis of explicitly formulated rules and procedures. Moreover, any definitions used in the data gathering must be negotiated to realise these "shared meanings" which recreate "the same referents in all the associated investigators" (Gray et al, 1995b, p.80).

5- In order to ascertain stability in the measurement procedure, parts of the annual reports, which were analysed by the researcher were those which were analysed during the pilot test. The result was almost stabilised. This procedure was undertaken in order to ascertain whether the initial categories identified and their measurement had remained stable at different times (stability). However, the result was almost stabilised.

According to Krippendorff (1980), in addition to being reliable, the data collected must be valid. In this regard, Holsti (1968) argues that objectivity implies that all decisions are guided by an explicit set of rules that

[6] The requirement of objectivity stipulates that the categories of analysis be defined so precisely that different analysts might apply them to the same body of content and secure the same results (Berelson, 1952)

[7] Two independent researchers who are qualified and familiar with the use of content analysis are employed in this research as multiple coders.

minimise (but never quite eliminate) the possibility that the findings reflect the analyst's subjective predispositions rather than the content of the documents under analysis. To enhance validity, well-defined themes of CSRD were developed, as mentioned earlier; as also, explicit formulated rules and procedures were applied (see Appendix Two). The agreement between the researcher and other coders on the categorisation of the text, as mentioned earlier, can be used to provide a sign that the procedure utilised in the categorisation is valid.

5.4.1.10 Period and Sample Chosen:

The fiscal year of 2004 was chosen for this study when this PhD began; also, it is sufficiently recent to ensure reasonable access to the company's corporate reports, and gives a reasonable picture of CSRD practice. The sample represents only one sector, namely the financial sector[8]. The population for this study encompasses 42 financial institutions (see Appendix Three) divided equally between IFIs and CFIs, all operating in a number of Arabic Gulf countries. The 21 Islamic financial institutions were identified from The General Council for Islamic Banks and Financial Institutions (CIBAFI) while non-Islamic financial institutions are those listed on the stock exchanges in the same countries, and they were randomly selected. Annual reports were obtained from the companies' web pages, and by contacting the companies directly (see Appendix Four). Given the nature of the study, it limits the study sample to those financial institutions (Islamic and conventional) which are operating in Arabic Gulf countries. The main motivations for this are:

- Most of the above countries have to some extent similar economic, political, and social environments.
- In the above chosen countries the financial system is not Islamic, which helps the researcher to conduct a fair comparison between the

[8] The aim of this study is to investigate the impact of religion (Islam) on CSR and CSRD, however; the author realises that only IFIs could be taken as a proxy for organisations that to some extent apply the value of Islam in conducting business, and therefore establish a comparison between the social and environmental practice of IFIs with that of their conventional counterparts.

two systems, as both systems are operating in the same economic, political, and social environments.

- Most IFIs, which are members of the Accounting and Auditing Organizations for Islamic financial institutions (AAOIFI), are based in this part of world.
- There is a general lack of knowledge of the context of CSRD in the above countries.

5.4.1.11 Limitation of Content Analysis

It is recognised that the use of content analysis, despite the positive aspects related above, does have some weaknesses. For instance, content analysis on its own is not enough to determine the communicator's intention in writing the text under analysis (Tilt, 1998). There could be an element of subjectivity involved in this technique, as the "same document can mean wholly different things to different users" (Carney, 1972, cited in Tilt, 1998, p.18). However, to overcome these problems, a combined method of gathering data has been used in this study (i.e. content analysis and interviews).

5.5 Interviews

The interview has a strong claim to be the most widely used method of research (Gilbert 1993, p.135). It is probably the most widely employed method in qualitative research (Bryman and Bell, 2003). The aim of the interview is to gain in-depth information that could be difficult to acquire via other methods (Zhang, 2006). Given that the sample of this research is considered to be low, it is thus more likely that other types of data collection, such as questionnaire, would not be suitable in this study. In addition, researchers argue that interviews provide an opportunity to understand meaning held in unarticulated way by the subjects interviewed, which in turn requires more in-depth interviews to be achieved (Maali, 2005). According to Gilbert (1993, p.135), the interview "is a conversation, usually between two people. But it is a conversation where one person:

the interviewer is seeking responses for a particular purpose from the other person: the interviewee". The interview provides the descriptive data necessary for any qualitative investigation. In business research interview, the aim for the interviewer is "to elicit from the interviewee or respondent, as he or she is frequently called in survey research, all manner of information: interviewee's own behaviour or that of others, attitudes, norms, beliefs and values".

There are three types of interviews that can be employed as a research tool. The interview can be structured, semi-structured or unstructured. A structured interview intends to capture precise data of a codable nature in order to explain behaviour within pre-established categories (Denzin and Lincoln, 2000, cited in Kamla, 2005). While the unstructured interview aims to understand the complex behaviour of members of society without imposing any previous categorisation that may limit the field of inquiry (ibid), the semi-structured interview lies between the structured and un-structured interview. It is a process in which there is no formal question, and is instead a series of topics usually introduced from a checklist, and which will be discussed in any order that seems natural during the interview. Wengraf (2001, cited in Maali, 2005) argues that semi-structured interviews are used when informants' responses cannot be predicted in advance, and the interviewer may to a great extent have to modify the procedure of the interview in response to the respondent's replies to the initially prepared questions.

Semi-structured interviews are adopted in this study because they allow space for discussion and encourage the participants or interviewees to raise and elaborate on important related issues, in their own terms, as well as their attitude and experience that are relevant to the research question (Walker, 1985). The interview questions do not aim to seek 'yes' or 'no' answers. All questions raised were open ended, which allow for more dialogue between the interviewees and the researcher. In addition, the semi-structured approach appears to be friendlier and less intimidating

(Cohen and Manion, 1980). Furthermore, to improve data quality, this study employed the face-to-face interview to attain the highest level of response, establish rapport, and motivate the respondent to answer fully and accurately (Judd *et al.*, 1991, p219). In general, the aim of the interview is to investigate the perspective of IFIs' managers on CSR and CSRD.

5.5.1 Sample Selection and Profile of Interviewees

Given that, the purpose of conducting interviews is to gain an insight on the perceptions and attitudes of IFIs management toward social responsibility and its disclosure. Therefore, the people targeted for interview were financial directors, chief executives and chairpersons, as all of them have to some extent an opinion on preparing the annual reports. Technical knowledge of the matter was not a precondition for choosing interviewees (Kamla, 2005), as what is sought in this research is the opinions and perceptions of management on corporate social responsibility and its disclosure. The total number of interviewees was 18 from 9 organisations. 16 (88%) were from IFIs management level and two participants were from IFIs regulatory bodies[9]. The majority (95%) of the participants were males and many of them (44%) were working as financial directors. Of the rest, 16% were CEOs and the rest hold different positions at management level (see Table 5.1). The vast majority of interviewees have more than five years of working in the field of Islamic finance industry. However, it is worth mentioning that more than 50% of the interviewees started their working life with conventional financial institutions where they had long work experience.

The interviewees' names and contact details were obtained from the annual reports and the companies' websites. First, the researcher contacted the potential participants or their secretaries directly by phone, email, and fax (see Appendix Five), and requested an appointment. After

[9]One of the interviewees was from the AAOIFI and the other was the chairperson of the General Council of Islamic Banks and Islamic Financial Institution.

securing an appointment, a letter outlining the general idea and background about the interview and its topic was sent to the interviewees in advance where possible.

Table 5.5 Profiles of Interviewees

Company Name	CFO	Director	CEO	other	Total
Al-Amin	1	0	1	0	2
GFH	1	0		1	2
Bahrain Islamic Bank	1	0	0	2	3
Albaraka Islamic Bank	1	1	1	0	3
ARCAPITA	1	0	0	1	2
KFH	1	0		1	2
Takaful International	1	0		1	2
AAIFIO	1	0			1
CIBAFI	0	0	1	0	1

5.5.2 Procedures of the Interviews

All interviews were conducted in the interviewees' offices. Prior to the interview, the participants were assured that the whole process is confidential and their names and personal details would not be disclosed. Although the assurance was given, only 16 participants gave their permission to record the interviews. An interview guide containing a list of questions was prepared prior to the interview process[10]. This guide (see Appendix Six) would help the researcher to focus on some points and gain the related information in respect to those particular points. The researcher made every possible effort to cover the entire topic; however, the phrasing and sequence of questions varied from one interview to another (Kamla, 2005). At the beginning of each interview, the researcher explained to the participants the aim of the interview and his research, and asked if there were any questions or if any further explanation was required. It was explained to the interviewees that the researcher is not looking for right and wrong answers, but is rather seeking their opinion and

[10] Each question was open ended, and some questions required an extended response with prompts and probes (Gillham, 2000, cited in Kamla, 2005).

perceptions on the matters of discussion. Interviews were carried out in both languages: Arabic and English. This is because some of the interviewees were not Arabic speakers and they preferred to conduct the interview in English. However, most of the interview were fluent English speakers and they offer to conduct the interviewee in English. All interviews last for approximately an hour.

5.5.3 Analysis of the Interviews

According to Gillham (2000), different methods could be employed in transcribing the interview data. Transcribing the data involved a complete written transcript from the whole interview. Doing so helps the researcher to make a complete sense of what the interviewee has said (Gillham 2000). In the current study, 16 interviews were digitally recorded. Then all of the interviews had to be written down word by word. In some cases where the interviews were not recorded[11], the researcher took notes during the interviews. Writing up the transcript was done in the same interview language. In those cases where the interview was done in Arabic, the researcher translated all documents into English and doubly checked the translation with Arabic to English translators on the accuracy of the translation to make sure that the translation carried the same meaning emphasised by the interviewee (Kamla, 2005). However, no variations were found.

The data analysis stage employed Miles and Huberman's (1994) approach to qualitative data analysis. The transcripts are analysed through classification of the interview content into similar or different responses. There are two key aspects involved here: identifying key, substantive points and putting them into categories (Gillham, 2000). The analysis process started with each transcript being identified by a code. Considering the broad questions in the interview guide focus, the researcher read all the transcripts and went through them repeatedly,

[11] Two interviewees preferred not to record the interview, and the researcher respected that and took notes instead.

highlighting the substantive statements deemed relevant to the research focus (Marshall and Rossman, 1999; Gillham, 2000). After going through all the transcripts, the researcher went back to the first one and read it through while listening to the tape at the same time to find any statements and intonations that he had failed to highlight (O'Dwyer, 1999; Kamla, 2005).

The previous stage resulted in a very big representation of statements from the interviews, which required further composition. The following stage was to derive a set of categories for the responses to each question from the highlighted statements, and give them simple heading (Gillham, 2000). These categories and headings were checked against the highlighted statements and any necessary amendments were made. This procedure was repeated twice at different points of time to ensure that no categories and headings were missed (Hanafi, 2006). Subsequently, a big sheet in the form of a matrix was constructed for each broad research question. Categories and headings classified under these questions were entered into the matrix sheets. The researcher then went through the transcripts, assigning each highlighted statements to a category (Gillham, 2000). In addition, a second separate file was maintained to record the overall observations in the meaning of data for all interviews.

5.5.4 Limitations of the Interview

It is recognised that the interview has limitations that researchers should be aware of, such as poor recall and inaccurate articulation, researcher bias (Yin, 2003). In addition, the interviewee's answers may not be a reflection of his or her own beliefs or ideas, but may tend to be answers that would suit the interviewer's expectations or desires (Judd *et.*, 1991). In this regard, Taylor and Bogdan (1984, p. 81) state: "as a form of conversation, interviews are subject to the same fabrications, deceptions, exaggerations, and distortions that characterise talk between any person. Although people's verbal accounts may lend insight into how they think about the world and how they act, there can be a discrepancy between what they say and what they actually do". However, to overcome such limitations in interviews, Yen (2003) suggests the corroboration of interview data by information from other sources, which was undertaken by combining two methods of data gathering, i.e. interview data and content analysis.

5.6 Summary

This chapter has described in depth the research methods adopted for this study. The study has employed both qualitative and quantitative research techniques. Two research methods, namely: content analysis and interview were used. Moreover, in order to carry out data analysis, a T-test[12], Mann- Whitney test[13] and descriptive statistics method were utilised. The chapter initially detailed content analysis methods used, which will be used to present a description of the CSRD practices in both IFIs and CFIs. In carrying out the content analysis, Weber's (1984; 1994) and Wolfe's (1991) seven-step content analysis process was adopted. This was followed by the use of the interview method in order to elicit the perspectives of corporate managers on CSRD and social responsibility in IFIs.

[12] t-test assesses whether the means of two groups are statistically different from each other. This analysis is appropriate whenever you want to compare the means of tow groups.

[13] Mann-Whitney U test is one of the best-known non-parametric significance tests. Used as alternative to a t-test when the data are not normally distributed

Chapter Six

Results of Content Analysis

Chapter Six
Content Analysis Result

6.1 Introduction

Chapter six reports on the results of the content analysis of the surveyed companies. It is divided into two main sections. The first section focuses on content analysis and describes the overall level of CSRD by IFIs and CFIs. The category themes of CSRD are outlined and discussed in the second section. Examples of disclosures are provided throughout this section to illustrate the nature and type of information disclosed. A summary and conclusion of the results are provided in the final section.

6.2 Overall Results of Content Analysis

Table 6.1 below indicates that all the sample companies show some forms of CSRD. Table 6.1 provides an overview of the disclosures made by both IFIs and CFIs. The overall level of CSRD was higher amongst IFIs than CFIs. The average number of words disclosed by IFIs was 1,160 compared with 754.5 by CFIs. Using the t-test for the difference of means, the difference was statistically significant, as indicated in Table 6.3 Panel A. In order to make the results more robust, a non-parametric Mann-Whitney U test was also applied. The results of the U-test support the pervious findings with a p-value <0.05 (see Table 6.3 Panel A), which indicates the significant difference between the two groups. However, the differences in the level of disclosure vary across different themes between the two groups.

It is evident that disclosure under Philanthropy, *Shari'a* Supervisory Board Report (SSBR) and other disclosure is higher within IFIs companies, compared with CFIs. This is perhaps because the first two categories are required by AAOIFI standards. However, SSBR could be irrelevant to CFIs, as their way of conducting business is in contradiction to *Shari'a*. Hence, the second stage of analysis will be conducted after the SSBR item has been excluded from the checklist to examine the effect of excluding this item on the level of disclosure by IFIs. Table 6.3 Panel B indicates that the difference was statistically not significant. This can be explained on the grounds that IFIs pay more attention to show their compliance with *Shari'a*. This is probably owing to the emphasis placed on the social issue in the act that originally regulates IFIs (Maali *et al.*, 2005).

Table 6.1: Total Number of Words and Incidence

Category	IFIs			CFIs		
	No of companies	No of Words	Mean	No of companies	No of Words	Mean
Employee	21	5,031	239	21	4,555	216
Community	15	1,718	81	14	2,303	109
Philanthropy	19	2,782	132	4	608	28
Product & services	17	2,951	140	18	2,822	134
Customer	18	3,853	183	18	4,809	229
Environmental	-	-	-	3	91	4.5
Shari'a Board Report	19	6,523	310	-	-	-
Other disclosure	21	4,866	75	13	946	34
Total	-	27,724	1,160	-	16,143	754.5

Table 6.2: Evidence and Type of News

Group	**Monetary**	**Quantitative**	**Qualitative**	**Good News**	**Neutral News**	**Bad News**
IFIs	2,965	885	23,874	22,154	5,385	185
CFIs	678	957	14,499	14,078	2,056	-

Table 6.3 Panel A: Testing the Difference Between the Two Groups

	t- test	Mann- Whitney test
Significance P value, two- tailed	0.007	.004
Table 6.3 Panel B: Testing the Difference Between the Two Groups After Excluding SSBR		
Significance P value, two- tailed	0.316	0.064

Moreover, additional insight can be obtained from Table 6.2. There is some difference between the two groups in the evidence form of disclosure. IFIs companies are more inclined to disclose monetary information, with 2,965 words compared with 678 within CFIs, while there is a lack of bad news within CFIs. An interesting point was that IFIs, in contrast to CFIs, even with studies from developing countries (see e.g. Imam, 2000; Belal, 2001; Surmen and Kaya, 2003), have given more attention to negative news. Companies might avoid disclosing bad or negative news in their reports, since such information is not favourable to their corporate reputation and therefore may reduce the company's profit or its capital market. The consideration of bad news by IFIs contradicts with the arguments of Deegan and Gordon, (1996) and Jaggi and Zhao, (1996) which have been developed in the context of a liberal market. They would expect most corporate disclosure to be positive in tone. Furthermore, they argue that maintaining the value of company' shares and reputation however, cannot be achieved by disclosing bad news.

From table 6.1, it is clear that employee-related information outweighs CSRD in both CFIs and IFIs[1]. This is consistent with the findings of previous studies, which reveal the popularity of employee disclosure (see, for example, Guthrie and Parker, 1990; Adams *et al.*, 1995; Hackston and Milne, 1996; Belal, 1999; Hanifa, 2006). The drive to disclose employee-related information is attributed to government concern regarding

[1] With the exception of SSBR as this theme is related to IFIs only.

improving the working conditions and standard of life (Andrew *et al.*, 1989; Abu Baker and Naser, 2000, cited in Hanifa, 2006). On the other hand, environmental disclosure received less attention by CFIs, while there is a lack of disclosure by IFIs. The lack of environmental disclosure is in contrast with the literature where researchers have suggested that Islamic corporate reporting should include reporting on the environment (see, for example, Gambling and Karim 1986, 1991; Kamla *et al.,* 2006)

Overall, apart from *Zakah*, SSBR and free interest loans (see page 133) which have been disclosed by IFIs, there are no considerable differences between the two groups in terms of items disclosed. However, disclosing these items by IFIs is consistent with previous studies (see, for example, Haniffa, 2001; Lewis, 2006; Maali *et al.,* 2006), as they argue that disclosing such information is part of discharging accountability to Allah.

6.3 Themes of CSRD

In this section, each theme and sub-theme in the checklist will be analysed individually, and then the differences between the two groups will be examined. The evidence and type of news for each theme and sub-them are analysed and illustrated by tables.

6.3.1 Employee

Employee related disclosure is one of the most popular categories in CSRD. Employee information is undoubtedly of major interest to employees and ethical shareholders (Adams *et al.,* 1995). Many different types of employee related information could be disclosed, including employee training and development, employee benefit, recruitment and redundancies, etc. As can be seen from Table 6.4, all companies in the sample disclosed some form of employee related information. Table 6.4 describes the quantity of human resource information disclosed by each group. Overall, there is no difference in the number of incidences between the two groups. However, IFIs provided the greatest quantity of disclosure, with a total number of 5,031 words and an average of 239 per company, while the total number of words disclosed by CFIs was 4,555 with an average of 216 per company.

Table 6.4: Total Number of Words and Incidences of Employee Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
Employee Data	14 out of 21	347	7 out of 21	143
Equal Opportunity	2 out of 21	44	2 out of 21	22
Training &Development	17 out of 21	1282	11 out of 21	867
Appreciation& Thanks	15 out of 21	508	17 out of 21	363
Employees' Benefit	10 out of 21	1380	11 out of 21	1090
End Service Indemnity	15 out of 21	834	13 out of 21	662
Pension	6 out of 21	158	6 out of 21	195
Localisation of Employees	4 out of 21	91	10 out of 21	604
Work place	1 out of 21	16	2 out of 21	91
Other	8 out of 21	371	4 out of 21	518
Total	21 out of 21	5031	21 out of 21	4555

Table 6.5: Evidence and Type of News of Employee Disclosure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	1101	454	3476	3665	1351	15
CFIs	283	724	3548	3053	1502	-

The level of words disclosed varied significantly within each group. However, both groups showed more attention to training and development; employee benefit and end service indemnity, while the least disclosure was given to equal opportunity (see Table 6.4). Table 6.5 shows that there might be some observable trends in the incidence of each type of disclosure (qualitative, quantitative and monetary), as well as the type of news (good, neutral and bad).

In general, many of the disclosures were qualitative. Disclosure of either quantitative or monetary information was relatively less common within the two groups, the main exceptions being in the area of employee benefit, where high monetary disclosure was given by IFIs compared with CFIs. Moreover, it is evident from Table 6.4 that more space for disclosure is dedicated to good news in both groups, while the proportion of neutral and bad news is slightly low. However, IFIs are more inclined to disclose bad news than CFIs.

6.3.1.1 Employee Data

Most of information under this subcategory was in the form of general statements or short sentences. The disclosure was usually made on the total number of employees under contracts of service in the financial year and its comparison with the figure of previous year. As reported in Table 6.4, 21 companies (50%) of the sample gave at least some information relating to employee data, with the incidence of disclosure rating from high 14 companies (66%) by IFIs to low 7 companies (33%) within CFIs. The level of words disclosed varied significantly between the two groups. Disclosure was most common in IFI reports (347 words), while they were lower within CFIs (143 words). Given the nature of these disclosures, the large percentage of the disclosures made were often quantitative, and tended to be good or neutral news (see Table 6.6), with the exception of one IFI which disclosed some bad news: it stated some decrease in the number of employees compared with last year[2], while no explanation was given on staff cut-backs. The following quotations provide examples of quantitative good and bad news:

> *The total number of employees as at 31 December 2004 was 525 including 77 employees of the subsidiary (31 December 2003:489, including 70 employees of the subsidiary (BKME, 2004).*

[2] Decreasing the number of the employees may not be seen as bad news but rather it may be considered efficiency. However, the researcher and the independent coder agreed to consider it as bad news since the company did not mention the reason for the decrease in the number of the employees.

And

> *As of February 2004, the company has 166 employees (175 employees in 2003) (Altwfeeq, 2004).*

Table 6.6: Content Analysis Results of Employee Disclosure

Sub-theme	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Q (B)		Qualitative N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI
Employee data											302	95	15		15		15	48	347	143
Equal opportunity																	44	21	44	21
Training & development						5					48	167			67	22	1167	673	1282	867
Work place environment																	16	91	16	91
Employee benefit			528	24	392	150				277				2	29	329	431	311	1380	1091
Appreciation & thanks					34										46	56	428	307	508	363
Pension						64											158	131	158	195
Localisation of employee											36	185			18	46	37	373	91	604
End service			7		92	36									197	89	538	537	834	662
Other ISO+ reward			39		9	4					68				138	409	117	105	371	518
Total			574	24	527	259				277	454	447	15		510	951	2951	2597	5031	4555

(B): Bad News; (N): Neutral News; (G): Good News.

6.3.1.2 Equal Opportunities

As can be seen in Table 6.6, information on equal opportunities was slightly less common, as it is disclosed by only four companies (9%) of the total sample. Since equal opportunity is a significant part of social responsibility and justice in Islam (see Chapter Four), it was expected that the number of incidences will be higher within IFIs. Overall, the result was surprising if not disappointing. The number of incidences was equal in both groups, with two companies (9%) in each group disclosing little information on equal opportunity. The level of words disclosed was 44 words by IFIs, and 22 words by CFIs companies. Most of these disclosures tended to be declarative and were good news oriented. This could be illustrated by reference to the following disclosure made by the Unicorn Bank and the Burgan Bank:

> *We attract, retain and motivate people from diverse backgrounds, thus we have a mix of cultures, languages, perspectives, skills and experiences (Unicorn, 2004)*

And

> *..., the introduction of a fair process system whose hallmark is the objectivity and transparency in developing, nurturing and rewarding the Burgan bank staff (Burgan bank, 2004).*

6.3.1.3 Training and Development

Training and development were the predominated disclosure under the employee theme. Disclosure about training and development was made by 28 companies (66%) of the total sample, with the number of incidences ranging from a high of 17 companies within IFIs to a lower level of 11 companies within CFIs. The level of disclosure varied widely between the two groups. Yet again, disclosure was most common in IFIs reports (1282 words), while they were less commonly found in CFI reports (867 words).

Information on employee training and development issues was mainly qualitative and a mixture of good and neutral news in both groups. However, few companies reported some quantitative information. The following quotations provide examples of these disclosures.

> *QNB is committed to retaining its employees' trust and loyalty and to maintaining their development needs. To that end, we are complementing our extensive range of training activities with new and enhanced training and management development programs. Comprehensive training plans were formulated to respond to the bank's evolving business requirement and to meet the needs of employees, particularly Qatari graduates from colleges and universities wishing to embark on banking careers (QNB, 2004) .*

6.3.1.4 Appreciation and Thanks

Most disclosures under this sub-theme were largely general statements of appreciation or acknowledgment. Such statements were given by 32 companies (67%) of the total sample, with the number in each group ranging from 17 companies within CFIs to 15 companies within IFIs. There was no significant difference in the level of disclosure between IFIs and CFIs. The number of words disclosed by IFIs was 508 words compared with 363 words by CFIs. Most of these disclosures tended to be declarative and were good news. The only exception was by one Islamic bank (ARCAPITA), which disclosed some monetary information. The following quotations provide typical examples of monetary and qualitative disclosure:

> *Despite an increase in the number of employees during the year from 142 to 144, the revenue generated per employee has continued to increase, reaching $ 1.3*

> *million per employee, compared with $ 1.1 million in the previous year, which reflects a strong underlying improvement in both efficiency and productivity (ARCAPITA, 2004).*

And

> *Finally, I would like to thank the Bank's management and staff, whose commitment and dedication have contributed to the successful achievement of our objectives (Shamil Bank, 2004).*

6.3.1.5 Employee's Benefit

Disclosures in this sub-theme primarily include information regarding share option schemes, loans to employee, bonuses and any benefit packages to employees. The number of companies disclosed information on employee's benefit was 28 companies (66%) of the total sample. Overall, there were no big differences in the numbers of disclosure incidences between the two groups. Nevertheless, IFIs appeared to disclose the greatest quantity of disclosure, with the total number of words disclosed being 1380, while the total number of words disclosed by CFIs was 1091 (see Table 6.5). The vast majority of words disclosed by CFIs tended to be qualitative and good news. One good example is illustrated in the following example:

> *During the year, the bank established an Employee Stock Ownership Plan (ESOP) to recognize and retain good performing key employees. The plan gives the employee the right to own the Bank's shares at the issue price (DUBAI ISLAMIC BANK, 2004).*

In contrast, information disclosed by IFIs tended to be monetary with the number of words disclosed being 920, compared with 174 words by CFIs.

The following quotations illustrate the monetary and quantitative disclosures:

> *The annual amounts of the bonus are based on the percentage of the bank's net profit in excess of a predetermined hurdle rate as set out in the bank's Article of Association. As per the terms of the programme, employees are entitled to receive a bonus in the form of the cash and shares in ratios determined by the term of the programme and as approved by the Board of Directors. Under the programme, maximum shares of US$ 11,500 thousand are to be issued at par and vested to the employees at stages in accordance with a pre-determined formula specified in the programme......The total bonus amount for the year 2004 was US$ 9,426 thousand (2003: US$ 2,235 thousand), of which US$ 4,000 thousand from the share premium account pursuant to a shareholder's resolution in 2003 and balance of US$ 5,426 thousand was charged to the 2004 income statement (Gulf Finance House, 2004).*

And

> *The annual general assembly held on 18 April 2004 approved the board of directors' proposal to implement an employee share purchase scheme and to issue to the staff 3,000,000 shares (representing 2% of the paid-up capital) during the year 2004 as per the conditions stipulated in the scheme. Consequently, during December 2004, the 3,000,000 shares, with a par value of 100 fils per share were issued and allocated to eligible employees at a price of 111fils per share (Aldar Finance Co).*

6.3.1.6 End of Service Indemnity

Disclosures under this sub-theme were common in both groups. 28 companies (66%) of the total sample provided information on "End of Service Indemnity". However, more of such information was disclosed within IFIs companies, with 15 companies disclosing information compared with 13 companies by CFIs. The information disclosed tended to be general policy statements. The level of words disclosed was relatively similar in both groups. 834 words were disclosed by IFIs compared with 662 words within CFIs. However, the large percentage of disclosure under this sub-theme was qualitative in nature and good news in both groups (see Table 6.6). Both quantitative and monetary information was less common in both groups. The following quotation gives an example of qualitative disclosure:

> *The group provides for its staff end of service indemnity on the basis of employees' accumulated periods of service; it is in accordance with the provisions of the Kuwait labour law of the private sector, and group companies' pay laws. (Al Dar Finance Company, 2004).*

6.3.1.7 Pension

Overall, the number of incidences under this sub-theme was relatively less common in both groups. Few companies disclosed information on its pension scheme. Only 11 companies (26%) of the total sample disclosed information; six companies were IFIs and five were CFIs. In addition, the level of disclosure was also low in both groups. CFIs tended to disclose more information, with 195 words compared with the 158 words disclosed by IFIs. The nature of disclosure regarding pension was to some extent similar in both groups. As in many other employee sub-themes, the policy statements tended to be more common. Information on pension issues was mainly of a descriptive nature. However, some financial and quantitative information was reported by a small number of companies (see Table 6.6). The following quotation is a typical example of this type of disclosure:

> *During the year an amount of AED 2.75 million (2003: AED 2.089 million) has been charged to the Income Statement in respect of the bank's contribution to the UAE Pension and Social Security Scheme set up by the UAE Government to provide retirement benefits for UAE citizens.*

6.3.1.8 Localisation of Employees

Disclosure under this sub-theme includes information about recruiting local or national employees. Companies in Gulf Countries have attempted to demonstrate their contribution to reduce the level of national unemployment by recruiting a national workforce. Table 6.4 shows that 14 companies (33%) of the total sample disclosed information about nationalising of employee. As expected, the disclosure was far more common in CFIs, with 10 companies disclosing compared with only 4 companies within IFIs. This could be explained on the basis that IFIs, which are meant to follow the Islamic values, are less concerned about this sub-category[3]. The level of disclosure by CFIs was higher, as they disclosed 604 words, compared with only 91 words by IFIs. Disclosures under this sub-theme mostly included statements showing the success of the companies in increasing the number of national staff within the companies' workforce. Most of the disclosures were purely descriptive, with few companies providing quantitative descriptions. The following quotation provides an example:

[3] The concept of brotherhood, which considers all Muslims to be brothers and sisters, is contradictory to nationalism. The Holy prophet 'prays and peace upon Him' said, "No Arab has superiority over non-Arab and no non-Arab has any superiority over an Arab; no dark person has superiority over a white person and no white person has superiority over a dark person. The criterion of honour in the sight of God is righteousness and honest living". Thus in Islam all people are equal and should be treated equally.

> *Promoting the bank's position as one of the pioneering banks in the country, in terms of high Emiritization reaching 33% of the total staff of the bank, of whom 36% hold senior management positi*ons (Commercial Bank of Dubai, 2004).

6.3.1.9 Work Place Environment

Work place environment covers information related to the work place and any facilities in the work place for employees. Few companies disclosed information on work place: only three companies in the total sample, of which two were within CFIs with the total number of word disclosed being 91, while only one IFI disclosed 16 words. Most of the disclosures made were qualitative and tended to be neutral, as shown in the following quotation.

> *... Create an active working environment with one team spirit to create invention, efficiency and creativity.*

6.3.1.10 Other

This includes any other general social disclosure related to employees. No substantial disclosure under this sub-theme was found. However, employees' rewards, ISO awards by the human resource departments and loans to employees were the most dominant items disclosed. As reported in Table 6.4, the level of disclosure was higher by CFIs, as they disclosed 518 words compared with 371 words by IFIs, while the majority of disclosure in both groups was qualitative and good news in nature. Below are examples of this disclosure:

> *Human Resources Department receives ISO 2000:9001 from international specialized company (Commercial Bank of Dubai, 2004).*

And

> *Furthermore, the bank enhanced its Performance Management & Reward Process to increase objectivity and transparency in developing, nurturing and rewarding Bank staff (Burgan Bank, 2004).*

6.3.2 Community

'Community theme' is considered next in popularity to employee theme (Zain, 1999). This kind of disclosure was a prominent theme of social responsibility in the 1990s and early 2000s. Disclosure under this theme covered items such as community investment, contribution to national economy as well as education support, health support, free-interest loan and public welfare. 29 companies (69%) of the total sample disclosed information on the 'community'. The average number of words disclosed by IFIs was 81, compared with 109 by CFIs. Although CFIs reported more disclosure of community information with total number of 2303 words compared with 1718 words by IFIs, the number of companies disclosing community information was 15 within IFIs, compared with 14 companies within CFIs. However, the high level of disclosure in this category might be a good opportunity for companies to portray themselves as good citizens in their societies. Table 6.7 shows that the level of disclosure varied between the two groups across all the sub-themes. It is observable that there is a lack of disclosure under social loan by CFIs, compared with 338 words by IFIs. However, this was expected since disclosure under this sub-theme is required by AAOIFI standards. In addition, the highest level of disclosure was in qualitative nature and tended to be good news in both groups (see Table 6.7). It was noted also that both groups disclosed monetary information, with IFIs receiving the highest score.

Table 6.7: Total Number of Words and Incidences of Community Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
Community investment	6	575	8	455
Contribution to national economy	8	624	8	967
Education	4	93	11	122
Health	2	69	1	84
Social Loan	5	338	-	0
Social activities support	1	19	8	664
other	-	0	1	11
Total	-	1718	-	2303

Table 6.8: Evidence and Type of News of Community Disclosure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	497	50	1171	1530	188	0
CFIs	92	114	2097	2060	243	0

6.3.2.1 Community Investment

The community investment sub-theme covers information related to investing in improving the life of community. As shown in Table 6.7, the number of companies disclosing community investment information was relatively low. Only 14 companies (33%) of the total sample disclosed information; six companies were IFIs and eight were CFIs. The highest level of disclosure was among IFIs with 575 words, compared with 455 words from CFIs. In general, the disclosures made were often describing activities undertaken. by the companies. The large percentage of these disclosures was qualitative and good news in both IFIs and CFIs (see Table 6.8). However, monetary disclosure was higher from IFIs. The following quotation by GFH offers an example of monetary information:

> *Royal University for Women: In 2002, GFH and a syndicate of GCC investors obtained the necessary approval to establish a private women's university in Bahrain with a capitalisation of US$ 6.5 million. The university is the first private women's' university in the GCC focusing in the main field in- business, education, design and computer science. Its international affiliation includes McGill University (Canada) and Middlesex University (United Kingdom)* (GFH, 2004).

6.3.2.2 Contribution to National Economy

This theme is related to information on the building and development of the national economy. A total of 16 companies (38%) of the sample reported information on their contribution to the national economy. The number of companies disclosed was equal in both groups. It is apparent from Table 6.7 that this sub-theme was given the highest level of attention by the two groups. The volume of words disclosed was relatively higher from CFIs with 967 words, compared with IFIs with 624 words. Table 6.8 shows that the majority of disclosures in both groups were dominated by qualitative good news. However, only one CFI reported some monetary disclosure. The following quotation provides an example of these disclosures:

> *The most significant among number of major projects launched during the year was the US$ 685 million modernisation of the refining facilities at Bahrain Petroleum Company, a project of vital importance to Bahrain's economic infrastructure. The bank was mandated lead arranger in the financing of this project with substantial underwriting commitments* (National Bank of Bahrain, 2004).

6.3.2.3 Education Support

The level of disclosure under this sub-theme was relatively low in both IFIs and CFIs. The total volume of words disclosed was 122 words by CFIs, while IFIs disclosed 93 words. In general, education support disclosures were mostly qualitative and tended to be good and neutral news. Little monetary information was disclosed by IFIs. The following quotation provides an example of monetary good news:

> *The bank also promised to pay US$ 500,000 towards the construction of a 'Centre for Gifted' in cooperation with the Ministry of Education incidence* (GFH, 2004).

5.3.2.4 Health Support

This theme covers information related to the support given by the companies either financially or otherwise to the health sector in the community. Only two companies (9.5%) within IFIs and one company (4%) within CFIs disclosed information on health support. However, the level of disclosure was higher from CFIs, with 84 words disclosed compared with 69 words by IFIs. Disclosures were all mixtures of quantitative and monetary (see Table 6.8). Only one IFIs disclosed some monetary disclosure. The following quotation provides examples of monetary good news:

> *With the increasing need to deliver the best healthcare services outside the metropolitan area, the Bank has financed the construction of the 'Al Dair' health centre project, which is scheduled for completion in 2005. The new health centre will serve Al Dair community and the surrounding area. Facilities which AlDair health centre will provide include: 5 consultation rooms, an X-ray section… (National Bank of Bahrain, 2004).*

6.3.2.5 *Alqard- al-hasan* (Social loan)

This kind of loan is provided by the banks to low income and poor members of the community. It is usually given for social purposes and in some cases provided to commercial clients who are in difficulty, and it is totally free-interest loan. Surprisingly, we find that only five companies (23%) within IFIs disclosed information under this sub-theme. The total number of words disclosed was 338. Most of these disclosures were monetary and good news and the rest were qualitative neutral. It is difficult to justify the lack of disclosure under this sub-theme by CFIs. However, this could be because of the business culture of CFIs, which is based on maximising profits only. The following Table provides examples of monetary good news:

Consolidate Statement of Sources Uses of Good Faith Ward Fund

	2004	*2003*
Original sources of ward fund		
Contribution by the bank	*125,000*	*125,000*
Donation	*3,000*	*3,010*
Movement of fund		
Cash balance at the beginning of the year	*91,017*	*93,739*
Investment received	*32,957*	*36,368*
	123,971	*130,107*
Uses of ward fund		
Marriage	*7,900*	*12,100*
Refurbishment	*3,500*	*8,500*
Medical treatment	*1,000*	*5,040*
Education	-	*5,500*
Other	*2,100*	*7,950*
Total uses	*14,500*	*39,090*
Cash balance at the end of the year	*109,471*	*91,017*
Quard Hasan instalments outstanding as at the end of the year	*18,539*	*36,993*
	128,010	*128,101*

Source: Bahrain Islamic Bank (2004)

6.3.2.6 Social Activities Support

There is a significant difference in the number of incidences between the two groups under this sub-theme. In general, disclosures were dominated by CFIs. 8 companies (38%) within CFIs disclosed 664 words compared with only one company (4.7%) within IFIs with 19 words disclosed. The nature of disclosure regarding social activity support was very similar to some extent between the two groups. Most of these disclosures were qualitative good news, with very few CFIs providing qualitative neutral news. The following quotations provide examples of qualitative good news.

> *GFH also made contributions to the children's summer programme, of the Muharraq club, to the supreme council for Women.......(GFH, 2004).*

And

> *QNB is committed to continuing to influence the community in positive ways through continued sponsorship opportunities and offering financial support to enhance the well-being and quality of life of all Qatar residents (QNB, 2004).*

Table 6.9: Content Analysis Results of Community Disclosure

Sub-them	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Qualitative (B)		Qualitative (N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI
Community investment					127	81					50	30			57	35	341	309	575	455
Contribution to national economy						11									84	61	540	895	624	967
Education support					10											15	83	107	93	122
Health support					69					84									69	84
Social loan (free interest)					291										47				338	
Social activity support																48	19	616	19	664
other																		11		11
Total					497	92				84	50	30			188	159	983	1938	1718	2303

(B): Bad News; (N): Neutral News; (G): Good News.

6.3.3 Philanthropy

This category focuses on disclosure relating to philanthropic activities by companies. Many types of philanthropy-related information, including donation and charity, *Zakah*[4] (see Chapter Four) and any other related information, could be reported under this theme. Given the nature of these activities, various types of qualitative, quantitative and monetary information are likely to be relevant. As shown in Table 6.10, both groups have some kind of philanthropic disclosure. Only 22 companies (52%) of the total sample highlighted at least some philanthropic information. Most of these companies were within IFIs, as 18 companies (85%) of them disclosed information on their philanthropic activities compared with only 4 companies (19%) by CFIs. Table 6.10, shows the level of philanthropic disclosure in the two groups. The total number of words disclosed was considerably higher in IFIs with 2782 words compared with 608 words disclosed within CFIs.

Table 6.10: Total Number of Words and Incidences of Philanthropy Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
Charity & Donation	9	487	4	608
Zakah	18	2295	-	-
other	-	-	-	-
Total	-	2782	-	608

[4] There is controversy among Islamic scholars as to whether businesses have to pay *Zakah*. However, according to The Islamic Fiqh Academy Conference which was held in Kuwait (1984), it is not obligatory for businesses to pay Zakah, unless such requirement is imposed by law (Maali *et al.*, 2006)

Table 6.11: Evidence Form and Type of News of Philanthropy Disclosure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	1224	279	1279	1319	1463	-
CFIs	235	81	292	608	-	-

As can be seen from Table 6.10, two types of philanthropic information were disclosed. However, *Zakah* was noted as the prominent item disclosed by IFIs, while there was a lack of disclosure under *Zakah* by CFIs. A high level of disclosure reported under this theme was found within IFIs because it is required by AAOIFI standards. Most of the information found in both groups was qualitative and monetary (see Table 6.11), while neutral and good news were the dominant types of news provided by the two groups. However, few words were disclosed as bad news within IFIs.

6.3.3.1 Charity and Donations

The topics covered under this sub-theme include contributions to charitable organisations, undertaking charity campaigns, providing financial and other help to needy people etc. As shown in Table 6.10, very few companies gave information on charity and donations. Of the 13 companies (28%) reporting information on charity activities, 9 of them were IFIs, while 4 were CFIs. The number of words disclosed was slightly higher in CFIs, with 608 words compared with 487 words disclosed in IFIs. The vast majority of words disclosed by IFIs were monetary and tended to be good news, while more than 83% of the words disclosed by CFIs were qualitative and monetary and tended to be good news. The following quotation provides an example of such disclosure.

> *Prior to Ramadan, the funds of 79 local charities received a major cash injection from the National Bank of Bahrain. The 79 charity funds included all of those charities registered with the Ministry of Labour and Social Affairs. Each charity fund received BD 1,500 or BD 1,000 depending on the charity's size and scope of activities. The Bank has supported these local charities for the past eight years with contributions totalling more than BD 600,000. The Bank's objective in contributing to local charities was to help the needy people in the Kingdom of Bahrain. The Bank also continued to support all other major charitable organizations in Bahrain (National Bank of Bahrain, 2004).*

6.3.3.2 *Zakah*

Disclosures under this sub-theme cover any information related to *Zakah*. The *Zakah* (see Chapter Four) is a sort of charity which is given in compliance with the role of Islam. It is the responsibility of the shareholders and depositors to pay their *Zakah* on their funds invested in the banks (Maali et al, 2006). However, many of these disclosures are driven by the AAOIFI standards requirements. It is evident from Table 6.10 that *Zakah* disclosure was dominated by IFIs and that none of the CFIs disclosed any information on *Zakah*. This could be justified, as CFIs are not driven by the value of Islam in conducting their business. This is apparent since CFIs are involved in 'interest' and other financial transactions, which are contradictory to *Shari'a*. Therefore, CFIs that are meant to be secular do not pay attention to the requirements of religion in conducting their business.

18 IFIs (85%) provided information on *Zakah*. Most of the disclosures made refer to the companies' policy toward *Zakah* and its calculation and distribution system. However, the quantity of information given varied greatly among IFIs. At one extreme, a company such as Dubai Islamic Bank disclosed 454 words, while at the other, a company such as ICIEC

disclosed only 22 words. Disclosures were mixtures of qualitative, quantitative and monetary information encompassing a combination of both good and neutral news. The following quotation is an example of *Zakah* disclosure:

> *Zakah is directly borne by the shareholders and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of the shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Banks religious Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders in respect of the year ended 31 December 2004 was US cents 0.33 (2033:US cents 0.31) for every share held.*

Table 6.12: Content Analysis Results of Philanthropic Disclosure

Sub-theme	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Qualitative (B)		Qualitative (N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI
Charity & donation			3		454	235					19	81				17	11	275	**487**	**608**
Zakah			333		434				208		52				919		349		**2295**	**0**
Other																				
Total			**336**		**888**	**235**			**208**		**71**	**81**			**919**	**17**	**360**	**275**	**2782**	**608**

(B): Bad News; (N): Neutral News; (G): Good News.

6.3.4 Products and Services

Products and services disclosure was classified under four sub-themes and includes developing and innovating new products, quality of products and services, ISO and other awards. The number of companies disclosing information under this theme was quite similar in both groups. 35 companies (83%) of the total sample disclosed information on products and services; overall 17 companies (80%) of them were IFIs and 18 companies (85%) were CFIs. The level of words disclosed was considerably high in both groups, with 2951 words disclosed by IFIs and 2822 words disclosed by CFIs. The high level of words disclosed under this theme could be justified, since products and services are the most direct connection which clients have with the company and will therefore be very influential on the company's name. It is apparent from Table 6.13 that the vast majority of disclosure in both groups (82%) was dominated by development and innovation sub-theme. The nature of information disclosed was similar in both groups, and tended to be qualitative, and most of it was good news (see Table 6.14).

Table 6.13: Total Number of Words and Incidences of Products and Services Disclosure

Category	**IFIs**		**CFIs**	
	No of incidences	No of Words	No of incidences	No of Words
Developing & innovating new products	18	2524	17	2284
Products & services quality	9	256	10	386
ISO & other awards	3	171	4	188
Other		-	-	-
Total	-	2951	-	2822

Table 6.14: Evidence Form and Type of News of Products and Services Disclosure

Group	**Monetary**	**Quantitative**	**Qualitative**	**Good News**	**Neutral News**	**Bad News**
IFIs	-	-	2951	2913	38	0
CFIs	-	-	2822	2806	16	0

6.3.4.1 Developing and Innovating New Products and Services

Disclosure on products and services is usually found in the Business Review section of the annual report, and focuses mostly on introducing and the development of the products and services offered by the company. More than 85% of the companies in both groups disclosed information under this sub-theme, with the level of disclosures ranging from 2284 words by CFIs to 2524 words by IFIs. The vast majority of disclosures tended to be qualitative in nature and good news as illustrated in the following example:

> *GFH also introduced innovative Sharia'a-compliant structures such as "investment notes", "Financing Notes" and "Participating Rights" that have found wide acceptance in the market and which have enabled GFH to consolidate its pioneering position among other Islamic and conventional banks* (GFH, 2004).

However, only one company in each group disclosed few neutral news disclosures. The following quotation provides an example of this kind of disclosure.

> *We are pleased with our progress on each of these important fronts and view these accomplishments as affirmation of our strong future prospects in terms of our ability to innovate new products and services (Bahrain Islamic Bank, 2004).*

Table 6.15: Content Analysis Results of Products and Services Disclosure

Themes	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Qualitative (B)		Qualitative (N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI
Developing & innovating new products															38	16	2486	2243	2524	2259
Products & services quality																	256	375	256	375
ISO & other awards																	171	188	171	188
Total															38	16	2913	2800	2951	2822

(B): Bad News; (N): Neutral News; (G): Good News.

6.3.4.2 Quality of the Products and Services

Only 19 companies of the total sample reported information on quality of products and services. Of the 19, ten companies were within the CFI group and nine companies belong to the IFI group. The number of words disclosed was slightly higher in the CFI group with 386 words disclosed compared with 256 words disclosed by IFIs group. The disclosures were mostly qualitative in both groups (see Table 6.13), and companies mentioned good news only. However, companies disclosing information under this sub-theme tended to give very general and non-specific information about their strategies and policies, as shown in the following quotation:

> *The bank of Bahrain and Kuwait will be the premier financial services enterprise in providing superior products and services of high quality through innovation, technology and 'life long' customer relation (BBK, 2004).*

6.3.4.3 ISO and Other Awards

Disclosures under this sub-theme cover any information related to ISO or any other awards received by companies related to their products and services. The total number of companies disclosed was seven. Out of these seven companies, four belonged to the CFIs group and three were within the IFIs group. However, the level of words disclosed was slightly higher from CFIs, with 188 words compared with 171 words by IFIs. Again, all disclosures were qualitative and good news by both groups. The following quotation provides an example:

> *The bank was proud to be selected as the 'Best Bank in the UAE' and "Best Foreign Exchange Bank in the UAE" by 'Global Finance' magazine. These awards are a further testimony to the bank's continuing drive to be a world class bank and to continuously meet and exceed customer*

needs and expectations (Dubai National Bank, 2004).

6.3.5 Customers

Disclosure under this theme primarily covers information such as customer service, meeting customer needs, customer satisfaction, policy relating to insolvent clients and any other particular provision provided to customers. As indicated in Table 6.16 below, information under the customer category was very common. 18 companies in each group provided information related to their customers. Overall, the number of words disclosed ranged from 4809 words by CFIs to 3853 words by IFIs. The most predominant sub-theme for the two groups was customer service. However, there was a lack of disclosure by CFI groups under the insolvency client policy sub-theme and meeting customer needs sub-theme. The nature of disclosure was to some extent similar in both groups, with the vast majority of disclosure being qualitative and good news.

Table 6.16: Total Number of Words and Incidences of Customer Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
Customer service	14	2826	16	3742
Meeting customer needs	6	135	-	-
Customer satisfaction	7	267	8	250
Insolvency client policy	1	12	-	-
Difficulty in reaching customers	1	25	1	19
other	11	588	9	798
Total	-	3853	-	4809

Table 6.17: Evidence and Type of News of Customer Disclosure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	-	77	3776	3543	310	-
CFIs	-	38	4771	4514	295	-

Table 6.18: Content Analysis Results of Customer Disclosure(B): Bad News; (N): Neutral News;

Themes	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Qualitative (B)		Qualitative (N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI
Customer service											77	38			43		2706	3704	2826	3742
Meeting customer needs																	135		135	0
Customer satisfaction															267	250			267	250
Late payment																	12		12	
other																45	613	772	613	817
Total											77	38			43	45	3733	4726	3853	4809

(B): Bad News; (N): Neutral News; (G): Good News.

6.3.5.1 Customer service

This sub-theme received the highest level of customer disclosure. Information regarding customer service was disclosed by 30 companies (71%) of the total sample, with the number of disclosed companies in each group ranging from 16 by CFIs down to 14 by IFIs. There was also a little difference in the level of disclosure between the two groups. The total number of words disclosed was most common among CFIs 3742 words and less common among IFIs 2826 words. The vast majority of information disclosed between the two groups was qualitative in nature and tended to be good news (see Table 6.18). An example of these disclosures can be found in the following quotation.

> *Within the framework of the Bank's plan for offering its customers convenient, easily accessible services and for allowing customers to satisfy their needs effortlessly, two new branches were opened in 2004, namely the Shk. Khalifa Street Branch.........Furthermore, in its effort to enhance its domestic banking service, the Bank implemented a new channel in 2004 including the Call Centre providing customers with 24-hour phone banking assistance (ABU DHABI ISLAMIC BANK, 2004).*

6.3.5.2 Meeting Customer Needs

Disclosure under this sub-theme was related to the information on the services offered by the companies to meet their customer needs. The most common type of disclosure was about designating some branches or sections within the companies to serve their women customers. These branches are staffed mainly by women to serve those women customers who prefer to be served by women. Such a service meets the needs of the religious and cultural doctrine[5] of the community in which they operate.

[5] Segregation between male and female is strongly recommended in Islam; therefore, some IFIs try to offer a facility for their customers where there is no mix environment between males and females.

Only 6 companies within IFIs disclosed some information under this sub-theme, with the total number of words disclosed being 135 words. Yet again, the reason for the lack of disclosure by CFIs might be that CFIs do not pay attention to the religious doctrine, since its core business activities conflict with the teaching of Islam. The information disclosed tended to be descriptions of the facility provided. The following quotation provides an example of these disclosures:

> *Further, with the launch of our ladies' branch in September, we are also focused on better positioning the bank to meet the various needs of multiple customer segments (Bahrain Islamic Bank, 2004).*

6.3.5.3 Customer Satisfaction and Complaints

Of the 17 companies (40%) reporting information on customer satisfaction, 9 companies were IFIs, while 8 companies were CFIs. The number of words disclosed was slightly higher from IFIs companies, with 267 words disclosed compared with 250 words disclosed by CFIs. Most of these disclosures were inclined to be general statements. The disclosures by both groups tended to be qualitative in nature and neutral news (see Table 6.18); the following quotation provides a good example of these disclosures as following:

> *Higher level of customer satisfaction and a parallel growth in revenues were witnessed" (BKME, 2004)*

6.3.5.4 Policy Relating to Insolvent Clients

As most of our samples are in Muslim countries, and given that Islam encourages the lender to grant the debtor who is in difficulty sometime until it is easy for him or her to repay, and even encourages the lender to remit the debt by the way of charity, the researcher therefore expected to find financial institutions which would disclose their policies of any late payment by clients, and to discover how they deal with clients who are insolvent. Surprisingly, only one company (2.38%) within the IFI group disclosed some information under this sub-theme. This disclosure was a general statement of the company policy, and tends to be qualitative and good news as illustrated in the following quotation:

> *Once payment is overdue, no additional charge is made or income accrued* (ICIEC, 2004).

6.3.5.5 Provision for Difficulty in Reaching Customers

Information on difficulty in reaching customers was not common in both groups. As can be seen in Table 6.15, only one company (4.7%) in each group disclosed some information under this sub-theme. Yet again, the level of disclosure was very low, with only 25 words disclosed by IFIs, while only 19 words were disclosed within CFIs. Most of these disclosures tended to be qualitative in nature and a mixture of good and neutral news. The following quotations illustrate examples of these disclosures:

> *The Bank opened a new branch in South Surra, which is the only bank branch in this newly developed district (Burgan Bank, 2004).*

6.3.6 Environmental Issues

Disclosure under the heading 'environmental issues' includes matters related to environmental issues, such as lending and investment policy, recycling activities, sponsoring environmental activities, etc. The number of companies disclosing information under this theme was very limited. Only three companies (7%) of the total sample disclosed some information related to environmental issues. While the number of companies might be considered very low, it is even unexpected that none of IFIs disclosed any information under this theme. The level of disclosure was very poor, with only 91 words disclosed as shown in Table 6.19.

Table 6.19: Total Number of Words and Incidences of Environmental Issues Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
lending and investment policy	-	-	-	-
Recycling activities	-	-	-	
Sponsoring environmental activities	-	-	3	91
Other	-	-	-	-
Total	-	-	-	91

Table 6.20: Evidence and Type of news of Environmental Issues Disclosure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	-	-	-	-	-	-
CFIs	-	-	91	91	-	-

Moreover, most of the disclosure was about general activities and none of the disclosed companies mentioned their policies in financing environmental friendly projects, as expected. However, the reason for the lower level of disclosure under this theme could be that the financial industry is not directly affecting the environment compared with other industries. However, most of the disclosure tended to be qualitative and good news. The following quotation provides an example of these disclosures:

> *Recognising the need to promote the environmental awareness and to protect our environment, the Bank has sponsored the activities of Kuwait's Scientific Centre Aquarium for the last three years, including "Diving with the Sharks" programme at the*

Aquarium, which is aimed at educating children on the importance of the sea creatures (Burgan Bank, 2004).

6.3.7 *Shari'a* Supervisory Board Report (SSBR)

This theme is unique to IFIs.[6] As mentioned earlier (see Chapter Four), one of the primary objectives of accounting and reporting from an Islamic perspective is to ensure that the business discharges the Islamic concept of accountability[7]. Consequently, the role of *Shari'a* Supervisory Board (SSB) as an independent external committee is to observe the conduct of business and provide assurance to the stakeholders that the business is carried out according to the moral and ethical principles of Islam. Thus, this report provides the necessary assurance to Muslim clients and shareholders that their ethical expectations are being met. The disclosure of SSBR in annual reports is mandatory in some countries such as Bahrain, where all IFIs are required by law to apply AAOIFI standards, while IFIs operating in countries such as Kuwait, UAE, Qatar and Saudi IFIs apply AAOIF standards on a voluntary basis.

Information about SSBR was common in IFI annual reports. As shown in Table 6.21, SSBR was included in the annual reports by 19 companies (90%) out of 21 IFIs, with the exception of only two companies - Al Rajhi and ICICE. The high level of incidences was not surprising, since all IFIs operate in a non-Islamic economy: therefore, they need to assure their stakeholders that all their activities and products are complying with *Shari'a*. However, the level of information disclosed varied greatly among companies. At one extreme, a company such as Unicon disclosed 968 words, while at the other, the total words by Investment Dar was 100

[6] The vast majority of IFIs have the *Shari'a* Supervisory Board and therefore disclose SSBR. In a few countries such as Bahrain this report is required by law. However, in most other countries, IFIs disclose this report on a voluntary basis.

[7] Islam put great emphasis on the need for Muslim to be accountable to Allah and this include man's accountability to the Muslim community at large (Anuar et al, 2004; Baydoun and Willett, 2000).

words. The level of disclosure varies across the sub-theme. It is apparent from Table 6.21 that the vast majority of these disclosures tended to be qualitative and a mixture of bad, neutral and good news. However, few companies disclosed some monetary information.

Table 6.21: Total Number of Words and Incidences of SSBR Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
Background on the SSB members	19	1708	-	-
Examination of documents	19	2617	-	-
Compliance with Shari'a	19	2068	-	-
Provision of fatwa and consultancy	4	130		
Total	-	6523	-	-

Table 6.22: Evidence and Type of News of SSBR Disclosure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	34	-	6489	4553	1810	160
CFIs	-	-	-	-	-	-

6.3.7 .1 Background of the SSB

As shown in Table 6.21, many different types of information were disclosed by the companies. 19 IFIs companies (90%) in the sample disclosed some information on the background of the SSB sub-theme; information under this sub-theme included members' names, qualification, and previous experience and positions held. The total number of words disclosed was 1708 words, which represents 26% of the total disclosure of the SSBR theme. Given the nature of this disclosure, it was all qualitative and neutral news. The following quotation illustrates this:

> *Dr. Almathkoor is chairman of the higher Consultative committee for Finalization of the Application of the provisions of Islamic Sharia'ah for the state of Kuwait. He is a lecturer in the Division of Comparative Jurisprudence and Shari'ah policy of the Faculty of Sharia'ah and Islamic Studies at the University of Kuwait. Dr Almathkoor is a member of the Higher Planning Board of the state of Kuwait and serves on Shari'ah Supervisory Board (Unicorn annual report, 2004).*

6.3.7.2 Examination of Documents

The disclosure under the sub-theme of examination of documents appears to be the most prominent disclosure under this theme. 19 IFIs (90%), disclosed a total of 2617 words, which entails more than (40%) of the total disclosure under this sub-theme. This high level of disclosure was expected, since such disclosure would assure that all activities of the company are complying with *Shari'a*. The vast majority of information is related to collecting evidence on the company's operations. It indicates that SSB views were based on either a full or a sample review of the company transactions. Yet again, all disclosures were mostly qualitative in nature and tended to be good news as shown in the following example:

> *Our review included checking documents and procedures followed by the bank on the basis of testing each type of operation. We have planned and implemented our review in order to obtain all information and explanation deemed necessary by us in order to obtain reasonable evidence that the bank did not violate the ruling and principles of Islamic Sharia'a (Al Baraka Islamic Bank, 2004).*

6.3.7.3 Compliance with *Shari'a*

Shari'a compliance is the cornerstone of IFI business. Consequently, it becomes very critical for IFIs to emphasise their compliance with Islamic principles in all their transactions and products. This sub-theme was next in popularity to the sub-theme 'examination of documents' as it has been disclosed by 19 companies with total number of words disclosed being 2068, consisting 31% of total disclosure under this sub-theme. Disclosures under this sub-theme were a mixture of qualitative and monetary information, and a combination of bad, neutral and good news. The following quotation provides an example of bad news:

> *As to the Bank's branches in Pakistan, it appears to us that a number of the investments entered with some of the banks were not Sharia'a compliant in their underling operations and therefore.... (Al Baraka Islamic Bank, 2004).*

6.3.7.4 Provision of *Fatwa* and Consultancy

Four IFIs out of 19 disclosed provision of *Fatwa* and consultancy. Most of these disclosures tended to be an opinion or consultations that are required for the approval of the structures of each financial transaction and product. Given the nature of this sub-theme, most of these disclosures were inclined to be qualitative, as shown in Table 6.23, and a mixture of good and neutral news. The following quotation illustrates an example:

> *The Shari'a supervisory Board held several meetings throughout the year and replied to inquiries. In addition to approving a number of new products presented by management, the Shari'a supervisory Board discussed with the bank's officials all the transactions and applications carried out by the management throughout the year ending 31st December 2004 (Bahrain Islamic Bank, 2004).*

Table 6.23: Content Analysis Results of SSBR Disclosure

Themes	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Qualitative (B)		Qualitative (N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFIs	CFIs
Background of the members															1708				1708	
Provision of fatwa & consultancy															102		28		130	
Exam of documents																	2617		2617	
Compliance with *Shari'a*					34								160				1874		2068	
Total					34								76		1894		4519		6523	

(B): Bad News; (N): Neutral News; (G): Good News.

6.3.8 Other Disclosures

Other disclosures are concerned with social information in the sample of the annual reports that were not captured in the previous themes. It includes mentioning the name of *Allah* and His Prophet - peace and pray be upon Him, praising *Allah*, verses from the Holy *Qur'an*, ethical conduct, adherence to Islamic principles and a general statement of CSR. 28 companies of the total sample disclosed some information under this theme. The information provided tended to fall into two streams: mainly the Islamic values and the ethical values. Table 6.24 below describes the number of these disclosures by each group. IFIs appear to be the most prominent, with the total number of companies disclosed reaching 21 companies (100%) and total number of words disclosed being 4866 compared with only 13 companies within CFIs with the total number disclosed being 946 words. Table 6.24 shows that most of these disclosures came under Islamic values and commitment to *Shari'a* by IFIs, while within CFIs the majority of these disclosures came under commitment to ethical conduct. This might show that the Islamic influence on IFIs is higher than it is on CFIs. Few IFIs disclose monetary and quantitative disclosure: however, the majority of these disclosures were purely qualitative and a mixture of good bad and neutral news (see Table 6.25).

Table 6.24: Total Number of Words and Incidences of Other Disclosure

Category	IFIs		CFIs	
	No of incidences	No of Words	No of incidences	No of Words
Islamic values	15	1261	3	79
Commitment to ethical conduct	4	121	2	232
Adherence to Shari'a	21	3288	-	-
General statement of CSR	12	196	9	635
Total	-	4866	-	946

Table 6.25: Evidence and Type of News of Other Discloure

Group	Monetary	Quantitative	Qualitative	Good News	Neutral News	Bad News
IFIs	109	25	4732	4631	225	10
CFIs	68	-	878	946	-	-

6.3.8.1 Islamic Values

As discussed in Chapter Four, Islam has a major impact on the culture and life of Muslims, and this is likely to be reflected in the use of words, phrases and expressions. Disclosure under this sub-theme included Praise *Allah* and His Prophet-peace and pray upon Him, verses from the Holy *Qur'an*, Islamic greetings, etc. Table 6.24 presents the total disclosures under this sub-theme. Yet again, IFIs appear to be the most prominent as 15 IFIs companies disclosed a total number of 1261 words, while only 3 CFIs companies disclosed 79 words. Given the nature of these disclosures, they tended to be general, qualitative and neutral news (see Table 6.26). The following quotations illustrate some examples:

> *In The Name of ALLah, most Gracious, most Merciful*
> *Blessing Be Upon His Messenger*
>
> *Assalam Alaykum Wa Rahatu Allah Wa Barakatoh (Bahrain Islamic Bank, 2004).*

And

> *"Work with the righteousness. Soon Allah will observe your work, and his apostle, and the believers." Surat Al Tawbah (105) (Al Baraka Islamic Bank, 2004).*

6.3.8.2 Ethical Conduct

Many companies, when starting to make disclosure, referred to different ethical conduct since ethical information became a concern of some ethical stakeholders (Wilson, 1997). However, information concerning ethical conduct was relatively rare, being provided by only 6 companies (14%) of the total sample. As can be seen in Table 6.24, the incidences of disclosure were relatively higher within IFIs, with 4 companies compared with 2 companies in CFIs. However, the level of disclosure was higher in CFIs with total the number of words disclosed being 232 compared with 121 words in IFIs. These disclosures tended to be mostly qualitative in both groups (see Table 6.26), as shown in the following example:

> *The Board of the Bank has resolved that Good Faith, integrity, Compliance, Quality and Respect must guide the conduct of Directors and Staff at all times when engaged in the Bank's business. Theses principles apply equally in dealing with Clients, Counterparties, Regulatory Authorities, Business Colleagues and towards the Bank itself* (Burgan Bank, 2004).

6.3.8.3 Adherence to Islamic Principles

Disclosures under this sub-theme provide general statements, which verify the adherence to the *Shari'a* principles in the company's activities and transactions. As indicated in Table 6.24, only IFIs disclose information under this sub-theme, with 21 companies (100%) doing so. However, disclosing such information for CFIs would be irrelevant as mentioned earlier because its nature of business is contradictory to *Shari'a* ethics. The level of disclosure varied greatly among companies from high as with the Al Barak Banking Group which disclosed 325 words, to very low: for instance, ASUL which disclosed only 9 words. As might be expected, most of these disclosure were qualitative and tended to be good news.

> *The bank is committed to avoiding recognizing income generated from non- Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund, and the Bank uses these funds for social purposes* (Al Barka Islamic Bank, 2004).

Few companies gave monetary information. Most of this disclosure presented any non-Islamic profit in figures and explained how these amounts were transferred to a charity fund, as illustrated in the following quotation:

> *The Groups receives interest from deposits placed with the Bahrain Monetary Agency and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amount to US$ 34 thousand (2003:US$ 18 thousand* (KFH, 2004).

6.3.8.4 General Statement of Social Responsibility

Disclosure under this sub-theme sets out how the companies have worked or intend to work towards corporate social responsibility. 21 companies (50%) of the total sample disclosed a general statement of social responsibility. 12 IFIs disclosed information under this sub-theme compared with nine CFIs. However, the level of disclosure was higher in CFIs, with 635 words compared with 196 words within IFIs. Most of the information was narrative and tended to be good news in both groups. However, only two CFIs disclosed some monetary information as indicated in the following example:

> *BBK has always recognised its responsibility to contribute to the social well being of Bahrain's society. To date, over BD 3 million has been donated in support of the local community with financial support for numerous charitable,*

medical, scientific, cultural, sporting and social institutions and organisations (BBK, 2004).

Table 6.26: Content Analysis Results of Other Disclosure

Themes	Monetary (B)		Monetary (N)		Monetary (G)		Quantitative (B)		Quantitative (N)		Quantitative G)		Qualitative (B)		Qualitative (N)		Qualitative (G)		Total	
	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI		CFI	IFI	CFI	IFI	CFI	IFI	CFI	IFI	CFI
Islamic values																	1261	79	1261	79
Commitment to ethical conduct															90		31	222	121	232
Adherence to Shari'a principles	10		7		92						25				128		2907		3288	
General statement of CSR																			196	635
Total	10		7		92						25				218		4199	301	4866	946

(B): Bad News; (N): Neutral News; (G): Good News

6.4 Summary

This chapter has provided and assessed the present state of corporate social responsibility disclosure in both IFIs and CFIs. In summary, one can say that the result of content analysis indicates that there is,to some extent, differences in the type of disclosure between IFIs and CFIs. However, apart from *Zakah*, SSBR and free interest loans which have been disclosed by IFIs, there are no significant differences between the two groups. In addition, only one IFI disclosed information about their policy regarding insolvent client. It was unexpected to find a lack of disclosure regarding the environment in IFI disclosure. Overall, most of the disclosures in both groups were qualitative and good news; however, the level of monetary and bad news was higher in IFIs, while there is a total lack of bad news within CFI disclosure.

Chapter Seven

The perceptions of managers on CSR and CSRD

Chapter Seven
Perceptions of Managers on CSR and CSRD

7.1 Introduction:

This chapter includes the results of the in-depth interviews conducted with the senior managers in IFIs. The primary objective of this chapter is to examine managerial perceptions, attitudes and opinions towards both social responsibility and its disclosure in IFIs. It should be emphasised here that the researcher focuses mainly on IFIs management, since there is a lack of studies into IFIs' management perception, and to the best knowledge of the researcher, no single study has been conducted on IFIs so far. Therefore, this study is an attempt to fill the gap in the literature, given that there is an absence of the use of qualitative literature evidence to interpret social responsibility and its disclosure in IFIs.

In addition, this chapter investigates the perceptions of the absence of CSRD and attempts to understand the rationale for not disclosing this information. It is believed by the researcher that by asking the interviewees the reason(s) for not disclosing CSRD, may provide a deep insight about the phenomena under scrutiny.

This chapter is structured as follows. The chapter commences by discussing the main process of the interview method. This is followed by the core of the chapter, which presents the various management perspectives on social responsibility and its disclosure. A summary of the results is provided in the final section.

7.2 The Perception of Managers about CSR

Initially interviewees were asked if they believe their companies have social responsibilities. In addition, interviewees were asked their personal opinions about corporate social responsibility. By asking these questions, the researcher seeks to gain an insight into opinions and understand what motivates the companies to have CSR. All interviewees recognised the responsibilities of the businesses toward society, and perceived the roles of their business in society to be both social and economic. They emphasised that, apart from their objective of generating profit, the organisation has a duty to be socially responsible for the society, and agreed that the economic and social responsibility should go hand in hand, as shown in the following quotations by two financial managers:

> *One of the bank's objectives is the social development of our society. For example, we have invested in a project which offers affordable house prices compared with the market price to the community. Yes, we seek to make profit, but in the meantime, we are aiming to offer a cheap accommodation price for low-income people and are contributing to solve the problem of high price accommodation (IV4).*

Another interviewee further emphasised this view, and stated:

> *Of course, before we invest in any project, we see whether it has some kind of social contribution to the society from an economic point of view (IV6).*

There is a general consensus among interviewees that making a profit is not the only objective of their businesses and that CSR should go beyond legislative requirements. This view was paralleled by a substantial number of social activities, as shown in the content analysis results (see Chapter

Six). In the following section, the researcher will focus specifically on what has driven IFIs management to engage in CSR activities.

7.2.1 Islamic philosophy

The influence of Islamic teachings on the interviewees' perceptions on CSR was evident from the interview results. Most of the interviewees (100%) mentioned that Islam plays a key role as a motivation for them to be socially responsible. This view is clearly stated in the following quotations by some managers:

> *Islam encourages us to serve our society; therefore, it is part of our commitment as Muslims to be socially responsible (IV1).*

This view was supported by another interviewee who stated:

> *The Islamic economic perspective in generating or investing money is socially aware. In addition to making profit, Allah orders us to purify our money by paying Zakah and charity. The purpose of the Zakah and charity is that the individuals or businesses who operate their business in any country and use its resources and facilities should pay something back to the society to benefit the community (IV2).*

And

> *As an Islamic bank, we are socially responsible. We have established an account dedicated mainly for donations and charity, and usually we transfer the non-Islamic income (defined by the Shari'a committee) to this account to be spent on social activities and strictly not to be included in the bank profits. We also pay money to some poor families on a monthly basis, and fund some charity organisations on an annual basis (IV3).*

It has been stated in the AAOIFO standards that one of the missions of the IFIs is to carry out their social responsibility in the society throughout their activity, or use *Zakah* and a charity account. However, the degree of emphasis on a certain role of business in society varied among the interviewees. Some interviewees went even further to emphasise that it is part of their social responsibility to comply with *Shari'a* in conducting their business. This perhaps reflects the Islamic perspective of accountability, in which the person's accountability to God encompasses his/her accountability to Umma (society) (Lewis, 2001). In this regard, a financial manager noted that:

> *The way Islamic banks operate benefits the society. Whatever activity the IFIs do, it has to conform to Shari'a, and one of the most important elements of IFIs is the prohibition of Riba (interest). The eliminations of Riba itself is an important part of adding value to the society, because Riba is considered as 'damage' to the economy, so by offering financial services without Riba, this in itself benefits the society. The elimination of Riba is a benefit for the society here (IV 17).*

The above statement indicates an understanding on the part of the interviewees that offering financial products and services, which comply with *Shari'a* and which, are based on social economic justice from an Islamic perspective is part of their social responsibility. In this context, Al-Mograbi (1996) has argued that Islamic banks fill two very important positions in the community: religious and financial. On the religious side, Islamic banks take the responsibility to comply with *Shari'a*, thus setting an example for people in the community who observe their activities. On the financial side, the banks' control of large funds and revenue helps them to undertake a social role. Thus, IFIs are believed to serve the ethical needs of an Islamic society and undertake an important social function (Maali *et al.*, 2006).

Interviewees also mentioned another social contribution that IFIs offer to the society in which they operate, namely *Al-qard al-hasan* (free interest social loan). The nature of this loan, as mentioned earlier (see Chapter Four), is purely social. The beneficiaries of these kinds of loans are the poor and the needy people in society who cannot borrow the money. The following quotations provide examples of the involvement by IFIs in these activities:

> *...in addition, the bank has set up the Al-qard al-hassan account; this account receives donations from the bank and external donors, and its main purpose is to help the needy people by lending them money without any charge for a fixed period of time, and it covers expenses for education, medical treatment and marriage (IV10).*

> *In our annual report, we have disclosed information about Al-qard al-hassan. We have stated how much we have in the fund for Al-qard al-hassan, how much the disbursement goes for either marriage loans or medical assistance and so on (IV2).*

This kind of loan is strongly encouraged by Islam, as Islam emphasises the spreading of the concept of brotherhood among community members, and the main principle of brotherhood concept is to care for and share with each other. Therefore, this kind of loan can help to increase and develop the concept of brotherhood within a community by helping the needy and poor who need the money but do not have it. However, the results of the content analysis (see Chapter Six) show that only four IFIs companies disclosed *Al-qard al-hasan*. In additions, some interviewees tried to elaborate on the difference between IFIs and CFIs in their method of conducting business. This has been clearly stated by one financial manager who commented:

> *The conventional banks receive the deposits from the depositors and give it to the borrowers as loans; they do not look at the reason behind the loans, which might be unethical. However, in the case of the Islamic banks, it is important to know the reason for the loan, and where the loan is going to be spent, and ensure that the finance is being invested in a productive and ethical project (IV5).*

One of the unique social contributions of IFIs is the consideration of the financial difficulty of their customers. In some situations, IFIs may face cases where, in financial arrangements such as *Mudaraba* and *Ijarah*, clients are unable to pay their instalments when they fall due (Maali, 2006). According to *Shari'a* law, the lender is required to be lenient with the debtor and an insolvent debtor should be granted a period of grace. However, the results of content analysis (see Chapter Six), show that only one company out of 21 IFIs disclosed information about its policy regarding insolvent clients. By asking the participants about whether they have a policy regarding late payments by insolvent clients in their banks, the vast majority stated that such a policy exists but they do not disclose it. In this regard, one of the managers stated:

> *The policy of Islamic banks is not to take any charge from insolvent clients if it has been approved that the client was in financial difficulty situation. From an Islamic perspective, we cannot take any money above what we agreed as a profit in the contract with the client. However, to protect the bank side from dishonest clients we may transfer the case to the court and charge the client, if we find the client wants to deceive the bank. If we receive such a charge, it has to be transferred to the charity account .... We look to the insolvency client from a social point of view especially once the client has died and he or she owes the bank (IV17).*

One of the interviewees gave an example of such a cases and how the bank dealt with it:

> *We have two cases. One of them was with a client who has short-term Murabah contract with the bank. The client has faced difficulty in paying the instalment due. The client wrote a letter to the bank describing his situation and asking for a deferment of the payment. After investigating the case, we found that the delay was not because of client negligence; therefore the bank decided to extend the period of payment and we did not charge him any extra payment. The other case was about financing a house and again the client faced difficulty in paying the instalment on time; as a result the bank reduced the payment and extended the period of instalment (IV2).*

This policy has been clearly stated in the Holy *Qur'an* as a way of dealing with the debtor in a difficult situation "*If the debtors is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity that is best for you if ye only knew*" (Holy Qur'an, S2: 280). The AAOIFI *Shari'a* standards has applied this policy in its standard and states that: "it is not permitted to stipulate any financial compensation, either in cash or other consideration, as a penalty in respect of a delay by the debtor in settling his debt, whether or not the amount of such compensation is pre-determined; this applies both to compensation in respect of loss of income(opportunity loss) and in respect of a loss due to change in the value of the currency of the debt" (AAOIFI, 2005, p.35). However, such a policy is not disclosed publicly in the annual report of IFIs. In fact, disclosing such information would encourage dishonest clients to deal with the bank. In this regard, one of the interviewees stated:

> *The bank cannot make it general policy; otherwise, the clients would pretend they are in insolvent, but we do it case by case and we decide after studying the client's case (IV4).*

Hence, Islamic philosophy is rich in its teachings relating to CSR. It is not surprising therefore that most of the interviewees emphasised the social responsibility to society from an Islamic perspective[1]. This philosophy implies that Muslims should take care of each other as the Prophet Mohamed (pray and peace upon Him) said: "*the Muslims in their mercy towards each other are like a body; if a single part of it complains the other parts would be effected*" (Albukhari). Thus, Muslims, from an Islamic perspective, embark on social responsibility not for financial or other rewards, but rather to gain God's blessing.

7.3 Interpretation of CSRD

Interviewees were then asked about their views on CSRD, and whether their company regards CSRD as part of the company disclosure, and their opinions about the usefulness of CSRD. The reason behind asking these questions is to generate some discussions which would provide a good starting point from which to proceed to the key issues in CSRD. The vast majority of interviewees had come across the term CSRD and were in broad agreement about the usefulness of social disclosure. One manager expressed this view by stating:

> *I support full disclosure for the reason of transparency and you can apply this to everything when it comes to social responsibility(IV12).*

> *I think we should disclose something about the social contribution of the bank towards society (IV14).*

[1] Social responsibility from an Islamic perspective envisages accountability to Allah. Therefore, CSR from this perspective is considered as a way of worshipping Allah, and it is not for any material reward, but rather to gain Allah's reward and avoid His anger.

Nevertheless, some of interviewees appeared to have little knowledge on the subject matter, as one manager stated:

> *I do not know what you mean by social disclosure. As financial institutions, we are required to disclose financial information that might lead to social responsibility. However, the bank supports all the social activities (IV13).*

Perceptions and attitudes regarding CSRD generally were similar among interviewees: the majority of the managers interviewed believed in the concept of corporate social reporting, and agreed that companies should provide s*ocial information in their annual reports on the grounds that the* company's objective is not only to make a profit but also discharge accountability. However, the level or the scope of these disclosures and the motivation behind them vary, as we will see in the next section.

7.3.1 Reasons for Disclosing CSR Information

Many theories in the accounting literature have been adopted to provide an explanation or justification for CSRD and they were used to answer the question relating to why companies disclose social information. The literature revealed various reasons for companies disclosing social information; however, there is a broad agreement among researchers that there is not a universally accepted theoretical framework for CSRD. It is worth mentioning here that there is a lack of studies in the literature that investigate what motivates IFIs managers to disclose CSR information. Accordingly, in this section, the researcher seeks to investigate the main motivation for IFIs disclosing social information. The researcher asked the interviewees what their motivation is to disclose social responsibility information. The responses from interviewees provide different reasons. These reasons can be classified under four broad categories as shown in Table 7.1.

Table 7.1: Perception of Interviewees on Reasons for Disclosing

Number of Interviewees	%	Reason for disclosing
5 out of 18	27.7%	AAOIFI standards
3 out of 18	16.6 %	SSB
5 out of 18	27.7%	Enhancing company image
5 out of 18	27.7%	Transparency & accountability

7.3.1.1 AAOIFI Regulation

The strong impact of Islam on both business ethics in general and the way IFIs conducting their business in particular has led to the establishment of AAOIFI as a professional regulatory body to provide guidance for accounting and *Shari'a* policies for IFIs. The AAOIFI standards are specifically developed to cater for the unique characteristics of the *Shari'a* contract that governs the IFIs instrument (Suleiman, 2005). Indeed, the influence of Islam on the structure of AAOIFI is apparent, as it has its own *Shari'a* committee board which is in charge of carrying out AAOIFI objectives in accordance with the precepts of Islamic *Shari'a* (AAOIFI, 2005). Five interviewees stated that the compliance with AAOIFI requirements in their disclosures is the main reason for them to disclose particularly about *Zakah*, charity, free interest loan and SSRB reports, as we can see in the following quotations.

> *Zakah disclosure is compulsory for us; by Shari'a we are required to disclose the amount of Zakah for the year. However, we do not disclose how we pay it to the needy and poor people: it is compulsory to mention the amount of Zakah (IV2).*

And

> *....Mostly to comply with the requirements of the regulatory bodies. However, with regard to the voluntary type of disclosure, the policy is different from bank to bank. The AAOIFI standard has two types of standards, Sharia standards and accounting standards. The Shariah standards, for example, require the IFIs to disclose information about Zakah (IV3).*

The above quotations indicate the reactive nature of some of the social disclosure, in areas such as *Zakah* and charity, and SSBR which are driven by religion, are triggered by AAOIFI standards requirements. In this regard, one of the financial managers stated that, even though the standards are imposed by a regulatory body such as AAIOFI, however, this body has its *Shari'a* board which acts as a consultant and provides the guidance necessary to meet the *Shari'a* requirements. According to AAOIFI standards, IFIs have to disclose two statements regarding *Zakah* and charity, as well as free interest loan information. These statements contain the source and amount of *Zakah* and charity and how it was spent. In some cases, the responsibility of paying *Zakah* depends on shareholders: in such cases the company would indicate that clearly in the annual report, and would provide the relevant information.

In addition, IFIs are expected to disclose SSBR according to AAOIFI standards. Such reports will be in the interest of the users of the annual reports, because they provide them with the necessary assurance that their moral and ethical expectations are being fulfilled (Maali *et al.*, 2006; Gambling *et al.,* 1993). Consequently, Islamic businesses need to emphasise that the religious expectation of different stakeholders has been met by disclosing such information. Some interviewees justified this kind of disclosure, as they stated:

> *Perhaps the most important thing for an Islamic Bank is the Shari'a Report, which ensures that we follow the Shariah in all our transactions. Maybe this is the most important thing in an Islamic bank (IV 6).*

This view was supported by one of the managers who said:

> *It is a sort of transparency to inform the shareholders, investors and community that this bank follows Shari'a in this respect(IV3).*

This perhaps justifies the high level of disclosure within IFIs under this theme (see Chapter Six).

7.3.1.2 *Shari'a* Supervisory Board (SSB)

Given that, the main purpose of Islamic business is to satisfy the will of God by following His law in *Qur'an* and Sunnah (Maali *et al.*, 2006). Thus, it is expected that Islamic businesses will operate in according to *Shari'a*, and will meet their customers and investors' religious and moral expectations. An example of these needs is the avoidance of any activities or transactions involving usury[2] (interest), speculative investments, or any kind of exploitation or immoral activities that are not allowed in Islam. Therefore, unlike conventional banks, Islamic banks are expected to operate within the boundary of *Shari'a*, which strictly requires all transactions to be *Halal* (lawful) from an Islamic perspective, and avoids any prohibited activities which are considered unethical or immoral from an Islamic point of view.

[2] It has been argued by Mirza and Baydoun (2000, p.36) that usury violates the principle of social justice.

Thus, IFIs are under a moral and legal obligation to its stakeholders[3] to operate in compliance with *Shari'a*. There is therefore a potential for agency problems to take place in IFIs .The agency conflict in IFIs arises from differences in economic interests between the stakeholders and the agent, who are the bank managers. In order to limit the divergence of interest between the stakeholders who are particularly interested in *Shari'a* compliance and the management, IFIs rely on independent monitor committees to reduce the gap in conflict interests between management and other parties. The SSB has a duty to act as a monitor to ensure that IFIs comply with the *Shari'a* jurisprudence and therefore reduce information asymmetry. This duty is applied in two aspects. First, the *Shari'a* board reviews the operations of IFIs to ensure its *Shari'a* compliance. Second, the board provides consultation and answers queries about transactions and products to make it comply with *Shari'a* rule (Shanmugam and Perumal, 2008). Thus, IFIs are under greater pressure from SSB to comply with Islamic laws and principles and to disclose more CSR information (Farook and Lanis, 2005). This view is stated in the following quotations:

> *"Usually SBB would like to see social disclosure in the annual report; it is not compulsory by the standards and there is no enforcement by them except in the case of Zakah disclosure" (IV4).*

> *The SSB has a duty to support the social activities; for example at the time of Tsunami catastrophe, the SSB requested help for the victims from the bank board. Their request came from an Islamic background, as the religion encourages people to help the needy. Therefore, the*

[3] The IFIs stakeholders are shareholders, account holders, Musharakah financing partner, Mudarabah investment account holders, its employees and the community at large (Shanmugam and Perumal, 2008).

> *suggestion came from SSB and the board accepted it (IV11).*

> *All the social responsibility activities are usually reviewed in details by SSB before they are disclosed in the annual report..........the SSB committee plays an important role by suggesting "the calculation of Zakah and disclose that information to the investors and shareholders" so they can pay it themselves or ask the bank to do so on their behalf (IV9).*

The above quotations indicate that corporate governance mechanisms presented by SSB are expected to lead to a higher level of CSRD as the scope of observation by SSB increases. However, the degree to which SSB would influence CSRD may also depend on SSB characteristics (Farook and Lanis, 2005)

7.3.1.3 Enhance the Company Image

There is no doubt that some companies use the annual report to serve as public advertising documents. It is perceived as an opportunity to enhance the image of the company. By disclosing corporate social responsibility in the annual report, the company would be able to achieve some benefit either tangible or intangible by providing such information and to satisfy the interests of different parties. This view is supported by some interviewees who stated:

> *As an Islamic bank, we want to show our contribution to the society. You will see in their article of association that it is always the case that one of the objectives of the Islamic banks is to contribute to the social activities and to the economy, so this is why the Islamic bank discloses such information (IV8).*

> *To give an idea to the community that the bank is not only focusing on making profit, but it has also social aims, by helping the poor and needy people (IV13).*

> *It is very important to be disclose social responsibility activities because it (the disclosure) puts IFIs in their right Islamic frame and environment, and makes them close to their Islamic identity. Moreover, the social responsibility disclosure shows that the organisations have a social face, which is part of its objectives, so it will become closer to the environment where it operates. (IV5)*

Two possible explanations for this view could be offered. First, it appears from the above statements that the supporters of this view believe that CSRD is marketing driven which means corporate social disclosure has been used to enhance the company image and acts as a public relation exercise, or a marketing attention-grabber, which is aimed at attracting investors. Thus, the disclosure of information regarding corporate social impact on society has been referred to as tactics that may enable the companies to influence this perception (Deegan et al., 2000). However, this view was not prevalent among the majority of interviewees, as they believe that it is not the nature of Islam to use the good deeds for marketing purposes or showing off, but rather to gain the God's reward. Second, it could also be argued that the management feel that their stakeholders should know that the company is socially responsible, which will ultimately justify the corporate activities by using the legitimate conception. Accordingly, this view is in line with the studies which support a positive association between the pressure from the stakeholders on companies and the social information they disclosed (see e.g., Ullman, 1985; Magness, 2008).

7.3.1.4 Management Awareness of Transparency and Accountability

The debate on the objective of corporate reports has recently shifted to focus on wide stakeholders rather than capital owners, and to disclose information for the decision-making process to those who have the right to such information. Thus, corporate reporting is not only about measurement of economic achievement, but also discharging accountability. There is no doubt that, without the authority and the consent of top management, social information would not be disclosed to the public. It is believed by some interviewees that if the company gave full disclosure, it would discharge its accountability to society. One financial manager stated:

> *They should disclose whatever activities they do so that society will know that they are doing something concrete to the society. The shareholders and the potential investors need to know what the company has done as far as social responsibility is concerned. It is necessary to disclose for the company, society, and other stakeholders, so the information on their activities related to social responsibility should become transparent (IV17).*

In line with this argument, one of the AAIOFI members noted the usefulness of CSRD for potential ethical investors who might be targeting a socially responsible company to invest in, and therefore they have the right to know this information through social disclosure.

> *To me when you disclose CSRD, it is not only to show but also rather to inform because the information is useful to the investors (IV14).*

Thus, disclosing social responsibility information for the reason of transparency might be considered as a form of motivation for the top management to reveal such information. Supporting this view, another interviewee stated that he believed that companies are participating in social activities and disclosing this information as part of their social obligation towards the community and discharging of accountability:

> *...we disclose just for the purpose of transparency, to inform the community (IV10).*

The above statements are in line with the argument supporting the contention that Islam emphasises the principles of full disclosure and transparency to the community at large (see e.g. Baydoun and Willett, 2000; Maali, 2006), and companies are expected to disclose the extent to which they have discharged their obligation toward society (AAIOFI, 2005). However, the extent or the volume of this information and the aim behind over-disclosing is still an ongoing argument. One of the interviewees emphasised the difference between disclosing social information and overusing this information to improve the image of the company or for marketing, as such information did not in fact reflect the actual social responsibility. He stated:

> *It is not important if we disclose in-depth details as long as these figures have been spent with the authority of the Board Committee. However, I am against the extreme use of the social responsibility disclosure to improve the image of the company or for marketing purposes and I prefer not to disclose as the religion favour rather than to use it for marketing purposes (IV12).*

Based on the preceding discussion, top management level awareness of the principles of transparency and accountability could be one of the essential factors in disclosing social information.

7.3.2 The Perception on the Main Reason for not Disclosing CSRD

In this section, the researcher aims to identify the rationale for the companies interviewed not disclosing social responsibility information. It was believed by the researcher that investigating the reason for not disclosing social information would provide an insight into some of the possible ways for implementing this sort of disclosure. However, two main reasons among other have been identified as discussed below.

Table 7.2: Reasons for not disclosing CSRD

Number of Interviewees	%	Reasons for not disclosing
4 out of 18	22.2%	Religion
6 out of 18	33.3%	Lack of requirements
2 out of 18	11.1%	Limited size of the annual report
1 out of 18	5%	Lack of demand for CSRD
1 out of 18	5%	Cost of disclosure

7.3.2.1 Religion

Surprisingly, some interviewees considered religion as a basis for them not to disclose some social information. They argue that, religion does not encourage the use of good deeds for publicity or showing off. In addition, they argue that there is no mention in the Holy *Qur'an* and *Sunnah* that when you do charity or good deeds you have to mention it. Some interviewees stated that, even though they have to disclose the total amount of *Zakah* and charity fund by law, they would not go into the detail and name the list of the beneficiaries from this fund, as shown in the following statements:

> *For example in 2004, we distributed charity funds amounting to US$1 million; the list of beneficiaries of this charity fund is not important for the shareholders. I agree that it is the right of the shareholders to know, and if any shareholder comes and asks for further details (to whom you spent this US$1 million) we will show him or her the list, but to disclose the details in financial statements this would become for marketing purposes more than transparency;, it is using something good for publicity; there are many places which benefit from our charity fund and it is distributed in full transparency and under the board's authorisation, etc. (IV6).*

> *...for Zakah and charity you can see, for example, that these have been spent on education etc, but there is no need to specify to whom it was given, and there is one Hadith of the Prophet which encourages giving a charity in secrecy. We are not making favours seeking to please the people, but we are seeking to please Allah (IV18).*

> *...generally banks do not include these things and say we've done this and we have done such and such, because it is not encouraged by Islam [the interviewee repeated the same Hadith of the Prophet], and this is our principle in Islamic Banks; there are many social responsibility activities in Islamic banks (for example, ARCAPITA bank has many activities but you do not see them in their annual report). In Europe, the conventional banks may over-disclose it for tax purposes as the charity is exempted from the tax, but, as you know, we are working in an environment where there is no tax* (IV10).

It is evident from the above statements that religion is not on the side of making good deeds such as charity for publicity in order to gain any material reward. Most of these interviewees mentioned the saying of the Prophet (peace and pray upon Him), as He said "There are seven whom Allah will shade in His shade on the Day when there is no shade except His Shade: a just ruler,............., a Man who gives charity and hides it, such that his left hand does not know what his right hand gives in charity" (Al-Bukhari, 1.1, p. 493). This could be interpreted as supporting the concept of accountability in Islam, which implies that everyone is accountable to God on the Day of Judgement. Once again this view supports the argument that Muslims carry out social responsibility to gain God's blessing and not for financial or any other rewards. However, despite the controversy existing on the possible use of social responsibility disclosure for improving the image of the company or for marketing, there is a general agreement among interviewees supporting this view that religion encourages transparency, and that applies to CSR information; yet such information should not over disclose to gain any material reward.

7.3.2.2 Lack of Legal Requirements

Responding to legislation could be one of the main driving forces behind the companies to disclose social responsibility information. With the exception of the compulsory requirement of the disclosure on *Zakah* and charity, Al-qard al-hasan and SSBR, which are required by AAOIFI the standards[4], there is no legal requirement and clear guidance on the corporate social responsibility information imposed on IFIs. It appears that the lack of legal requirements and the absence of clear guidance in accounting standards from regulatory bodies were considered the main reasons by the interviewees for not disclosing social responsibility information. This perhaps gives justification for the low level of disclosure under some items (see Chapter Six). Some interviewees mentioned that they disclose only what the standards and law require:

[4] As mentioned in early chapters AAOIFI standards are compulsory in Bahrain. However, IFIs operating in other Gulf countries are follow AAOIFI standards on a voluntary basis

> *We have charities, donations, and Al-Qard al-hasan, but we do not include the details, we do not say we do this and this. Why? [the researcher asked]: because it is not required by law (IV2).*

And

> *There is nothing to make them disclose it [social information] in the annual report as it is voluntary, but if it was mandatory then every company will disclose it (IV12).*

The above statements indicate that the necessity of responding to the legal requirements drove some companies to report on their social responsibility. This perspective gives certain indication that the lack of regulation and the enforcement by regulatory bodies could be one of the reasons for the low level of social responsibility disclosure. However, AAOIFI standards do not include every aspect of social responsibly disclosure, and with regard to its disclosure requirements about *Zakah* and charity, and *Al-qarad al-hasan* (free interest loans) etc., the standards do not call for full details about the recipients of the fund, but rather focus on the resources and the movement of the fund.

7.3.2.3 Other Reasons

Some other reasons for low disclosure have been raised by some interviewees. For example, one interviewee expressed concern about the increasing length of the corporate annual report and the costs arising of production of what is often seen as cumbersome document. In this regard he stated:

> *if you will include everything in the annual report it will become like a book; also there is cost involved for every extra disclosure (IV8).*

The annual report is usually viewed as a legal document that could not cover all the activities of the company owing to the cost involved, where internal reporting would be more effective. Another interviewee suggested that annual reports were not read in detail any more, and that much of the information in the annual report is ignored by the users. This could be because users are more interested in the financial performance of the company, as suggested by one interviewee:

> *One of the important things for us is that financial institutions should educate people. ... I am sure that 80% of the people do not read the annual report because I can notice that in the AGM. As long as the performance of the bank is good and their dividends are good, I can assure you that even 90% do not read the annual report; as I told you, the annual report is a legal document that introduces the organisation to the people (IV1).*

7.4 Summary

The purpose of this chapter was to examine the perceptions, attitudes and opinions of management towards CSR and CSRD. The discussion then moved to examine the reasons for disclosure (or non-disclosure) of CSRD. There is to some extent a consensus among interviewees that religion has an impact on social responsibility. The review of the IFIs' management perspective on the concept of CSR indicates that CSR is driven by the influence of Islam, as Islam strongly encourages its followers to be socially responsible. Under this view, CSR was seen as a way of discharging accountability to Allah. In addition, it was found that Islam plays a key role in CSRD. Disclosing CSR information falls under the remit of accountability to Allah.

Chapter Eight

CSR and CSRD an Application of Islamic Accountability Theory

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8.1 Introduction

CSR and its disclosure do not exist in a vacuum, but rather interact with the environment in which the organisation operates. Indeed, each country has its own unique environment, which plays a vital role in shaping its accounting system and its corporate reporting and disclosure practices. A proper understanding of a country's accounting disclosure system requires consideration of its environmental characteristics (Jaggi and Low, 2000). Various environmental factors have been identified which affect CSR and CSRD practice in a company these include socio-cultural factors. These interrelated factors may influence the values, attitudes and behaviour of individuals towards CSR and CSRD practices.

IFIs have a unique business environment and ethical framework which are not found in their conventional counterparts. They are based on the *Shari'a* the fundamental aim of which is to fulfil the teachings of Islam. Thus, the purpose of this chapter is to generalise a theory of CSR and CSRD in IFIs with the support of the empirical evidence. Evidence from the content analysis and perceptions of managers, which are reported in Chapters Six and Seven respectively will be used in the discussion to provide more understanding of how different factors determine or shape CSR and CSRD practices in IFIs. Moreover, a comparison of CSRD practices between IFIs and CFIs will also be used to give more impetus for the theoretical backgrounds of this study. The final section provides a summary.

8.2 Interpretation of Results

The importance of culture in influencing accounting practices has received considerable attention in accounting literature (e.g., Muller, 1967; Nobes, 1983; Hofstede, 1988; Schreuder, 1987; Bloom and Naciri, 1989; Gray and Radebaugh, 1997). Previous studies (Gambling and Karim,1991; Ibrahim, 2000; Lewis, 2001) have suggested that companies' conducting their business according to *Shari'a* should include information which demonstrates that those involved in the firms are discharging their accountability to Allah.

On the basis of the comparison of CSRD between IFIs and CFIs, a general observation was that there is a considerable difference in the level of CSRD between IFIs and CFIs in terms of items disclosed. IFIs tend to disclose more CSRD than CFIs. Chapter Six shows that IFIs include more themes and sub-themes. There are high scores of some themes in IFIs such as the payment of *Zakah* and charity, the free interest social loans, SSB reports, and the adherence to *Shari'a,* whereas there is a total a lack of disclosure within CFIs on these themes. This reflects the importance of some information for IFIs, as they do reflect Islamic ethical and moral values.

The vast majority of those themes and sub-themes are subject to the requirements of AAOIFI disclosure standards more than other themes (see Chapter Six), and therefore IFIs increase their disclosure on them. It is worth mentioning here that AAOIFI is driven and dominated by the ethical values of Islam. The purpose of AAOIFI standards is to accommodate business transactions and disclosures to adhere to the principles of Shari'a. This perhaps explains the perception of some managers (see Chapter Seven) who stated that they disclose what is required by AAOIFI standards.

Referring particularly to CSRD in developing countries, Gray and Kouhy (1993) (see, also Belal, 2001; Tasng, 1998) are particularly critical of the introduction of Western corporate social and environmental disclosure techniques into the different socio-cultural context of developing countries as the socio-economic, political and cultural context of a country largely influences accounting in general and corporate social and environmental disclosure in particular. By the same token, a number of studies argue that certain Islamic ethical principles have a significant impact on accounting disclosure policy from an Islamic perspective, for example, the obligations of *Zakah*, prohibition of Riba. etc. (e.g. Gambling and Karim 1991; Askary and Clarke 1997; Zaid and Tibbits, 1999). Therefore, to discharge their accountability to Allah and the community, IFIs disclose such information in their annual reports.

In addition, IFIs disclose information on meeting customer needs. Under this sub-theme, IFIs disclose information related to designating some branches or sections within the companies to serve their female customers. As mentioned earlier (see Chapter Six), the provision of such a service meets the needs of the religious and cultural doctrine of the community in which they operate. Moreover, the researcher expected that companies would disclose information related to their policy in dealing with insolvent clients. The *Shari'a* requires the lender to be lenient with the debtor. The results of Chapter Six show that only one company within IFIs discloses information on its policy with insolvent clients. However, most of the interviewees (see Chapter Seven) state that this policy exists in their companies but they do not disclose such information.

It was surprising to find a lack of disclosure in IFIs under the environmental issue theme. This is in contrast with the literature where researchers such as Gambling and Karim (1986, 1991), Adnan and Gaffikin (1997), Baydoun and Willett (1997, 2000), Alam (1998), Mirza and Baydoun (2000), Suliman (2001), Haniffa (2002), Lewis (2001), Sulaiman and Willett (2003), Anuar *et al.* (2004), Kamla *et al.* (2006), suggested that Islamic corporate reports should include reporting on the environment. Additionally, Bagader *et al.* (1994, p.8) stated that "Islam offers great advantages for environmental conservation, protection and sustainable development in that it is a source for law that is consistent with cultural values of Islamic society and can be imported with ease into an environmental policy that is both effective and implementable". The findings of content analysis of this study are consistent with those of Maali *et al.* (2006), as their results show that none of Islamic banks disclose under this theme.

Although CFIs companies disclose some information under the environmental theme, their level of disclosure was also low. One possible explanation for the overall low level of disclosure in both groups under the environmental issue theme is that the financial industry is less involved with environmental issues. Moreover, countries in the Arab Gulf region are still developing countries, and environmental issues are still not a major concern to many of them. Studies about environmental disclosure practice in developing and newly industrialised countries suggest that environmental disclosure in such countries is lagging behind the level of practices identified in developed countries (Tsang, 1998; Abu-Baker & Naser, 2000; Belal, 2000, 2001). Supporting this argument, Xiao *et al.* (2005) note that economic development was a significant explanatory variable of noted variations in corporate environmental disclosure practices between developed and developing countries.

The use of content analysis in the present research provides, in addition to the type of CSRD, an interesting insight into the nature and quality of CSRD information disclosed. Considering the variable quality of evidence, the results showed that, to a large extent, CSRD disclosed of qualitative information in both groups. IFIs appear to provide most financial disclosure, compared with CFIs. This could be justified on the basis that IFIs are required by AAIOFI to disclose statements of *Zakah* and charity funds as well as free interest loans. The nature of this information is usually monetary. AAOIFI standards require IFIs to disclose information on 'source and uses of funds in *Zakah* and charity funds'. This statement includes both *Zakah*, which is obligatory, and charity, which is given on a voluntary basis. The importance of such designation is that helps the shareholders to pay their *Zakah*. In addition, it helps the users of the annual report to know the amount the company has contributed to the wellbeing of society on a voluntary basis (Maali *et al.*, 2006).

With regard to the next quality variable 'type of news', the results showed that the disclosure of bad news was made only by IFIs companies. This consideration of bad news can be justified, since the AAOIFI requests such information to be disclosed by IFIs. The information requested includes information on any income generated that conflicts with *Shari'a* moral principles. Most of this information was found in SSB reports. The existence of an SSB may lead to greater monitoring and hence more full disclosure and transparency.

Overall, the findings of the present research indicate that there is a difference in terms of the type of themes disclosed between IFIs and CFIs. It was found that the religion of Islam, as a socio-cultural factor, plays a key role in CSR and CSRD (see Figure 8.1). In respect of this, the results of Chapter Seven show that most of the IFI managers believe that their organisations have an obligation towards society, and agree that economic and social responsibility should go hand in hand. In addition, they emphasise the role of business in society from an Islamic perspective.

The proactive perspective by managers emphasises a widely perceived desire among the managers to manage companies according to *Shari'a* moral principles. It was emphasised by some interviewees that the way that IFIs operate is even socially responsible. They argue that although IFIs carry out functions similar to those of CFIs, their approach is different. The prohibition of some activities in IFIs (e.g. charging interest, gambling, excessive risk-taking, etc.) provides a level playing field to protect the interests of all parties involved in the market transactions and promotes social harmony (Dusuki and Abdullah, 2007). Moreover, the payment of *Zakah*, charity, and free interest social loans are activities that exist in accordance with the ideals of brotherhood and the socio-economic behaviour in Islam. This primarily wide perspective of CSR exhibits the prevailing sense of duty owed by IFIs to society. Islam also reinforces the collectivism orientation between Muslims. Muslims are required to co-operate with each other and to share one another's sadness and happiness. The Holy *Qur'an.* also states that "the Believers, men and women, are Auliya (helpers, supporters, friends, protectors) of one another" (Quran, S 64:71).

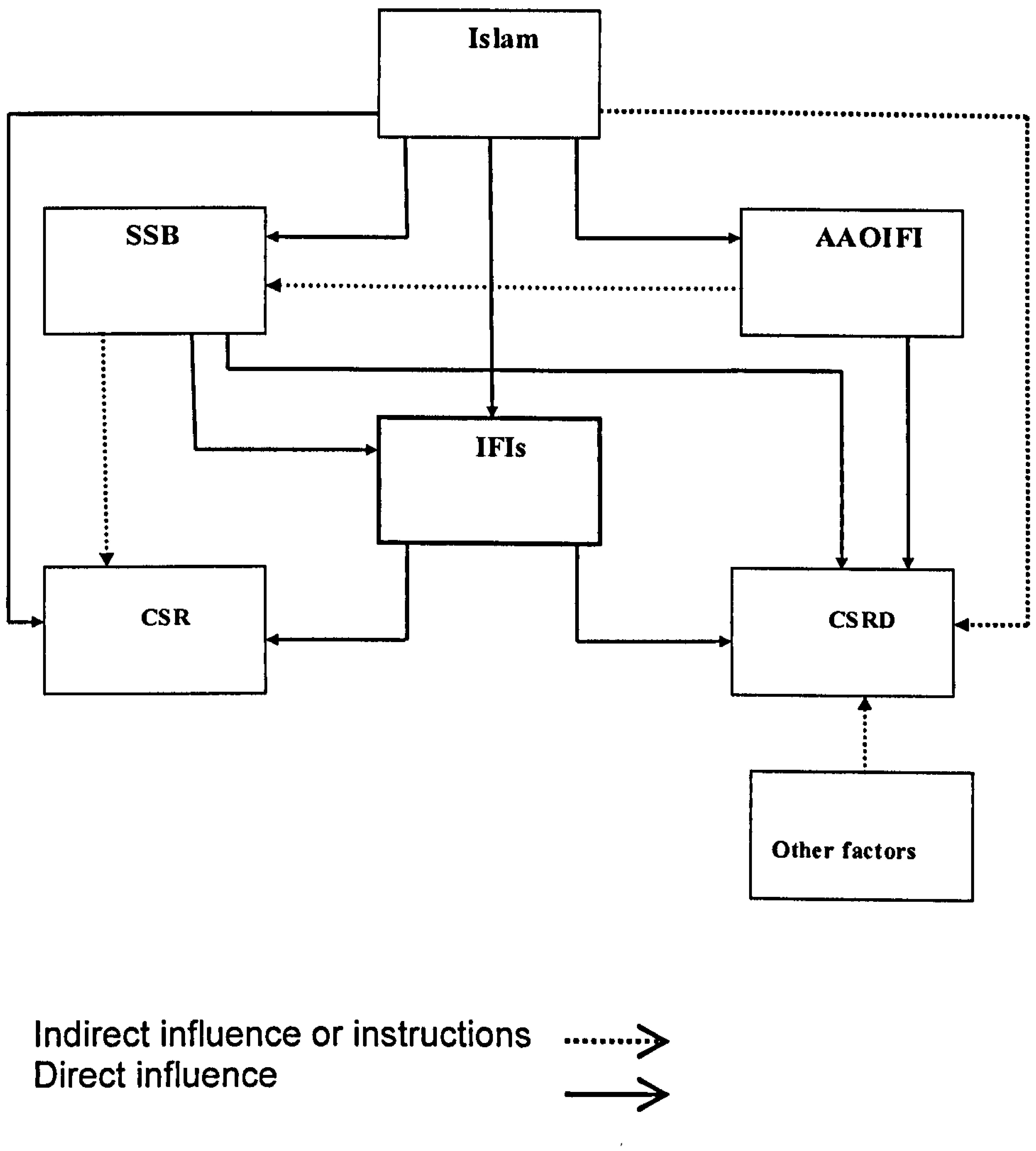
CSR were viewed by IFIs managers (see Chapter Seven) as an exercise of accountability toward the society. Thus, the real intention behind CSR is to gain the blessing of Almighty Allah (see Figure 8.1). Managers view CSR practice as part of practising their accountability to Almighty Allah. Therefore, the Islamic concept of accountability can be interpreted as one that is intended to promote both social justice and social accountability (Kahf, 1991, cited in Sulaiman and Latiff, 2005). This implies that businesses which operate in according to *Shari'a* such as IFIs, are expected to provide a minimum level of social security to its society, and therefore, require their conduct to be socially responsible. This justifies the emphasis on voluntary charity, *Zakah* and free interest loans by IFIs. Adhering to this view, the interviewees clearly stated that, from an Islamic perspective, they are obliged to purify their money by paying *Zakah* and giving donations to charity. This may indicate the influence of Islamic teaching on the attitude of IFIs managers on CSR.

Based on the above discussion, one may conclude that CSR should not be viewed in a narrow way solely in meeting legal requirements or seeking economic benefits. Rather, a consideration should be given to meeting the spiritual and moral obligation (Parvez and Ahmed, 2004). Therefore, the Islamic concept of accountability can be interpreted as one that promotes both social justice and social accountability (Kahf, 1991, cited in Sulaiman and Latiff, 2005). Under this concept, the philosophy of doing CSR is viewed as a practice of religion rather than a normative practice. An example of this practice is the payment of Zakah . Such a practice is embedded in the daily business practice of IFIs.

8.3 Proposed Model for CSRD and CSR Practice in IFIs

This section discusses the different factors which influence the practice of CSR and CSRD in IFIs. Using these factors, the researcher attempts to build a model for CSR and CSRD in IFIS.

Figure 8.1 Model for CSRD and CSR practice in IFIs



8.3.1 Islam

Religion as a part of culture could be one of the factors which influence CSR (see Figure 8.1). Islam does not merely represent a personal religion, but it is a mode of organising society and its institutions, as well as serving as a guide for the conduct of individuals within the institution. Therefore, accounting as a social institution and practice in the Islamic context would reflect a range of Islamic principles of relevance (Tinker, 2004).

The results of the content analysis in Chapter Six could be taken to indicate that the underlying objectives of corporate reporting in IFIs determine the scope and the nature of information to be included in business reporting (see Figure 8.1). This could be justified on the basis that those who deal with Islamic banks are concerned, in the first place, with obeying and satisfying Allah in their financial and other dealing (AAOIFI, 2005). In this regard, Allah says: "O ye people! Eat of what is on earth. Lawful and good; and do not follow the footsteps of the Evil One, for he is to you an avowed enemy" (Quran, S1:168).

From an Islamic perspective, it is critical that accounting principles applied in an Islamic organisation should conform to *Shari'a*. Thus, it could be suggested that the difference in CSRD between IFIs and CFIs stems from differences in the objectives of those who need accounting information and thus the information they require. In this context, several researchers in the Islamic accounting field have used an ethical normative approach to develop general corporate reporting theory for businesses complying with *Shari'a* (see, e.g. Baydoun and Willett 1997, 2000; Lewis, 2001; Suliman and Willett, 2003). However, this does not mean contemporary accounting should be rejected in IFIs, because there are still common objectives among users of accounting information in both IFIs and CFIs. Based on this notion the question now arises concerning the extent to which *Shari'a* morals have reflected on CSRD in IFIs.

8.3.2 AAOIFI Standards Requirements

The strong influence of Islam on both business ethics in general and various business practice in particular has led to the establishment of regulatory standards, which have been formed by AAOIFI (see Figure 8.1) to standardise the governance of every Islamic business and service including corporate disclosure to meet the needs of Muslim users (Walsh, 2007).

In addition to providing information for economic decisions, there is a further primary objective for corporate reporting from an Islamic perspective. This objective has been expressed in many studies to ensure that the system discharges the Islamic concept of accountability and satisfactory (see e.g. Haniffa, 2001; Lewis, 2001). In line with this argument, Suliman and Willett (2003, p.24) made the following statement: "financial statements from an Islamic perspective should enable Muslims shareholders to determine the liability of *Zakah*, a tool of income distribution. Additionally, while issues pertaining to interest and unfair trading practice are not explicitly considered as a social issue from an Islamic perspective, in Islam these matters are specifically addressed in *Shari'a* because of their potential to affect the well being". Thus, the emphasis on accountability from an Islamic perspective would require Islamic corporate reports to include information that meets *Shari'a* ethics and morals. This situation led AAOIFI to issue different standards on, for example, *Zakah* and charity, *Shari'a* compliance, and *Al-qard al-hasan* (free interest loan). Such information is important to the users of Islamic corporate reports, and it is consistent with the disclosure practices of Islamic law that requires application of the more all-embracing criteria of social accountability and full disclosure (Baydoun and Willett, 2000).

Given the above discussion, one of the main reasons for the differences in CSRD between IFIs and CFIs identified in this study is attributed to the AAOIFI disclosure standards (see Table 7.1), which are based on Islam. This indicates that the reactive nature of some of the social disclosures which are derived from Islam, such as *Zakah* and charity and SSBR are triggered by the AAOIFI standards requirements. This could be interpreted as suggesting that Islam is an important factor that has an influence on CSRD practice in IFIs (see Figure 8.1).

8.3.3 Corporate Governance Structure

The governance structure in IFIs is quite different from that of their conventional counterparts. This is because IFIs must obey a different set of ethical rules imposed by *Shari'a* and meet the expectations of Muslims. Thus, the uniqueness of corporate governance of IFIs has stemmed from "two principle elements (I) the faith-based approach that mandates the conduct of the business in accordance with *Shari'a* principles; and (2) the profit motive that recognises business and investment transactions and maximisation of shareholders wealth" (Akhtar, 2006, p. 1). Therefore, any IFI must conform to the ethical principles of *Shari'a* law by developing "a distinctive corporate culture, the main purpose of which is to create a collective morality and spirituality which, when combined with the production of goods and services, sustain the growth and advancement of the Islamic way of life" (Suleiman, 2005, p. 99).

Thus, IFIs are under implicit contractual responsibility to a wide range of stakeholders, including shareholders and Investment Account Holders (IAH), to operate according to *Shari'a*. The agency problem is that the shareholders and IAH have inferior information that is possessed by management, particularly relating to the application of Islamic law (Farook and Lanis, 2005). The law of *Shari'a* in IFIs are applied and monitored by an SSB which consists of a group of Islamic scholars (Walsh, 2007), and thus the SSB is intended to check and monitor constantly the extent to which the IFIs have complied with Islamic moral principles in all its activities and transactions. In this regard, one of the interviewees stated:

> *"Our business has to be in accordance with Shari'a principles. For example, we had an opportunity of making a business deal last month, but we discovered that 1% of the total revenue from that deal would come from activities which contradicted with Shari'a morals, therefore the Shari'a committee refused to approve the entire investment decision".*

Hence, IFI management are under pressure from the SSB to adhere to Islamic moral principles and therefore disclose more CSR information in order to discharges its accountability to Allah (see Figure 8.1). This view appears in one of IFIs financial managers' statements:

> "*Usually SBB would like to see social disclosure in the annual report, although it is not compulsory by the standards and there is no enforcement by them except in the case of Zakah disclosure*".

This finding is consistent with the existing literature and suggests a relationship between corporate governance structure and the extent of voluntary disclosure (see Ho and Wong, 2001; Haniffa and Cook, 2002).

Further, the disclosure of the negative news in the annual reports particularly regarding transactions which contradictory to *Shari'a*, and how the income generated from such transaction was dealt with, is a sign of the role of SSB in transparency and social responsibility. The duty to disclose or say the truth is a very important issue in the Islamic context and its duty applies to businesses as much as to individuals, even if such disclosure would work against the firm or person himself (Maali *et al.*, 2006). Therefore, the extent of *Sharia* compliance by IFIs will depend on the level of monitoring in place. In addition, SSB appears to have some direct roles in CSR in IFIs.

8.3.4 Management Attitude and Perception

Managers have the final decision on what information should be disclosed, whether these disclosures are mandated or voluntary (Jaggi and Zhao, 1996; O'Dwyer, 1999; Haniffa and Cooke, 2002; O'Donovan, 2002; Lodhia, 2003). Therefore, the attitudes of those managers involved in the disclosure process have significant impacts towards CSRD. According to Gray *et al.* (1995), the reason behind the management's decision to disclose CSR information depends on the environment surrounding the organisations. Since both IFIs and CFIs operate in the same environment, they are exposed to the same external factors. However, some controversy exists as to the identification of which environmental factor is the most influential one. External factors, such as the economic and political system, are beyond the scope of this study as they are expected to have the same influence on both IFIs and CFIs since both groups operate in the same environment. Thus, more attention is given to socio-cultural influence.

In recent years, there has been increasing awareness of corporate social responsibility disclosure among managers. This awareness has led the companies' management to disclose CSRD (Jaggi and Zhao, 1996). However, a gap between managers' perceptions and actual company performance and reporting might exist (O'Dwyer, 1999). The interview analysis (see Chapter Seven) reveals that the attitudes of IFI managers vary among interviewees. Managers expressed the importance of the transparency principle in their disclosure practice (including CSRD), and therefore the right of different stakeholders to know about the implication of the organisation activities on the community at large (see Table 7.1). Such information is considered important for Muslims in their decision making as it meets their spiritual and economic needs. In addition, Muslims are required by Islam to question their actions or hold themselves accountable before being held accountable by Allah on the Day of Judgment for what they have done in their life. Hence, demonstrating a reasonable responsibility in accordance with Islamic *Shari'a* values is one of the objectives of accounting information (e.g. Baydoun and Willett 1997; Haniffa, 2001; Lewis, 2001) (see Figure 8.1). The duty to disclose or say the truth is a very important issue in the Islamic context, and its duty applies to businesses as much as to individuals, even if such disclosure would work against the firm or person himself or herself. This accountability provides more explanation for the disclosure of negative news in IFIs as they disclose 185 words, while there is a lack of negative news within CFIs.

8.4 Why CSRD is Limited

The findings of the present research identify some reasons for not disclosing social responsibility information by the companies interviewed. The two main reasons were: a) the lack of requirements and b) the influence of religion. With regard to the lack of requirements, a possible reason behind this attitude could be that the vast majority of those who agreed with this suggestion are the same as those who are motivated by AAOIFI standards to disclose CSR. In addition, this view provides an explanation for the lack of disclosure on the policy of insolvent clients within IFIs and the low level of disclosure under environmental issues within both IFI and CFI groups. AAOIFI standards have not requested or provided instructions and guidelines for companies to disclose on such issues. A possible reason for this, as mentioned earlier, is that the financial industry has less effect on environment and climate change. This is consistent with the argument provided by Thompson and Zakaria (2004). They suggest that, without legislation, standards or official recommendations encouraging companies to disclose environmental information, there appears little likelihood of disclosure increasing.

The other main reason for the reluctance to disclose was Islam. Some interviewees perceive good deeds particularly donations and charities should be done only for the sake of Allah's blessing, as there is no obligation on IFIs to disclose this information in details. The Holy Qura'n states: "if ye disclose charity, even so it is well, but if ye conceal them, and make them reach those in need, that is best for you" (Qura'n, S1:271). By the same token, the Prophet (pray upon him) said "Seven are (the persons) whom Allah would give protection with His Shade on the day when there would be no shade but that of Him (i.e. on the Day of Judgement, and they are)........., and a person who gives charity and conceals it to such an extent that the right hand does not know what the left hand has given". This argument could be interpreted to support the concept of accountability in Islam, which implies that everyone is accountable to God on the Day of Judgement. This finding is consistent with the finding of Brammer *et al.* (2006) and indicates that religion could act as a major obstacle for CSRD.

Although there is a tendency toward secrecy with respect to donations and charity in Islam, this inclination is meant, however, to be applied by individuals and should not be applied by corporations. The case in corporations is different. The modern corporation is "an association of in active and uncommitted capital owners who choose a few among themselves to direct the enterprise with the service of hired managers who have the opportunity to depart from the venture when the loss is anticipated" (Yusuf, 1998, cited in Haffnifa *et al.*, 2005). From an Islamic perspective, disclosing such information by corporation in detail would be related to the fulfilment of the concept of Huq al ibad (right of others). In other words, the corporate management has an implicit contract with shareholders and the community at large to disclose any information deemed relevant to facilitate their decision making.

Overall, the results of Chapters Six and Seven reveal that the concept of accountability from an Islamic perspective is embedded in CSR and CSRD in IFIs practice. This accountability is based on the relationship of individuals and businesses with Almighty Allah. This relationship stems from the Islamic concept of Tawhid (Unity of God). The concept of Tawhid requires that everyone, including businesses should follow the guidance of *Allah* stated in His *Shari'a*. Thus, everyone is accountable to *Allah* (Baydoun and Willett, 1997; Haniffa, 2001).

The notion of everyone being accountable to Allah provides a different dimension to the concept of accountability beyond what has been reflected in Western theories (Maali *et al.*, 2006). Accountability in this context is not only a duty to report performance, but it is a duty to perform or not perform certain actions (Ibrahim, 2000). In other words, it means performing ethically in the first place. Thus, in their accountability to Allah, and seeking Allah's pleasure, companies are establish social-economic justice by conducting their businesses according to *Shari'a* ethical and moral standards and avoiding any activities which contradict with *Shari'a*. This has been reflected in CSRD in IFIs (see Figure 8.1). CSRD in this context would be to demonstrate accountability to the community at large which is embedded within accountability to Allah. Such disclosures are important for Muslims in their decision making, as they touch on their ethical concepts in Islam (Haniffa, 2001).

Based on the preceding discussion, it can be seen that Islam could have a dual affect on CSRD. On one hand, IFIs have to disclose CSRD which discharges their accountability to Allah and which is important for Muslims in their decision making. On the other hand, some managers prefer not to over-disclose some CSRD, 'namely philanthropy', and go into details, as such good deeds are meant to be done mainly for seeking Allah's *blessing* and not to bless others. Thus, traditional CSRD theories, such as stakeholder theory, legitimacy theory, and agency theory, have their limitations in explaining the corporate behaviour (e.g., CSRD) of IFIs. This is because the primary focus of these theories did no go beyond the moral and material aspects of the corporation, while CSR and CSRD from an Islamic perspective are embedded in accountability to Allah.

8.5 Summary

This chapter attempted to discern the influence of Islam upon the practice of CSR and CSRD within the context of IFIs. It started with the influence of Islam on CSR practice. Here there is a unique accountability structure. It can be seen that the scope of social responsibility in Islam is broader than the conventional secular one that has been always viewed from a given disciplinary perspective, either managerial or ethical. Conventional secular CSR did not go beyond this traditional disciplinary, whereas each discipline focuses on particular problems facing the corporations (Secchi, 2007). However, CSR in Islam is embedded on the concept of accountability to Allah. Therefore, it is neither imposed by secular law that is exposed to change, nor subject to personal view, but it is well defined and does not change over the time and is not affected by different theoretical frameworks (Maali *et al.*, 2006).

To provide more explanation for the disclosure, the discussion then moved to the influence of external and internal factors surrounding the companies on CSRD. It can be concluded from this chapter that Islam has a major influence upon the CSR and therefore results in differences in CSRD practice between IFIs and CFIs. This difference is represented mainly in some of the information and type of news disclosed.

Chapter Nine

Conclusion, Limitations and Areas for Further Research

Chapter Nine
Conclusion, Limitations and Areas for Further Research

9.1 Introduction

The focus of this study is on Islam's influence on CSR and CSRD practices in IFIs. It seeks to examine the driving forces behind the practice of social responsibility and its disclosure in IFIs. This Chapter summarises the empirical findings and discussion presented in Chapters Six, Seven and Eight with respect to the research impetus, scope, and questions stated in Chapter one. Explanations are suggested for the extent of CSR and CSRD by IFIs, based on the empirical findings of the content analysis and interviews. The conclusions and interpretations are discussed according to the Islam's influence on CSR and CSRD practices. Finally, the limitations of the research and some areas for further research are identified.

9.2 General Observations of the Literature Review

CSR and CSRD have moved from being an 'also' to being a matter of 'central importance' (Gray, 1992). Organisations are no longer seen by society as an instrument for their shareholders only, but as organisations that operate within society with responsibility to ensure socio-economic justice (McDonald and Puxty, 1979). A review of the previous studies related to CSR and CSRD represented in Chapters Three and Four provides the following important points, which motivate this study:

1- Many of these studies have proposed different theories in an attempt to explain why corporations disclose or do not disclose social responsibility information. These theoretical perspectives have been developed mainly in liberal market contexts (see Chapter Three), and may not offer a full explanation of CSRD disclosure practices in a dissimilar socio-culture, as in the case of IFIs.

2- The current discussions on CSR do not go beyond the disciplinary perspective, whether managerial, accounting or ethical, and ignore the possibility of the conceptualisation of CSR based on other different values, such as religion.

3- The various CSRD theories exclude religion as a foundation in explaining why organisations should disclose social information and also in making assessment of organisations performance in terms of fulfilling their obligation to 'God'.

4- Most empirical studies in the area of CSR and CSRD have produced inconsistent, or even contradictory results (Gray *et al.,* 2001).

9.3 The Research Background, Objective and Scope

In order to understand CSR and CSRD, it is important to study not only the present extent and quality of disclosure to determine best practice, but also the factors influencing corporate social accountability and reporting (Adams *et al.*, 1998), since the primary objective of Islamic economics is social and economic justice, equitable distribution of wealth, and the elimination exploitation in business activities by banning all sources of unfair enrichment (Sarker, 1999). Hence, several studies have attempted to link Islam with CSR and CSRD. However, there is notable lack of studies pertaining to management perception of IFIs and attitude towards CSR and CSRD. There is an absence of studies which empirically examine the motivation for CSR and CSRD in IFIs. In addition, there is a lack of a comprehensive study comparing the practices of CSRD in IFIs with its conventional counterpart. Such a comparison would provide a better understanding of the nature of CSRD from an Islamic perspective.

The main objective of this study is to examine the influence of Islam on CSR and CSRD. To attain this objective, an empirical investigation into the influence of Islam on CSR and CSRD was conducted from two aspects. First, it approached the issues by conducting a comparison between IFIs and CFIs on the level and type of CSRD. Second, several interviews were carried out with senior managers in IFIs concerning their perceptions of and attitude towards CSR and CSRD.

9.4 Research Method

Content analysis was utilised in this study to measure CSRD. This technique has been widely employed in corporate social responsibility research. Because content analysis has been used broadly in previous studies into CSRD (see Chapter Five), and because content analysis allows CSRD to be classified and compared systematically, it has been employed in this study to measure the level of CSRD. The quantity of CSRD was measured for the year 2004, using content analysis. The unit of analysis for this study was 'word'. This was consistent with the approach made by other studies (see Chapter Five). The population for this study encompasses 42 financial institutions divided equally between IFIs and CFIs, both of which are operating in a number of Arabic Gulf countries. 21 IFIs which are operating in Arabian Gulf countries were selected from the General Council of Islamic Banks and Financial Institutions, while non-Islamic financial institutions are those listed on the stock exchanges in the same countries, and they were randomly selected.

Moreover, in seeking to examine the management views and perceptions on CSR and CSRD, the researcher used a semi structured interview method to provide a full picture of the environmental factors that might influence the presence or absence of CSR and CSRD in IFIs. The interview consisted of three parts: the first part contained questions on participants' perception of CSR and CSRD. The second part included questions relating to the possible factors which influence managers' decisions to disclose or not to disclose CSR information. The last part of the interview consisted of questions about the participants' backgrounds.

9.5 Conclusions

This study aimed to examine the influence of Islam on CSR and CSRD. To achieve this objective, two primary research questions were explored.

The first empirical research question of this research was:

To what extent has Islam had an Influence on CSR and CSRD? In order to address this research question, the following sub-questions were examined empirically, using the content analysis approach:

- What are the differences of CSRD between IFIs and CFIs?
- What kinds of CSRD were mostly disclosed by the companies?
- What types of news (bad, neutral, and/or good) were mainly disclosed by the disclosing companies?
- What forms of evidence (monetary, quantitative, and qualitative) were disclosed by the companies?

Concerning the first question, a checklist instrument (see Chapter Five) categorised CSRD into eight major themes: (1) employee, (2) community, (3) philanthropy, (4) customer, (5) product and service, (6) environmental issues (7), SSBR, and (8) other disclosure. Definitions applied in the checklist instrument were derived from an extensive review of the previous literature (e.g. Ernst and Ernst, 1978; Gray *et al.*, 1995a; Hackston Milne, 1996; Gao *et al.*, 2005; Parsa and Kouhy, 2005, 2008), and studies on social and environmental disclosure from an Islamic perspective (e.g. Kamla, 2005; Maali, 2006; Haniffa and Hudaib, 2007).

The primary findings of the content analysis indicate that the entire sample from both groups had some sort of CSRD. The data from Chapters Six and Seven concluded that there are differences between the Islamic and conventional perspective of CSR and CSRD. The result of content analysis revealed that IFIs disclosed more CSRD than CFIs, with 27724 words disclosed in IFIs compared with 16143 within CFIs. Disclosures within IFIs regarding *Zakah*, SSB reporting, and social loans, as well as compliance with Islamic ethical and moral standards, were the major differences between the two groups. The results of Chapter Six have shown that these disclosures coincide with the objective of corporate disclosure from an Islamic perspective (see Chapter Four), which is to discharge accountability, since accountability to God and the community for all activities is paramount to the Muslim faith (Lewis, 2006).

The lack of disclosure within CFIs under these themes and sub-themes could be justified on the basis that such information is merely related to religious practice and ensures that the companies discharge the Islamic concept of accountability. Nevertheless, such information is based on the social aspect of conducting business from an Islamic perspective, demonstrating that the social role of IFIs involves social justice and accountability. Thus, CSRD form an Islamic perspective is about disclosing information which discharges accountability to God and ultimately to society. It includes information demonstrating that the business is acting in accordance with divine commands, and adhering to Islamic ethical and moral business practice, as presented in the Holy *Qur'an* and *Sunnah*. This is consistent with the findings of Hayashi (1987, p.71) who suggested that "Islamic accounting thinks of the society before the business enterprise whereas conventional accounting thinks of individual profit before the social profit".

Nevertheless, Islam offers a significant advantage for environmental conservation, protection and business sustainable development (see Bagader *et al.*, 1994: Kamla *et al.*, 2006). However, there is a lack of disclosure under the environmental issue theme. This finding is surprising, because IFIs as social economic institutions are expected to communicate more on those dimensions to reflect accountability and justice, not only to society, but ultimately to God. The possible explanation for the overall low level under this theme in both groups is that the financial industry is less involved in environmental issues.

It has been asserted that capturing CSRD evidence (quantitative, qualitative and monetary), and the type of disclosure (bad, neutral, and good) can enrich the content analysis data. The results indicate that qualitative, quantitative and monetary means were all employed by both groups to communicate their CSR information. However, the disclosures in both groups were mostly qualitative. It was remarkable that IFIs companies were more inclined than CFIs to disclose monetary information. An interesting point was that IFIs, by contrast with their counterparts, have disclosed more negative news. The possible explanation for this is that the SSB committee in its role of providing an audit and consultancy service places great emphasis on management to offer transparency and full disclosure. This transparency and full disclosure is part of the business accountability to *Allah* and ultimately to the community (Maali *et al.*, 2006).

The second research question of this study was:
What is the management's perception of the motivation for CSR and CSRD? In order to address this research question, the following sub-questions were empirically investigated, with the interview approach.

- What motivate IFIs's managers to become involved in CSR activities?
- What are the factors that influence the management's decision to disclose social information in their annual reports?
- What are the reasons behind the absence of -if any- CSRD?

The level of importance attached to different environmental influences on the managers' decision to be socially responsible and disclose CSR information was determined by use of the Interview method. There are two main inferences to be drawn from the results of the interview. These relate first, to the managers' perception of CSR, and second, to the managers' perception of CSRD.

9.5.1 Recognition and Perceived Importance of CSR and CSRD

The results of the interviews show that religion has an influence on managers' perception and attitude toward CSR and thus on its practices. IFIs managers perceive CSR as part of their social responsibility in society throughout their activities. This view reflects the Islamic perspective of accountability where the person's accountability to God encompasses his/her accountability to society (Lewis, 2001). This accountability implies in the first place adherence to the religious requirements in all aspects of life including business. In other words, it is a duty to perform *Halal* (permissible) activities and avoid *Haram* (forbidden) activities.

This notion has been justified by many interviewees, as Islam plays a key role in the development of personal values and behaviour, which, in turn, influence many areas of business (Zinkin and Williams, 2006). Perhaps the most manifest examples of the practical implications of this relationship are the payment of *Zakah*, the prohibition of the interest and all unethical business conduct, the encouragement of donations, and *Al-qarad Al-hasan*. In this regard, an interesting point was raised by interviewees regarding the way IFIs operate. They stated that IFIs offer an alternative ethical financial system to the interest-based system, which is considered from an Islamic perspective as unethical and the main cause of the socio-economic problems in society. All these activities are driven by *Shari'a* and therefore the reason for such practices by IFIs are in strict adherence to *Shari'a* rather than driven by any notion of CSR. Thus, CSR in IFIs includes a new dimension. This dimension is the accountability to Allah. Under this dimension, the philosophy of doing CSR is viewed as a practice of religion rather than a normative practice. An example of this practice is the payment of *Zakah*, the prohibition of usury, the social responsibility toward community, etc. Such practices are embedded in the daily business practice of IFIs.

In seeking to gain more insight into the manager's perception on CSRD, the interview was conducted to explore the level of importance attached to the different factors that influence managers' decision to disclose social responsibility information. Certain indicative points can be discerned from the interviews.

9.5.2 Reasons for Disclosing CSR Information:

- AAOIFI standards are one of the main reasons for IFIs to disclose CSR information. The pressure on IFIs to comply with *Shari'a* has led IFIs to concentrate on AAOIFI standards' requirements. Even though the standards are not compulsory, except in the Kingdom of Bahrain, most IFIs apply the standards to cater for the unique characteristics of the *Shari'a* compliance when IASB do not.
- The SSB plays a significant role in ensuring that the business discharges the Islamic concept of accountability. The interview results indicate that management may disclose more social information as a result of the pressure from SSB or in order to reduce the pressure from SSB. Indeed, SSB plays a key role in ethical screens and corporate governance, and this role leads to the increase of the level of CSRD.
- Disclosing social responsibility information for the reason of transparency and accountability. Disclosing CSR information is perceived as part of the social obligation and accountability towards Allah and this includes Man's accountability to the Muslim community at large. Such information is deemed important for Muslims in their decision making, as it touches on their Islamic ethical concept (Haiffa, 2001). CSRD from this perspective is considered as a way of worshipping Allah, and it is not for any material reward, but rather to gain reward from *Allah* and avoid His anger.
- Another motivation raised by some managers is to enhance company image. It is apparent that some companies are disclosing information that is not required by users, for instance, information

related to community involvement. This was justified by some managers who declared that providing this information helps them to promote the company's image.

9.5.3 Reasons for Reluctant to Disclose CSR Information.

- Lack of mandatory (i.e. statutory) disclosure requirements. Proponents of this view believed that companies usually disclose information as a reactive response to legislation. The AAOIFI standards requirements cover some aspects of CSR. It was stressed by directors that they are only following AAOIFI standards of disclosure.
- Even though religion could have a positive bearing on CSR, it was found that religion could be one of the factors which might influence the decision of not disclosing CSR information. From an Islamic perspective, participating in social responsibility activities is considered part of practising Islam. Therefore, some directors are inclined not to disclose and use social responsibility activities for publicity or marketing, as such activities are done only for the sake of a blessing from almighty *Allah*.
- Other reason for not disclosing is to keep the annual report brief, as it is not prepared to accommodate all the social activity of the business. The cost of disclosure could be an issue here.

Based on the above discussion, the traditional CSRD theories have their limitation in explaining the CSRD of IFIs. This is because the scope of social responsibility in Islam is broader than the conventional secular one, as it is embedded in the concept of accountability to Allah. Therefore, this study suggests that the Islamic accountability theory is valid in understanding and explaining CSR and CSRD in IFIs.

9.6 Implication of Research Findings

Some implications are made in relation to CSR and CSRD practices within the context of IFIs. These implications can be summarised as follows:

The current study contributes to the existing literature in CSR by providing a wider perspective. This study finds that CSR in Islam is not based on material interest only, although it is an essential part of it. It extends beyond such concerns to embrace all the needs of society, including material, ethical and spiritual needs. The present study found that many of the current practices in IFIs draw on the expected behaviour of the CSR framework generated in this study, which is based on *Shari'a*. Such compliance, however, seems to be driven by adherence to *Shari'a* rather than an understanding of CSR notion. Thus, managers view CSR practice as a part of practising their accountability to almighty Allah, whereas the pressures for accountability in the developed countries come from the ethical investors, pressure groups, consumer associations, the United Nations and European Community (Gray *et al.*, 1988).

Many of the CSRD disclosed by IFIs mirror the accountability notion from an Islamic perspective. However, there is a lack of a systemised framework of CSRD from an Islamic perspective, which has caused hindrance to an institutionalised approach to implementing CSRD practice in IFIs. In addition, by considering CSR activities as worshipping God, some managers believe that, such activities should not be used for publicity and improving the image of the company. Thus, the need to augment the awareness of the importance of CSR information is an overarching issue. Therefore, guidelines and standards should be issued either by AAOIFI or local accounting bodies on the form and content of **"best disclosure practice"** to help the companies become more involved in the CSRD, especially in the case of their present lack of expertise, qualification and training in the field of CSRD. It is essential for IFIs managers to communicate more effectively. This can be achieved through improving the understanding of the importance of this information to the stakeholders within and outside the business organisation.

9.7 Contribution

This study has contributed to the literature of CSR and CSRD by providing an empirically-based explanation and proposing the religion accountability dimension to CSR and CSRD theories, namely:

- The three-dimensional analysis (conceptual analysis, content analysis, and interview managers' perception and cognition) which was used by this study, which goes beyond much of the literature in seeking to explain and understand CSR and CSRD in IFIs.
- The principle of accountability to Almighty Allah is a significant catalyst for CSR and CSRD in IFIs. This finding has an important implication for academic research in the CSR field, as it paves the way for further investigation.
- The traditional theories on CSR and CSRD may not be applicable to explain fully CSR and CSRD in the case of IFIs. This is because the primary focus of these theories did no go beyond the moral and material aspects of the corporations. The current study attempted to extract the Islam influence upon the practices of CSR and CSRD within the context of IFIs, and to propose Islamic accountability theory, which is based on accountability to Allah and the community at large.
- In addition, this study is the only study, to the best knowledge of the researcher, to go beyond measuring the CSRD and incorporated management perceptions in the IFI literature. Undertaking and disclosing CSR information falls under the responsibility of decision makers, typically management. Their perceptions may be of immense value when attempting to understand the CSR and CSRD phenomenon. Therefore investigating these perceptions of the decision makers in IFIs towards the CSR and CSRD phenomenon has enhanced our understanding of CSR and CSRD, particularly in the context in an Islam society.

9.8 Limitation of the Study and Suggestions for Further Research

- The current study argues that social disclosure actions in IFIs are based upon the notion of Islamic accountability. However, there is some scope for overlapping with legitimacy theory in that IFIs agreed to perform various socially desired actions from an Islamic perspective in return for its approval which would ultimately guarantee its survival.
  - The current study does not consider social, political, and economic environments. This is because they are expected to have the same influence on both IFIs and CFIs, since both groups operate in the same environments. Therefore, to improve the model suggested in the current study, these factors could be examined in a further study based on a large sample of IFIs operating in different economic and political environments.
  - This study is based empirically on disclosures made in the 2004 financial year. There is a possibility of disclosure changing over time. Therefore, future researchers may wish to consider a longitudinal study based on a reasonably large sample to examine whether disclosure does change over time.
  - Owing to budgetary constraints, this study focuses on the perception of the managers on CSR and CSRD. Further research could be undertaken to examine the perception of the users of the annual reports on the usefulness of proposed CSRD guidance in this study on meeting their ethical and economic needs.

This chapter has concluded with the findings in this study with respect to the research questions. Overall, the thesis has made a novel contribution both at theoretical and practical level to the literature of CSR and its disclosure. The work has achieved its objectives.

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Appendices

Appendix 1: Checklist of Themes of CSRD

Appendix 2: Decision Rules for CSRD

Appendix 3: List of Companies Surveyed

Appendix 4: Letter for Requesting Annual Report

Appendix 5: Letter for Arranging an Interview

Appendix 6: Interview Memoir

Appendix 1: Checklist of Themes of CSRD

Employee

- Employee Data
- Equal Opportunity
- Training &Development
- Appreciation& Thanks
- Employees' Benefit
- End Service Indemnity
- Pension
- Nationalising of Workforce
- Work place
- Other

Community

- Community investment
- Contribution to national economy
- Education
- Health
- Social Loan
- Social activities support
- Other

Philanthropy

- Charity & Donation
- Zakah
- Other

Products and Services

- Developing & innovating new products
- Products & services quality
- ISO & other awards
- Other

Customer

- Customer service
- Meeting customer needs
- Customer satisfaction
- Insolvency client policy
- Difficulty in reaching customer
- other

Environmental Issues

- Lending and investment policy
- Recycling activities
- Sponsoring environmental activities
- Other

Shari'a Supervisory Board Report

- Background on the SSB members
- Examination of documents
- Compliance with Shari'a
- Provision of fatwa and consultancy

Other Disclosures

- Islamic values
- Commitment to ethical conduct
- Adherence to *Shari'a*
- General statement of CSR

Appendix 2: Decision Rules for CSRD

- All disclosures must be related to the company and its actions.
- All disclosures must be specifically stated and they cannot be implied.
- Bad/neutral/good classification to be determined from perspective of stakeholder group involved.
- If any word has more than one possible classification, the word would be classified according to the activity most emphasised in the word.
- Any discussion of making redundancy would be classified as bad news unless it was clearly to the contrary.
- Any disclosure that is repeated shall be recorded as CSRD words each time they are discussed.
- All sponsorship activities to be included, no matter how much it is advertised.
- Only the captions of pictures are classified.

Appendix 3: List of Companies Surveyed

Islamic Financial Institutions	**Conventional Financial Institutions**
1. Abu Dhabi Islamic Bank	22. ADCB
2. Albaraka Islamic Investment Bank	23. Al Ahli Bank of Kuwait
3. Al Dar Finance	24. Al Ahli Bank of Qatar
4. Al Amin Co	25. Arab Insurance Group
5. Al Rajhi Banking and Investment	26. Bank of Kuwait and Middle East
6. Amlak Finance	27. Bahrain Kuwait Insurance
7. Takaful International	27. Bahrain Middle East Bank
8. Arcapita Co	29. Bayan Investment Co
9. Bahrain Islamic Bank	30. Bank of Bahrain and Kuwait
10. Dalah Albaraka Ltd	31. Burgan Bank
11. Dubai Islamic Bank	32. Commercial Bank Qatar
12. First Finance	33. Commercial Bank Dubai
13. Gulf Finance House	34. Dubai Investment
14. International Leasing and Investment Company (ILIC).	35. First Gulf Bank
15. Khaleeg Investment Company	36. Gulf Bank
16. Kuwait Finance House Bahrain	37. Kuwait and Middle East Finance
17. Osoul Leasing Investment	38. Kuwait Finance and Investment
18. Unicorn Investment Bank	39. National Bank of Bahrain
19. The Investment Dar	40. Qatar National Bank (QNB)
20. The Islamic Corporation for the Insurance of Investment and Export (ICIEC)	41. National Bank of Dubai
21. Shamil Bank	42. United Gulf Bank

Appendix 4: Letter for Requesting Annual Report

Dear:

As a part of ongoing research on Corporate Social Responsibility (CSR) and Corporate Social Responsibility (CSRD), a survey on its practice by financial Institution is being conducted at Napier University Business School. It will evaluate the existing practice and attempt to understand the driver behind it.

This research is based on annual report data. As your company has been identified as one of such potential business. I would therefore appreciate it if you could email or post me your annual reports for the year 2004-2005.

The research is supervised by Professor Simon Gao.

Thank you very much for your assistance.

Zakaria Ali Aribi

Doctorate Student

Appendix 5: Letter for Arranging an Interview

Dear:

I am a Libyan PhD student in School of Accounting and Economics at Napier University, UK.

As part of a research programme on Islamic Financial Institutions (IFIs) with particular emphasis on Corporate Social Responsibility (CSR) and Corporate Social Responsibility (CSRD), we selected your company to be included in this study. As a part of my fieldwork, I have some questions that I would appreciate the opportunity to discuss in order to obtain your view on this issue. This would be a very good opportunity to learn from your vast executive experience.

I will send you a list of discussion questions for your consideration in advance of a meeting. As you will see, the questions are of a general nature and do not pertain to any individual institution. In addition, I would like to confirm that the information provided will be treated confidentially.

I will telephone your secretary in a few days to see if we can arrange an interview.

Thank you in advance for your time. I look forward to meeting you.

Yours sincerely

Zakaria Ali Aribi

Appendix 6: Interview Memoir

Name: Designation: Time/Date:

Thank you very much for your participation in this study. This interview will take approximately an hour of your time. The purpose of this research is to collect qualitative data using micro tape recording, for examining the current practice of Corporate Social Responsibility and its disclosure and data will be used for the purpose of writing my PhD dissertation. If you have any question/query/ objection about my research project or about any thing else do ask me at your own will. Otherwise should we start the interview.

Questions:

How do you understand corporate social responsibility?
Is your organisation involved in CSR?
▪ If (yes) explain.
▪ If (no) what is the reason?
Does your organisation regard corporate social responsibility as part of its activities?
▪ If (yes) In what way?
▪ If (no) what is the reason?
What motivates you to become involve in CSR?
Have you been involved in the annual report?
▪ If (yes) in what way?
How do you consider corporate social responsibility disclosure?

Does your organisation regard corporate social responsibility disclosure to be part of its disclosure?
▪ If (yes) why
▪ If (no) explain?
What motivates you to disclose corporate social responsibility disclosure information?
Are these disclosure linked to religion?
▪ If (yes) explain
Do you think religion has an influence on social disclosure?
If (yes) in what way
What are the main obstacles (if any) for disclosing corporate social responsibility disclosure in your company?