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The corporate social performance indicators for Islamic banks: The manager's perception

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Abstract - Social performance is incumbent as one of the maqasid Shariah of Islamic banks. A perception study involving questionnaire surveys was conducted of 152 Islamic bank managers in Malaysia as a means of searching for empirical evidence of what constitutes Corporate Social Performance (CSP) indicators for Islamic banks. Using 50 indicators as a CSP construct, the study found that there are forty-seven important indicators for CSP in Islamic banks. The Shariah compliance activities such as annual payment of akat, transparent measurement of zakat, avoidance of unlawful transactions, and disclosure on the nature and extent of the unlawful transactions are among the most important indicators. However, in the dual Islamic banking framework in Malaysia, managers have a significant difference in perception of the importance of qard hasan financing, number of branches and vicinity, availability of e-Ibanking services, and third party verification for customer services as representative of Islamic banks' social performance indicators. Remarkably, environmental protection and enhancement activities are considerably important CSP indicators even though the environment does not directly affect or effect Islamic banking activities. This study contributes to the development of social performance indicators specifically for a faith-based business institution from the practitioner perspective. The indicators may be used to assess the incorporation of social function in Islamic banks towards fulfilling the maqasid Shariah and meeting the need of various stakeholders.

Keywords: Islamic bank, Maqasid Shariah, Corporate Social Performance Indicators, Stakeholders, Zakat, Qard Hasan, Investment Account Holders

1. Introduction

Islamic banking and finance is a fast-growing industry worldwide. Internationally, the industry operates in 75 countries with over 500 Islamic financial institutions (IFIs) and total assets of nearly US\$1 trillion, and is expected to capture half of the savings of the Muslim world (Austay 2010). In Malaysia the industry has also shown a tremendous growth over the last five year period. Total assets in the system increased from RM156, 810.8 million in 2007 to RM334, 982.6 million in 2011 (BNM Monthly Statistical Bulletin 2012). The industry has contributed significantly to the national economic system or Gross Domestic Product (GDP) of 9.2% in 2000, 11% in 2008, and 17% in 2011 (BNM 2009; 2012).

In Islamic faith-based commercial business organizations, banks are required to operate according to Shariah (Islamic law) with the aim of achieving maqasid Shariah (Shariah goal). The stress on achieving maqasid Shariah in Islamic banks is to ensure social fairness and justice in the protection of Islam as a religion (al din), the life of human self (nafs) or the individual person, the intellect (faculty of reasoning) (aql), the progeny or offspring (nasl), and the material wealth (mal) of the various stakeholders who are affected by and effect the Islamic banks' earning process. In this case the stakeholders of Islamic banks are employees, the community, depositors, creditors, zakat receivers, investment account holders, the environment surrounding the banks, and the regulators (government).

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In this context, the goal of property management in Islamic banks is not purely for profit (economic objective) that satisfies the interest of the shareholders but also to ensure social responsibility to various stakeholders.

Many researchers argue that corporate social responsibilities function as accountability to various stakeholders following stakeholder theory. The theory holds that an organization has a responsibility to various parties affected or effecting the business operation in meeting its goal (Freeman, Wicks and Parmar, 2004) through optimizing their corporate system so that it can maximize the bank performance over a long term (Iqbal and Mirakhor, 2004; Hasan, 2008; Hasan and Harahap, 2010). The theory provides that the bank's corporate governance has the authority and accountability to manage the business property for the benefit of shareholders without neglecting the interest of other parties who have an implicit and explicit contract with the bank. In this regard, the bank's managers are entrusted to mobilize their wealth (money deposited by depositors, and capital contributed by the investors, as well as investments made by the investment account holders) according to rules, regulations and policies issued by various regulating bodies with the aim of generating revenue.

The Islamic banks (the wealthy) are also required by Islamic law to promote social benevolence to various stakeholders (Chapra, 1985; Chapra and Khan, 2000; Munawar, Iqbal and Llywellyn, 2002) such as such as employees, communities, zakat recipients and the environment surrounding the banking business. The banks are also required to consider the property rights of various stakeholders through social and humanitarian works (Kahf, 2004). Consistent with Shariah emphasis, CSP undertaking needs to be carried out towards various stakeholders to ensure fair and just business dealings and maximization of their welfare, regardless of equity holding (Bhatti Ishaq and Bhatti Maria, 2011; Iqbal and Mirakhor, 2004; Sulaiman, 2000; Abdul Rahman and Al Bureay, 1992).

In recent years, CSP has become a trend in the business market as companies with a good track of CSP are believed to have positive influence on corporate reputation. In Islamic banks, CSP to various stakeholders allows them to fulfill the social objective part of the maqasid Shariah. It also qualifies the banks for deductible expenses in the bank's corporate tax. It benefits various stakeholders when CSP meets their various needs and expectations and, in return, the bank will get greater stakeholder support and loyalty which will enhance business profitability and legitimacy among the stakeholders, such as employees, community, zakat recipients and the environment surrounding them.

Though social fairness and justice is one of the maqasid Shariah of the banks, little is known about the banks' social performance towards various stakeholders. This is particularly true in Malaysia because CSP has not been made mandatory in practice as well as in reporting. Banks may report the CSP on a voluntary basis in their mediums of communication such as the annual report, bulletin and through advertisement. Although it is reported, the information is not accessible to all stakeholders, resulting in a problem of information asymmetry to stakeholders. They are unable to evaluate how bank managers account for their stakeholder's interest in the bank's earning process, or what constitutes the expected social performances. Inconsistency

of reporting coupled with the voluntary nature of disclosure will hinder the assessment of Islamic banks' accountability to multi-stakeholders. Consequently, the true reflection of their actual social performance may be judged wrongly and a bank may be considered to have very low CSP as compared to the actual situation, or vice versa. The difficulty in assessing CSP is also felt in the absence of specific CSP indicators to various stakeholders for Islamic banks.

Several past studies have gauged the social function of Islamic banks through CSR disclosure such as those by Hanifa and Hudaib (2007); Aribi (2009); Hassan and Harahap (2010); and Hasan (2012). However, these studies mainly evaluated the social function or responsibility using indicators developed from Islamic values or ethical perspectives and measured the variation on the basis of information reported by Islamic banks. There is very limited research that has developed CSP indicators from a practitioner's perspective especially in a country where Islamic banking is operated in a fully-fledged system ("fully-fledged Islamic banking" – FFIB) as well as in subsidiary banks where the holding companies are conventional banks (investment savings banks – ISB). Hence, this study aims to identify what counts as important CSP indicators for Islamic banks from the managers' perspective and to compare any differences in perception between FFIB and ISB managers on what they consider as important CSP indicators.

Findings in this study will add to the limited insight of what are considered to be CSP indicators of Islamic banks from a practitioner's perspective using stakeholders' theory towards fulfilling the maqasid Shariah.

2. Literature review: CSP indicators for Islamic banks

Acknowledging that social welfare underpins the responsibility or accountability of Islamic banks towards various stakeholders (Iqbal and Mirakhor, 2004; Hasan, 2008; Hasan and Harahap, 2010), the terms corporate social responsibilities (CSR) and corporate social performance (CSP) are used interchangeably in this study to denote social or benevolent activities.

This study adopts Wood's (1991) definition of CSP as the assessment of principles of social responsibility (CSR1), which motivate the company's action, how determined it is to make use of social responsiveness processes (CSR2), the existence and nature of policies and programs designed to manage societal relationships, and the social impact (observable outcomes) of the firm's actions, programs and policies. Based on this definition, CSP undertakings constitute the organizational entity, the environment, the individual executive manager, and the employees' ethical and personal values towards the business society at large. The performance includes setting up favorable conditions for decision-making, designing activity (searching, discovering and analyzing possible decisions), and selecting and implementing particular choices of action. The ultimate value of this process is in term of economics (efficient output), power and integrated relationships between organizations and their environment (Swansons, 1995).

From the Islamic perspective, CSP involves keeping up trusts, promises and adherence to fulfill the contract with various

stakeholders in applying the essence of verses in the Quran (5:1; 23:8). This study looks at eight stakeholder groups for whom the contract is considered as specified in the Code of Corporate Governance for Islamic Banks in Malaysia (2007): shareholders and investment account holders; employees; the community; depositors; borrowers; zakat recipients; the environment; and regulators. The groups can be categorized further into explicit and implicit stakeholders. The explicit stakeholders are those who are affected by or are affecting certain contracts which provide rights and protection to the contracting parties. The examples of explicit stakeholders arise from a specific contract signed between them as seller and buyer, customer and banker, and advocate and solicitor (Iqbal and Molyneux, 2005). The implicit stakeholders are those who are indirectly affected by the contracts carried out by the business operation, for example, the environment and zakat recipients.

Based on the eight stakeholders group mentioned above, the CSP indicators for various stakeholder groups are discussed with reference to Shariah and the current literature.

3. CSP indicators for shareholders and investment account holders

Islamic banks have a contract or obligation to shareholders and investment account holders (IAH) on the capital invested by them. It is the bank's obligation to protect the wealth invested and to ensure the right to return on the capital invested.

A socially-responsible Islamic bank is required to provide transparent information about the investment policy to shareholders as well as to investment account holders in fulfilling their fiduciary responsibility and accountability to manage the account within the parameters of the given mandate (CCRG IIFS). Since the encouraged form of financing and investment activities in Islamic banks is through a partnership based on a profit loss sharing (PLS) arrangement (Mirakhor and Zaidi, 2007) the extent of investment using mudharabah and musyarakah will be an indicator of the CSP of an Islamic bank.

To fulfill the IAH's right to monitor their investment performance, it is socially responsible for Islamic banks to indicate their internal guidelines on the eligibility of the employees in managing the IAH, the protection of IAH investments, the disclosure of relevant and material information to the IAH, and a proper and disclosed basis for profit allocation and investment policies based on the risk expectation of the IAH.

Islamic banks are also socially responsible for providing at least the normally available information on collective investment schemes (CIS), information on the PLS for the mudharabah investment account when the account is opened, consideration of the risk and return expectations of the IAH through knowing about customer mechanisms, employing qualified investment managers, and keeping the GC fully informed of the investment strategy adopted. Similarly, it means that IIFS shall inform the IAH about the practices of smoothing over returns by means of building up and drawing on reserves such as PER. The GC shall be mandated to scrutinize the utilization of PER and make recommendations to the board of directors (BOD), IIFS shall

clearly distinguish the distribution rate and if the investment risk reserve (IRR) is used as a cushion, it shall be placed under the scrutiny and recommendation of CG (Yunus, 2007).

Another CSP indicator specified in AAOIFI (2001) is the capability of the Islamic bank to make disclosure of earnings or expenditures prohibited by Shariah, such as the amount and nature of earnings, the amount of the expenditure for those sources, and the policy regarding the disposal of these prohibited sources (FAS No1 AAOIFI paragraph 15).

4. CSP indicators for depositors or customers

Another party with whom Islamic banks have contracts is the depositors. Depositors may deposit their money as current account deposits, or unrestricted investment deposits (in savings and mudarabah accounts), or off-balance sheet deposits (in investment and special or restricted investment accounts) (Kahf, 2004).

Irrespective of the types of deposit, the social responsibility of Islamic banks is to provide the details of the contract they have entered into even though the contractual agreement between depositors and Islamic banks is not based on predetermined rates of return.

In turn, Islamic banks are contracted to maintain the trust of keeping the depositors money safely and not to use it in operations for deposits (safekeeping) under amanah. In safekeeping under the principle of Al-Wadiah (also known as a non-interest loan from depositors to Islamic banks), the bank has the right to use the current account to invest but with no promise of any return except for a guarantee for the entire deposit. Islamic banks may perform social services to these depositors through reward with a gift (hibah) with no specific or permanent amount or customary payment on the current account used for investment.

5. CSP indicators for borrowers

The social responsibility of Islamic banks to borrowers arises from financing facilities (from households and individuals, to small and medium size businesses, large business entities, as well as government and public sector organizations) that are to provide financing activities which are free from riba and grant them a suitable period based on the benevolent principle, as mentioned in the Quran (2: 280). The relevant verse does not, however, mean that debtors are encouraged to delay payment, or not to pay at all. This is because the Prophet (peace be upon him) said that "The rich person who delays in paying back a loan is a wrongdoer" (Sahih Al Bukhari Vol. 3. Book 34. No 291). As such, if the tradition is applied to financing activities this means that both Islamic banks and debtors are accountable and socially responsible for fulfilling the contract of financing given.

Another general social responsibility that Islamic banks need to fulfill is to provide transparent information on the types and features of the financial services offered. They are not supposed to attract customers through false advertisements (Beekun, 1996). This is because such practices will deceive customers from actual or true information about the services or product defects and representation. It will create a false impression with which to induce customers

to choose services provided by the company. It is also an Islamic bank's social responsibility not to hoard or undertake profiteering. Islamic ethics do not allow storing essential stocks secretly in order to exploit the price and emphasis on profit maximization during a period of scarcity, as it will create false scarcity and invite public disorder.

Moreover, services or products provided to customers must be able to reach various target groups so as to ensure that Islamic banking reaches not only established organizations and the rich, but also the needy. The needy are not to be neglected, but banks need to put in place careful selection procedures to ensure that they are financially able to repay the amount owed, thus meeting the commercial objective of Islamic banks. As such, financing may also include financing for the disabled and aged customers, customers who are difficult to reach (for, example, microfinance), small and medium industries, and to introduce qard hasan financing (interest-free financing) to the identified groups (Farooq, 2007). With regard to providing sales of commodities and service, the Quran (17: 35) states clearly the social responsibility to adhere to accurate measurements and weights. Any weighing of commodities less than the actual measurement will be considered as exploitation. It is also the social responsibility of businesses to prohibit riba in all business transactions as it involves interest. Ethically, the transaction must be free from interest which burdens society greatly as stated in the Quran (2: 275).

Last, but not least, it is the accountability and social responsibility of Islamic banks not to undertake business which includes unlawful business activities to customers such as gambling, selling liquor, non-prescribed drugs and tobacco as this is considered a waste and will bring further ruination to society as mentioned in the Quran (2:219) which states: "They ask thee concerning wine and gambling. Say: 'In them is great sin, and some profit, for men; but the sin is greater than the profit.' They ask thee how much they are to spend; Say: 'What is beyond your needs.' Thus doth Allah Make clear to you His Signs: In order that ye may consider". Thus, Islamic banks are socially responsible for ensuring that services and products offered are free from any elements of riba (interest) and gambling in compliance with the requirements of Shariah.

6. CSP indicators for employees

Employees' labor efforts collectively are the catalyst for the fulfillment of business objectives by business organizations. Workers are supposed to be treated fairly according what they deserve and their salary needs to be paid when due according to the following rules as narrated by Abdullah ibn Umar: "Give the labourer wages before his perspiration be dry" (Tirmidhi Hadith: 2987 and Ibn. Majah) and based on the commandment narrated by Abu Huraira that the Prophet said "Allah said that I will be an opponent, on the Day of Judgment, against the person who engages someone on work and takes full work from him but does not give him (full) wages" (Sahih Bukhari No. 470).

A fair recruitment practice prescribed in the Shariah is that in order to employ new workers and give due promotion the employer should not practice discrimination due to race, religion, corruption nor nepotism. The selection needs to be based on trust and should be offered to the deserving

person and responsibility should be given to the person who is able to bear and has the ability to do justice when the trust is given to him (Abul Quasem, 1975).

To improve employee knowledge, skills and commitment, Islamic banks need to send employees for training and state a clear policy on recruitment, retrenchment and profit-sharing programs to employees. Islamic banks also need to maintain a healthy, safe and conducive working environment for employees. A conducive and healthy working environment will allow improvement of work performance and will inculcate harmony and respect of others' beliefs among workers even though they may be of different race or religion.

7. CSP indicators for the community

Besides employees and competitors, the implicit accountability and social responsibility of Islamic banks is also due to the community. Responsibility to the community is based on the relationship of businesses with fellow servants, or collective humanity (hablumminnan nas). Economic managers and entrepreneurs are individuals who administer the business organization in producing or trading in goods and are also considered to be "individual-in-community" and bear a responsibility to fulfill the pursuit of their economic activities in the advancement of fortune (Hasan, 2007).

According to Abul Quasem (1975) in Al-Ghazali ethics, the individual-in-community is subject to two kinds of binding constraints, that is, the individual must sacrifice part of his income for charity to acquire virtue and he must internalize community preference as a responsible member of society and avoid conspicuous consumption (For example, luxury and extravagance). This means that the responsibilities of Islamic banks to the community are in the form of welfare and charity because, as a financial intermediary which consists of individual-in-community, they have the same responsibility to produce community-approved good and to avoid profiteering and other unfair trade practices (Hasan, 2007).

The obligatory corporate social responsibility of Islamic banks to the community in Islam is through payment of zakat, which literally means both purification and growth (Gambling and Karim, 1986). It embodies social identity and justice, and is the best substitute for interest because business zakat is a form of business wealth distribution (regular charity of wealth) from the property of the rich to the poor (Hassan, 2007); this purifies the heart of zakat payers from greed and removes the poverty of the needy (Al Islahi, 1988). It will be distributed to the needy as specified in the Quran (At-Taubah verse 60), namely the poor, the deprived, zakat collectors, new Muslim converters, to free the slaves, those who are unable to pay their debts, destitute travelers, and those in the path of Allah. Business zakat is levied both on the net worth (capital+reserve-assets) and on the net profit at the rate of 2.5%. Some religious scholars have justified the spending of Zakat on health and education as well as other services but do not include the salaries and wages of those working in these sectors (Gambling and Karim, 1986).

Gambling and Karim (1986) suggest that a firm with real commitment to social justice might consider setting up its own zakat fund or an equivalent to cover social costs

not currently being met out of the state fund; thus, it is the management's duty to give full attention to relieve the difficulties and complaints of its customers, suppliers, workers, neighbors, and to alleviate the effect of pollution from the internal zakat fund.

Besides zakat on wealth, other examples of social responsibility in corporate organization are sadaqah (a non-obligatory social responsibility) (Hassan, 2007) and charitable activities (Farooq, 2007). Sadaqah is considered as spontaneous voluntary charity (Hassan 2007) with the purpose to "remove from you some of your (stains of) evil.." (Quran 2:271). There are two form of sadaqah: one-off and continuous. Waqf is a continuous sadaqah in which the voluntary charity is given in the form of assets in perpetuity or on a permanent basis (Ahmed, 2007). The benefits of waqf will flow continuously to the giver after his or her death (Ahmed, 2007). Examples of waqf are building up mosques, educational institutions, roads and other publicly owned premises and facilities, as well as supporting orphanages (Sadeq, 2007). Due to its voluntary nature, there are no limits to the amount and no specific guidelines except that it can be disclosed as well as concealed and it is best if given to the needy.

As a part of social responsibility financing, AAOIFI Governance Standard No 7 requires Islamic banks to provide qard al hasan (zero-interest financing) to the needy. The product arrangement requires the borrower to pay back the principal amount of the loan on maturity without any increment from the amount borrowed or interest (Anas and Mourina, 2009). It is based on a social welfare contract involving individuals and society to promote the well-being and welfare of the less privileged (Iqbal and Mirakhor, 2007; Adnan and Noraini, 2009) and the bank will only charge administration costs of handling the loan and it is not based on the duration and the amount of the loan (Adnan and Noraini, 2009). This contract will enable the poor to create new job markets and business ventures using their merits, skills and expertise and thus eradicate the unemployment problem from society (Anas and Mourina, 2009). However, Adnan and Noraini (2009) argue that expenditure on other product such as rahn, credit card and charge card under this facility is contradictory to the aim as these products are involved in profit motivation rather than benevolent activities.

8. CSP indicators for the environment

Apart from the responsibility to society, business also has a social responsibility to the universe. Islamic banks will be considered as socially responsible to the environment when they are able to utilize and manage the element of nature or universe in an orderly manner as an act of natural submission to Allah (Quran 7:54, 22:18, 24:41), and in discharging responsibility as a khalifah and cabd (Quran 2:60; 6:95–103; 15:16–23; 16:3–21).

Businesses also need to protect the environment (Haniffa, 2002; Othman and Azlan, 2010; Maali, Casson and Napier, 2003 & 2006; Dusuki, 2005). In using resources/bounties of Allah in this world, mankind is required to utilize them in the best way possible (Faroq and Lanis, 2005). Nature is not to be conquered nor must it be overcome in man's pursuit for development of the world (Mohd Haneef, 1997). The responsibility to take care of the natural environment is

emphasized in the Quran (2:30). In addition, the Quran (16: 18:81) points to how nature needs to be protected and not to be harmed as it will create inconvenience to mankind at large. As such, an investment must be selected to be one that will not have an adverse impact on the environment and priority needs to be given to investments on social development and the environment, according to quotas (Farooq, 2007).

9. CSP indicators for regulators

Last, but not least, Islamic banks have accountability and social responsibility to the banks' regulator (the external mechanism that sets rules and regulations), which will influence Islamic banks' operations. The intensity of government rules and regulation may influence the social responsibility to be carried by Islamic banks. The government has the power to set and enforce regulations and to impose penalties on those that do not abide by these regulations. The government may forward social responsibility programs to the nation through banks while in return banks need to attend to the scheme in support of the programs. For example, in Malaysia, the government introduced its social responsibility through Skim Pemilikan Perumahan Kebangsaan (national house ownership scheme) with lower loan rates but the allocation is provided through banks. Thus, it is the banks' social responsibility to be committed in supporting such scheme and in offering it to prospective customers. Pfeffer and Salancik (1978) argued that, "organizations must attend to the demands of those in its environment that provide resources necessary and important for its continued survival" (Pfeffer, 1982).

A socially responsible bank will always be committed to ensure Shariah compliance. The indicator in doing so is through the setting up of a Shariah committee to oversee and monitor compliance to Shariah in its business (Banking and Financial Institution Act (BAFIA) 1996, Section 124(3); Archer et al., 1998; Maali, Casson and Napier, 2003; Faroq and Lanis, 2005; Hanifa and Hudaib, 2007).

Table 1 summarizes the CSP indicators that have been utilized for Islamic banks in prior studies.

The majority of researchers in the past concluded that CSR disclosure in IFIs is still very low leading to an opinion that CSR practices in IFI are still weak (Hanifa and Hudaib, 2007; Aribi, 2009; Hassan and Harahap, 2010; Hasan, 2012). However the researchers evaluated CSR using mainly their perspective. Even though the indicators are generally based on the benchmark of Islamic values and ethics there is no consensus as to what constitutes the indicators, nor the theme of Islamic banks' social obligations from the practitioner's perspective. Thus, this study is aimed at identifying what will constitute CSP indicators from Islamic bank managers' perspective. It is hoped that it will lead to further understanding of management considerations concerning the most and least important CSP indicators in a controlled environment and with cultural differences (in Malaysia only).

10. Hypothesis development

Despite the vast commentary in the literature on the ideal of CSP indicators for various stakeholders, there is no common

Table 1. Summary list of CSP indicators utilized in prior studies.

No.	Author	No. of items	Name of categories*
1	Dusuki (2005)	16	Workers health and safety (1) Workers education and training (1) Fair treatment to workers and applicants (1) Energy and water conservation (1) Waste recycling policies (1) Financing companies not harming environment (1) Financing companies not violating human right (1) Financing SMEs (1) Providing affordable service to deprived areas (1) Supporting charities and community projects (1) Paying zakat and giving sadaqah consistently (1) Fostering Islamic values upon staffs (1) Solving social problems (1) Listening to public view and concern (1) Granting interest free loan (qard hasan) (1)
2	Faroq and Lanis (2005)	32	Using Maali et al. Shariah opinion unlawful (haram) transaction (6) Zakah (tithe)(for banks required to pay (3) Zakah(for bank not required to pay)(2) Qard hassan (benevolent loans) (5) Charitable and social activities (3) Employees (4) Late repayment and insolvent client(3) Environment(2) Other aspects of community involvement (4)
3	Haniffa and Hudaib (2004)		Mission statement and corporate objectives, Top management Shariah Supervisory Board Audit process Products Employees Community Islamic values
4	Maali, Casson and Napier (2003; 2006)	32	Shariah Supervisory Board opinion(4) Disclosure of unlawful transactions(2) Information of sources and distributions of zakat fund(5) Information of sources and distributions of qard al hasan (5) Disclosure of charity and other social responsibility(3) Disclosure of employee relationship(4) Disclosure of the treatment of the late payment and insolvent clients (3) Disclosure of environmental responsibility(2) Other community involvement aspects which regard to the development of ummah (4)
5	Hanifa and Hudaib (2007)	78	Themes Underlying philosophy and values (22) Provision of interest free products and service(10) Focus on development and social goals (35) Subjection to additional reviews by SSB(11) Values Vision and mission statement (9) BOD and top management(13) Product(10) Zakah, charity and benevolent loans(15) Employees (9) Debtors(4) Community(7) Shariah Supervisory board(11)

(Continued)

Table 1. Continued.

No.	Author	No. of items	Name of categories*
6	Othman and Md Thani (2010)	43	Finance and Investment(6) Product(4) Employees(10) Society(11) Environment(7) CG(5)
7	Dinar Standard and Dar Al Istithmar (2010)	13	AAOIFI Governance Standard No 7 Screening client for Shariah compliance Responsible dealing with clients Earning and expenditure prohibited by Sharia Employee Welfare Zakah(3) Qard hasan(2) Reduction of adverse impact on environment(8) Social, development and environment based investment quotas(4) Customer service Macro, small business and social saving and investments Charitable activities Waqf management Other miscellaneous activities not covered

*Number of items in each category is indicated in parentheses.

understanding as to what the social responsibilities are that need to be carried out by Islamic banks, and to whom the responsibilities are owed.

There are two models that emphasise differently the social responsibility of Islamic bank. Ismail's model (1986), for example, considers that social responsibility is implicit in nature and specifies that banks already achieved their social objective if they continuously make a profit, and are viable and sustainable. The social responsibility is considered discharged when banks pay zakat or tax and the government will be solely responsible for undertaking social responsibility activities and actions to various stakeholders. On the other hand, Chapra's model holds the view that Islamic banks have a social responsibility to various stakeholders, both implicit and explicit, in the course of achieving profits. According to Lewis and Algaoud (2001) the differences pertaining to social responsibility in these Islamic banking models are probably due to differences in the mode of operations in the alternative banking systems.

In Malaysia, although Islamic banks have legal reforms, distinct licenses and a market that encourages the development of Shariah-compliant products and services, generally the Islamic banking services are offered by fully-fledged Islamic banks alongside the conventional banks through a subsidiary, termed "Islamic subsidiary" (ISB) in this study. The ISB set-up may be the previous Islamic banking windows of conventional banks, or the newly incorporated subsidiary offering Islamic banking services under the auspices of conventional banks. The two distinct banking systems (FFIB and ISB) require two-fold the regulatory framework (Aziz, 2002). FFIBs are allowed to utilize their capital for Shariah transactions only. On the other hand, ISBs are required to comply with the regulation of having separate

capital, Shariah-compliant and Shariah-non-compliant income, as well as funds providing for withdrawals.

As a result of these differences it is probable that managers' choices in CSP decision-making will be different also. The manner in which a particular stakeholders' group will be given priority in CSP is expected to be different in FFIB compared to ISB. It is expected that bank managers in FFIB will adhere strictly to the rule of Shariah because their bank's economic and social aims will have been clearly identified since incorporation and will already be absorbed with due compliance. The other system (ISB), having migrated from a western setting to a banking system based on Islamic values will not be able to foster a total change in a manager's mindset to incorporate the social objective of Islamic banking. The influence of western culture which already permeates their conventional system would cause them to have different sources of authority and a basis of accountability different from the Islamic viewpoint (Haniffa and Hudaib, 2007); this will lead them to have differences in determining what they consider to be important CSP indicators for Islamic banks. In addition, a self-interested culture (according to agency theory) which is deeply rooted in the basic belief and values of western corporate culture (Iqbal and Lewis, 2009) is expected to widen the gap between the two groups.

Based on these arguments, it may be hypothesized that there are significant differences between managers in FFIB and ISB in Malaysia in terms of the importance attached to each CSP indicator (hypothesis 1).

11. Research methodology

This study used questionnaires to discover what constituted CSP indicators for Islamic banks from a practitioner's

Table 2. Population sample and questionnaire distribution.

No	Bank name	Ownership	Population sample	Questionnaires distributed
1	Affin Bank Malaysia Berhad	Local-ISB	8	8
2	Alliance Islamic Bank Berhad	Local-ISB	7	7
3	AmIslamic Bank Berhad	Local-ISB	9	9
4	Bank Islam Malaysia Berhad	Local-FFIB	19	19
5	Bank Muamalat Malaysia Berhad	Local-FFIB	14	14
6	CIMB Islamic Bank Berhad	Local-ISB	13	13
7	EONCAP Islamic Bank Berhad	Local-ISB	6	6
8	Hong Leong Islamic Bank	Local-ISB	6	6
9	Maybank Islamic Berhad	Local-ISB	17	17
10	Public Islamic Bank Berhad	Local-ISB	5	5
11	RHB Islamic Berhad	Local-ISB	10	10
12	Kuwait Finance House (M) Berhad	Foreign-FFIB	20	20
13	Asian Finance (M) Berhad	Foreign-ISB	10	10
14	AlRajhi Banking & Investment Corp.(M) Berhad	Foreign-FFIB	8	8
15	OCBC Al Amin Bank Berhad	Foreign-ISB	N/A	Drop
16	HSBC Amanah Malaysia Berhad	Foreign-ISB	N/A	Drop
17	Standard Chartered Saadiq Berhad	Foreign-ISB	N/A	Drop
	Total		152	152

perspective. The indicators were self-constructed based on reviews of CSR AAOIFI standards, CSR in Malaysia (Bursa Malaysia CSR framework) and the code of corporate governance for Islamic banks (2007), and prior studies on CSR disclosure for Islamic banks in the earlier literature. A five point likert scale is used to sort out how relevant each indicator is to CSP. Based on these reviews, eight stakeholder groups were identified as relevant in the context of Islamic banks in Malaysia, namely, employee, community, customers, borrowers, environment, zakat, investment account holders, and government or regulators.

The targeted respondents for this study were IBs managers. Bank managers were chosen based on a purposive sampling technique. The selected unit analysis of the survey was a top management team committee of IBs. This was to ensure that the selected individuals had knowledge of CSP issues from the Islamic perspective and had an influence on allocating resources to social issues. For FFIB banks the term “managers” refers to the heads of the departments and, in the case of ISB, the targeted respondents are the management team committees of the ISB. They were chosen as the BOD delegates in business decision-making and deal with both internal and external stakeholders in daily banking operations (Chapra and Ahmed, 2002; Lewis, 2005). Thus, they are expected to be among those who have decision-making power in terms of the corporate social responsibility of the bank.

The sample respondents for this study were drawn from seventeen licensed Islamic banks in Malaysia; however, due to the difficulty in identifying who were in the management team in the last four banks (no information was available either from the bank financial statement or websites), they were dropped from the list of potential respondents. Consequently, the sample respondents were drawn from only fourteen Islamic banks in Malaysia. Table 2 shows the distribution of questionnaires.

Researchers embarked on distribution of the questionnaires to the identified managers once permission to carry out the survey was granted by the chief executive officer (CEO) or the corporate communication manager. Each member of the management team had an equal chance of receiving a questionnaire and a researcher’s self-addressed envelope to return completed questionnaires. In total, questionnaires were distributed to 152 managers from fourteen sample banks.

The reliability and validity of the CSP indicators construct and stakeholder grouping were tested in a pilot test involving thirty-eight students studying for Masters degrees in either Management or Islamic Finance at the International Islamic University, Malaysia. The important CSP indicators were analyzed using descriptive analysis (frequency and mean) while comparison of the perception of the FFIB managers with that of the ISB managers was analyzed using a simple *t* – test.

12. Analysis and results

Descriptive statistics

Response rate

The questionnaires yielded a response rate of 44%, a total of 67 respondents returning the completed questionnaires. The rate was considered high because two-thirds of the respondents held managerial posts in the respective banks, such as head of department, manager, CEO, and others.

Table 3. Responses according to IB type.

Bank type	FFIB	ISB	Total
Sample	71	81	152
Percentage of total sample %	46.71	53.28	100
No of responses	24	43	67
Response rate%	33.80	53.08	44.08

The response rate was considered acceptable as mail surveys normally result in a low response rate (Sekaran, 2003). The rate was higher compared with the standard response rate for mail surveys in Malaysia, which is 20% (Samat, Ramayah and Mat Saat, 2006). In addition, the sample size and response rate was also comparable to previous studies on stakeholders relevant for CSP (Gago and Antoline, 2004; Mishra and Suar, 2010; Jamali, 2008).

13. CSP indicators

In order to establish what are considered from managers' perspective to be important CSP indicators for Islamic banks, the mean average of responses for each CSP indicator were analyzed. The findings are illustrated in Table 4. In aggregate, seventeen indicators are classified as important indicators (above 4), three are categorized as fairly unimportant indicators (mean above 3, but less than 3.49)

and the thirty remaining indicators are regarded as fairly important indicators (mean average between 3.5 and 3.99).

In total, forty-seven of 50 indicators (94%) used in the questionnaires were perceived as important CSP indicators, these having an average mean score of 3.5 and above. Only three indicators were perceived as unimportant (mean score of less than 3.5), namely, third party verification of environmental performance, qard hasan financing (interest-free loans), and financial products for elderly and disabled customers.

These results illustrate that more than 80% of respondents perceived that the indicators mentioned are important CSP indicators for Islamic banks. It shows that managers in Islamic banks generally subscribe to the model that the objective of being an Islamic bank encompasses profit and also social objectives.

Table 4. Mean of CSP indicators.

Important CSP indicators	N	Mean	Stakeholder
Payment of zakat annually	67	4.64	Zakat
Availability of training	67	4.45	Employee
Bank's commitment to Shariah compliance	67	4.36	Regulator
Transparent in the calculation of zakat	67	4.34	Zakat
Clear health and safety standards	67	4.33	Employee
Avoidance of unlawful transactions and disclosure of nature and extent	67	4.33	Employee
Provision of housing or financing to employees	67	4.31	Employee
Employee appreciation	67	4.30	Employee
Transparent information on financial services types and features	67	4.25	Customer
Clear policy on recruitment	67	4.18	Employee
Actions handling customers complaints	67	4.15	Customers
Retirement, health and education benefit	67	4.13	Employee
Value added statements	67	4.12	Zakat
Continuous enhancement of new product features	67	4.06	Customer
Payment of tax and employee's social security	67	4.03	Community
Policy of lender, depositors, suppliers and retail banking	67	4.01	Customer
Availability of E-banking services	67	4.00	Customer
Fairly important CSP indicators	N	Mean	Stakeholder
Consistent donations or sadaqah	67	3.99	Community
Supporting charities	67	3.94	Community
Statement of P&L for investment account holders	67	3.93	IAH
Involvement in charitable programs	67	3.90	Community
Commitment to quality products and services (ISO)	67	3.90	Customer
Current or previous affiliation to charitable foundations	67	3.87	Community
Providing job training to fresh graduates	67	3.84	Community
Social and ethical criteria to asset management and investment	67	3.84	IAH
Accessibility of international frontiers	67	3.84	Customer
Fund allocation to investment account holders	67	3.82	IAH
BOD statement on bank commitment in offering Islamic investment & services	67	3.81	Regulators
Number of branches and vicinity	67	3.79	Customers
Financing small and medium industries	67	3.78	Borrowers
Equal employee opportunity	67	3.76	Employee
Policy on insolvent clients, charges and utilization of penalties	67	3.76	Borrowers
Announcement of material changes on profit, investment and earning for IAH	67	3.73	IAH
Third party verification of product innovation	67	3.72	Customers
Involvement in activities of public and private partnership	67	3.69	Community

(Continued)

Table 4. Mean of CSP indicators. (Continued)

Important CSP indicators	N	Mean	Stakeholder
Involvement in social sponsorships	67	3.69	Community
Third party verification for customer services	67	3.67	Customer
Availability of stakeholder dialogue and involvement procedures	67	3.66	Customer
Employee information changes and retrenchment	67	3.64	Employee
Products for difficult to reach customers	67	3.63	Customers
Mudharabah and musyarakah to be substantial financing	67	3.61	IAH
Policy of Profit Equalization Reserve (PER)	67	3.60	IAH
Lending profile (customer, industry, concept and social benefits)	67	3.58	Borrower
Involvement in environmental protection activities	67	3.57	Environment
Enhancement on environmental performance	67	3.55	Environment
Involvement in government social activities and programs	67	3.54	Community
Clear environmental management system or policy	67	3.54	Environment
Unimportant CSP indicators	N	Mean	Stakeholder
Financial product for disables and elderly customer	67	3.49	Customer
Qard hasan financing	67	3.24	Borrower
Third party verification of environmental performance	67	3.16	Environment
Valid N (list wise)/Average	67	3.881	NA

The five most important CSP indicators for Islamic banks are:

1. Paying zakat annually.
2. Providing training to employees.
3. Commitment to Shariah compliance.
4. Transparency in the calculation of zakat.
5. Avoiding unlawful transactions and disclosing the nature and extent of the unlawful transactions.

Although the majority stated that zakat is an important CSP indicator, one anomaly was identified. This may be have been due to the respondent thought that business zakat is to be paid by the investors themselves, rather than being the institution's responsibility.

With regard to the five least important CSP indicators in Islamic banks, surprisingly, qard hasan was among them. This is in contradiction to the required disclosure according to the AAOFI standards on CSR. Even though Islamic teaching encourages enhancement of social responsibility through providing non-commercial financing (free of interest and without additional finance charge or margin) (Mohd, Ariffin and Adnan, 2009), the Islamic bank managers did not perceived it to be an important CSP indicator in a commercial bank setting. This may be due to the fact that managers have a lack of knowledge on what constitutes qard hasan financing since it is not a widely-available financial service in Islamic banks in Malaysia (Mohd, Ariffin and Adnan, 2009). This may also suggest that, in commercial Islamic banks, CSP indicators in the manager's perception are still tied to profit. The fact that qard hasan financing is a non-profitable product that has no commercial value (without profit, banks will be unable to cover the financing but it involves high levels of administrative work, high transaction cost, and risk of financing) meant that it received no support from top management as an important CSP indicator to be offered to

various stakeholders. Financial products for disabled and elderly customers, and involvement in government social activities and programs may share the same reasoning as for qard hasan in being regarded as the least important CSP indicators.

Other items which fall under the category of least important CSP indicators are third party verification of environmental performance, and a clear environmental management system or policy. Though environment indicators fall under the least important factors because neither improvement in the environment nor destruction of the environment will affect the banking operation directly, in managers' perception, involvement in environmental protection activities and enhancement of environmental performance and clear environmental management and policies are still important to Islamic banks (mean above 3.5). The importance of environmentally-related issues apparent from this perception study is similar to managers' actual practice in the Dinar Standard and Dar Al Istithmar study (2010), in which managers claimed that 38% of their investments were focused on environmentally-related investment. It can be inferred that the commitment of top management to environmental management is similar to the manager's perceptions of the company's environmental related issues.

Further analysis found that employees were perceived to be the most important stakeholder groups in terms of CSP (almost half of the important CSP indicators are related to this group). Next in the ranking was the customer group, followed by zakat.

As shown in Table 5, by further classifying indicators according to stakeholder groups, it was found that the most important CSP for zakat stakeholders was capability to pay zakat annually. For the employee stakeholder group, the essential factor was the opportunity to attend

Table 5. Most important CSP indicator for stakeholder groups.

Stakeholder	Most important indicator	Mean
Zakat	Pay zakat annually	4.64
Employee	Availability of training	4.45
Community	Payment of tax and employee's social security	4.03
Investment account holders	Statement of profit and loss for investment account holders	3.93
Customers/depositors	Commitment to quality products and services (ISO)	3.90
Regulators/government	BOD statement on bank commitment in offering Islamic investment and services	3.81
Borrowers	Financing small and medium industries	3.78
Environment	Involvement in environmental protection activities	3.57
Average Mean		4.01

training. For the community stakeholder group, the vital factor was the bank's action in paying tax and employee's social security. For the customer stakeholder group, the prominent indicator was the commitment to provide quality products and services (ISO). For the regulator stakeholder groups, the notable indicator was the bank's commitment to offering Islamic investment and services. For borrowers, the key indicator was providing financing for small and medium industry, and, for the environment, the significant CSP indicator was the bank's involvement in environmental activities.

In conclusion, the average mean result of 3.88 for 50 indicators suggested that, in general, Islamic bank managers perceived that all indicators used in the study were important indicators of the prevailing state of the corporate social performance of Islamic banks. It is also suggested that the indicators chosen here were reliable in measuring the CSP construct within the Islamic bank setting. A value of 4.01 as the mean average for the most important CSP indicators for each stakeholder group indicates that all eight stakeholder groups are important in the consideration of CSP in Islamic banks.

14. Independent sample t-test

An independent sample t-test (a test of mean differences between two different groups) was carried out establish whether there were any significant differences in terms of the

importance of each of the CSP indicators between managers in FFIB and ISB. The results, which are shown in Table 6, illustrated that there were significant mean differences in perception between FFIB managers and ISB managers for four CSP indicators at 95% confidence intervals:

1. Qard hasan financing.
2. Number of branches at the vicinity.
3. Availability of e-banking services.
4. Third party verification for customers..

A low significance value for the t-test (typically less than 0.05) indicates that there is a significant difference between the means of the two groups (Coakes, 2005). There is significant difference in the mean for FFIB and ISB managers in stating that qard hasan is an important CSP indicator. FFIB managers largely consider it as relevant (FFIB mean = 3.70) but ISB managers generally consider it as partly relevant (ISB mean = 3.00). This suggests that FFIB managers are more familiar with qard hasan financial services due to the fact that they have been exposed to such a facility since FFIB provide such financial services (for example, Al-Rajhi Banking & Investment Corporation (M) Berhad, BMMB and Kuwait Finance House (M) Berhad) in Malaysia (Adnan and Mohd Ariffin 2009). This reasoning is also consistent with disclosure made in annual reports, BMMB being the only local Islamic bank that continuously carries out financing classified as qard hasan according to their annual reports for 2003 to 2008.

Table 6. Independent sample t-test on CSP indicators.

CSP indicators	Levene's test		t-test for equality of means						
	F	Sig.	F (N = 24)	SD	t	df	Sig.	Mean dif	SE dif
Qard hasan financing	3.910	0.05	F = 3.70 I = 3.00	F = 0.974 I = 1.381	2.149	65	0.035	0.696	0.324
Number of branches and vicinity	2.628	0.11	F = 3.43 I = 3.98	F = 1.080 I = 0.876	-2.220	65	0.030	-0.542	0.244
Availability of E-banking services	0.818	0.37	F = 3.61 I = 4.20	F = 1.033 I = 0.878	-2.481	65	0.016	-0.596	0.240
Third party verification for customer services	1.319	0.25	F = 3.30 I = 3.86	F = 0.974 I = 0.852	-2.429	65	0.018	-0.559	0.230

F = FFIB I = ISB

Managers in FFIB and ISB also exhibit significant differences in perception as to whether the number of branches in the vicinity represents an important CSP indicator. The FFIB managers' perception was more towards partly relevant indicators (mean = 3.43) while generally ISB considered it as a relevant indicator (mean = 3.98). This finding bears a considerable link to the existing set-up of Islamic banks in Malaysia. In FFIB, Islamic banking services are offered throughout all branches but many ISBs still operate their Islamic banking activities in collaboration with their conventional banks. Thus, the number of Islamic bank branches is still far below that of FFIB, their separation from conventional banking being still in its infancy. As an example, a comparison was made between Maybank and BIMB for the year ended 2008. Due to its early stage of operation, Maybank has only thirteen branches of Islamic banks compared with ninety branches of BIMB. Despite the fact that Maybank had 14% of the total number of BIMB branches, its total distributable income from business operations was about half of the total distributable income of BIMB (RM 642,853,000 for Maybank and RM 1,168,837,000 for BIMB). In any case, Maybank managers may have perceived that the number of branches was a relevant CSP indicator for the expansion of their IB business operation, while for an established Islamic banking institution, the additional number of branches will bear only partial relevance to the CSP.

The third significant difference arises in the availability of e-banking as an indicator to CSP. ISB managers perceived this as very important (mean 4.20) while FFIB managers perceived it as partly important (mean 3.60, $p = 0.016$). Scrutinizing the degree of relevance of this indicator further, Table 6 indicates that ISB has double the number of FFIB managers (in percentage terms) who state that e-banking is a very relevant CSP indicator (45% compared with 21%). This may be due to the fact that the introduction of e-banking was already realized by ISB managers unlike FFIB managers, as the holding entity of ISB introduced e-banking much earlier than FFIB. This is consistent with the analysis of bank annual reports which showed that ISB introduced e-banking from the year 2000, whereas FFIB has made a quiet move into it quite recently.

The final indicator with vast significant differences is third party verification for customer services (mean FFIB = 3.30; ISB = 3.80). FFIB managers perceived this not to be an important CSP indicator while the ISB managers held the contrary opinion. This may also be a hint that third party verification is a more important CSP indicator in an ISB manager's perception compared with an FFIB manager's. It can also be interpreted to mean that for FFIB verification must come from their customer who already subscribes to services provided by the bank, rather than through verification by the third party.

These findings substantiate the position that significant differences exist between managers in FFIB and ISB in terms of their perception of how important the four indicators are in representing CSP to Islamic banks. In other words, these results also suggest that, even though managers are from two different settings of Islamic banks in Malaysia, their perception on the degree of importance of the forty-six CSP indicators used in this study are the same except for just these four indicators. Thus, hypothesis 1 – that there are significant differences between managers in FFIB and ISB

in terms of the importance attached to each CSP indicator – is partly supported by the four indicators discussed.

15. Conclusions and limitations

This study examines the CSP indicators for Islamic banks from a practitioner's perspective. The results revealed that Islamic bank managers of FFIB and ISB in Malaysia perceived that social performance towards various stakeholders is an important objective of Islamic banks in line with the maqasid Shariah to ensure social fairness and justice in the preservation and management of bank properties. These results also suggest that Islamic bank managers in FFIB and ISB are proactive in considering CSP activities that meet the need of various stakeholders affecting and affected by bank operations. The Islamic bank manager's considerations for CSP were not dominated by the status of whether they have a contract either explicitly or implicitly with stakeholders. As such, CSP undertaken by Islamic banks will help them in meeting the philosophical, economic, ethical and social foundation in administering a faith-based commercial business institution.

The findings also indicate that the majority of Islamic bank managers are in support of Chapra's model of social responsibility which proposes that the CSP of Islamic banks includes explicit responsibility to various stakeholders in the course of achieving profits. They generally perceive that Islamic banks fulfill their social function if they consider the interests of employees, customers, zakat recipients, regulators, and community.

Furthermore, the contradictory finding of Malaysian Islamic bank managers' perception compared to the AAIOFI standards on qard hasan financing as a highly recommended social responsibility shows that the product has not been given due attention in practice. If the product is universally acclaimed as the Islamic bank's social function, the industry needs to give more significance to it so that it distinguishes the bank function from that of conventional banks.

Lastly, environmental issues and management will be a potential area of CSP for Islamic banks because their importance has attracted managers' attention in this study, despite the fact that they are affecting or affected by the banking business.

The importance of CSP indicators in this study is limited to the perception of the Islamic bank managers only and excludes indicators pertaining to Tawhid or philosophical foundation, due to its subjectivity. In order to have a holistic view on what comprises CSP indicators for Islamic banks, future studies may also consider multi-stakeholders' perceptions such as customers, borrowers, investors, board of directors and Shariah committee members. Future studies may also consider using constructed indicators in assessing the extent of CSP in Islamic banks in order to gain an insight into the status quo of each Islamic bank in upholding their social functions.

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