Bank’s Justice in CSR Disclosure Practices: Does the Religion of Islam Matter?

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SUMMARY

Using content analysis, this study aims to empirically investigate the extent to which Islamic banks and Islamic Windows practice corporate social reporting (CSR) disclosure implied by *Shari'ah* principles from an Islamic society's perspective. Islamic banks are independent banks founded on *Shari'ah* principles and offer Islamic products and services, while Islamic Windows are a separate department of conventional banks providing Islamic products and services to society due to increased worldwide demand. Specifically, the study compares the extent of these disclosure practices between Islamic banks and Islamic Windows. It further compares the extent of CSR disclosure practices in a cross-cultural context between Islamic banks in Pakistan and conventional banks in Australia to identify whether Islam influences CSR disclosure practices of Islamic banks. CSR disclosures are measured using Ethical Identity Index (EII) and consider only disclosed information in annual reports rather than other reporting instruments. By incorporating Neo-institutional theory (NIT), this study provides insights into whether Islamic banks are seeking legitimacy through CSR disclosure practices in a country where Islamic ethical values as informal institutions have a significant influence on operational activities. The findings suggest that Islamic Windows are disclosing less compared to Islamic banks regarding social and ethical issues, which may risk their corporate and ethical reputation. Moreover, the results reveal that Islamic banks are not communicating any more CSR information than conventional banks, suggesting that Islam does not influence their business practices. The results will assist in understanding disclosure practices by Islamic banks and Islamic Windows in a distinctive social-cultural context where Islam is the dominant religion and influences CSR disclosure practices.

STATEMENT

I hereby certify that this thesis is the result of my own research and that it has not, nor has any part of it, been submitted for a higher degree to any other university or institution.

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Kanwal Javed

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Foremost, all praises to Almighty Allah. The Lord and Creator of this universe whose glory and powers make all good things happen. He is most Gracious and most Merciful. He enabled me to complete this research project.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Corporate Social Responsibility (CSR), a notion originating from the West (North America and Western Europe) is defined as 'the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving the welfare of society at large independently of direct gains of the company' (Kok, Wiele, McKenna, & Brown, 2001, p. 287). Levitt (1958) and Friedman (1970) claim it is the function of the government to fulfil social expectations rather than corporations, whose ultimate purpose is profit. Marrewijk (2003, p. 102) further defines CSR as a 'company activities-voluntary by definition-demonstrating the inclusion of social and environmental concerns in business operations and in interaction with stakeholders'. Despite this, CSR in the Western context is facing growing concerns that it is missing significant cultural and religious aspects and, hence, cannot be imposed on societies with different cultural values and dominated by a particular religion, such as Islamic societies. To respond to these concerns, this thesis considers a broader view of CSR; specifically, it introduces the Islamic perspective of CSR and examines CSR disclosure practices in both Islamic and Western cultures.

Islam has Islamic ethical values in the form of accountability, vicegerency,[1] and justice and fairness fundamental to social reporting (Maali, Casson, & Napier, 2006). In Islamic societies, ethical issues are considered essential to meet the society's obligations and expectations (Baydoun & Willett, 2000). Specifically, Islamic businesses, such as Islamic banks and Windows are considered as having a social face as they are bounded by *Shari'ah* principles[2] to consider ethical and social obligations (Haniffa & Hudaib, 2007). Islamic banks are independent banks founded on *Shari'ah* principles and offer Islamic products and services, while Islamic Windows are a separate department of conventional banks providing Islamic products and services to society due to increased worldwide demand. These Islamic financial institutions (IFIs) have dual roles in society: a religious responsibility to comply with the Islamic teachings and the control of large funds to help them meet social obligations (Al-Mograbi, 1996; Maali et al., 2006).

Furthermore, Islamic banks and Islamic Windows differ from the conventional banks as their operations are based on *Shari'ah* law with no interest, and profit and loss sharing approach. Those claiming to adhere to *Shari'ah* law should be clearer about their social role as *Shari'ah* defines the norms for IFIs pertinent to their conduct and dealing with society (Maali et al., 2006). In this regard, IFIs have a unique

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[1] Vicegerency is an Islamic ethical value which states that every individual on this earth is representative of God. This term is explained later in Chapter two.

[2] According to Haniffa and Hudaib (2007, p. 98), *Shari'ah* is basically Islamic law 'often referred as ethics in action' and based on the *Qur'an* (the Holy Book) and the deeds and sayings of the Holy Prophet.

Islamic ethical identity that considers social obligations over economic goals. Thus, from an Islamic perspective, CSR is an ethically driven style that primarily relies on Islamic ethical values and obligates IFIs to engage in these activities.

This study adopts a content analysis method and compares the CSR disclosure practices of Islamic banks with Islamic Windows and conventional banks. CSR disclosures are measured using disclosure Ethical Identity Index (EII) and consider only disclosed information in annual reports rather than other reporting instruments. In doing so, the study fills a literature gap in CSR disclosure practices. Highlighting the actual differences in CSR disclosure practices compared with associated industry rhetoric and actual adherence to Islamic ethical values may enhance the social role of Islamic banks and Islamic Windows and improve the future communication strategies of these institutions.

1.2 Motivations of the Study

1.2.1 Concerns on the Western Perspective of CSR

Debates on the conceptual definitions of CSR by different scholars have proposed related concepts, such as business ethics, Triple Bottom Line, corporate philanthropy, sustainable entrepreneurship, business citizenship, sustainable development, corporate citizenship, and corporate sustainability (Elkington, 1997; Marrewijk, 2003). However, there are criticisms that these CSR concepts and definitions are meaningless, vague, and ambiguous (Marrewijk, 2003; Horrigan, 2010). Furthermore, CSR definitions suggest that general welfare and social concerns are the responsibilities of the businesses (Heald, 1957; Davis, 1960; Carroll, 1979; Marrewijk, 2003). However, Levitt (1958) is critical of CSR due to issues of broader societal welfare over narrower business goals and objectives. Critics believe that the CSR activities from the Western perspective divert corporate resources from profit maximisation to societal obligations (Banerjee, 2007). In a similar context, Horrigan (2010) claims that ‘Corporate Social Responsibility is a political ideology that wants private interest to be subsumed by public interests, narrowly defined’ (p. 37).

Additionally, it is argued that ‘CSR is a construct of non-owner, non-contract and non-government interests to regulate corporations’ and that ‘CSR provides no guide as to how to achieve the right balance, at worst it provides a biased guide’ (Johns, 2005, p. 1). These CSR criticisms suggest that it should be the obligation of the government to look after societal well-being and justice rather than businesses; corporations only function to achieve profit. It is argued that the meanings of CSR vary from country to country and economy to economy and, similarly, its rationale from a business perspective differs from community and government perspectives (Horrigan, 2010). According to Henderson (2001), CSR is an appealing formula extensively endorsed; yet, there is no well-developed robust consensus for corporations and government to provide a basis to apply it in practice and this discord can cause a conflict between business and society (Haniffa & Hudaib, 2007). Furthermore, Marrewijk (2003) dovetails current definitions of CSR and finds biases towards specific interests. For instance, Not-for-Profit organisations emphasis CSR as a voluntary commitment, while from a management perspective, including human resources, finance, marketing, and quality management, present their views on CSR according to their business goals and challenges (Marrewijk, 2003). In addition, roles and responsibilities based on ethics can be relative (ethical constructs vary from individual to individual and culture to culture) or absolute (inalienable rights that remain consistent across cultures and are applicable to all individuals) in nature depending on the time and place and are contingent on individual interpretations, and there is no harmony on which ethical views are valid (Gray, Owen, & Adams, 1996). Similarly, Dusuki (2008b) claims that the roots of the Western concept of CSR are contestable, relative, and indeterminate,[3]—confined to a materialistic rather than ethical approach.

Perhaps, the problem lays in CSR itself from the Western viewpoint, since CSR theories have already been developed, and CSR standards have been established,[4] but only acceptable by some individuals or groups and not others. There is no universal agreement concerning which ethical views of CSR are valid (Maali et al., 2006). Moreover, there are concerns related to the use of CSR standards that various business ethics and management scholars have identified, such as lack of enforcement, costs, conceptual inadequacy, failure to drive systemic change and innovation, over and or miscommunication of data, and obsession with compliance (de Colle, Henriques, & Sarasvathy, 2014). Going beyond the technical limitations of a Western perspective of CSR, it is claimed that norms as to 'why', 'how', and to 'what extent' CSR is required by businesses to meet societal obligations are still missing (Blowfield & Frynas, 2005). In addition, a legitimacy question arises on the voluntary nature of CSR in the West. For instance, Waagstein (2011) asserts that the voluntary nature of CSR is not sufficiently effective due to its lack of implementation and sanctions; hence, many organisations call for mandatory enforcement. Moreover, it is posited that corporations adopt voluntary CSR disclosure activities if benefits are greater than expected cost; hence, voluntary disclosure of CSR information exists because of economic interest (Gamerschlag, Möller, & Verbeeten, 2011).

The flexible concept of CSR creates a dilemma for businesses as there are no absolute moral or ethical principles which act as guidelines for CSR. Although justified from the Western perspective, CSR cannot provide decisive answers to the questions of what should be its appropriate content and form or why disclosure practices should be observed (Maali et al., 2006). Another concern from the Western standpoint is whether CSR should be voluntary, or mandatory (Waagstein, 2011). In addition, is there

[3] The Western concept of CSR is ever-changing as it is based on the societal expectations from businesses and societal preferences change over time. Furthermore, Horrigan (2010) claims that 'CSR has no fixed substantive meaning, but rather serves as a meaningless catch-cry' (p. 37). For more details, see Dusuki (2008b) and Horrigan (2010).

[4] CSR standards include *OECD Guidelines for Multinational Enterprises*; *Global Reporting Initiative, ISO 26000 –Social Responsibility; Voluntary Principles*; *United Nations Global Compact, Equator Princi*ples; *IFC Performance Standards, Extractive Industries Transparency Initiative; UN Principles for Responsible Investment*, and TRACE *Anti-Bribery Compliance, Tools, Support Standards*. For more details visit https://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/h_rs00587.html

anything implicitly inherent in the Western perspective of CSR that influences businesses to consider social justice and the well-being of society?

Hence, these concerns related to the Western perspective of CSR allow consideration of the Islamic perspective which holistically addresses these issues.

1.2.2 Islamic Perspective of CSR: Filling the Institutional Gap in the Western Perspective

Current definitions and concepts of CSR are based on the moral values of a Western society in which CSR is considered a commitment by a business towards the community and its stakeholders for their welfare and to fulfil their expectations. While this general understanding is pertinent to the context of the present study, human, ethical, religious, spiritual, and sacred aspects are missing in the notion of CSR from the Western standpoint and its literature. Accordingly, the questions of 'why, and to what extent, the voluntary involvement of corporations in society should take place' are still open (Matten, Crane, & Chapple, 2003, p.111). Pragmatically, these questions have been addressed at the organisational level from a behavioural perspective. For instance, stakeholder theory justifies the claim that businesses should consider the interests of stakeholders and is thus linked to the question of 'why CSR' (Campbell, 2006). Albeit, there is rare CSR literature that investigates these issues regarding institutional conditions (i.e., formal and informal rules, routines, norms, and schemas) that motivate businesses implicitly to act in a socially responsible manner and institutionally constrain their actions (Campbell, 2006).

Introducing the Islamic perspective of CSR provides an opportunity to address concerns about the Western perspective of CSR holistically; that is, from an Islamic perspective and in an Islamic country. Because Islam has a strong commitment towards social and ethical betterment and disclosures related to CSR, it is a religious requirement for Islamic businesses, which significantly directs individuals and corporations regarding specific CSR practices. Moreover, a major institutional gap in the Western perspective of CSR is clearly addressed by the Islamic perspective, relating to 'why' and 'to what extent'. The Islamic perspective of CSR offers an integrally spiritual view, based on *Shari'ah* principles regarding ethical and moral principles[5] for human interaction with the world. Thus, it serves as an implicit set of guidelines for businesses to conduct their operations in a socially responsible manner. Under the Islamic perspective of CSR, Islamic businesses, such as Islamic banks and Islamic Windows, are bounded by *Shari'ah* principles to consider societal and ethical obligations (Haniffa & Hudaib, 2007). It is contended that IFIs promote ethical and social identity as they believe that justice and social welfare is significantly vital for their business activities as a part of CSR in Islamic society (Haniffa &

[5] As contended by various scholars, there are three basic Islamic ethical concepts, including accountability, justice, and fairness, and viceregency, fundamental to CSR from an Islamic viewpoint. These ethical values implicitly ground social responsibilities in Muslim society to each other and well-defined by the *Qur'an* based on the words of Allah, and from the *Sunnah* to make individuals as well as businesses socially responsible.

Hudaib, 2007). Accordingly, it is expected that issues related to CSR in society can be addressed by Islamic banks and Islamic Windows comprehensibly.

However, it is argued that Western cultural values have a significant influence on Islamic societies (Maali et al., 2006) and, as a result, it is difficult for corporations to operate within *Shari'ah* boundaries and disclosure requirements in Islamic countries, such as Pakistan. Accordingly, Islamic banks and Islamic Windows are more inclined towards economic rather than social objectives (Hassan & Harahap, 2010). Furthermore, it is also asserted that economic criteria overrides social criteria when considering the investment opportunities of these institutions (Maali et al., 2006). Pragmatically, IFIs have both normative and practical traditions; although the banks are structured around *Shari'ah* principles, they follow Western practices (Aribi & Arun, 2015). Such issues raise concerns about IFI societal responsibilities and governing principles.

However, in completely Islamic countries, such as Pakistan, most conventional banks also have Islamic Windows offering Islamic banking facilities. Thus, it can be argued that for legitimacy reasons, Islamic Windows are likely to disclose more than Islamic banks in Pakistan.

Accordingly, this study is motivated to investigate the influence of Western cultural values and the influence of religious, ethical values on CSR practices and related disclosures by Islamic banks and Islamic Windows in an Islamic society, particularly, in Pakistan.

1.2.3 Comparative Analysis in a Cross-Cultural Context

Islamic banks are based on *Shari'ah* principles, while conventional banks are based on Western regulatory laws. For instance, Islamic banks prohibit interest and cannot overide social objectives to economic profit; whereas profit maximisation and profit from interest on loans is the primary goal of conventional banks (Aribi & Gao, 2010). Moreover, since each has different business objectives and operations, it is expected they will have significantly different CSR practices. From a Western perspective, one of the reasons businesses report CSR practices are to legitimise business activities in the eyes of their stakeholders (Quazi & O'brien, 2000) while businesses based on *Shari'ah* principles demonstrate their accountability to Allah, and CSR activities are more fundamental considerations (Aribi & Gao, 2010). However, empirical evidence of CSR which examines comparative analysis among Islamic banks and conventional banks in a cross-cultural context is rare. Hence, two diverse cultures have been selected for this study: Islamic banks in an Islamic society and conventional banks in Western society to investigate whether differences exist in CSR disclosure practices of banks with different business objectives and practices.

This study selects conventional banks from a Western society, Australia, and Islamic banks from Pakistan to provide a cross-cultural comparison. Australia is a stable and dynamic economy. With aspects of both the North American and British institutional models and practices, Western CSR reporting practices are voluntary (Golob & Bartlett, 2007). Australia and Pakistan have distinct social concerns, and the intensity of CSR activity is likely to vary greatly due to its voluntary nature in Australia and its implicitly mandatory nature in Pakistan. It is hoped that empirically illustrating the differences in CSR disclosure practices between Islamic banks in Pakistan and conventional banks in Australia will reveal the extent Islam influences the CSR disclosure practices of Islamic banks. Accordingly, this study fills the gap by empirically testing CSR disclosure practices in two diverse cultures.

To summarise, this study aims to empirically investigate the extent of CSR disclosure practices by Islamic banks and Islamic Windows as well as compare disclosure practices between Islamic banks and conventional banks in a cross-cultural context to determine the extent to which Islam influences CSR disclosures. The specific objectives of the study are to examine:

1) Whether Islamic banks and Islamic Windows are providing adequate[6] CSR disclosures in an Islamic society to meet religious, ethical obligations.
2) Whether there are differences in the CSR disclosure practices of Islamic banks and Islamic Windows.
3) The level of CSR disclosures by Islamic banks in an Islamic society compared to conventional banks in a Western society

1.3 Organisation of the Thesis

The thesis is organised as follows. Chapter 2 presents a review of CSR literature, discusses the theoretical framework, and develops the hypotheses. Chapter 3 discusses the methodology used to collect the data. Chapter 4 provides the results of the data analysis performed to test the hypotheses developed in Chapter 2; and finally, Chapter 5 discusses the conclusion, implications, contributions, limitations, and suggestions for future research.

[6] Islamic banks are required to provide transparent, accurate, and full information about their *Shari'ah* compliance and full disclosure is compared with a benchmark, which is based on *Shari'ah* principles (Haniffa & Hudaib, 2007; Aribi & Arun, 2015).

CHAPTER TWO

LITERATURE REVIEW, THEORETICAL FRAMEWORK, AND HYPOTHESES DEVELOPMENT

The various concepts and definitions of CSR from a Western perspective, Islamic ethical values, religious aspects, and Islamic banking principles are discussed in Sections 2.1, 2.2, and 2.3 respectively, with the literature review, theoretical framework, and hypotheses developed in Sections 2.4, 2.5 and 2.6.

2.1 Corporate Social Responsibility

2.1.1 Various Concepts and Definitions of CSR from the Western Perspective

There have been extensive debates by various scholars in past decades regarding the economic, social, political, and environmental obligations of financial institutions, resulting in many definitions of CSR (Bowen, 1953; Heald, 1957; Davis, 1960; 1973; Frederick, 1960; Friedman, 1970; Drucker, 1984; Wood, 1991; Kok et al., 2001; McWilliams & Siegel, 2001; Marrewijk, 2003) as shown in Table 1.

[Insert Table 1 here]

These definitions demonstrate the evolution of an ideology concerning CSR between the 1950s and 1990s. Beginning with the assumption that business, as the public trustees of society, must maintain balance among stakeholders through philanthropy.[7] By the 1990s, the notion of CSR had shifted to a more strategic approach that endeavoured to tie business objectives to social initiatives (Banerjee, 2007). In particular, Carroll (1991) proposed a CSR pyramid that consists of four responsibilities that must be embodied in business performance to address the entire range of CSR which are: economic, legal, ethical, and philanthropic. Carroll's (1991) pyramid of corporate and social responsibility is one of the most widely used and quoted models of CSR, as it integrates the concept of corporate citizenship and stakeholders.

However, Banerjee (2007) identified some key aspects from the diversity of CSR definitions. One emphasis is on voluntarism over coercion, meaning that discretionary activities are reported on a voluntary basis and cannot be enforced by law, while another prescribes that the results of business policies and actions determine its social performance (Banerjee, 2007). Moreover, just because business activities meet legal requirements, that does not necessarily mean the business is socially responsible; it may merely be avoiding a penalty (Banerjee, 2007).

[7] According to Carroll (1991), philanthropy comprises the activities a business involves itself in to meet social expectations and being a good corporate citizen.

The various definitions of CSR have inevitably resulted in a host of related CSR concepts as scholars examine and explore CSR in all its dimensions. Examples include corporate philanthropy, corporate citizenship, Triple Bottom Line, and corporate social performance[8]. In general, CSR in business comprises of those activities beyond profit making and includes ethical operations, care and justice to employees and other stakeholders, protecting the environment, and involvement with the community. Moreover, debate over the various CSR definitions and concepts has resulted in many critiques (Marrewijk, 2003). According to Henderson (2001, p. 47), ‘there is no solid and well-developed consensus which provides a basis for action’. In addition, most definitions of CSR are rooted in Western philosophies with cultural values that differ from the East or China (Hofstede & Bond, 1988).

Western culture is characterised by individualism, masculinity, high uncertainty avoidance, low power distance, short-term orientation, explicit communication, function-oriented expression, and systematic trust; while Eastern culture includes collectivism, femininity, low uncertainty avoidance, high power distance, long-term orientation, implicit communication, relationship-oriented expression, and personal trust (Hofstede, 1984; Hofstede & Bond, 1988). These cultural differences have a potential impact on CSR implications either implicitly or explicitly (Matten & Moon, 2008). According to Matten and Moon (2008), explicit CSR practices are considered a voluntary approach by businesses rather than a reflection of formal and informal institutions or state law, whereas implicit CSR practices are the reflection of formal and informal institutions for societal expectations.

It is contended that an understanding of implicit CSR in its various dimensions is not only reliant on formal but also on informal institutions under which organisations operate (Khan, Lew, & Park, 2015). In fact, Haniffa and Cooke (2002) argue that religious norms and values, as informal institutions,[9] can play a significant role in determining the social morals people share and, thereby, impact CSR disclosure activities. Accordingly, notions surrounding CSR will be different in countries with a collectivist approach and shared religious beliefs than countries with individualistic societies that rely more on explicit forms[10] of communication, such as Western countries. Thus, CSR definitions based on Western notions, excluding religious norms and beliefs, raise issues about a broader non-Western view.

Furthermore, definitions and concepts surrounding CSR emerging from the West claim that CSR is voluntary (Davis, 1973; Carroll,1991). Business may choose to engage in voluntary CSR activities, but largely not for social benefit. Rather, they do it for profit, enhance their image or reputation, or to satisfy stakeholders (shareholders, employees, and consumers). Consequently, a question arises as to the

[8] See, for example, Carroll (1991); Elkington (1997); and Marrewijk (2003).

[9] According to North (1991, 1994), ‘Formal institutions are the constitutions, laws, policies, and formal agreements that citizens of different locales create. Informal institutions are the behavioural norms and mental models of individual who may have different cultural heritage of religious or political beliefs, or who may reside in different geographical areas’ (Keim 2003, p. 23).

[10] Explicit forms of communication refer verbal rules and regulations. For more details, see Hofstede and Bond (1988).

'voluntary' nature of CSR: 'Is there a perspective that implies mandatory CSR reporting by businesses that considers societal benefits and expectations at large?'

Accordingly, this study is motivated to examine CSR disclosure from an Islamic perspective in Pakistan.

2.2 Islamic Ethical Values and CSR

Islam as a religion presents ethical values central to the notion of CSR and answers the question 'Why one should be socially responsible?' As contented by various scholars,[11] there are three basic Islamic ethical concepts including accountability, justice and fairness, and viceregency,[12] fundamental to CSR from an Islamic viewpoint. These ethical values ground social responsibilities of the *Ummah* (the whole Muslim community) to each other, are well-defined by Islam in the light of the *Qur'an* and are based on the words of Allah and from *Sunnah* (the sayings of Prophet Mohammad), and implicitly make individuals and businesses socially responsible.

The notion of accountability postulates that at the Day of judgement, everyone, either individuals or businesses, are accountable to Allah for their actions as cited in the *Qur'an* which states that 'God takes careful account of everything' (*Qur'an*, 4:86). Thus, Muslims undertake socially responsible activities not only to gain economic profit but also to gain the will of Allah.

Moreover, Islam emphasises fair dealings and justice by all parties in business transactions. It is stressed in the *Qur'an* that 'O believers! Stand-up firmly by the Commandments of Allah, bearing witness with justice and let not the enmity of any people incite you that you should not do justice. Do justice that is nearer to piety and fear Allah' (5:8). Thus, the notion of fairness implies parties to a contract to provide information without falsification or cheating. It is claimed that the welfare of society and social justice are fundamental to *Shari'ah* (Aribi & Arun, 2015).

Similarly, Islam recognises that ultimately Allah is the possessor of everything[13] and He has appointed humankind as his vicegerent (*Khalifah*) on the earth.[14] The implication of the term *Khalifah* is that the individual is regarded as the trustee of Allah's possessions; every individual has right to own possessions but not in an indefinite manner (Maali et al., 2006). Therefore, the right of ownership must be exercised for the benefits of all human beings in a just and fair manner as Al-Qaradawi (2000) claimed that 'The trusteeship demands the spreading of justice, truth, good deed and virtue by humankind' (Aribi & Arun, 2015, p. 786).

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[11] Including Chapra (1992); Maali et al. (2006); and Dusuki (2008b).

[12] Vicegerency is an Islamic ethical value which states that every individual on this earth is the representative of God. This term is explained later in this chapter.

[13] As the *Qur'an* says 'Undoubtedly, Allah is potent over everything' (35:1).

[14] The concept of *Khalifah* is clearly stated in the *Qur'an* at various places. For example, the *Qur'an* says 'Undoubtedly, We (Allah) have made you a vicegerent in the earth, therefore order between mankind with truth, and follow not desire' (38:26).

2.3 Religious Aspects and Islamic Banking Principles

Besides being a religion, Islam is a complete code of life, and *Shari'ah* deals with every aspect of Muslim's life including social, political, economic, and spiritual, including the faithful execution of obligations and responsibilities (Hassan & Harahap, 2010). Pragmatically, *Shari'ah* is an Islamic law primarily based on the *Qur'an* and the *Sunnah*. According to Al-Ghazali, the key purpose of *Shari'ah* is to support human welfare by protecting their lives, religion, intellect, wealth, and family (Elias, 2013). Thus, the notion of CSR is grounded in the *Shari'ah*, and hence, CSR is an obligation for every Muslim and Islamic business rather than a recommendation. In a similar context, Islamic businesses such as Islamic banks have a collective religious obligation to comply with *Shari'ah* law. Islamic banks have a distinctive ethical and cultural identity by giving equal importance to economic and social aims based on *Shari'ah* principles rather than market principles (Aribi & Arun, 2015). According to *Shari'ah*, 'the Islamic financial system aims to enhance the economy of the country through the purchasing and selling of physical assets (investment activities), and building the infrastructure' (Mallin, 2009, p. 262). Islamic banking principles according to *Shari'ah* have been extensively studied by many scholars,[15]and, in general, there are five basic principles (Lewis, 2001; Mallin, 2009) that must be accounted for while conducting Islamic banking activities:

- **Haram Prohibited Activities**: *Shari'ah* allows the *Ummah* to pursue personal economic welfare. Albeit, it prohibits individuals as well as businesses to involve in activities which are forbidden in Islam including alcohol, gambling, and pork-related products (Mallin, 2009). In pursuing economic activities, distinctions are made between what is permissible (halal) or not (haram) by Islam. Before executing any Islamic banking transaction, the parties to contract must satisfy the sanctity of contract, that is, either the transaction is halal or not according to *Shari'ah* principles.
- **Prohibition of interest (*Riba*)**: In Islam, there is a strict ban on the *Riba* (usury) as mentioned in the *Qur'an* that 'Allah made trade lawful and made interest unlawful' (2:275). *Riba* is considered a violation of the social justice principle because it is a guaranteed reward for the lender who neither makes any effort nor shares the risk (Aribi & Arun, 2015; Maali et al., 2006). Thus, *Riba* is regarded as exploitation, unfairness, and oppression—not for the well-being of the *Ummah*—and Islamic banks must deal with the products and financial services while avoiding *Riba*.
- ***Gharar* (Prohibition of Speculation)**: The principle of *Gharar* applies when excessive risk or uncertainty is existing between two parties, and one has an advantage over the loss of the other. If the transaction is carried out for speculative purposes, it is not considered an economic activity

[15] These include both Muslims and Non-Muslim scholars. For more detail, see Iqbal (1997); Dhumale and Sapcanin (1999); Warde (2000); and Wilson (2006).

under *Shari'ah* principles as uncertainties are involved; for example, life insurance thus completely forbidden in Islam (Mallin, 2009).

- **Distribution of Profit and Loss**: Islamic banks must distribute and emphasise reward for effort rather than merely that which accrues to capital. *Shari'ah* law compels Islamic banks to share the risk of loss between the two parties (Mallin, 2009).

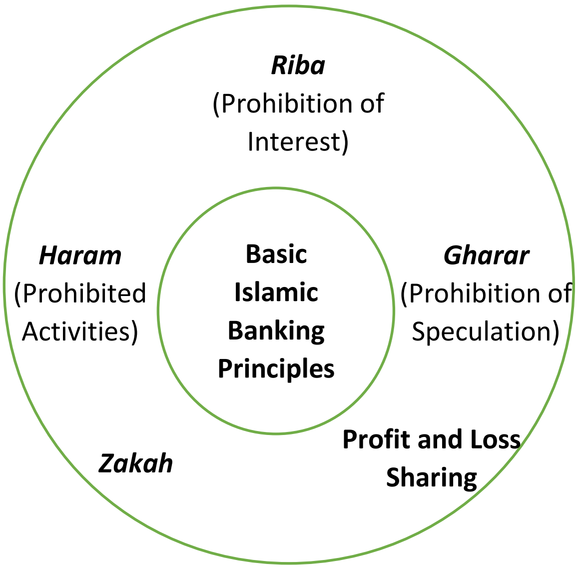

Figure 1. Islamic Banking Principles

- ***Zakah* (Islamic levy)**: *Zakah* is the dominant feature of Islamic banks, which reflects the CSR component. *Zakah* is an Islamic levy for the welfare of the *Ummah* and a vital instrument for the redistribution of wealth. It is obligatory for Muslims including individuals and businesses to pay *Zakah* after fulfilling the certain terms and conditions and paying debts and meeting costs (Aribi & Arun, 2015). The obligation to pay *Zakah* is a classic illustration of social justice and the welfare of society in Islam. These religious aspects of Islamic banking principles are summarised in Figure 1.

2.3.1 Islamic Banking in Pakistan

In the 1970s, the interest-free banking system movement started in Pakistan; and in the late 1970s, the Government of Pakistan announced Pakistan as an interest-free economy for three decades (Khan, 2008). However, the transformation of commercial banking activities into an Islamic mode of financing was a challenging and complex task. In June 1980, the Council of Islamic Ideology (CII) provided a detailed framework based on *Shari'ah* law to convert interest-based banking procedures and practices according to Islamic ideologies and facilitate the move towards an interest-free economy (Khan, 2008; Rammal & Parker, 2013). However, the markup based financial system, as suggested by CII, was acknowledged as anti-Islam by the Federal *Shariat* Court during the 1990s (SBP, 2016a).

In early 2000, the Government of Pakistan and State Bank Pakistan (SBP) reintroduced the Islamic banking system with the aim to build a ‘broad-based Islamic financial system in the country to enable all segments of the population to access financial services’ (SBP, 2016a). To promote Islamic banking and Islamic financial products, SBP espoused a three-pronged strategy including permission for establishing fully fledged Islamic banks in the private sector; permission to set up Islamic banking subsidiaries (Islamic Windows) in commercial banks, and permission to open stand-alone Islamic banking branches to existing conventional banks (SBP, 2016a). Consequently, the Meezan bank was the first Islamic bank and commenced operations in 2002. Furthermore, in 2003, the SBP established the Islamic Banking Department with the aim of promoting and regulating Islamic banking practices and procedures to ensure *Shari'ah* compliance and make Islamic banking the first choice for the *Ummah* (SBP, 2016a).

Currently, in Pakistan, five Islamic banks and 16 Islamic Windows, which are subsidiaries of conventional banks, are operational. In 2015, the Islamic banking industry doubled, and the growth of assets and deposits in the Islamic banking sector exceeded the overall banking sector (SBP, 2016b). Moreover, most Islamic banks are Windows of conventional banks and control the operations of Islamic banks. Even though Pakistan has paved a way to Islamic banking, there is a hindrance to streamline the whole economic system according to Islamic ideology. This is because of capitalism, globalisation, and domination of Western values which also hinder initiatives in social justice and care for the environment (Kamla, Gallhofer, & Haslam, 2006; Maali et al., 2006; Kamla & Rammal, 2013).

Thus, Pakistan has experienced many challenges in endeavouring to control the economic and banking system in the context of increasing worldwide financial cross-border interdependence. Therefore, Pakistan opted a dual banking system as a solution to maintaining a balance between Islamic and Western values. Indeed, it is argued that the dual banking system is not significantly different from the conventional system and the conventional banks with Islamic Windows are treated as new business opportunities (Kamla, 2009).

Accordingly, it will be interesting in the context of Pakistan to investigate CSR disclosure practices in the Islamic banks and Windows to explore the differences in CSR disclosure practices.

To help IFIs with CSR reporting matters, the Accounting and Auditing Organization for Islamic Institutions (AAOIFI) issued CSR standards which provide a framework for CSR disclosure. AAOIFI was established in 1991 and is a Bahrain-based international standard-setting organisation for IFIs. AAOIFI is responsible for the development and issuance of standards for the Islamic financial industry, and these standards are widely used by regulatory authorities and central banks in several nations, either on a mandatory basis or as guidelines. Standards of CSR conduct and disclosure for IFIs were adopted by the AAOIFI in 2009 (AAOIFI, 2010). The purpose of the standards is to provide CSR related standards for IFIs, applying them in business activities, and guide CSR disclosure practices in the communities where they operate. Since there are no comparable CSR standards for IFIs, they are encouraged to implement AAOIFI standards to provide assurance for users of annual reports of the information provided and ensure the legitimacy and reputation of IFIs.

AAOIFI describes CSR for IFIs as 'all activities carried out by an Islamic Financial Institution to fulfil religious, economic, legal, ethical, and discretionary responsibilities as financial intermediaries for individuals and institutions' (AAOIFI, 2010, p. 972). These standards provide a comprehensive structure to ensure IFI compliance to *Shari'ah* law and that CSR activities are communicated to the society to whom they owe an obligation of accountability in a comprehensible, transparent, truthful, and uniform way (AAOIFI, 2010). AAOIFI standards on disclosure requirements provide guidance on mandatory and voluntary disclosures in the CSR report separately or within the annual report. The classification between mandatory and recommended standards is based on *Qur'anic* principles (AAOIFI, 2010). Thus, these standards will be used in this study as a framework for analysing the CSR disclosure practices by Islamic banks and Islamic Windows in Pakistan, as discussed in Chapter 3.

2.4 Literature Review

2.4.1 CSR Disclosure Practices by Islamic Financial Institutions

Due to a close tie between Islamic banks and religion, it is claimed that Islamic banks are likely to have an ethical identity, whose social goals are as vital as economic outcomes (Haniffa & Hudaib, 2007). However, it is argued that Islamic banks are paying more attention to economic and commercial aspects of society, and social issues are relegated as a secondary consideration (Dusuki, 2008a). Perhaps this explains overall scepticism towards the motivations of Islamic banks. Nevertheless, these Islamic institutions are continuously gaining social acceptance, regardless of religious, geographical, political boundaries (Darus et al., 2014). Still, there is a dearth of studies concerning CSR disclosure practices from an Islamic perspective in context of Islamic banks. Many scholars have developed theoretical foundations dealing with the overall reporting of Islamic institutions rather than specifically focusing on CSR reporting, such as Gambling and Karim (1986), Baydoun and Willett (2000), and Lewis (2001).

However, to explore CSR reporting practices by Islamic banks, research by Maali et al. (2006) on 'social reporting by Islamic banks' is one of the few studies investigating Islamic bank CSR disclosure practices. The authors develop a content analysis benchmark (a set of categories appropriate for social disclosures) pertinent to Islamic banks and reveal that CSR disclosure practices by Islamic banks are significantly lower than expected. Moreover, Islamic banks that opted AAOIFI CSR standards are inclined to more CSR disclosure practices than other Islamic banks (Maali et al., 2006). Similarly, Haniffa and Hudaib (2007) explored the 'ethical identity of Islamic banks' and conducted a longitudinal survey of seven Islamic bank's annual reports. The authors found a significant gap between what was communicated and ideal ethical standards of Islamic banks. The authors argue this is due to the 'indifferent attitude of stakeholders and the prevailing secretive culture in the region' (p. 111).

Furthermore, Dusuki and Abdullah (2007) illustrated that Islamic banks have an embedded dimension underpinned by religious injunctions that promote CSR disclosure practices. For instance, 'these religious injunctions interweave Islamic financial transactions with genuine concern for ethical and socially responsible activities and simultaneously prohibit involvement in illegal activities or those which are detrimental to social and environmental well-being' (p.145). However, by investigating CSR disclosure practices by Islamic banks with a focus on social justice, Kamla and Rammal (2013) suggest that in social reporting, with an emphasis on enhancing social justice or poverty eradication, Islamic banks are not doing social justice though they claim to adhere to *Shari'ah* law. Islamic banks do not elaborate how this rhetoric is implemented in society through bank activities (Maali et al., 2006; Kamla & Rammal, 2013).

Belal, Abdelsalam, & Nizamee (2015) critically investigated ethical performance and related disclosures by an Islamic Bank in Bangladesh. The authors found similar results to Rammal and Parker (2013) and suggest that, although ethical disclosure practices by Islamic banks has increased over time, they are still failing to provide particular *Shari'ah* compliance disclosure and accountability to society. Hence, their CSR practices reflect the domination of globalised conventional finance practice in the local setting (Belal et al., 2015). In a similar context, Aribi and Arun (2015) attempted to understanding manager perceptions of CSR and its disclosure practices in Bahrain IFIs. The authors claimed that, although managers have in-depth CSR understanding, they significantly lack practices to sufficiently reflect it. IFIs in Bahrain fall short of the social and ethical objectives implied by *Shari'ah* law.

In the case of Pakistan, there is a dearth of literature related to Islamic banks and CSR disclosure practices. The previous discussion shows that CSR disclosure practices in Pakistani Islamic banks do not provide sufficient in-depth evidence to determine the extent of CSR disclosure practices in the country. For instance, prior literature either focused on large Islamic banks (Maali et al., 2006; Kamla & Rammal, 2013) or included Islamic banks from the Gulf region (Haniffa & Hudaib, 2007; Aribi & Arun, 2015). In addition, extant literature on CSR disclosure practices merely considers only Islamic banks[16] in their research, while there are many Muslim countries, such as Pakistan, where more Islamic Windows are operating. Islamic Windows operate in parallel to Islamic banks, and conventional banks must make assurances and publicise that funds devoted to conventional activities will not be diverted to investment in Islamic activities (Sole, 2007). Thus, this commitment by commercial banks is required to demonstrate to the community that their Islamic Windows adhere to *Shari'ah* principles with emphasis on societal issues. Furthermore, to gain competitive advantage, social acceptance, and enhance

[16] Islamic banks as a separate entity founded on *Shari'ah* principles have no association with conventional banks.

public image, Islamic Windows are required to disclose their compliance with *Shari'ah* principles more than Islamic banks.

Accordingly, this study will cover all Islamic banks and Windows to understand CSR disclosure practices in Pakistan. Moreover, prior literature employed categories based on previous studies using their own categories of CSR reporting practices based on their understanding of Islamic ethics and *Shari'ah* principles, or a few checklists from the AAOIFI CSR standards as CSR benchmark disclosure analyses. This study will incorporate benchmark CSR standards established by the AAOIFI for considering categories for analysis. These CSR standards provide specific guidance to IFIs for engaging in productive CSR activities and the disclosure of these activities to the community.

2.4.2 Comparative Studies of CSR Disclosure Practices by Conventional Banks and IFIs in a Cross-Cultural Context

Up until the 1990s, there have been limited studies on CSR reporting in the industrialised countries of Western Europe, Australia, and the US (Tsang, 1998), however, with the passage of time, there have been number of studies in this area, but still there not many studies focusing on CSR disclosure practices by conventional banks in Western societies (Branco & Rodrigues, 2006). There are comparative studies on CSR reporting practices focusing on analysing the similarities and differences in various CSR themes reported by not only conventional banks and financial institutions but also other industries, such as telecommunication, petroleum, food, and the beverages and hotel industry (Zeghal & Ahmed, 1990; Tsang, 1998; Abu-Baker & Naser, 2000; Halabi, Kazi, Dang, & Samy, 2006). Halabi et al. (2006) conducted a study to explore the level of CSR disclosures in public reports by the top 10 Australian companies. The results suggest that six contained limited disclosure on CSR practices while four made no disclosures. Furthermore, the authors suggested that the voluntary nature of CSR disclosure requirements facilitated nondisclosure.

Furthermore, there is a dearth of literature that investigates the extent of CSR disclosure practices between Islamic banks and conventional banks, particularly in diverse cultural societies. Aribi and Gao (2010) conducted a comparative study between Islamic and conventional financial institutions in the Gulf region to investigate the impact of Islam on CSR disclosure practices. The authors reveal that there are substantial differences in the extent and level of CSR disclosure between Islamic and conventional financial institutions, mainly due to the disclosure of religious-related categories of CSR activities by IFIs. However, it is argued that CSR disclosure practices are influenced by the country of operation, and diverse cultural factors because the religious profile of the country has an impact on CSR practices (Chapple & Moon, 2005). Nonetheless, there is a lack of empirical literature testing the actual differences in CSR disclosure practices among Islamic and conventional banks in a cross cultural east-west context. Accordingly, this study compares conventional banks from a diverse Western cultural society, Australia, with Islamic banks in Pakistan, to fill a gap in the literature. The aim is to illustrate the actual influence of Islamic ethical values in the form of institutional pressure on CSR disclosure by Islamic banks.

2.5 Theoretical Framework

For many decades, scholars were interested to discover 'Why corporations should be socially responsible on voluntary basis' (Carroll, 1979) or 'whether corporations should be regulated or compelled to be socially responsible' (Campbell, 2006). Moreover, concerns were expressed whether the motivation for CSR activities by organisations was grounded on a discretionary concept or other institutional forces (Saiia, Carroll, & Buchholtz, 2003). To date, many theories have been used to elucidate CSR disclosure among which Stakeholder Theory and Legitimacy Theory are dominant. However, these theories do not explain how institutions, such as religious values, influence CSR disclosure practices by Islamic banks in countries with specialised norms, beliefs, and cultural values. To address this concern, this study incorporates Neo-institutional theory (NIT) to provide insights into whether Islamic banks are seeking legitimacy through CSR disclosure practices in a country where Islamic ethical values as informal institutions have a significant influence on operational activities.

According to Meyer and Scott (1983), NIT defines legitimacy as 'the degree of cultural support for an organization' (Beddewela & Fairbrass, 2016, p. 506). From an institutional perspective, legitimacy can be seen as a 'condition reflecting perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive framework' (Scott, 2008, p. 60). It is claimed that managers engage in the legitimacy process of organisations and face pressures from different institutions (such as norms, values, and beliefs) related to disclosure practices (Milne & Patten, 2002). Accordingly, the legitimation process is not strategic (under management control) but is controlled by institutional pressures. NIT theorists suggest that institutions can be formal: written policies, laws, constitutions and trade unions, and informal: social traditions, customs, religious values, political beliefs and societal norms (North, 1990; Doh & Guay, 2006). Additionally, it is claimed that understanding CSR in various dimensions is reliant both on formal institutions and informal pressures under which organisations operate (Khan et al., 2015).

Moreover, it is argued that religious norms and values can play a significant role to determine socially shared morals between individuals and impact the CSR disclosure activities (Haniffa & Cooke, 2002). Thus, deriving insights from the previous section on Islamic ethical values, Islamic banking principles, and NIT, it can be asserted that Islamic banks have substantial informal institutional pressure in the form of Islamic ethical values (accountability, justice and fairness, and viceregency), which motivates them to adopt CSR activities. To mitigate institutional pressure and seek and maintain legitimacy, Islamic banks offer to provide truthful information, transparency, and appropriate CSR disclosures. This argument is summarised in Figure 2 below. Momin and Parker (2013) examined CSR reporting practices by Multi-National Companies (MNCs) operating in Bangladesh and offer an explanation of legitimacy from the perspective of NIT. Similarly, various authors[17] have related NIT to disclosure practices and legitimacy, specifically to MNCs. However, so far no one has focused on CSR disclosure practices of Islamic banks from a NIT perspective. Thus, this study also contributes to the literature by providing relevant empirical results on CSR disclosure practices by Islamic banks and Islamic Windows in Pakistan using an NIT framework, which incorporates both institutional and legitimacy perspectives. This is shown in Figure 2.

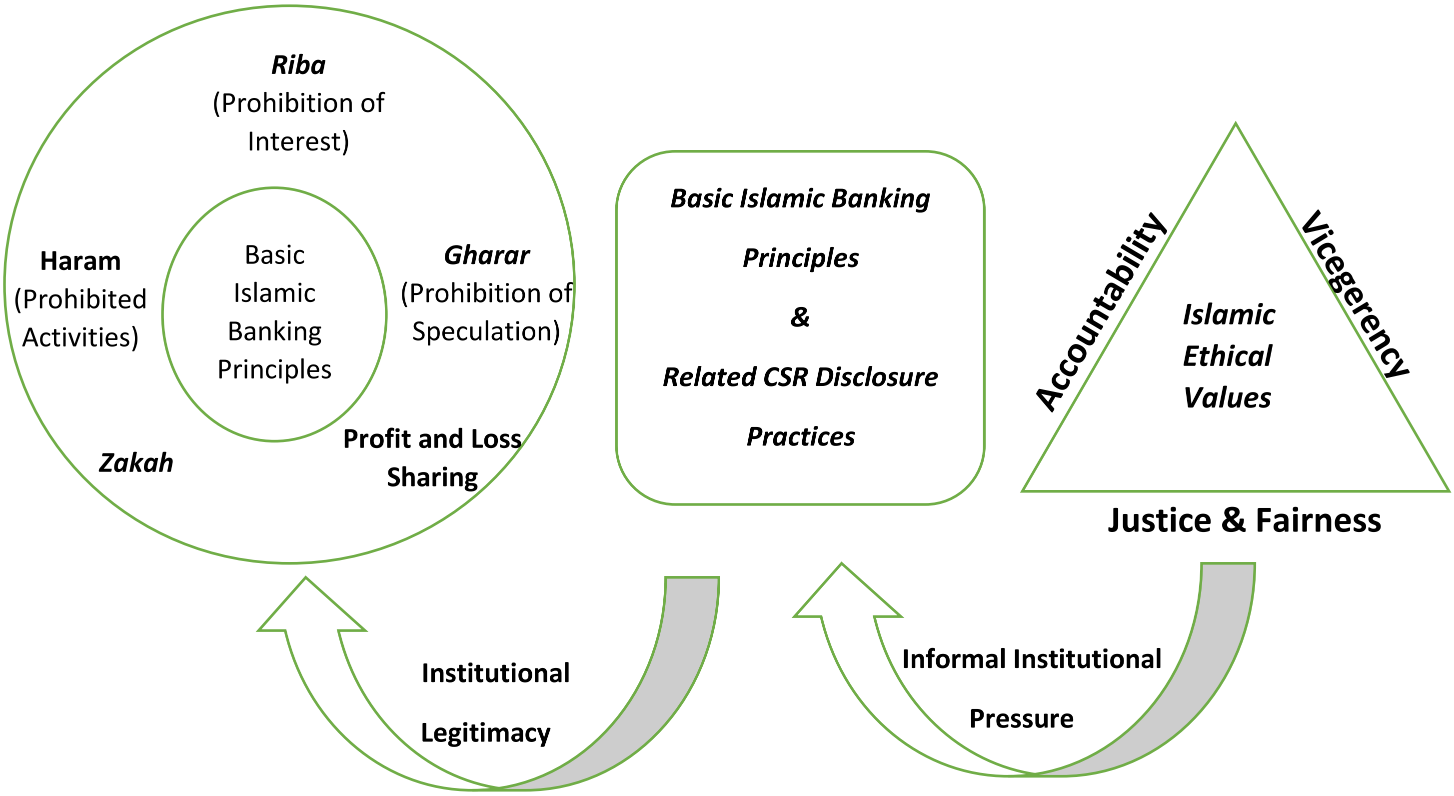

Figure 2. Islamic Bank CSR Legitimacy Based on Neo-Institutional Theory

2.6 Hypotheses Development

In previous sections, this study has drawn extensively upon Islamic ethical values, and Islamic banking principles in the context of CSR disclosure practices by Islamic banks, and NIT. Hence, this study is based on a NIT framework to explain the extent of CSR disclosure practices by Islamic banks and Islamic Windows.

2.6.1 The Differences in the CSR Disclosure Practices between Islamic Banks and Islamic Windows

The duty of disclosure of truth is crucial from the Islamic perspective, and this obligation applies to individuals and businesses as cited in the *Qur'an*: 'and confound not the truth with falsehood and conceal

[17] It includes Doh and Guay (2006); Khan et al. (2015); and Beddewela and Fairbrass (2016).

not the truth knowingly' (*Qur'an*, 2:42). Haniffa and Cooke (2002) assert that Islamic businesses are more obligated for transparency in their disclosure practices. In the context of Muslim societies, the intended purpose of disclosing accounting information is that *Ummah* have the right to know about an organisations' operational impact on their well-being within *Shari'ah* boundaries and reveal adherence to *Shari'ah* principles (Baydoun & Willett, 2000; Belal et al., 2015). In addition, Lewis (2001) argued that full disclosure is essential for evaluating social and economic performance of Islamic banks together with forthcoming obligations and predicting investment risk for accurate business and economic decisions. Thus, Islamic banks are expected by the *Ummah* to practice transparency and documentation elucidating compliance with *Shari'ah* law and, consequently, must disclose CSR activities in annual reports.

Islamic banks are growing worldwide at an impressive rate of 16% between 2010 to 2014 despite political cataclysm in various parts of the world (Ernst & Young, 2016). As noted, considering the worldwide demand for Islamic banking products and services, conventional banks started to offer Islamic finance products via Islamic Windows (Warde, 2000). The Shari'ah Supervisory Board (SSB) required Islamic Windows full segregation of operational activities and that accounts should be consistent with *Shari'ah* principles. Moreover, Islamic Windows should refrain from performing any operational activity allowed by the conventional banking system; for instance, Islamic Windows are required to avoid charging interest on products and services and cannot invest in prohibited activities such as gambling, pig farms, and alcohol. In addition, funds collected from depositors must be invested in *Shari'ah* approved channels, and Islamic Window staff are required to comply with the Islamic code of ethics.

Accordingly, adherence to *Shari'ah* by these institutions makes their operational activities compliant to Allah's will (Rammal & Parker, 2013). Therefore, like Islamic banks, Islamic Windows have the same obligation to prioritise the societal obligations as they are accountable to society and ultimately to Allah. However, it is argued that Islamic Windows are facing client credibility challenges regarding substantial compliance with *Shari'ah* principles (Asharq Al-Awsat, 2010). Moreover, in 2012, six conventional banks were required by the Qatar Central Bank (QCB) to close their Islamic Windows in Qatar; the rationale behind this directive was the difficulty in monitoring the activities of conventional banks as their operations spanned both *Shari'ah* and non-*Shari'ah* financial activities (The Economist Intelligence Unit, 2012). Consequently, it is suggested that for legitimacy reasons, Islamic Windows are likely to disclose more than Islamic banks in a fully Islamic Republic to enhance their image and reputation and remain competitive in society.

Therefore, this study anticipates that Islamic Windows are likely to disclose more CSR activities in their annual reports compared to Islamic banks.

Hypothesis 1: Islamic Windows are likely to provide more extensive disclosure of CSR practices than Islamic banks.

2.6.2 The Differences in the CSR Disclosure Practices between Islamic Banks and Conventional Banks in a Cross-Cultural Context

Maali et al. (2006) claim that Islamic banks require a broader scope of accountability than conventional banks from Western economy concepts. Furthermore, it is argued that Islamic society and its connected accountability relationships 'open up the possibility of a broader social agenda where social justice, working with local communities, eradication of poverty, caring for the environment, accountability and transparency constitute a central position in economics, finance, and accounting' (Kamla, 2009, p. 924). Thus, from an Islamic perspective, an Islamic bank's CSR are notionally significantly higher than conventional banks from a Western perspective. In addition, it is contended that Islam has a significant influence on CSR reporting practices by Islamic banks (Aribi & Gao, 2010; Kamla, 2009).

Accordingly, it is expected that Islamic banks have special obligations warranting collective societal welfare and common-sense morality towards society in Islamic countries, such as Pakistan, and provide more extensive CSR disclosures [18] than conventional banks in the Western societies, such as Australia. However, it is claimed that the conventional banks operating in fully Islamic countries display little differences in CSR disclosure practices compared to the Islamic banks operating in the same country, apart from specific CSR activities implied by *Shari'ah* principles (Aribi & Gao, 2010). Nevertheless, it is argued that CSR disclosure practices be maintained on a country-by-country basis of operation of the business due to various local factors including cultural institutions (Chapple & Moon, 2005). Moreover, it is suggested that differences in emphasis of CSR reporting may be expected to be more pronounced when businesses are domiciled in diverse cultural societies (Adams, Hill, & Roberts, 1998). In addition, it is argued that the fundamental difference between Islamic banks and conventional banks be based on diverse business objectives, but, above all, on social moral and ethics, which guide Islamic bank operational activities (Dusuki, 2008a); thus, diverse CSR disclosure practices are expected among Islamic banks and conventional banks (Aribi & Gao, 2010).

Consequently, in a cross-cultural context, this study anticipates Islamic banks in an Islamic society are likely to disclose more CSR practices in their annual reports as compared to conventional banks in Western society, which leads to the second hypothesis:

Hypothesis 2: Islamic banks in an Islamic society are likely to provide more extensive disclosure on CSR practices than conventional banks in a Western society.

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[18] Islamic banks are required to provide transparent, accurate, and full information about their *Shari'ah* compliance, benchmarked on *Shari'ah* principles (Haniffa & Hudaib, 2007; Aribi & Arun, 2010).

CHAPTER THREE

METHODOLOGY

3.1 Research Methodology

This study uses the content analysis of annual reports to investigate the extent of CSR disclosure practices of Islamic banks and Islamic Windows from an Islamic society perspective and compares the extent of CSR disclosure between Islamic banks and conventional banks in a cross-cultural context to identify the extent to which Islam has an actual influence on CSR disclosure practices.

The selection of an appropriate document for the purpose of analysis is an essential stage in content analysis (Krippendorff, 2004). Although CSR disclosure practices can be sought by other various means, such as the company website, press releases, advertisements, and promotional leaflets, annual reports are used as the most suitable document for this study. According to Unerman (2000), annual reports are considered as the main source of data about company attitude towards social reporting. Moreover, Gray, Kouhy, and Lavers (1995, p. 82) also point out that 'the annual report not only is a statutory document, produced regularly, but it also represents what is probably the most important document regarding organisation's construction of its own social imagery'. Furthermore, in developing countries, there is minimal use of other communication channels for social disclosure practices (Aribi & Arun, 2015). Annual reports are more accessible to researchers (Unerman, 2000). Therefore, this study considers only CSR disclosure practices made in the annual reports of the selected sample.

Content analysis is a method used to make valid inferences from the text (or content) by codifying the text into various categories (or groups) by certain criteria (Weber, 1990; Krippendorff, 2004). It is one of the most commonly used methods for analysing environmental and social disclosure practices of organisations (Gray et al., 1995) with a large number of studies on CSR disclosure practices in the context of Islamic banks adopting this method (Maali et al., 2006; Haniffa & Hudaib, 2007; Kamla & Rammal, 2013; Belal et al., 2015). Content analysis has several advantages. First, it can directly operate on text and systematically enumerate the contents of text under precise requirements or categories (Belal et al., 2015). Second, it makes follow-up studies more viable by providing analysis of text and documents that exist over an extended period (Belal et al., 2015). Finally, this approach is very flexible and allows researchers to use a wide range of various unstructured information (Belal et al., 2015).

In addition, since the coded data in this study is based on a content analysis not normally distributed, and requires a nonparametric test, which assumes no specific distributions, a Mann-Whitney U test (Maali et al., 2006) is used to test the differences in CSR disclosure practices between Islamic Windows and conventional banks with Islamic banks.

3.2 Sampling

To discover whether Islamic Windows are likely to provide more extensive CSR disclosure practices than Islamic banks, this study selects Islamic banks and Islamic Windows from Pakistan. The sample comprises of Islamic banks and Islamic Windows operational in Pakistan. Overall, there are 21 Islamic banks and Windows in Pakistan; five are Islamic banks while 16 are Islamic Windows of conventional banks. The final sample[19] comprises of four Islamic banks and 13 Islamic Windows as the annual reports for the fiscal year 2015were available for these banks. The selected sample is shown in Table 2 below.

[Insert Table 2 here]

In addition, this study selects the four largest conventional banks from Australia to compare the extent of CSR disclosures between Islamic banks and conventional banks in a cross-cultural context. The annual reports for the fiscal year 2015 were available. The sample from Australia is shown in Table 3 below.

[Insert Table 3 here]

3.3 Content Analysis: Categories of Disclosures

Selection and development of the content analysis categories of CSR disclosures is another essential step in content analysis in order to draw valid inferences from the annual reports (Milne & Adler, 1999). This step is undertaken to ensure that selection and development of categories of CSR disclosures are reliable and consistent among different coders (Weber, 1990). Previous studies on CSR disclosure practices have developed their CSR disclosures categories from past literature. It is also important to note that there is no clear references or consensus on the uniform set of categories for CSR disclosures in the CSR content analysis literature (Unerman, 2000).

Moreover, as noted, prior literature merely used some items from the CSR disclosure categories as proposed by AAOIFI. Accordingly, this study incorporates all categories of CSR disclosures suggested by AAOIFI and considers items disclosed in CSR reporting by IFIs. Furthermore, AAOIFI divides CSR disclosure categories into two components: mandatory and voluntary. Mandatory categories consist of those CSR activities which must be carried out by an IFI to show adherence to *Shari'ah* principles while voluntary component comprises discretionary activities which may be conducted by an IFI as accountability to the community (AAOIFI, 2010). These voluntary and mandatory concepts will be discussed in chapter four of results and discussion section where appropriate.

[19] The 2015 annual reports for the Dubai Islamic Bank Pakistan and Islamic Windows: Bank AL Habib Limited, Habib Metropolitan Bank Limited, and National Bank of Pakistan could not be found.

Thus, by considering the categories of CSR disclosure practices as suggested by AAOIFI, this study will provide significant insights to CSR reporting practices in the context of Pakistan in an in-depth manner. Since this study selects all categories of CSR disclosures suggested by AAOIFI to discover whether Islamic Windows are likely to provide more extensive disclosure on CSR practices than Islamic banks, there are 11 CSR disclosure categories, and each has further checklists. The 11 categories and associated items are listed in Table 4.

[Insert Table 4 here]

Moreover, some of the CSR disclosure categories developed by AAOIFI can be applied to conventional banks as those categories have general acceptance in analysing CSR disclosure practices by conventional banks as used by various scholars (Zeghal & Ahmed, 1990; Abu-Baker & Naser, 2000; Menassa, 2010). Thus, this study considers disclosure categories which are in fact a subset of the requirements suggested by AAOIFI. The second set of CSR disclosure categories used to compare the extent of CSR disclosures between Islamic banks and conventional banks in a cross-cultural context to explore the actual influence of Islam on Islamic banks' CSR disclosure practices, consists of five CSR disclosure categories, and each category has further subcategories. These five categories with further checklists items are listed in Table 5.

[Insert Table 5 here]

3.4 Coding and Measurement of CSR Disclosure Practices

A CSR Disclosure Index, Ethical Identity Index (EII), will be calculated to explore CSR disclosure practices of Islamic banks and Islamic Windows. Prior studies on CSR disclosure practices, such as Cooke (1989), Haniffa and Cooke (2002) have used the disclosure identity index for measurement purposes and specifically in the context of IFIs (Haniffa & Hudaib; 2007; Aribi & Arun, 2015; Belal et al., 2015). In content analysis, coding is required for analysed data (Weber, 1990; Krippendorff, 2004). Thus, in this study, the approach to allocation of scores (coding) is a dichotomous procedure in which for each item a score is 1 if a subcategory is disclosed in an annual report; otherwise, it scores zero (Cooke 1989, Haniffa & Hudaib 2007, Belal et al. 2015). Furthermore, this study will use the un-weighted[20] disclosure index procedure to avoid potential biassness in scores and scaling problems (Cooke, 1989).

[20] The selection of un-weighted index is based on assumption that each item of disclosure in the categories is equally important. For further detail see Cooke (1989).

This study will calculate the EII by dividing the number of items disclosed by an Islamic bank, Islamic Window or conventional bank with a total number of items to be disclosed by each Islamic bank and Islamic Windows as follows:

$$EII_j = \frac{\sum_{i=1}^{N_j} x_{ij}}{N_j}$$

Where:

EII_j = Ethical Identity Index for an Islamic bank or Islamic Window or conventional bank j.

N_j = Number of items to be disclosed in the index by jth Islamic bank, Islamic Window or conventional bank where as comparison between Islamic banks and Windows N_j = 50 while comparison between Islamic banks and conventional banks N_j = 20.

X_{ij} = 1 if the item is disclosed; and X_{ij}= 0 if the item is not disclosed by jth Islamic bank, Islamic Window or conventional bank.

After calculating the EII, each Islamic bank and Islamic Window are ranked by their EII score. The higher the EII value, the higher the level of CSR disclosures by an Islamic bank or Window. In other words, a high EII score will suggest that an Islamic bank or Window has adopted a communication strategy that conforms to the spirit of ethical and social disclosure standards. A lower EII score suggests that an Islamic bank or Window needs to adopt a communication strategy to disclose more to gain both an ethical image and competitive advantage. While comparing the CSR disclosure practices between Islamic banks and conventional banks, a higher EII score by Islamic banks will suggest that Islam influences CSR disclosure practices of Islamic banks and a lower EII score compared to conventional banks suggests otherwise.

3.5 Reliability and Validity

Reliability and validity are two of most important content analysis methodological issues to be considered (Weber, 1990; Krippendorff, 2004). Reliability issues arise when there is ambiguity in the coded data set produced from the analysis, while the validity problem is associated with the coding instrument (Weber, 1990). Hence, this study adopts precautionary measures to enhance the reliability and validity of the content analysis. To address the reliability issue, an inter-coder reliability test is conducted on the coded set produced by multiple coders (Weber, 1990). For this study, three coders coded the content analysis categories in the test stage. At this stage, if errors appeared in coding the data among the coders, discussion was held to resolve any ambiguity or discrepancy in the coding, and content analysis categories were recoded to achieve satisfactory results. Moreover, to improve validity, this study incorporated categories as developed by AAOIFI rather than prior literature.

The inter-coder reliability test assesses the reliability of coding when more than one coder is involved (Weber, 1990). It is necessary to measure the proportion of errors in coding among multiple coders (Milne & Adler, 1999), and, thus, this study adopts a test-retest procedure of reliability and validity of contents. There are several techniques to measure the reliability of content analysis, such as Scott's pi, Krippendorff's alpha, Cohen's Kappa and Perrault and Leigh's lambda (Milne & Adler, 1999). Among these measurement techniques, Krippendorff's alpha and Cohen's Kappa are widely used. However, it is suggested that Cohen's Kappa is 'inappropriate in assessing reliability in content analysis….It overestimates reliability and cannot serve as a reliability index in content analysis' (Krippendorff, 2004, pp. 246-247). Conversely, it is suggested that Krippendorff's alpha is a good measure of reliability as 'it can be used regardless of the number of observers, levels of measurement, sample sizes, and the presence or absence of missing data' (Hayes & Krippendorff, 2007, p. 77). Thus, for the inter-coder reliability test, this study only calculates the Krippendorff's alpha. The significance of Krippendorff's alpha can be interpreted as follows (Krippendorff, 2004):

Less than 0.67	indicates a very low inter-coder reliability
0.67-0.80	indicates low reliability but acceptable
Above 0.80	highly reliable

To measure reliability, three annual reports (one from each group of banks) were selected on a random basis. The coders agreed to read the whole annual report word-by-word and consider only that information which explicitly showed the disclosures. The results of data coding by the three coders was tested for reliability and validity using Krippendorff's alpha. If the coding for a category was less reliable, then the coder could seek suggestions to improve coding and recoded the data again.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Testing for Reliability

Inter-coder reliability was measured by Krippendorff's alpha test. Tables 6 and 7 suggest that some categories in the first stage (test) results were less reliably scaled for some categories.

[Insert Table 6 here]

[Insert Table 7 here]

Coders compared and discussed the coding results to resolve a particular categories' pertinence to CSR. Upon identification of the reasons for the incongruities in the results, the second round of coding (**retest**) was then undertaken. As shown in Tables 8 and 9, all retest results were above 0.667, and, thus, the disclosure categories met reliability standards for content analysis.

[Insert Table 8 here]

[Insert Table 9 here]

4.2 CSR Disclosure Practices: Islamic Banks versus Islamic Windows

The benchmark used for this study was based on the AAOIFI-developed CSR standards for IFIs, and further subdivided into mandatory and voluntary requirements. 'Mandatory forms of CSR' refers to: the IFIs' adherence to *Shari'ah* principles; meeting of religious obligations; and meeting of pertinent disclosure requirements. 'Voluntary forms of CSR' refers to IFIs' voluntary activities and related community disclosure. Ideally, in this study the overall CSR disclosures under these benchmark categories should be 100%, along with mandatory disclosures, an IFI should also engage in voluntary CSR conducts, given voluntary conducts meet Islamic ethical principles of justice and fairness (Farook, 2008).

Tables 10 and 11 show the EII results for each Islamic bank and Islamic Window in each category, along with the overall mean EII and ranking of the four Islamic banks and thirteen Islamic Windows in 2015. Moreover, Tables 10 and 11 also show the EII of each Islamic bank and Window at overall mandatory and voluntary level.

[Insert Table 10 here]

[Insert Table 11 here]

Mandatory Disclosure Requirements

Disclosure of Policy for Screening Clients

Tables 10 and 11 suggest that no Islamic bank or Window disclosed any type of specific client-selection criteria information, including their compliance with Islamic law, or Shari'ah Supervisory Board (SSB) approval of their policies.

This is despite *Shari'ah* principles requiring that Islamic banks and Windows provide such information, on the basis that Muslims cannot invest their money in activities prohibited by Islam (e.g., alcohol businesses, pig farms), or in businesses that involve *riba* (interest). Not mentioning how they measure clients' compliance with *Shari'ah* principles may risk the Islamic banks' and Windows' Islamic ethical identities. Thus, there is plenty of room for Islamic banks and Windows to communicate this category's information to enhance their reputation in the society.

Disclosure of Policy for Dealing with Clients

Policy disclosure on client selection shows which client contractual forms the SSB has approved, thereby avoiding burdening the client with onerous terms and conditions. Disclosed items include: each party's business transaction rights and obligations; remedial measures in cases of violations of contractual terms by any party; banks' debt collection policies; and matters relating to the collection of late payment charges. This study's results showed that no Islamic bank or Window provided any information on rights, obligations of parties, or ethically balanced market campaigns that did not focus on profit maximisation and imposition of onerous terms on clients. Such omissions clearly do not meet the Islamic ethical principle of justice and fairness. Given justice and fairness is fundamental to Islamic social justice in addition to relating to full disclosure, these IFIs should increase their disclosure substantially to show their commitment to Islamic ethical values.

The Qur'an stresses that "Undoubtedly, Allah commands justice and the doing of good" (Qur'an, 16:90), and also "If the debtor is a man in hardship then give him time till it is easy, and to remit the debt fully is better for you if you know" (Qur'an, 2:280). However, the conditions under which Islamic banks and Islamic Windows will defer debt-collection from insolvent client is not disclosed by Islamic banks and Windows.

BankIslami Pakistan Limited (BankIslami), Meezan Bank, and MCB Islamic Bank Limited (MCB IBL) made disclosures in relation to late payment charges; less than 50% of the Islamic Windows did. Tables 10 and 11 show EII scores for Islamic bank and Windows ranges from 0.00 to 0.22, with AlBaraka Bank Pakistan Limited (AlBaraka Bank) the lowest and the highest position shared by rest of the three Islamic banks. For Islamic Windows, EII also ranged from 0.00 to 0.22, with Askari Bank, Bank Alfalah, Faysal

Bank Limited (FBL), Habib Bank Limited (HBL), Standard Chartered Bank (SCB), The Bank of Punjab (BOP), and United Bank Limited (UBL) all scoring 0.22, while The Bank of Khyber (BOK) scored 0.11. All other Islamic Windows scored 0.00. Moreover, Islamic banks are ranked eighth, with 0.17 EII, while Islamic Windows are ranked seventh, at EII of 0.13. These mean values of EII also suggest that although Islamic banks and Windows are falling behind the set benchmark, more Islamic banks are communicating information under this category than Islamic Windows, possibly putting Islamic Windows' ethical identities and reputations at risk. Under *Shari'ah* principles, Islamic banks are prohibited from charging customers late payment charges, as that falls under the ambit of riba. If any Islamic bank or Window is collecting late payment charges from clients, it must disclose its aim behind this, and how it treats this amount, given it is not allowed to charge the collection as bank income. Non-disclosure might be regarded as an attempt to disguise corporate ethical identity.

In addition, it is interesting to note that in the SSB report[21] detailing the Islamic banks and Windows who disclose information about late-payment charges, says that any amount collected as late payment charges is credited to a charity account; however, SSB gives no explicit opinion on the *Shari'ah* principles appropriateness of banks' charging their clients late payment fees. Such findings provide support for Maali et al. (2006) and Aribi and Arun (2015), who have also shown some or no disclosure of policy to deal with insolvent clients/debtors, late payment charges, or SSB opinion.

<u>Disclosure of Earnings and Expenditure Prohibited by *Shari'ah*</u>

The Islamic banks and Windows are distinguished from their conventional peers by the terms of their products and services. They are not required to undertake any activity that is prohibited by *Shari'ah* guidelines, and compliance with *Shari'ah* principles is considered the backbone of any IFI. IFIs must fully disclose truthful and transparent information about their products and services if they expect to meet their societal welfare obligations of enabling customers to assess the ethics of their business activities (Haniffa & Hudaib, 2007).

As shown in Table 10, Islamic banks ranged from 0.25 to 0.75 for EII, with BankIslami the highest, at 0.75, followed by Meezan Bank and MCB IBL, both at 0.5; the lowest score was 0.25 for AlBaraka Bank. Three out of four Islamic banks electing to disclose under this category is not a surprising result, as Islamic banks are required to ensure that all their products and services are *Shari'ah* compliant. Notably, with the exception of AlBaraka Bank, all Islamic banks disclosed the amount they earned from their non-*Shari'ah* compliant activities. Additionally, all Islamic banks communicated in similar statements on 'how they intend to dispose of income from prohibited activities', indicating their adherence to Islamic teachings, as demonstrated by the following:

[21] Shari'ah Supervisory Board in the bank's annual report presents its opinion on the affairs of the bank, such as the bank's *Shari'ah* compliance, internal Shari'ah audit report, new products and *Shari'ah* aspects.

"Income, if any received, which does not comply with the principles of Shari'ah is recognized as charity payable" (AlBaraka Bank Annual Report 2015, p. 7).

Only BankIslami disclosed a strategy for finding viable permissible alternatives for similarly prohibited transactions. Moreover, none of the Islamic banks commented on the SSB's verdict on the necessity of these transactions. Despite Meezan Bank and BankIslami disclosing their compliance with *Shari'ah* principles in all transactions, their annual reports contained contradictory statements pertaining to adherence to *Shari'ah* principles, as evidenced by the following:

"The Bank has complied with the Shari'ah rules and principles…. any earnings realized from sources or by means prohibited by Shariah have been credited to charity account" (BankIslami Pakistan Annual Report 2015, pp. 41-42).

"The Bank complies with the rules and principles of Islamic Shariah…... The non-compliant income identified during the review is being transferred to the Charity Account" (Meezan Bank Annual Report 2015, p. 100)

Both banks used the first statement in their reports to emphasise their commitment to the Shari'ah principles, but in the above-quoted second statement suggest that these two banks were involved in some prohibited activities and dispersed the income from them to charity accounts. Haniffa and Hudaib (2007) found the same with one Islamic bank in their study. Interestingly, in this study, only MCB IBL showed true adherence to the Islamic teachings on late payment fee collection, as demonstrated by the following:

"MCB-IBL has complied with Shari'ah rules…. MCB IBL did not earn any Non-Shari'ah compliant income" (MCB Islamic Bank Annual Report 2015, p.18).

Table 11 reveals that for Islamic Windows, the overall EII under this category ranged from 0.25 to 0.50. Four Islamic Windows (Sindh Bank, Summit Bank, BOK, BOP, and UBL) have EIIs lower than 0.25, and the rest of the Islamic Windows scored 0.50. None of the Islamic Windows disclosed information on SSB's verdict of the necessity of prohibiting certain transactions or on strategies for finding viable permissible alternatives for any future cases. They did, however, communicate how they intend to dispose of such (prohibited) income, and with the exception of Sindh Bank, Summit Bank, BOK, BOP, and UBL, all other Islamic Windows disclosed specific amounts as income that is received from activities prohibited by *Shari'ah* principles. Moreover, MCB IBL, FBL, and Silk Bank disclosed their adherence to *Shari'ah* rule by communicating that they did not engage in income prohibited activities.

Their statements suggest these banks' adherence to Islamic teachings may prompt society to have more confidence in these IFIs, which might benefit their Islamic ethical images. HBL also showed transparency and truth in its disclosure pertinent to this category.

Results for the remaining Islamic Windows are similar to those for Meezan Bank and BankIslami, and all suggest incongruence between their rhetoric and set benchmarks that are based on *Shari'ah* principles. Tables 10 and 11illuminate how both Islamic banks and Windows rank third in overall mean EII, with scores of 0.50 and 0.40, respectively. However, Islamic Windows' weaker disclosure under this category compared to Islamic banks' raises concerns about the legitimacy of Islamic Windows' adherence to *Shari'ah* principles, which again leads to reputational risk.

Possibly, a reason for Islamic Windows' poor disclosure under this category is the potential for such communication to adversly impact a business's ethical identity. It is claimed that corporations involve in disinformation to seek public reputation and in order to maximize the perception of legitimacy, corporations may tend to disclose only clean information to shape the public image (Deegan, 2002; Laufer, 2003). Islamic Windows are structuarally part of conventional banks, offering Islamic products and services under a single umbrella alongside conventional banking suites. If Islamic Windows are not disclosing how their income and expenditures correspond to *Shari'ah* principles, and are not providing assurance to the *Ummah* that they are not engaged in any prohibited activity, then it may appear that conventional bank's culture has more emphasis on its conventional banking than its Islamic banking Window.

Disclosure of Policy for Employee Welfare

This category of the disclosure policy relates to banks' policies on equal opportunity for employees. It covers: any type of discrimination; employee incentive plans; employee working environment; employee training and development; and associated employee targets or quotas, along with reasons for revisions thereof. By disclosing this information, society can assess whether Islamic banks and Windows violate Islamic ethical principles for managing employees.

Table 10 shows that Islamic banks' overall EII index under this category ranged from 0.33 to 0.67, with Meezan Bank, AlBaraka Bank, and BankIslami scoring the highest, with 0.67; MCB Islamic had the lowest EII score, at 0.33. Table 11 also shows that the overall EII index ranged from 0.33 to 0.67 for Islamic Windows. BOK scored the lowest EII, at 0.33, while rest of the Islamic Windows scored 0.67. The Islamic banks and Windows are ranked second overall, with mean EII scores of 0.59 and 0.64, respectively. In other words, it can be suggested that the overall effort of Islamic banks and Windows under this category is commendable, because the disclosure of employee welfare implies that Islamic banks and Windows are conforming with Islamic ethical principles and maintaining their ethical identities for this category. However, Islamic Windows' mean EII of 0.64 in this category being greater than Islamic banks' suggests that Islamic Windows are communicating more information under this category compared to Islamic banks.

Examination of the disclosed information for this category reveals that all Islamic banks and Windows do have some provisions of policy regarding employee welfare. However, three Islamic banks—with

AlBaraka Bank as the exception—explicitly indicated provision of employee training for enhancement of knowledge of Islamic banking, finance, and *Shari'ah* compliance. Interestingly, in the case of Islamic Windows, all communication regarding employees' opportunity for training and development in *Shari'ah* knowledge and compliance. This effort is admirable as these IFIs offer unique products and services to customers; provision of employee training on Islamic matters and *Shari'ah* compliance can increase competit22ive edge and enrich a business's ethical identity. Islam emphasises social justice and specifically fair treatment of workplace employees. Behaviors including discrimination, exploitation, and unequal opportunity are strictly prohibited in Islam, and, thus, by *Shari'ah* principles. As said by the Holy Prophet, 'I will be foe to three persons on the day of judgment, one of them being the one who, when he employs a person that has accomplished his duty, does not give him his duty (Al Bukhari, No. 2109)' (Aribi & Gao, 2010, p.74). Moreover, given Islam promotes searching for education, training and education of employees is correspondingly a vital dimension of employee welfare (Maali et al., 2006).

It is suggested that "if employees are not well versed in the concepts of the Islamic banking system, they may not be able to serve or convince clients of the products offered, which may damage the corporate ethical identity" (Haniffa & Hudaib, 2007, p. 108). Excluding MCB Islamic and BOK, all Islamic banks and Windows disclosed information regarding the year's achievements under this category. However, none disclosed any information regarding quotas or targets for employee welfare policies, nor upward/downward revisions of quotas and targets. A possible reason for not disclosing such information might be the perceived maintenance of a bank's reputation in cases of its achievements not meeting the set targets and quotas.

Disclosure of Policy for Zakah

This category of the disclosure policy requires Islamic banks and Windows to disclose information on each of: their methods for calculating Zakah; SSB's opinion on various Zakah related matters; their amount of Zakah; and any restriction imposed by SSB on determining a Zakah base. As shown in Tables 10 and 11, the overall and mean EII for this category remains constant at 0.29 for each Islamic bank and Window, with the Islamic banks ranking sixth and the Windows fifth. All Islamic banks and Windows disclosed their status on collecting and paying Zakah on behalf of investment account holders and other accounts holders, and their method for determining Zakah.

Islam's emphasis on social justice implies Islamic banks and Windows are to act with more social responsibility than their conventional peers. The Qur'an stresses in many places the need for payment of Zakah. For instance, "The Zakah is only for those who are poor and needy and those who collect it, and for those whose hearts are to be conciliated for Islam, and for the freeing of slaves, and for debtors, and for spending in the way of Allah and for the traveller. This has been ordained by Allah and Allah is Knowing, Wise" (Qur'an, 9:60). Zakah is cited as one of the major financial transactions that represent

IFIs' social responsibility, and is described by some as "superlative" (Aribi & Arun, 2015). Further, Allah says in the Qur'an, "Realise the Zakah out of their wealth. To purify and cleanse them" (Qur'an, 9:103). Zakah payment is a clear example of societal obligation. Islamic banks' and Windows' disclosure of their Zakah information is vital for showing their compliance with the *Shari'ah* principles and, thus, maintenance of their corporate ethical identity. The results are surprising in this category, as for Muslims, payment of Zakah is an act of worshipping Allah, and in Pakistan, the Islamic banks and Windows are required to deduct Zakah on behalf of their account holders. No Islamic bank or Window in this study disclosed: the SSB's ruling on Zakah related issues; any restriction in calculating Zakah; or the amount of Zakah due from each equity share of their investment account holders. The importance of such disclosures is that they assist the users of annual reports in assessing Islamic banks' and Windows' compliance with *Shari'ah* principles, specifically their contribution to social well-being. Zakah is considered a vital component of the Islamic economic system that addresses poverty in the community (Kamla & Rammal, 2013). Additionally, for IFIs, social roles are more important than economic roles, given Zakah is a social activity emphasised in Islam and is an obvious example of social justice. Moreover, Maali et al. (2006) postulate that if IFIs desire to depict a positive Islamic image, they will prefer to disclose more on Zakah related activities. Thus, there is much room in this category for Islamic banks and Windows to show their compliance with *Shari'ah* and to strengthen their Islamic ethical identities.

As shown in Table 10, Islamic banks' EII for mandatory forms of categories ranged from 0.20 to 0.36. These findings suggest that Islamic banks did not adequately communicate under these categories. BankIslami scored 0.36, followed by Meezan Bank, with 0.32; scoring the lowest were MCB IBL and AlBaraka Bank, with 0.28 and 0.20 respectively.

Table 11 shows that the Islamic Windows' EII for the mandatory form of categories ranged from 0.20 to 0.32. Askari Bank, Bank Alfalah, FBL, HBL, and SCB all achieved 0.32, followed by two Islamic banks BOP and UBL at 0.28. Three Islamic Windows (Allied Bank Limited (ABL), Silk Bank, and Soneri Bank) score 0.24, whilst three Islamic Windows (Sindh Bank, Summit Bank, and BOK) recorded EII of 0.20 under these mandatory categories.

Voluntary Disclosure Requirements

Disclosure of Policy for Social, Development, and Environmental-Based Quotas

Islamic banks and Windows are expected to involve themselves in societal welfare activities. Although they have a right to earn profit, they are required to prioritise investment projects that are in the best interest of the community, and will help in solving their problems, even if such investments compromise some profits (Mashhour, 1996; Maali et al., 2006). This category of the disclosure policy requires Islamic banks and Windows to voluntarily disclose information on their investments pertaining to assisting the poor and needy, heavily indebted individuals, or families. They are encouraged to provide health and medical services to impoverished communities, and to develop research and education programs on Islamic and native cultures. This category also includes disclosure of any CSR policy associated with negative environmental impact. Moreover, Islamic banks and Windows are invited to disclose profitability, quota/target achievements, and any revisions in quotas/targets for such investments over the year.

Tables 10 and 11 reveal that the Islamic banks ranked seventh and Islamic Windows fourth, with mean EII scores of 0.20 and 0.35, respectively. As shown in Table 10, the EII for Islamic banks under this category ranged from 0.00 to 0.80. Meezan Bank had the highest EII score, at 0.80, followed by BankIslami, with EII of 0.20; AlBaraka Bank and MCB IBL made no disclosure under this category.

BankIslami also indicated in its annual report its special focus on investment banking, agriculture financing, and small and medium banking (BankIslami Annual Report, 2015). Additionally, Meezan Bank communicated initiatives for reducing the impact of its business activities on the environment, thereby indicating a contribution to social development.

The results are surprising in this category, suggesting that Islamic banks are not considering in their business practices the Islamic values of environmental and community welfare. A possible reason for such low disclosure rates may be that these IFIs were involved in these activities but because of the voluntary disclosure nature of this category, they opted not to communicate this in their annual reports. The Islamic banks' overall low disclosure in this category supports contentions of there being little evidence of Islamic banks' investment in social driven projects and environmental-based investments. Kamla (2007) and Kamla and Rammal (2013) have also argued there is a very low level of disclosure pertinent to environmental-based activites, and that this kind of information is usually provided by the industries that are environmentally sensitive.

Table 11 shows that the EII of this category for Islamic Windows ranged from 0.00 to 0.80. Bank Alfalah scored the highest with 0.80, followed by five Islamic Windows (ABL, HBL, Sindh Bank, Summit Bank, and BOP) with 0.6; Askari Bank and FBL achieved the second lowest score of 0.4, and rest of the five Islamic Windows (Silk Bank, Soneri Bank, SCB, BOK, and UBL) scored 0.00. It is noted that except for Bank Alfalah, Islamic Windows who communicated on their social, developmental, and environmental investment policies did not disclose any information on their profits from such investments. Furthermore, none of the Islamic Windows communicated any quotas or targets or reasons for revisions in targets. In disclosing policies, most of the Islamic Windows emphasised investment-class achievements for the year.

Overall, the findings suggest that under this category, Islamic Windows opted to disclose more information than the Islamic banks. A possible reason for this outcome is that Islamic Windows tend to legitimise their operations and social reputation by aligning social and economic development investment to Islamic ethical principles of justice and fairness. They prioritise their economic projects to reduce income disparity between the poor and wealthy.

<u>Disclosure of Policy for par Excellence Customer Service</u>

Sallam and Hanafy (1988) states that The Holy Prophet says that 'God likes that when someone does anything, it must be done perfectly well' (Aribi & Gao, 2010, p. 74). Therefore, to comply with Islamic teachings, Islamic banks and Windows may implement a CSR policy to develop employees' customer service skills. Under this voluntary category of disclosure policy, Islamic banks and Windows may voluntarily disclose their employee codes of conduct for dealing with customers, measures taken to improve those skills, the aggregate result of customer satisfaction surveys, and the areas for improvement.

Table 10 shows Islamic banks' overall EII under this category ranged from 0.00 to 1.00. BankIslami's EII was 1.00, followed by Meezan Bank's 0.67 and the other two Islamic banks' 0.00. One possible explanation for BankIslami's competence in this category is its desire to be a champion in service excellence, as mentioned in its annual report:

"Going forward, the bank has intentions of positioning itself as a leader as far as service quality is concerned" (BankIslami Annual Report 2015, p. 12)

Table 11 shows that the Islamic Windows' overall EII under this category ranged from 0.00 to 0.67. ABL's EII was 0.67, followed by four Islamic Windows (Bank Alfalah, HBL, Silk Bank, and BOK) with 0.33, while the remaining eight Islamic Windows scored 0.00. ABL communicated information on this policy and its measures to develop customer services skill, while with the exception of Silk Bank, the Islamic Windows sharing the second highest score disclosed only their actions to develop customer services skills. Only Silk Bank provided the results of its customer survey.

Overall, Islamic banks ranked fourth and Islamic Windows sixth for mean EIIs, at 0.42 and 0.15, respectively. Although disclosing information under this category is made voluntary by the AAOIF for Islamic banks and Windows, it is a concern for the Islamic Windows because if they want to be competitive, increase their market shares, and strengthen their social positions over Islamic banks, employees must demonstrate excellence in attitude, aptitude, and service deliverables.

<u>Disclosure of Policy for Micro and Small Business and Social Saving and Investments</u>

Islamic banks and Windows are expected to undertake social activities that enhance the well-being of society in addition to their social development and environmental-based investment activities. In this category, they are expected to assist micro and small businesses with social savings and investment, which they do through offering special features and terms. Additionally, these IFIs can encourage communities to save for matters, such as marriage, children's education, and other family activities, by offering distinctive products with high rates of return and discounted investment loans. Some Islamic banks and Windows disclose pertinent information on these strategies for addressing social problems and enhancing economic devolvement.

As shown in Table 10, the overall EII for Islamic banks ranged from 0.00 to 0.60, with BankIslami and Meezan Bank scoring 0.60. These Islamic banks communicated well on this important aspect in their annual reports. Surprisingly, MCB Islamic and AlBaraka Bank made no disclosure under this category, scoring 0.00. Furthermore, none of the Islamic banks communicated on quotas, target achievements for the year, or revisions to their quotas.

The overall EII ranged from 0.00 to 0.60 for Islamic Windows as well. Only Allied Bank and Askari Banks scored 0.60, followed by FBL at 0.40, while the rest of the Islamic Windows made no disclosures and scored 0.00. Allied Bank and Askari Bank offered various products under the Islamic Window umbrella by way of commitment to social welfare, while FBL put in some effort for community welfare by communicating its provision and implementation of a policy, but did not encourage the community by illustrating the attractive features of its products and services.

The Islamic banks ranked fifth and Islamic Windows eighth in mean EII, with 0.30 and 0.12, respectively. These findings revealed a large disparity between the benchmark and communicated information by these IFIs. With most of the Islamic Windows scoring 0.00, this study found a large proportion of disclosures on micro and small businesses and social saving and investments falling under the section of conventional banking, not Islamic banking. The channelling of such saving and investment schema through conventional operations does not follow the Islamic banking basic *Shari'ah* principles, as evidenced by the following:

"Soneri Bank offers a Savings account for its senior account holders so they may retire with smile… We provide free Visa Debit Classis Card and the first Cheque book (25 leaves) to our Soneri Sahara Account holders" (Soneri Bank Annual Report 2015, p. 17).

The inclusion of such statements in annual reports suggests that Islamic Windows are inclined to aim for profitability by promoting more conventional banking activities. As such, these Islamic Windows may need to reassess their communication strategies to enhance the strength of their ethical reputation and Islamic image if they are to remain competitive in the IFI market.

Disclosure of Policy for Qard-e-Hassan

Under the category of voluntary disclosure of Qard-e-Hassan policy, Islamic banks' and Windows' disclosure should include: the source of Qard-e-Hassan funding; the aggregate purpose behind the loan; quotas or targets and achievements for the year; and the reason for changes in the targets. Table 10 shows that AlBaraka Bank, BankIslami, and MCB IBL did not refer to Qard-e-Hassan at all for 2015, resulting in EIIs of 0.00 for all three. Meezan Bank's EII was 0.33. Table 11 shows Islamic Window's

EII ranged from 0.00 to 0.17, and it is worth noting that only BOK made some disclosures pertinent to Qard-e-Hassan. The remaining Islamic Windows made no disclosure under this category, similar to the Islamic banks. The Islamic banks and Windows that made some type of related disclosure should take care to communicate a clearer policy regarding the sources of funds and the conditions for customers unable to repay loans, to show their proper and legitimate management of such accounts. The Islamic banks' and Windows' mean EII scores were 0.08 and 0.01, respectively, and ranked ninth.

Qard-e-Hassan is a type of loan also emphasised by Allah in the Qur'an, "Is there any who should give a gratuitous loan so that Allah may increase many time for him" (Qur'an, 2:245). This is the unique feature of Qard-e-Hassan, making them pure social loans by IFIs to people in need without the claim for extra payments over the repayment of the principal. The IFIs are specially positioned to manage Qard-e-Hassan, as they can channel funds from customers to poorer demographics for fulfilment of their needs (Farook, 2008). Thus, by offering Qard-e-Hassan to enhance societal well-being, Islamic banks and Windows may significantly contribute to their society (Haniffa & Hudaib, 2007).

This study's findings suggest that Islamic banks and Windows include no or only a minor component of Qard-e-Hassan in their business activities, even though Qard-e-Hassan is strongly embraced in Islamic teachings. The results are similar to the literature findings of Haniffa and Hudaib (2007) and Kamla and Rammal (2013), who explored the notion of Qard-e-Hassan as a minor component of Islamic banking activities and suggested that it seems that these IFIs ignored one of the important aspects of social justice by demonstrating a low level of disclosure.

Disclosure of Policy for Charitable Activities

Charity is voluntary in nature, unlike Zakah, and *Shari'ah* permits its use for social benefit. Giving charity is highly encouraged in Islam, as it is claimed that "God encourages a man to spend their wealth on charity" (Haniffa & Hudaib, 2007, p. 107). Moreover, the Qur'an says, "…... gives his dear wealth for love of Allah to kindred and orphans and the needy and the wayfarer and the beggars and for redeeming necks…." (Qur'an, 2:177). Additionally, disclosure of information regarding charity explicitly reveals the broader attitude of the Islamic banks and Windows toward social welfare (Aribi & Arun, 2015). Establishing avenues for charity funds specially positions these IFIs to make use of their capacity for societal welfare. Thus, under this voluntary category, Islamic banks and Windows are expected to disclose information regarding establishment of charity funds and policies along with aggregate classes of charitable activities and the amount distributed to each class, plus quotas or targets, achievements for the year, and reasons for revisions to the quotas or targets.

As shown in Table 10, Islamic banks' overall EII under this category ranged from 0.50 to 0.75. AlBaraka Bank, BankIslami, and Meezan Bank scored 0.75, while MCB IBL scored 0.50. Furthermore, none of the Islamic banks communicated on their quotas or targets for the year, or their reasons for any revisions thereof. MCB IBL also did not disclose its aggregate classes of charitable activities or its amount distributed to each class—possibly because MCB IBL credited no income to its charity account in 2015, and because the charity account already had a zero opening balance, there was no amount to distribute. Otherwise, MCB IBL demonstrated commitment[22] to high standard *Shari'ah* compliant products and services.

Table 11 shows that the EII for Islamic Windows under this category ranged from 0.50 to 0.75. Only four Islamic Windows (Silk Bank, Summit Bank, BOK, and BOP) scored 0.50, with the remaining scoring 0.75. The 0.50 group did not disclose any information on aggregate classes of charitable activities or the amounts distributed to each aggregate class except for overall balances in charity accounts. Islamic Windows should disclose their aggregate classes and amounts distributed to each class if they disclose payments made from their charity account, given the argument that if IFIs are to uphold social justice, then priority should be given to the community's less advantaged people. Further, a lack of disclosure may result in the 'abuse' of such funds (Haniffa & Hudaib, 2007). None of the Islamic Windows communicated their quotas or targets or the reasons for any revisions in targets.

Both Islamic banks and Windows are ranked highest for mean EII under this category, with 0.69 and 0.67, respectively. The highest disclosure under this category in both cases may be characterised by the notion that IFIs are viewed as having a 'social face' as claimed by Mashhour (1996) (Maali et al., 2006, p. 267), which additionally signifies an institution's Islamic character and religious dimension (Choudhury & Harahap, 2008). This study found that these IFIs sourced a substantial proportion of their charity funds from non-*Shari'ah* compliant income—similar to Aribi and Arun (2015) demonstration that a large amount of charitable funds is sourced from non-Islamic income.

Another point to note in the case of Islamic Windows is their use of the word *charity* under the Islamic banking section but the word *donation* under the conventional banking section. Four of the Islamic Windows (Allied Bank, Sindh Bank, Soneri Bank, and UBL) made no disclosure about aggregate classes of charitable activities by ultimate beneficiary or the amount distributed to each aggregate class, but they provided disclosures for the donation section under the umbrella of conventional banking activities. This raises a concern about their promotion of conventional business over Islamic business, which may risk their corporate ethical identity.

Disclosure of Policy for Waqf Management

Waqf refers to the holding of a certain real-estate property, preserving it for the confined benefit of specific social welfare, and not disposing of it or using it for objectives other than specified (Kahf, 2003). Waqf is a kind of charity, is voluntary, and its nature is long-lasting. Thus, the Islamic ethical system considers it perpetual charity (Sadeq, 2002). Property under Waqf can be used for providing

[22] MCB Islamic has its corporate vision "to be the leading provider of high standard *Shari'ah* compliant innovative financial products, quality service and superior value for our customers, shareholders, employees and the community" (MCB Islamic Annual Report 2015, p. 2).

education, health centers, and other cultural facilities, such as mosques, to the less advantaged people of a society, with the aim of social welfare (Sadeq, 2002). As such, under this disclosure category, Islamic banks and Windows may communicate their policies for managing Waqf properties and the financial and other services feeding into their Awqaf.

As shown in Tables 10 and 11, the EII under this category for all Islamic banks and Windows was 0.00. Furthermore, the overall mean was the lowest EII for both kinds of institution, also at 0.00. It is claimed that "IFIs already have the technologies to provide efficient financial intermediation; they can play a major role in securing revenues from Waqf and distributing it to the specified charitable causes, with minimal marginal outlay" (Farook, 2008, p. 50). However, our results suggest that none of the Islamic banks or Windows are interested in communicating such information in their annual reports—or perhaps they are not providing such facilities to the community.

The overall EII for voluntary categories for Islamic banks ranged from 0.08 to 0.56. As per Table 10, Meezan Bank scored the highest, with 0.56, followed by BankIslami, with 0.40; AlBaraka and MCB IBL scored the lowest, with 0.12 and 0.08, respectively. These results show that Islamic banks are equally engaged to disclose their voluntary actions along with the mandatory ones than Islamic Windows are. However, given that most of the mandatory conducts must comply with Islamic teachings if claims of *Shari'ah* compliance is to be legitimised, the banks' gaps in disclosure of their mandatory activities is of concern. Lack of disclosure on such mandatory conducts—which are foundational of any IFI—may give rise to questions about their status as Islamic banks. Table 11 shows that EII for voluntary categories for Islamic Windows ranged from 0.12 to 0.44, with ABL the highest, at 0.44, followed by Askari Bank and Bank Alfalah's 0.32, while four Islamic Windows (Silk Bank, Soneri Bank, SCB, and UBL) scored the lowest, at 0.12. These findings suggesting that Islamic banks are communicating more on the voluntary conducts which may putt Islamic Windows's ethical image in danger.

Table 10 clearly shows that the overall CSR disclosure practices by Islamic banks falls far short of the benchmark disclosure categories. The overall EII for 2015 for each bank ranged from 0.16 to 0.44. As seen in Table 10, Meezan Bank had the highest overall EII, with a 0.44 score, followed by BankIslami, with 0.38. MCB IBL's EII was 0.18 and AlBaraka Bank's was the lowest EII, at 0.16. This means that Meezan Bank disclosed 44% of the check listed items under the 11 categories in the benchmark categories for CSR disclosure, while AlBaraka Bank disclosed only 16% of the same. In other words, the higher the EII score, the more the CSR disclosure in annual reports. Meezan Bank's overall mean EII of 0.44 suggests that although there is lack of disclosure by this bank compared to the benchmark, there is less disparity between the actual disclosure and the benchmark for CSR disclosure practices. AlBaraka Bank' overall 0.16 mean EII suggests a significant shortfall of the set benchmark.

Table 11 compares Islamic Windows' CSR disclosures against the benchmark, showing Islamic Windows' overall EII ranged from 0.18 to 0.34. The top disclosers of the Islamic Windows were ABL, with 0.34, followed by Askari Bank and Bank Alfalah in second position, each with 0.32, and FBL and HBL in third position, with 0.30. The lowest EII of 0.18 was recorded by Silk Bank, Soneri Bank, and BOK. Thus, ABL addressed 34% of the checklist items in the benchmark categories, suggesting less CSR divergence from the set benchmark compared to the Silk Bank, Soneri Bank, and BOK. Those banks communicated only 18% of the checklist, showing larger divergence between actual and ideal CSR disclosure practices.

4.3 Hypothesis 1

A Mann-Whitney nonparametric test was used to test the hypothesis that Islamic Windows were likely to provide more extensive disclosure on CSR practices than were Islamic banks. An analysis of the mean EII score for each grouping variable revealed no significant difference pertinent to disclosure on CSR practices between Islamic banks and Islamic Windows (see Table 12). Thus, the findings did not support H1. However, the extent of CSR disclosure is greater for Islamic banks, with a mean value of 0.29, compared to Islamic Windows, with a mean of 0.25.

[Insert Table 12 here]

This statistically insignificant result might have reflected the highly unusual position held by MCB IBL, which recorded the second-lowest level of disclosure on CSR activities. A possible explanation for this would be that this bank only recently (2015) became an Islamic bank after converting from an Islamic Window of a conventional bank, and it has developed strategic objectives to manage its Islamic banking activities according to the *Shari'ah* principles. To address its strategic objective, MCB IBL has planned its short- and long-term goals, and most of these targets will be achieved by the end of 2016 and 2017, respectively, as evidenced by the following:

"Our objective is to ensure a comprehensive product line for all target market segments including consumer financing and agriculture by 2017. …… quality service delivery is the key success factor in ensuring of our strategy, and the realization of our Mission and Vision statement[23]… at the same time, we are striving hard in bringing external talent to create an excellent portfolio of skilled people…" (MCB Islamic Bank Annual Report 2015, p.10).

Consequently, there is no disclosure by MCB IBL on policies for social development, environmentally-based investment quotas, par excellence customer service, or micro and small business and social saving and investments.

[23] Vision and Mission Statements of MCB IBL "To be the leading provider of high standard *Shari'ah* Compliant Innovative financial products, quality service and superior value for our customers, shareholders, employees and the community. Islamic financial solutions for the global community, admired for their innovative nature and *Shari'ah* compliance." (MCB Islamic Bank Annual Report 2015, p.2)

Table 12 shows the overall mean EII for Islamic banks and Windows for mandatory and voluntary categories. It shows the overall mean EII value for mandatory categories is 0.29 for Islamic banks and 0.27 for Islamic Windows, while the overall mean EII value for voluntary categories is 0.29 for Islamic banks and 0.22 for Islamic Windows. These results revealed that Islamic banks and Islamic Windows are not communicating equal amounts of information on CSR practices under the mandatory and voluntary categories, and suggests that these IFIs are not adhering to *Shari'ah* principles in an equal manner.

Similarly, disclosure on CSR practices under both mandatory and voluntary categories, Islamic Windows are falling behind the Islamic banks. These findings infer that Islamic banks make more effective use of their resources, and that their corporate visions are more aligned to Islamic ethical values compared to Islamic Windows. This suggestion is supported by Islamic Windows being part of conventional banks whose banking structures are not based on *Shari'ah* principles. However, to remain competitive and to reduce reputational risk, Islamic Windows should also engage and disclose information on their voluntary activities, as they owe accountability to society for their business activities, similar to Islamic banks.

Overall, excluding the disclosure of policies for employee welfare, social development, and environmentally-based investment quotas, Islamic banks disclosed more on CSR information (measured by EII) than did Islamic Windows. The significance of disclosure practices by these Islamic Windows lays not only in what they have disclosed, but also in what they avoided disclosing. The implication is that Islamic Windows' CSR disclosure practices are mainly influenced by their conventional parent bank's fundamentals. Providing alternatives to interest products does not mean that they are adhering to *Shari'ah* principles. As suggested by Kamla (2009), conventional banks with Islamic Window operations are treating those Islamic Windows as new business opportunities for earning money.

4.4 CSR Disclosure Practices: Islamic Banks versus Conventional Banks

The disclosure categories for comparing Islamic banks' and conventional banks' CSR practices are based on the CSR standards suggested by AAOIFI. However, these standards only include the categories deemed generally acceptable by the banking industry. Such disclosure categories, plus further checklists, are used as benchmark categories for comparison purpose under this section. Additionally for comparison purposes, this study considered 100% disclosures of the benchmark categories by the Islamic and conventional banks.

Tables 13 and 14 present the results of the overall EII, and the overall ranking of the four Islamic banks and four conventional banks for 2015.

[Insert Table 13 here]

[Insert Table 14 here]

Disclosure of Policy for Employee Welfare

The EII for Islamic banks ranged from 0.33 to 0.67, as shown in Table 13. In Table 14, we see that all conventional banks also communicated some sort of employee-welfare-related information, culminating in a 0.67 EII score. The results suggest that both groups gave some attention to disclosing their employee-related policies and achievements for the year. However, there is missing information on quotas, targets, and reasons for revisions to quotas or targets. Conventional banks were inclined to disclose more under this category, as suggested by their mean EII of 0.67 and number one ranking, whereas Islamic banks' mean EII value of 0.59 ranked them at number two. The findings suggest that employee welfare is the most important disclosure category for conventional banks.

Disclosure of Policy for Social, Development, and Environmental Based Quotas

Islamic banks ranked the lowest in Table 13, with a mean EII of 0.25 suggesting that these banks opted not to disclose much in their annual report under this category compared to their conventional peers. The EII for Islamic banks ranged from 0.00 to 0.80, with Meezan Bank scoring the highest with 0.80, BankIslami the second highest with 0.20; the remaining two banks achieved the lowest score of 0.00. In stark contrast, the EII under this disclosure category ranged from 0.60 to 0.80 for conventional banks. National Australia Bank (NAB) scored the highest, with 0.80, while rest of the three banks scored 0.60. NAB's result reflected its profitability disclosure for the year. The mean EII value of 0.65 suggests that conventional banks communicated well under this category, with the position of number two in the overall category's disclosures.

Disclosure of Policy for par Excellence Customer Service

Under this category, Islamic banks communicated more than conventional banks, securing third and fourth mean EII rankings, at values of 0.42 and 0.25, respectively (see Tables 13 and 14). The EII for conventional banks ranged from 0.00 to 0.67, with Commonwealth Bank of Australia (CBA) scoring 0.67, Australia and New Zealand Banking Group (ANZ) scoring 0.33, and the remaining two scoring 0.00. None of the conventional banks disclosed information related to the policy, and barring the CBA, none communicated on their measures to develop customer-service skills. However, in the case of Islamic banks, the EII ranges from 0.00 to 1.00, with BankIslami the highest at 1.00, followed by Meezan Bank at 0.67, and the remaining two at 0.00.

Disclosure of Policy for Micro and Small Business and Social Saving and Investments

Table 13 reveals that EII ranged from 0.00 to 0.60 for Islamic banks, with the highest scores belonging to Meezan Bank and BankIslami; the remaining two were the lowest of the range, ranking all of them fourth with mean EII of 0.30. The EII for each conventional bank in the category of disclosure of information on the policy and measures taken to implement the policy was 0.40, ranking them third (see

Table 14). Moreover, these findings suggest that conventional banks prioritised disclosure of relevant information under this category in their annual report, unlike with Islamic banks.

Disclosure of Policy for Charitable Activities

Islamic banks placed first for disclosure of information pertaining to charitable activities, with a mean EII of 0.69; conventional banks ranked last, with very low disclosure being made in annual reports resulting in a mean EII of 0.19, as shown in Table 13 and 14. For conventional banks, the EII ranged from 0.00 to 0.75, and only CBA delivered some information in its annual report. In stark contrast, Islamic banks placed vital importance on this category, reflected in EIIs ranging from 0.50 to 0.75. Each Islamic bank communicated something about charitable activities in their annual reports.

The results revealed that both the Islamic banks and conventional banks are not disclosing extensively under the benchmark categories. As shown in Table 13, the overall EII of Islamic banks ranged from 0.15 to 0.70. Meezan Bank communicated the highest amount of CSR information among the four Islamic banks, with EII of 0.70, followed by BankIslami, with 0.60. AlBaraka Bank achieved 0.25, and MCB IBL the lowest, at 0.15. These results indicate that Meezan Bank addressed 70% of the check-listed items in the benchmark categories, suggesting less deviation in communication of CSR information from the set benchmark compared to MCB IBL, which communicated only 15% of the checklist and thus revealed greater disparity between the ideal and communicated CSR practices.

Similarly, as shown in Table 14, conventional banks had large disparity between the set benchmark and actual disclosures of CSR practices. The overall EII for 2015 ranged from 0.35 to 0.60. CBA had the overall highest CSR disclosure, with EII of a 0.60, followed by ANZ and NAB, with 0.40, and Westpac Banking Corporation (Westpac) as the lowest, with 0.35. There was no significant difference in CSR disclosure practices between ANZ, Westpac, and NAB, with CBA's exception suggesting that CBA communicated more information relevant to CSR compared to the rest of three banks.

Moreover, the results suggest that CBA communicated 60% of the check-listed items under the five categories in the benchmark categories for CSR disclosure in its annual report, and Westpac disclosed only 35% of the same. In other words, the overall mean EII of 0.60 for CBA suggests that there is less disparity between the actual disclosure and the benchmark for CSR disclosure practices, while the overall mean EII of 0.35 for Westpac suggests a greater shortfall from the set benchmark. Additionally, Tables 13 and 14 demonstrate the EII ranking under each category for each Islamic bank and conventional bank. As such, it can be noted that there are variations in the EII scores between conventional banks and Islamic banks under each category.

4.5 Hypothesis 2

A Mann-Whitney nonparametric test was used to examine the hypothesis that Islamic banks in an Islamic society were likely to provide more extensive disclosure on CSR practices than were conventional banks in a Western society (H2). An analysis of mean score of EII of each different grouping variables as shown in Table 15 reveals that there was no significant difference pertinent to disclosure on CSR practices between conventional banks and Islamic banks. Thus, overall, H2 was rejected. Moreover, the 0.43 mean of overall EII for Islamic banks and 0.44 for conventional banks also suggests that Islamic banks did not disclose more on CSR disclosure practices than their conventional peers.

[Insert Table 15 here]

A possible explanation for these results is that excepting the disclosure policy on employee welfare, all categories are considered voluntary-disclosure requirements by Islamic banks, and are common and generally applicable to all financial institutions regardless of any religious and ethical values. Thus, Islamic banks may not be emphasising their voluntary-disclosure requirements. Furthermore, the low disclosure pertinent to such voluntary categories by IFIs in Pakistan is supported by the argument of Kuran (2004) that people and government of Pakistan has not gone beyond prohibition of Riba and Zakah in Pakistan which are mandatory requirements in Islamic banks making claims of adherence to *Shari'ah* principles. However, it is postited that Islamic banks should be emphasising the voluntary categories of CSR, as they owe accountability to society as well as to shareholders and regulators, and such voluntary disclosure requirements accord with Islamic ethical principle of justice and fairness (Farook, 2008). Moreover, it is argued that because Islamic banks are operating to earn a profit as eagerly as conventional banks (Kuran, 2004), Islamic ethical values have little influence on their business practices (Kamla & Rammal, 2013).

However, another possible reason for such results by Islamic banks compared to conventional banks could be the globalization and harmonisation of financial systems. This study contends that it is impossible for Islamic banks to be more socially responsible in their business conducts than the conventional banks, as they both are operating in the 'same global capitalistic conditions' (Kuran, 2004). Additionally, it can be suggested that low disclosure by Islamic banks in contrast to our expectations is possibly due to the domination of Western cultural values, as Pakistan is a Muslim country that was under the influence of the British Empire. This possible suggestion for low disclosure is also supported by prior literature such as Maali et al. (2006), Kamla (2007), and Kamla and Rammal (2013), who contended that Western ideologies have a significant influence on social accounting practices, and thus Islamic banks are providing very little social disclosure.

CHAPTER FIVE

CONCLUSION, IMPLICATIONS, CONTRIBUTIONS, LIMITATIONS, AND FUTURE RESEARCH

5.1 Conclusion

This study aimed to empirically investigate the extent to which Islamic Banks and Islamic Windows practice CSR disclosure implied by *Shari'ah* principles from an Islamic perspective. The foundation of Islamic banks and Islamic Windows are based on *Shari'ah* principles suggesting that social issues are of a major concern for these institutions. *Shari'ah* principles are based on Islamic ethical values of accountability, justice and fairness, and vicegerency. From an Islamic perspective, the notion of CSR is grounded in these *Shari'ah* principles, and these three Islamic ethical concepts are fundamental to CSR.

NIT theory suggests that Islamic banks and Islamic Windows have substantial informal institutional pressures in the form of Islamic ethical values, which motivate them to adopt CSR activities. To mitigate institutional pressures and to seek and maintain legitimacy, Islamic banks and Islamic Windows offer to provide truthful information, transparency, and appropriate CSR disclosures. As such, Islamic banks and Islamic Windows have more reasons to justify their existence to society by enhanced communication of their social responsibilities. Moreover, in a Muslim society, where Islamic Windows are operating under the umbrella of conventional banks, and Islamic products and services are offered in parallel to conventional products and services, the Windows have higher social expectations to legitimise their business activities. Thus, this study attempted to assess the degree of disclosure of CSR practices between Islamic banks and Islamic Windows based on set benchmark disclosure categories.

Moreover, it is also claimed that Islam, as a religion, has a significant influence on CSR reporting practices by Islamic banks (Kamla, 2009; Aribi & Gao, 2010), and Islamic banks and Islamic Windows have distinct feature of Islamic ethical responsibilities in their business activities distinguishes them from their conventional peers. Accordingly, this study also compared the extent of CSR disclosure practices in a cross-cultural context between Islamic banks in an Islamic society (Pakistan) and conventional banks in a Western society (Australia) to identify whether Islam has an influence on CSR disclosure practices by Islamic banks.

The study used a benchmark as a set of categories developed by AAOIFI for CSR disclosure standards. Using content analysis, the 2015 annual reports of four Islamic banks and 13 Islamic Windows from Pakistan and four conventional banks from Australia were assessed based on the benchmark categories. The findings were expressed in the form of a disclosure index, EII.

The result of the Mann-Whitney U test calculated on the overall EII value of each entity, suggested no significant differences in CSR disclosure practices between Islamic banks and Islamic Windows. A comparison between the CSR communication practices of Islamic banks and Islamic Windows reveal that both institutions fall short in social and ethical obligations implied by *Shari'ah* principles compared to the benchmark disclosure categories. This was confirmed through the overall EII value for each Islamic bank and Islamic Window. Prior literature on CSR disclosure practices by IFIs also suggests that overall IFIs are not meeting their ethical obligations (Maali et al., 2006; Haniffa & Hudaib, 2007; Kamla & Rammal, 2013; Aribi & Arun, 2015). Islamic banks and Islamic Windows are expected to communicate CSR disclosure categories that reflect justice and fairness and accountability to the society and also to Allah. Thus, Islamic banks and Islamic Windows may not consider institutional pressures in the form of Islamic ethical values, and these IFIs should adopt communication strategies that improve their ethical image and reputation from a religious perspective.

Additionally, contrary to expectations that Islamic Windows are likely to disclose more CSR practices than Islamic banks, the results suggest that Islamic banks communicated more CSR information compared to Islamic Windows and that disclosure on societal and ethical issues are not a major concern for most Islamic Windows. This was confirmed through the scores of the overall mean value of EII where, except for disclosure of two categories (policy for employee welfare and policy for social, development, and environmental based investment quotas), Islamic banks disclosed more CSR information compared to Islamic Windows. The importance of CSR disclosure information by Islamic Windows includes what these Windows choose to disclose and omit from their disclosures. It is argued that most corporations only communicate half-truths to legitimise their business activities in response to societal pressures and expectations (Milne & Adler, 1999; Deegan, 2002; Laufer, 2003). Moreover, prior literature on CSR disclosure explored that most companies did not disclose sensitive issues, which may distort their corporate image, and what they disclose is to manage society perceptions (Laufer, 2003). These concerns resemble the findings in this study where Islamic Windows communicated less information pertinent to activities that may attract criticism, such as prohibited activities, the opinion of the SSB on these activities, their policies for dealing with clients, and disclosure policies on social and small and medium business savings and investments schemes.

These results imply that Islamic Windows are avoiding disclosing such issues, which may affect their corporate ethical identity. However, communicating well on employee welfare and policies for development and environmental based investment quotas, Islamic Windows construct a positive Islamic image to save their organisation from serious economic implications that may eventuate. The findings are surprising because Islamic Windows are expected to disclose more on social welfare compared to Islamic banks to legitimise their operational activities, gain reputation, manage their ethical identity in the society, and negate criticisms of their business activities raised in the literature; see Kamla (2009). Thus, managers of Islamic Windows may need to revise their communicational strategies not only to enhance reputation, and build an ethical image but also from a religious perspective, these institutions are accountable to Allah. Moreover, for adherence to Islamic ethical values, Islamic Windows should communicate all essential information from an Islamic perspective to the local communities in which they operate, and not only those which structure their strong Islamic ethical identity.

The study also aimed to compare the level of CSR disclosures between Islamic banks in Pakistan and conventional banks in Australia. The results of the Mann-Whitney U test (calculated on the overall EII value of each bank) suggested no significant difference in CSR disclosure practices between Islamic banks and conventional banks. Moreover, the value of overall EII for each Islamic bank and conventional bank postulates that both types of banks are disclosing less CSR activities compared to benchmark disclosure categories. One possible reason for a comparative low disclosure may be the voluntary nature of CSR disclosure categories. Surprisingly, the overall mean value of EII also suggests that Islamic banks are not disclosing more CSR information than the conventional banks. Consequently, the study implies that Islam has no significant impact on CSR disclosure practices of Islamic banks in Pakistan.

Maali et al. (2006) argue that IFIs are disclosing very little information pertinent to social disclosures because IFIs operating in developing countries are overriding their social responsibilities with financial concerns; thus, reflecting the hegemonic practices of the West. Additionally, as discussed in prior literature (Maali et al., 2006; Kamla, 2009; Kamla & Rammal, 2013), the influence of Western cultural values on Islamic societies, globalisation of the financial system, and capitalism are crucial factors that may hinder Islamic banks' and Windows' efforts to streamline business activities according to Islamic ideology. Moreover, it is argued that a low disclosure on social concerns may be due to the IFIs operating in less developed countries, such as Pakistan, where societal welfare issues, specifically environment related, may be given less importance (Belal, 2000). The findings of this study also suggest these concerns still apply to IFIs operating in developing countries, such as Pakistan, where the claim to compliance with *Shari'ah* principles is made but not evidenced by substantial CSR disclosures required by standard CSR disclosure categories.

Thus, the study indicates that Islamic banks failed to satisfy social justice requirements or fulfil their claim to Islamic ideology. No doubt, domination of the Western ideologies and globalisation of financial systems are factors that hinder the actualisation of their rhetoric claims. However, they require a deeper integration with the real economy regarding social disclosures and, in this globalised era, there are challenges to reconceptualise their social role and compliance with *Shari'ah* principles and related disclosures. Arguably, the lack of disclosure on CSR practices by IFIs does not necessarily mean that they are not engaged in the activities that involve social justice. However, it may be an indication of lack of perceived need of true disclosure, transparency and accountability to the society in which they operate (International Institute of Islamic Thoughts, 1996; Kamla, 2009; Kamla & Rammal, 2013).

5.2 Implications

The findings of this study have significant implications for the Islamic financial industry and as well as those countries where Islamic products and services are in great demand, such as Indonesia, Malaysia, and the Gulf region. From the analysis of this study, it is postulated that although Islamic Windows have illuminated their faith to Islamic ethical values to some extent, they require a deeper integration with their ideological claims as compared to Islamic banks. Thus, managers of Islamic Windows need to communicate information relevant to CSR practices effectively and efficiently and should avoid any ambiguity in disclosure practices as they are involved in Islamic and conventional banking simultaneously and have significant corporate, ethical, reputational, and religious implications.

5.3 Contribution of the Study

5.3.1 Potential Theoretical Contribution of the Study

Unlike previous studies, which limit their samples to Islamic Banks (for example, Maali et al., 2006; Haniffa & Hudaib 2007; Hassan & Harahap 2010; Kamla & Rammal 2013; Aribi & Arun 2015; Belal et al., 2015), detailed insights into Islamic banking sector CSR disclosure practices provided by this study include Islamic Windows of conventional banks. Additionally, comparing the CSR disclosures practices of conventional and Islamic banks contributes to the literature and enhances scholarly understanding of how Islam influences CSR disclosure. By deploying NIT, this study offers a theoretical framework for exploring the CSR practices of Islamic banks and Islamic Windows in general, and provides evidence on the nature and motivations of IFIs for CSR disclosure practices in Pakistan, adding further validity to the findings.

5.3.2 Practical Contribution of the Study

The results from this study may assist researchers and practitioners in understanding the phenomena of CSR disclosure practices of Islamic banks and Islamic Windows in a distinctive cross-cultural context where Islam is the dominant religion. The results also provide interesting insights regarding the Western influence on Islamic society. The resulting findings and discussion may constitute a valuable contribution in guiding Islamic institutions, regulatory bodies, and authorities when making decisions about CSR disclosure standards or when considering a proactive approach to CSR reporting.

5.4 Limitations and Future Research

This study used the annual reports of Islamic banks, Islamic Windows, and conventional banks to measure CSR disclosure practices by these institutions. This, however, is a limitation of this study, as managers can use other sources of communication to disclose CSR information to address specific audiences. Hence, future research might be conducted by including other media, such as websites, brochures, and in-house magazines, etc. Second, the study sample is restricted to Islamic banks and Islamic Windows in Pakistan. Future research can be extended to Islamic banks and Islamic Windows in other Muslim dominant countries. In addition, more research is needed to confirm these initial exploratory results. Further study may consider other qualitative research methodologies, for instance, interviews, which would shed more light on the significance of CSR disclosure where Islam is a dominating context in the region.

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APPENDIX

Table 1 CSR Definitions: Western Perspective		
Date	**CSR Definitions**	**Sources**
Proliferation of CSR: era 1950s to 1980s	'The obligations of the businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society'.	(Bowen, 1953, as cited in Carroll, 1999, p. 270).
	'A recognition on the part of the management of an obligation to the society it serves not only for maximum economic performance but for humane and the constructive social policies as well'.	(Heald, 1957, p. 375)
	'Businessmen's decision and actions taken for reasons at least partially beyond the firm's direct economic or technical interest'.	(Davis, 1960, p. 70)
	'[Social responsibilities] mean that businessmen should oversee the operation of an economic system that fulfills the expectations of the public. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare'.	(Frederick, 1960, p. 60)
	'The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations'.	(McGuire, 1963, as cited in Carrol, 1999, p. 271)
	'There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud'.	(Friedman, 1970, p. 6)
	'The firm's consideration of, and response, to issues beyond the narrow economic, technical, and legal requirements of the firm'.	(Davis, 1973, p. 312)
	'The Social Responsibility of business encompasses to economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time'.	(Carroll, 1979, p. 500)
	'Corporate Social Responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract'.	(Jones, 1980, p. 59)

	'Social Responsibility of business is to tame the dragon, that is to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth'.	(Drucker, 1984, p. 62)
Global Expansion of CSR concepts: 1990s to the 21st Century	'Corporate Social Responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and outcomes'.	(Wood, 1991, p. 695)
	'Actions that appear to further some social good, beyond the interests of the firm and that which is required by law'.	(McWilliams & Siegel, 2001, p. 117)
	'Corporate social responsibility is the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving the welfare of society at large independently of direct gains of the company'.	(Kok et al., 2001, p. 287)
	'CSR refers to company activities-voluntary by definition-demonstrating the inclusion of social and environmental concerns in business operations and in interaction with stakeholders'.	(Marrewijk, 2003, p. 102)
	'The continuing Commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large'.	(World Business Council for Sustainable Development, 2008)

Table 2 Sample List of Islamic Banks and Islamic Windows	
Islamic Banks	Al Baraka Bank (Pakistan) Limited
	BankIslami Pakistan Limited
	Meezan Bank Limited
	MCB Islamic Bank Limited
Islamic Windows	Allied Bank Limited
	Askari Bank Limited
	Bank Alfalah Limited
	Faysal Bank Limited

	Habib Bank Limited
	Silk Bank Limited
	Sindh Bank
	Soneri Bank Limited
	Standard Chartered Bank (Pakistan) Limited
	Summit Bank Limited
	The Bank of Khyber
	The Bank of Punjab
	United Bank Limited

Table 3 Sample List of Conventional Banks	
Conventional Banks	Commonwealth Bank of Australia
	Westpac Banking Corporation
	National Australia Bank
	Australia and New Zealand Banking Group

Table 4 Categories of CSR Disclosure Based on CSR Standards by AAOIFI for Islamic Banks and Islamic Windows	
Categories	**Description**
Mandatory Disclosure	
1) **Disclosure policy for screening clients**	a) The specific provision of the screening policy including the benchmarks and/or criterion utilised to measure compliance with Islamic law b) The approval of the *Shari'ah* Supervisory Board (SSB) of the screening criteria
2) **Disclosure of policy for dealing with clients**	a) The defined procedure of the IFI on avoiding the imposition of the onerous terms of clients who are in a weaker bargaining position relative to IFI b) The provision is ensuring that marketing campaigns and documents are ethically balanced c) The obligation and right of both parties d) The due process and responsible terms and conditions under which credit is extended to clients, including the process by which the client's ability to repay and the effect on the client's financial and overall well-being is assessed e) The remedies available in the event that one or both parties violate their contractual terms f) The Shari'ah Supervisory Board's (SSB) opinion on the permissibility of charging late-payment charges g) Late-payment charges levied on clients h) How the IFI allocated the late-payment charges on its accounts (allocation to revenue or charity) i) The condition under which IFIs will defer collection of debt from insolvent clients
3) **Disclosure of earnings and expenditure prohibited by *Shari'ah***	a) Aggregate description, amount, accounts, account classification (revenue, expense, liability, or asset) and reasons for undertaking these types of transactions b) The SSB's verdict on the necessity of these transactions c) How the IFI intends to dispose of such amounts d) The IFI's strategy to find viable permissible or halal alternatives, if any, for similar impermissible transactions in the future
4) **Disclosure of policy for employee welfare**	a) Provision of the policy including targeted disadvantaged groups b) Quotas/targets and achievements for the year c) Reasons for upward and downward revision in quotas/target
5) **Disclosure of policy for *Zakah***	Disclosure requirements as mentioned under Financial Accounting Standard No. (9) *Zakah*: a) Statements of the method used for determining the *Zakah* base and the items included in this base b) Statements of the ruling of the SSB of the Islamic bank on the issues related to *Zakah* c) Statements of whether or not the Islamic bank as a holding company pays its share of *Zakah* obligations in its subsidiaries

	d) The amount of *Zakah* that is due from each share e) The amount of *Zakah* that is due from the equity of investment account holders. f) Statements of whether or not the Islamic bank collects and pays *Zakah* on behalf of holders of investment accounts and other accounts g) Statements of restrictions imposed by the SSB of the Islamic bank in determining the *Zakah* base
Voluntary Disclosure	
6) **Disclosure of policy for social, development and environment based investment quotas**	a) The provision of the policy b) Classes of investment by ultimate purpose/beneficiary of investments (e.g. orphans, SME development, Islamic culture, reduction in tree logging, reduction in environmental greenhouse gasses, increase in recycling, science, and technology) c) The profitability of such investments for the year d) Reasons for upward and downward revisions in quotas/target
7) **Disclosure of policy for par excellence customer service**	a) Provision of the policy b) Measure taken by management to develop customer service skills c) Aggregate results of customer surveys demonstrate overall quality of customer service and areas of improvement
8) **Disclosure of policy for micro and small business and social saving and investments**	a) Provision of the policy b) Features of the offer c) Measures taken by management to implement the provisions of the policy d) Quotas/targets and achievements for the year e) Reasons for upwards and downwards revisions in quotas/target
9) **Disclosure of policy for *Qard-e-Hassan***	a) Whether there is a formal scheme operated by the bank for depositors, shareholders and other parties to place their funds for the use of *Qard-e-Hassan* borrowers b) Provisions of the policy/scheme including conditions for those unable to repay the loans c) Sources of funding for *Qard-e-Hassan* loans d) Aggregate purpose for which the *Qard-e-Hassan* loans have been made e) Quotas/targets to increase internal and external *Qard-e-Hassan* funding and achievements for the year in this regard f) Reason for upward and downward revisions in quotas/targets
10) **Disclosure of policy for charitable activities**	a) Provisions of the policy b) Aggregate classes of charitable activities by ultimate beneficiary and amounts distributed to each aggregate class c) Quotas/targets and achievements for the year d) Reasons for upward and downward revisions in quotas/target
11) Disclosure of policy for *Waqf* [24] management	a) Types of *Waqf* management by the IFI b) Financial and other services offered to the *Waqif* [25] by the IFI

[24] *Waqf* means endowments made by Muslims to IFI for religious, educational, or charitable purposes.
[25] *Awqaf* is the plural form of Waqf.

Table 5 Categories of CSR Disclosure Based on CSR Standards by AAOIFI for Islamic Banks and Conventional Banks	
Categories	**Description**
1) Disclosure of policy for employee welfare	a) Provision of the policy including targeted disadvantaged groups b) Quotas/targets and achievements for the year c) Reasons for upward and downward revision in quotas/target
2) Disclosure of policy for social, development and environment based investment quotas	a) The provision of the policy b) Classes of investment by ultimate purpose/beneficiary of investments (e.g. orphans, SME development, Islamic culture, reduction in tree logging, reduction in environmental greenhouse gasses, increase in recycling, science, and technology) c) The profitability of such investments for the year d) Reasons for upward and downward revisions in quotas/target
3) Disclosure of policy for par excellence customer service	a) Provision of the policy b) Measure taken by management to develop customer service skills c) Aggregate results of customer surveys demonstrate overall quality of customer service and areas of improvement
4) Disclosure of policy for micro and small business and social saving and investments	a) Provision of the policy b) Features of the offer c) Measures taken by management to implement the provisions of the policy d) Quotas/targets and achievements for the year e) Reasons for upwards and downwards revisions in quotas/target
5) Disclosure of policy for charitable activities	a) Provisions of the policy b) Aggregate classes of charitable activities by ultimate beneficiary and amounts distributed to each aggregate class c) Quotas/targets and achievements for the year d) Reasons for upward and downward revisions in quotas/target

Table 6 Results of Inter-Coder Reliability: Round 1 for Islamic Banks and Islamic Windows		
Categories	**Round 1**	
	Krippendorff's alpha	
	Askari Bank	**MCB IBL**
1) Disclosure policy for screening clients	No Variation	No Variation
2) Disclosure of policy for dealing with clients	No Variation	0.43
3) Disclosure of earnings and expenditure prohibited by *Shari'ah*	No Variation	0.68
4) Disclosure of policy for employee welfare	0.6	0.11
5) Disclosure of policy for *Zakah*	No Variation	0.75
6) Disclosure of policy for social, development and environment based investment quotas	0.75	0.00
7) Disclosure of policy for par excellence customer service	No Variation	No Variation
8) Disclosure of policy for micro and small business and social saving and investments	0.75	-0.076
9) Disclosure of policy for *Qard-e-Hassan*	No Variation	No Variation
10) Disclosure of policy for charitable activities	No Variation	0.31
11) Disclosure of policy for *Waqf* management	No Variation	No Variation

Table 7 Results of Inter-Coder Reliability: Round 1 Conventional Banks	
Categories	**Round 1**
	Krippendorff's alpha
	CB
1) Disclosure of policy for employee welfare	No Variation
2) Disclosure of policy for social, development and environment based investment quotas	No Variation
3) Disclosure of policy for par excellence customer service	0.2
4) Disclosure of policy for micro and small business and social saving and investments	-0.27
5) Disclosure of policy for charitable activities	0.45

Table 8 Results of Inter-Coder Reliability: Round 2 Islamic Banks and Islamic Windows		
Categories	**Round 2**	
	Krippendorff's alpha	
	Askari Bank	**MCB IBL**
1) Disclosure policy for screening clients	No Variation	No Variation
2) Disclosure of policy for dealing with clients	No Variation	No Variation
3) Disclosure of earnings and expenditure prohibited by *Shari'ah*	No Variation	0.686
4) Disclosure of policy for employee welfare	No Variation	No Variation
5) Disclosure of policy for *Zakah*	No Variation	0.75
6) Disclosure of policy for social, development and environment based investment quotas	0.75	No Variation
7) Disclosure of policy for par excellence customer service	No Variation	No Variation
8) Disclosure of policy for micro and small business and social saving and investments	0.75	No Variation
9) Disclosure of policy for *Qard-e-Hassan*	No Variation	No Variation
10) Disclosure of policy for charitable activities	No Variation	0.68
11) Disclosure of policy for *Waqf* management	No Variation	No Variation

Table 9 Results of Inter-Coder Reliability: Round 2 Conventional Banks	
Categories	Round 2
	Krippendorff's alpha
	CB
1) Disclosure of policy for employee welfare	No Variation
2) Disclosure of policy for social, development and environment based investment quotas	No Variation
3) Disclosure of policy for par excellence customer service	No Variation
4) Disclosure of policy for micro and small business and social saving and investments	0.75
5) Disclosure of policy for charitable activities	No Variation

Table 10 Annual EII Ranking Under Each Category Across Islamic Banks						
	AlBaraka Bank	**BankIslami**	**Meezan Bank**	**MCB IBL**	**Mean EII for each Category 2015**	**Overall Category Rank 2015**
	EII (Rank)	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**		
Categories	**2015**	**2015**	**2015**	**2015**		
Mandatory Disclosure Requirements						
Disclosure policy for screening clients	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	**0.00**	***10***
Disclosure of policy for dealing with clients	0.00 (2)	0.22 (1)	0.22 (1)	0.22 (1)	**0.17**	***8***
Disclosure of earnings and expenditure prohibited by *Shari'ah*	0.25 (3)	0.75 (1)	0.5 (2)	0.5 (2)	**0.50**	***3***
Disclosure of policy for employee welfare	0.67 (1)	0.67 (1)	0.67 (1)	0.33 (2)	**0.59**	***2***
Disclosure of policy for *Zakah*	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	**0.29**	***6***
EII of mandatory categories	0.20 (4)	0.36 (1)	0.32 (2)	0.28 (3)		
Voluntary Disclosure Requirements						
Disclosure of policy for social, development and environment based investment quotas	0.00 (3)	0.20 (2)	0.8 (1)	0.00 (3)	**0.25**	***7***
Disclosure of policy for par excellence customer service	0.00 (3)	1.00 (1)	0.67 (2)	0.00 (3)	**0.42**	***4***
Disclosure of policy for micro and small business and social saving and investments	0.00 (2)	0.60 (1)	0.60 (1)	0.00 (2)	**0.30**	***5***
Disclosure of policy for *Qard-e-Hassan*	0.00 (2)	0.00 (2)	0.33 (1)	0.00 (2)	**0.08**	***9***
Disclosure of policy for charitable activities	0.75 (1)	0.75 (1)	0.75 (1)	0.50 (2)	**0.69**	***1***
Disclosure of policy for *Waqf* management	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	**0.00**	***10***
Overall EII of Voluntary Categories	0.12 (3)	0.40 (2)	0.56 (1)	0.08 (4)		
Overall EII	**0.16**	**0.38**	**0.44**	**0.18**		
Overall Rank	***4***	***2***	***1***	***3***		

Table 11 Annual EII Ranking Under Each Category Across Islamic Windows															
	ABL	**Askari Bank**	**Bank Alfalah**	**FBL**	**HBL**	**Silk Bank**	**Sindh Bank**	**Soneri Bank Limited**	**SCB**	**Summit Bank Limited**	**BOK**	**BOP**	**UBL**	**Mean EII for each Category**	**Overall Category Rank**
	EII (Rank)	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**		
Categories	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**
Mandatory Disclosure Requirements															
Disclosure policy for screening clients	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	**0.00**	***10***
Disclosure of policy for dealing with clients	0.00 (3)	0.22 (1)	0.22 (1)	0.22 (1)	0.22 (1)	0.00 (3)	0.00 (3)	0.00 (3)	0.22 (1)	0.00 (3)	0.11 (2)	0.22 (1)	0.22 (1)	**0.13**	***7***
Disclosure of earnings and expenditure prohibited by *Shari'ah*	0.5 (1)	0.5 (1)	0.5 (1)	0.5 (1)	0.5 (1)	0.5 (1)	0.25 (2)	0.5 (1)	0.5 (1)	0.25 (2)	0.25 (2)	0.25 (1)	0.25 (2)	**0.40**	***3***
Disclosure of policy for employee welfare	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.33	0.67	0.67	**0.64**	***2***
Disclosure of policy for *Zakah*	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	0.29 (1)	**0.29**	***5***
Overall EII of mandatory categories	0.24 (3)	0.32 (1)	0.32 (1)	0.32 (1)	0.32 (1)	0.24 (3)	0.20 (4)	0.24 (3)	0.32 (1)	0.20 (4)	0.20 (4)	0.28 (2)	0.28 (2)		
Voluntary Disclosure Requirements															
Disclosure of policy for social, development and environment based investment quotas	0.6 (2)	0.4 (3)	0.80 (1)	0.4 (3)	0.6 (2)	0.00 (4)	0.6 (2)	0.00 (4)	0.00 (4)	0.6 (2)	0.00 (4)	0.6 (2)	0.00 (4)	**0.35**	***4***
Disclosure of policy for par excellence customer service	0.67 (1)	0.00 (3)	0.33 (2)	0.00 (3)	0.33 (2)	0.33 (2)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	0.33 (2)	0.00 (3)	0.00 (3)	**0.15**	***6***
Disclosure of policy for micro and small business and social saving and investments	0.60 (1)	0.60 (1)	0.00 (3)	0.40 (2)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	0.00 (3)	**0.12**	***8***
Disclosure of policy for *Qard-e-Hassan*	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.00 (2)	0.17 (1)	0.00 (2)	0.00 (2)	**0.01**	***9***
Disclosure of policy for charitable activities	0.75 (1)	0.75 (1)	0.75 (1)	0.75 (1)	0.75 (1)	0.50 (2)	0.75 (1)	0.75 (1)	0.75 (1)	0.50 (2)	0.50 (2)	0.50 (2)	0.75 (1)	**0.67**	***1***
Disclosure of policy for *Waqf* management	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	0.00 (1)	**0.00**	***10***
Overall EII of Voluntary Categories	0.44 (1)	0.32 (2)	0.32 (2)	0.28 (3)	0.28 (3)	0.12 (7)	0.24 (4)	0.12 (7)	0.12 (7)	0.20 (5)	0.16 (6)	0.20 (5)	0.12 (7)		
Overall EII	**0.34**	**0.32**	**0.32**	**0.30**	**0.30**	**0.18**	**0.22**	**0.18**	**0.22**	**0.20**	**0.18**	**0.24**	**0.20**		
Overall Rank	***1***	***2***	***2***	***3***	***3***	***6***	***5***	***6***	***5***	***6***	***7***	***4***	***6***		

Table 12 Mean EII Score for Islamic Banks and Islamic Windows & Mann-Whitney U Test		
	Islamic Banks	**Islamic Windows**
Mandatory Categories	0.29	0.27
Voluntary Categories	0.29	0.22
All Categories	0.29	0.25
Disclosure policy for screening Clients	0.00	0.00
Disclosure of policy for dealing with clients	0.17	0.13
Disclosure of earnings and expenditure prohibited by *Shari'ah*	0.50	0.40
Disclosure of policy for employee welfare	0.59	0.64
Disclosure of policy for *Zakah*	0.29	0.29
Disclosure of policy for social, development and environment based investment quotas	0.25	0.35
Disclosure of policy for par excellence customer service	0.42	0.15
Disclosure of policy for micro and small business and social saving and investments	0.30	0.12
Disclosure of policy for *Qard-e-Hassan*	0.08	0.01
Disclosure of policy for charitable activities	0.69	0.67
Disclosure of policy for *Waqf* management	0.00	0.00
Mann-Whitney U Test	0.864	

Table 13 Annual EII Ranking Under Each Category Across Islamic Banks						
	AlBaraka Bank (Pakistan) Limited	**BankIslami Pakistan Limited**	**Meezan Bank Limited**	**MCB Islamic Bank Limited**	**Mean EII for each Category**	**Overall Category Rank**
	EII (Rank)	**EII (Rank)**	**EII (Rank)**	**EII (Rank)**		
Categories	**2015**	**2015**	**2015**	**2015**	**2015**	**2015**
1) Disclosure of policy for employee welfare	0.67 (1)	0.67 (1)	0.67 (1)	0.33 (2)	**0.59**	***2***
2) Disclosure of policy for social, development and environment based investment quotas	0.00 (2)	0.20 (1)	0.80 (1)	0.00 (2)	**0.25**	***5***
3) Disclosure of policy for par excellence customer service	0.00 (3)	1.00 (1)	0.67 (2)	0.00 (3)	**0.42**	***3***
4) Disclosure of policy for micro and small business and social saving and investments	0.00 (2)	0.60 (1)	0.60 (1)	0.00 (2)	**0.30**	***4***
5) Disclosure of policy for charitable activities	0.75 (1)	0.75 (1)	0.75 (1)	0.50 (2)	**0.69**	***1***
Overall EII	***0.25***	***0.60***	***0.70***	***0.15***		
Overall Rank	***3***	***2***	***1***	***4***		

Table 14 Annual EII Ranking Under Each Category Across Conventional Banks						
	CBA	ANZ	WestPac	NAB		
	EII (Rank)	EII (Rank)	EII (Rank)	EII (Rank)	Mean EII for each Category	Overall Category Rank
Categories	2015	2015	2015	2015	2015	2015
1) Disclosure of policy for employee welfare	0.67 (1)	0.67 (1)	0.67 (1)	0.67 (1)	**0.67**	***1***
2) Disclosure of policy for social, development and environment based investment quotas	0.60 (2)	0.60 (2)	0.60 (2)	0.80 (1)	**0.65**	***2***
3) Disclosure of policy for par excellence customer service	0.67 (1)	0.33 (2)	0.00 (3)	0.00 (3)	**0.25**	***4***
4) Disclosure of policy for micro and small business and social saving and investments	0.40 (1)	0.40 (1)	0.40 (1)	0.40 (1)	**0.40**	***3***
5) Disclosure of policy for charitable activities	0.75 (1)	0.00 (2)	0.00 (2)	0.00 (2)	**0.19**	***5***
Overall EII	***0.60***	***0.40***	***0.35***	***0.40***		
Overall Rank	***1***	***2***	***3***	***2***		

Table 15 Mean EII Scores for Islamic Banks & Conventional Banks and Mann-Whitney U Test		
	Islamic Banks	Conventional Banks
All Categories	**0.43**	**0.44**
Disclosure of policy for employee welfare	**0.59**	**0.67**
Disclosure of policy for social, development, and environment based investment quotas	**0.25**	**0.65**
Disclosure of policy for par excellence customer service	**0.42**	**0.25**
Disclosure of policy for micro and small business and social saving and investments	**0.30**	**0.40**
Disclosure of policy for charitable activities	**0.69**	**0.19**
Mann-Whitney U Test	**0.884**	