

A CRITICAL ANALYSIS OF SOCIAL REPORTING BY ISLAMIC BANKS

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ABSTRACT

Islamic banking industry is growing at a high speed level. According to State Bank of Pakistan, it has received double digit growth of 35% in preceding year 2017 when conventional banking industry recorded negative growth of 21% in same year. This growth depicts expectation of consumers and society towards shariah laws from Islamic banks. It puts pressure on Islamic banks to provide fully transparent and improved disclosure in their Annual reports or on websites.

This study investigates the disclosure of all 21 Islamic Banks which are operating in Pakistan (4 full fledged and 17 stand-alone Islamic) we have compared their disclosures with actual benchmark Islamic identity index which was developed by Hanifa & Hudaib (2007) termed as the Ethical Identity Index (EII). Moreover study also make the usage of immanent critique to explore the declarations which are claimed by Islamic banks pertaining to their adherence to social justice and Shariah, welfare, equality and to counter or check these declarations or claims with the quantum or degree and quality of disclosures related to specific & detail social actions.

Over 5-Year period (2013-2017) longitudinal survey, we have used mixed methodology. We have utilized secondary data to measure the degree of Ethical Corporate Social Reporting Disclosure and immanent critique which Islamic banks claim in their annual reports and on web sites. Content analysis technique is applied over secondary data of entire population of Islamic banks that are functioning in Pakistan. for analysis of primary data, we have used qualitative approach in which semi structured interviews were conducted to procure data. Thematic Analysis technique is applied over semi-structured interviews. Interviews were taken from Executive level employees of Islamic banks who have vast knowledge and experience about financial matters and reporting of their Islamic banks and consumers of Islamic banks. This study concluded that disclosure of Islamic banks operating in Pakistan are average and also do not portray the complete details regarding welfare of society, poverty elimination, human equality , social justice in society and contribution towards betterment of community and environment. Thematic analysis also reveals that Islamic banking is only camouflage activity, it

is used to create brand image. Islamic social reporting is only voluntary activity, banks are not bound to disclose all the things. Whereas consumer makes investment just to get peace of mind and they believe that their investment is interest free.

Keeping in view the above mentioned facts, there are contradiction and deviations in Ethical Corporate Social reporting results which create ambiguities and difficulties for stakeholders to understand, rely and accept the Ethical social information reported and disclosed by the Islamic banks and it is also difficult to compare ethical, social performance of Islamic banks, which proposes a need for unanimous and standardized layout in corporate social reporting. Moreover, there is need to find out why Islamic banking activities are regarded as camouflage activities.

1. Introduction:

1.1 Background of Problem:

Nobody can negate the prominence of socially responsible reporting on economic and financial Scene of this global world. It infers the dimension, estimation and reporting, of external or internal information regarding the impact of a business enterprise and its activities effect on society. In 1973, True blood Committee Report (AICPA) that “an objective of financial statements is to report on those activities of the enterprise that affect society”. Corporations required to reveal information that affecting the public opinion (Hackston and Milne, 1996) as a means to protect the corporation from legitimacy and also used as a source to establish relationship with them. These CSR theories diagnose the ethical responsibilities and commitments of businesses and encompass the business ethics matter. These theories prophesy, business ethics and moral commitments by amplifying normative justification for decisions of the business and approaches to achieve such verdicts (Dunfee and Donaldson, 1994). Those corporations that are thought to be ethical and moral in their business rehearse are relied upon to reveal the information of CSR in their yearly reports or websites or separate published reports. Those organizations that have more specifically established on religion ideology, people have most explicit expectation to fulfil ethical and moral behavioural obligations. In 1994 Frederick claimed that religious believes, values and attitudes are one of the most essential dynamics that give intensification to the corporate social responsibility obligation. Raimi, Yekini, Patel and Aljadani (2013) coped that religions like Christianity, Judaism and Islam have association with CSR and reporting. By the virtue of supremacy of western cultural values, Islamic societies have become brutally affected. This type of dominance makes hindrance for those business organizations which are operating under the flag of Islamic values and in Islamic nations (where full system of Islam is adopted) like Sudan Iran & Saudi Arabia to apply the accounting and reporting recommendations of the normative studies stated by the Islam. Indeed, even liable to proceed, Western social & financial reporting charters may not be appropriate or compatible for Islamic entities. In the emergence of new type of organizations (Islamic banks) have been presented the remedial of this problem, that main objective to follow Islamic principles and serve the societies morally and ethically in the way which defined by the Islam.

As per SBP' 2008-2017, Islamic banking is characterized as a banking setup which is a harmony with soul, philosophy & esteems system and mechanism of Islam and governed by the rules set by Islamic Sharia. Interest free banking is a limited notion indicating a number of banking account instruments or procedures that evade interest. Islamic banking is designed not only to circumvent interest-based deals or transactions banned in Islamic Sharia but also to circumvent unethical and un-social practices. In actual practice, Islamic banking is the transformation of orthodox and ordinary cash credit or loaning into contracts based on tangible assets and actual facilities & services.

As per Islamic Sharia, Islamic bank cannot execute any activity or transactions which connecting Riba element (upturn postulated or sought over the principal amount of a lending, loan or debt). Additionally, they cannot perform and offer any deal or activities having the component of Maiser or Gharar (deception). Besides, they cannot execute any offer and activity that subject matter is consider invalid (haraam in the jurisdiction of Islam). Islamic banks always emphasis on earning returns via investment mechanism that comply with Islamic Sharia. As per Islamic Sharia, gain on capital associates with its performance. In the operational domain of Islamic Sharia, Profit and loss of Islamic banking are built on risk sharing which may arise by investment and trading transactions or activities by using various Islamic mode of finance contracts (State Bank of Pakistan, 2008).

Islam covers all areas and aspects of human life moral values, social political including economics. After the mid-1940s, by the virtue of historical expansions and advancement in the banking industry the conceptual model of Islamic banking ignited momentum after the mid-1940s. (Saeed Syed, Akbar Zulfiqar Shah Shahin Kalmadi, 2012)

Prior to the inception of Islamic banking experience in Pakistan, in the mid-1940s, the major attempt to inaugurate an interest-free bank came in Malaysia, to invest forthcoming pilgrim saving reserves in real estate, farms and plantations in accordance with Sharia law but was futile (S.R. Khan, 1983, p. 205).On experimental grounds, in the late 1950s, the first indigenious Islamic bank was established and started operations with zero rate interest on its lending in the rural areas of Pakistan(Wilson, 1983, p.75).

In 1970, Pakistan introduced interest (Riba) free banking system, with most of the authentic proceedings taken in 1980. By the end of March 2017, It is appraised that Deposits and Assets of Industry of Islamic Banks (IBI) were chronicled at Rs1,564 (B) and Rs1,885 (B) respectively. At the end of the 1st quarter 2017, Islamic Banking Industry, Profit after tax (PAT) was chronicled at Rs3.8 (B). Other Indicators of profitability like return on assets (ROA) and return on equity (ROE) depicted 0.8 % and 12.2 % respectively.

As per SBP Report June 2017, Islamic Banking network comprised of 21 Islamic Banking Institutions in Pakistan out which 5 pure full-fledged Islamic banks (IBs) and 16 conventional banks having Islamic banking windows or standalone Islamic banking branches (IBBs). Islamic Banking Branch networking were reported about 2,317 branches (spread across 116 districts of Pakistan) at the completion of 1st quarter, 2017. While Area wise segregation of Islamic branches depictions that Punjab & Sindh having collectively 77.2% Islamic banking share from whole IBI's branch network. At the end of March 2017, Islamic banking branches which run by Conventional banks existed 1,239 in Pakistan (SBP Bulletin March, 2017).

1.2 Problem Statement:

In non-financial sector, corporate social reporting is generally used. Nevertheless, In comparison to most of other industries, banking industry seems to lag behind, When it comes to invasion of responsibility, perhaps, (Belu, 2009; Kolk, 2010) the banking sector is not consider to be the most advanced industry at that time. Exclusively since the financial crisis, Banks and financial institutions are being confined responsible for the impact of their lending and investments in society (Coulson, 2009). Banks and financial institutions play a vital role in improvement of financial and economic conditions of developing countries, (Beck et al., 2010) while at same time developing countries are target market for banks due to expand swiftly expansion and are growth markets for banks. In Muslims countries, Islamic banking segment is growing and developing promptly specially in Pakistan. On an average annually, The Islamic banking industry is growing approximately 1.1% and when the smaller Islamic banks will gear-up to grow, this growth may be attained to 2% to 2.5%. According to Dawn (2016), most recently, Islamic banking industry assets and deposits account have been achieved the share approximately 11.2% and 13.1% respectively out of total banking industry assets and deposits

which exists in Pakistan, and given the number of Islamic banks, this could raise up to 15% over the upcoming few years. In Pakistan, growth and progress of Islamic banks significantly depends upon the perception of its stakeholders. In 2006 Maali, explain that key stakeholders perceive Islamic banks to have performed an equal social roles along with economic roles. To provide a substitute to conventional banking and finance (Usmani, 1998), not only the philosopher of the Islamic economics & finance literature but also key people who directly or indirectly involved in the growth, expansion and development of the Islamic banking industry, suggest that Islamic banks and financial institutions should require meticulous compliance to Islamic Sharia laws of fairness & social justice (,El-Gamal, Kuran, 2006). To justify the claims of Islamic banking industry, perceptions and expectations of their stakeholders in this respect (Maali` 2006) itself presume that Islamic banks are likely to reveal or disclose their social activities in annual reports and on websites (Hanifa & Huddaib, 2007). Muslim nation (Ummah) expect from Islamic banks to disclose ture,fair and comprehensive information about how their activities meet Sharia' objectives and play role to boost the wellbeing (& solidity) of society (AlMograbi, 1996; Baydoun & Willett, 2000; Lewis,2001; Maali, 2006).Keeping in mind the rapid growth and expansion of Islamic banks, it is compulsory to evaluate & check that whether Islamic banks comply with their social reporting responsibility. For this purpose, we will analyze six dimensions of social reporting of Islamic banks, namely:

- Vision and Mission statement
- Shariah Supervisory board
- Product & services
- Zakat, charity and Qard-ul-hassan
- Community
- Employees

These six dimensions of Islamic banks will be analyzed with benchmark ethical standards. These standards were established by Hanifa & Huddaib (2007). In addition to this study also desires, by the use of immanent critique, to point-out claims lodged by Islamic banks regarding their faithful & meticulous compliance with Sharia and social justice. The immanent critique is used to check or counter these claims which is made by the Islamic banks in Pakistan with the quality and degree of disclosures related to specific & detailed social activities which are given in their annual reports and on websites.

1.3 Research Gap:

The study will support to fill a gap in both social accounting and Islamic accounting literatures. Previous Corporate Social reporting practices follow only western philosophies and materialistic approaches that are lacking the religious moral values element. This study will contribute to the very scarce literature connecting religious factor especially Islam, Islamic accounting social accounting. In Islamic accounting literature, former researches exposed only contradictions or similarities in the Islamic banking industry regarding their social role in society but this study goes beyond these boundaries. In previous researches Immanent Critique has not been applied which is used to check claims which are made by organizations like Islamic banks. Secondly this research also tries to explore the perception of Islamic banking sector employees and consumers towards social reporting of Islamic banks

1.4 Objective of study:

Islamic banks are representative of a new movement of financial institutions whose social goals are equally or at least (if not more) as important as profit maximization for shareholders and investors. Objective of study is to determine to what extent Islamic banks meet their social responsibility in terms of revealed social reporting. The objective of the study is to make sure that

- Islamic banks' mission and vision statement meet benchmark standards
- Islamic banks' sharia board statement meet benchmark standards
- Islamic banks' zakat, charity and benevolent fund meet benchmark standards
- Islamic banks' product meet benchmark standards
- Islamic banks' attitude towards community meet benchmark standards
- Islamic banks' attitude towards employee meet benchmark standards

1.5 Research Question:

So on the basis of above discussion on all six dimensions, here research question arises

- RQ1: Do Islamic banks' communicated social reporting standards meet benchmark standards?
- RQ2: What is the perception of bank employees about Islamic bank social reporting?
- RQ3: what is the perception of customers about Islamic bank social reporting?

1.6 Significance of study:

In Pakistan, Islamic Banking is an emerging trend so every scheduled bank is trying opening Islamic bank branches or Islamic banking windows/subsidiaries along with conventional banking to target or hunt the potential customers or market. To the best knowledge of researcher of this study found that no prior research has been conducted in Pakistan on Islamic banking that addresses the what is and what ought to be in Islamic banks as per Sharia' law. Therefore, researcher adopted this study to determine the social reporting by Islamic banks gap between actual communicated vs benchmark standards (Hanifa & Hudaib 2007) according to Islamic shariah'.

Theoretically and practically this study can be used by Islamic banks (BOD and Sharia Committee) to portray their better image by meeting expectations of customers as per Islamic Sharia, which will improve customer base. Managing information disclosure in annual reports or on websites in transparency, consistent & fair way will bring a positive corporate image in society and over time will build a positive corporate reputation. In other ways by focusing more, by appropriate communication management, Islamic banks can establish their image, which may lead to competitive edge as well as ensure business existence.

Chapter 2 Literature Review

2. Literature Review:

The previous chapter provides specific background on the philosophies of corporate social Responsibility (CSR) & corporate social reporting (CSRep) in Islam, exclusively for Islamic banks. It demonstrates how corporate social Responsibility (CSR) and corporate social reporting (CSRep) are important for Islamic banks and financial institutions operations and their activities are consistent as per Islamic principles, which reflect social accountability and socio-economic justice.

The previous chapter also point-out that CSR and CSRep have the potential to lessen the gaps and build a liaison between Western accounting and Islamic accounting. Most of the current concepts and theories relating to CSR and CSRep have developed in America and Europe countries and therefore reflect Western business model and Western accounting systems and Western cultural background toward justice and ethical practices. While this study considers developing country factor like Pakistan, specifically also focus on religious element (Islamic perspective) that is entirely missing in Western CSR and CSRep literature and Immanent Critique which is used to check claims which are made by organizations like Islamic banks, through fully and comprehensive disclosure in annual reports and on websites .

This section will provide brief review of the concepts of history, theories and development of CSR in the West that the Western oriented notions having nonexistence of broader perspective from other cultural and religious sets, such as Eastern and Islamic point of view and also overlooks specific stance of developing Countries. Mostly, CSR and CSRep concepts originated from the West, so these might not be sufficient for Islamic banks and other Islamic business organizations.

This chapter initiates by giving some historical background of Western CSR, the definitions and concepts of CSR from the Western literature, CSR theories that are usually used to clarify CSR. Afterward, the definition and the notion of CSRep, review of CSR & CSRep studies in developed & developing countries, and also on the conventional banking industry, most specifically for Islamic Banking.

2.1 The Theories of Corporate Social Responsibility

Scholars have presented and used several theories to study and explain CSR. In some theories, scholars combine different approaches but use same terminology with different logics (Garriga and Melé, 2004). On the other side, some theories cannot be considered as distinctive theories, the reason behind is that these theories have been developed from a similar philosophy & provide harmonizing and overlapping perspectives (Islam and Deegan, 2008).

This sections briefly review those theories usually used in CSR research.

2.1.1 Social Contract Theory

Mostly Scholars frequently used the “social contract theory” among the theories to examine the motivations of organizations to be involved in CSR. Gray, Owen, & Maunders (1996) portray society as “a series of social contracts between members of society and society itself” (cited in Moir, 2001, p.19). The social contract recommends that Organizations are expected to stand with some indirect commitments towards society (Garriga& Melé, 2004). According to Moir, (2001) in implicit social contract between organizations and society corporate managers are required to operate business activities in society in responsible ways which are implicitly expected by society.

Donaldson & Dunfee (1994) present an ‘Integrative Social Contract Theory’ which reflects the socio-cultural, moral and ethical aspects in business decision making. This ‘Integrative Social Contract Theory’ is derived from two sources, i) macro-social contract ii) micro-social contract (Donaldson and Dunfee, 1994). A Macro-social contract is a frequent social contract (e.g. human rights obligations) which capacity it is universally applicable to business activity (Donaldson and Dunfee, 1994). The Macro-social contract is also necessary and primary in nature due to the fact social concerns such as human rights commitments are essentially expected and monitored by the community to be performed by entity (Donaldson and Dunfee, 1994). In 2000, Donaldson & Dunfee define, the fundamental principles of the macro-social contract as ‘hyper-norms’ which “are obvious in a convergence of political, religious and philosophical thought” (p.441). Meanwhile, a micro-social contract highlights the explicit form of entity involvement in the social contract (Moir, 2001, Donaldson and Dunfee, 1994). It emphasizes on the organization

response to action in the local community (Cragg, 2009). Donaldson & Dunfee (2000) associate the Micro-social contract with 'authentic norms' which "are based on the attitudes and behaviours of the individuals of their source communities". An authentic norm has to contest with hyper-norms in order to develop a legitimate norm, which then can be linked to the members of the community (Donaldson and Dunfee, 2000). This extended Social Contract Theory integrates normative and empirical elements of management that provides help in grasp CSR (Cragg et al., 2009). It is also significantly important to understanding religious and cultural aspects of CSR. The Philosophies and concepts of the social contract underlies most of the theories used to investigate and describe CSR and CSResp, such as legitimacy theory & stakeholder theory.

2.1.2 Legitimacy Theory

The concept that is generally used by researchers to describe the engagement of businesses in CSR, and in specific the reporting of CSR is Legitimacy Theory. Legitimacy is described as "a generalized perception or assumption that the activities of an organization are desirable, proper, or appropriate within some socially constructed system of norms, beliefs, values and definitions" (Suchman 1995). Legitimacy Theory postulates that if the enterprise does not show up the operations within the bounds that are considered to be appropriate for society, then society may act to eliminate the corporation's right to carry on business operations (Haron et al., 2004). In crux, society, which provides a license & mandates of power for an enterprise to perform functions, would assume the corporation to use that authority sensibly. Thus, Legitimacy Theory is closely interconnected to the concept of power and responsibility described by Davis (1960, 1973). In the long run, "Society awards legitimacy and power to business, those who no longer use authority in a proper way which society considers liable will have a tendency to lose it" (Davis, 1973, p.314). As mentioned above, this notion draws on social contract theory. Society will withdraw its social contract unless the company undertakes specific policies and techniques to use their power sensibly.

2.1.3 Stakeholder Theory

Stakeholder Theory is another theory that is frequently adopted by the scholars in CSR researches. According to Moir (2001), this theory investigates those groups of stakeholders to whom the companies have to be accountable and frequently pose a challenge to be managed by corporate managers. (Freeman, 1984 and Moir, 2001) is classically defined the stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. As per Henrique (2000), Every Organization has its own stakeholder list because they can decide those one who are appropriate stakeholders for their organization which can differ from other organizations stakeholder lists. Generally, a typical list of stakeholders includes employees, shareholders, suppliers, customers, government and local community. Even some companies also incorporate the public, pressure groups, and the environment into their stakeholder list.

Deegan, Rankin, & Voght (2000) divide Stakeholder Theory into two divisions; 1) Ethical Division 2) managerial Division. The ethical Division states that Corporation intended to treat all stakeholders on equality grounds and does not take a part in any stakeholder power issues (Deegan *et al.*, 2000). The issues and matters of stakeholder power are the main emphasis in the managerial Division. The managerial Division surmises that corporations will counter to the influential stakeholders or those who have significant impact on the organization, on an unequal basis (Deegan *et al.*, 2000). As some influential and powerful stakeholders control and regulate the acute and critical resources of the corporation, the corporate manager will try to attempt to satisfy these stakeholders by providing all the information and evidences claimed by them (Ullmann, 1985). Islam and Deegan (2008) point-out the overlap between the managerial Division of Stakeholder Theory & Legitimacy Theory.

They explain the overlap by refer to Gray *et al.* (1996) who state that corporate managers attempt “to manage (or manipulate) the stakeholders in order to gain their support and approval, or to distract their opposition and disapproval” (p.45). The overlapping of Stakeholder Theory and Legitimacy Theory is also argued by Mitchell, Agle, & Wood (1997) who build up the stakeholder identification and salience model and discovered that stakeholders have greater than

one of each of the factors of power, legitimacy and urgency. It is anticipated that firms would be most concerned to respond to those legitimate, powerful and crucial stakeholders.

2.1.4 Political Economy Theory

As per Gray, Kouhy, & Lavers (1995), Political Economy Theory can simply be clarified the overlapping philosophies of Stakeholder Theory and Legitimacy Theory. In their authentic words, “ Stakeholder Theory & Legitimacy Theory are... seen as two (overlapping) perspectives... which are set within a framework of assumptions about Political Economy” (Gray et al., 1995 p 52, quoted in Woodward et al., 2001).

Ratanajongkol, Davey, & Low (2006) report to us that the concept of Political Economy Theory is that politics, economics & society are interlinked with each other's and inseparable. Political Economy Theory emphasizes on viewpoints which are related to extensive range of interlocked political, economic and social effects (Gray et al., 1996, Ratanajongkol et al., 2006). This political economy notion suggests that management perceives and make available the information which is necessary to influence societal view point and opinion (Woodward et al., 2001). In Political Economy Theory, Proactive in nature approach is that whereby corporate managers design plan and make strategies to keep in control and manipulate the society and to develop the world in accordance with managerial prospective views (Woodward et al., 2001). On the other side, reactive in nature approach of Legitimacy Theory is whereby corporate managers take suitable activities to legitimize the processes and tasks of the company which was conceded a mandate by society to survive (Woodward et al., 2001). The Political Economy Theory main focus is to influence society, whereas for Legitimacy Theory, the most important concern is accountability.

Both of these concerns of organizations will cover stakeholder theory whereby corporations classify and target the societal interest groups, the perspectives of whom the organization may also wish to manipulate towards assisting corporate activities or, to whom the corporation might be believed to be responsible (Woodward et al., 2001).

2.1.5 Agency Theory

Woodward et al. (2001) also describe that the theories of Legitimacy and Political Economy predominantly explicate corporate social responsibility by using an Agency Theory concept.

According to Agency Theory, there is relationship between managers of enterprises who act as 'agents' and shareholders of companies who act as 'principals' (Fama & Jensen, 1983). Agency Theory advocates that stakeholders try to attempt maximize their own self-interest & return, which is the potential conflict of interest and motive between the two parties (Haron et al., 2004). As per Friedman (1970), Managers used CSR as manipulation mechanism in order to lift up their own interests at the cost of shareholders. He claims that if a business is engaged in CSR, it is an alarming indicator of an agency conflict between the shareholders and managers interest's (Friedman, 1970). On the other side, Woodward et al. (2001) contend that CSR founded on the background of Agency Theory is either a preemptive action that is managerially driven (i.e. a political economy enlightenment) or a responsive action to societal pressures (i.e. a legitimacy enlightenment). In the reactive situation, the principals or shareholders are predominant whereby they endowment the authorization and power to a corporation to exist, while the agents or managers are subordinate to run and execution of the operations of the corporation in order to justify its survival (Woodward et al., 2001). However, in a proactive situation, agents or Managers are more predominant as they established the agenda to stimulate society to support corporate activities, and the principals or shareholders are subordinate and will be influenced by the managers (Woodward et al., 2001).

2.1.6 Institutional Theory

Institutional Theory which is also overlaps with Legitimacy Theory as well as Stakeholder Theory (Islam and Deegan, 2008). Institutional Theory clarifies that stakeholders anticipate and pressure corporations to undertake specific organizational structures and unique working operations and reporting policies (Islam and Deegan, 2008). Institutional Theory is viewed by Holder-Webb, Cohen, Nath, & Wood (2009) as exemplifying some other variant of Political Economy Theory. The notion of Institutional Theory recommends that corporate managers prudently select policies and disseminate information which can bring society's attention towards a promising management view and can divert their attention from notorious and inappropriate activities (Holder-Webb et al., 2009).

Institutional Theory is very closely associated to the isomorphism concept. "Isomorphism refers to the adaptation of an institutional practice by an organization" (Dillard et a.l., 2004, (p 509),

quoted in Islam and Deegan, 2008). As per Dacin, (1997) Isomorphic behavior includes an institutional convergence procedure. Therefore, it can be easily viewed that within different institutions or firms, there is close resemblance in their institutional practices and policies (Islam and Deegan, 2008). More dependence of an organization on another organization, there will be more similarities in organizational structure, climate, and behavioral focus. Such process is referred to as coercive isomorphism” (Islam and Deegan, 2008, p.856). In the meantime, Campbell (2007) draws on awareness from the perspective of institutional and political economic system theories to recognize the purpose why an organization involves in socially responsible organization conducts. In 2007 Campbell, identifies that the causes consist of institutional environments like well-implemented country regulation, effective and constructive industrial self-regulation and recognized codes of conduct. Moreover, the ‘watchdog’ function of non-governmental, self-supporting and independent organizations can intervene the affiliation between fundamental economic conditions and Organization behaviour which consequently motivates the firms to behave in a socially accountable manner.

2.1.7 The Accountability Concept

While taking into consideration CSRep, Stakeholder Theory and Legitimacy Theory are firmly identified with the concept of accountability. Entities are responsible to a large society, whereby the responsibility of entities are towards various extraordinary interest stakeholders. Accountability is characterized as “the duty to provide an account ... or reckoning of those actions for which one is held responsible” (Gray et al., 1996, p 38). The 'accountor' ought to give data to the 'accountee', and that structures a powerful responsibility system (Burritt and Welch, 1997). Arrangement of data enables the accountee in a procedure which helps "to expose, upgrade and create social relationships" (Gray, 1992, p.423). In 1991, Roberts portrays accountability as a sort of social relation that expresses to interdependency activity and the reliance dependably contains both strategic and moral components. There are numerous stakeholders with an interest in the accountability of enterprise and, in this manner, various accountees, each with an alternate interest for the results of the enterprise's activities. Therefore, (Burritt and Welch, 1997) the accountor is considered answerable for actions performed and consequences incurred.

2.1.8 Mapping CSR Theories

As can be seen from the former examination, there are various overlapping and opposing theories that exertion to clarify CSR by organizations.

Garriga & Melé (2004) offer a road map of the core CSR theories by categorizing them into four dimensions, namely political theories, integrative theories, instrumental theories and ethical theories. Instrumental theories center around achieving economic goals and generating wealth through tactics like shareholder value maximization, competitive advantage and cause related marketing (Garriga and Melé, 2004). The another dimension, i.e. political theories, emphasizes on the business society associations, business power and its inherent obligation which are clarified through the concepts of corporate constitutionalism, integrative social contract theory and corporate citizenship. Corporate constitutionalism depicts how organizations hold social duties got from the social power that they hold, which is like the idea talked about by Davis (1960), i.e. social Power derives from social responsibilities. The integrative theories are third dimension, which emphasis on how organizations encounter social demands by integrating social standards into business operations and activities. Organization integrate social demands via various approaches like issues management, stakeholder management, public responsibility and corporate social performance. Finally, ethical theories concentrate on the 'right thing' that is essential for business entities to do and perform in order to achieve a good moral society (Garriga and Melé, 2004).

In their conclusions, Garriga and Melé (2004) propose a need to frame an innovative theory that incorporates these four dimensions of CSR theories which is in position to overcome the limitations of the current existing CSR theories that flop to clearly lay down the implications of each approach.

2.1.9 Criticism of CSR Theories

From the above discussed theories, it tends to be presumed that the implicit commitments of business as far as CSR are tough to accomplish if there is no pressure and influence set up. The restraint on accomplishing CSR purposes is that many organizations implement CSR at best, encouraged by human ethical or moral rational (Gray et al., 1996, Hanifa & Huddaib, 2004). But human ethical or moral rational alone are not satisfactory to encourage the implementation of CSR and to accomplish CSR goals. The eventual targets of CSR particularly the implicit

responsibilities could be best attained on the off chance they were driven through blessed, spiritual and religious beliefs (Hanifa & Huddaib, 2004).

Some other reservations of CSR and CSRep theories is that these theories are derived from secularist perspective which is just built on human rationality and argument. Along these lines, these theories are more associated to materialistic way to deal with life and in addition relative and continually evolving (Dusuki, 2008). For instance, social contract theory having an allegation for its relativeness, as society's preferences dependably change that would require renegotiation between organizations and society to adjust the change in preferences (Donaldson and Dunfee, 1994). While Dusuki (2008) comments that legitimacy theory generates dilemma to the organizations as they require to improve their behavior and conduct as per society's desire. But, there is no uniform standards in human behavior and in their conducts as there is no absolute and supreme ethical and moral conduct that can lead the organizations in social responsibility (Dusuki, 2008). From the Western literature on CSR, The thoughts of religious, spirituality, everlasting and complete are lost, however are key to several Eastern societies. This is the thing that the current investigation will use as the system of CSR and CSRep, by combining Islamic point of view as religious idea to spark CSR commitments.

2.2 Dimensions of Benchmark for Social Disclosures by Islamic Banks

Before inception of Islamic Banks, since long centuries, western culture and values were dominate, not only for Muslims but also for other religion peoples. They were circumscribed for use of the conventional Banking products and services. In this response, Islamic Banking system initiated to present a unique concept and model from the conventional banking system, which isolates what is permissible and what is not, that is guided by the Sharia' law. Sharia' Principles and laws is the focal element and pivotal salient feature in Islamic baking which differentiate the Islamic banks from conventional banks.

In definition, an Islamic banks are those financial institutions that legitimately and practically bounded to comply with the principles of Sharia' law, which recommends advices for moral economic transactions.

In other words, Islamic Banks are those banks that are established and set up to operate within the domain of Islamic sharia that is more equitable and also established on socio-economic

wellbeing of society. An ultimate goal of any organization either financial or no-financial is to make profit and mostly the goals of conventional banks are also too much profit as conceivable by any means or source. But for IBs, profit earning is the chunk of its goals because for Islamic bank social goals are equally important as financial goals. According to Islamic sharia', every peaceful and successful contractual relationship always based on transparency and true & fair information disclosure.

Corporate social disclosures are the communication of a company's through via media including Websites regarding socially responsible activities to its various stakeholders. Since the early seventies, this practice has been used to attract the devotion of various user groups or stakeholders (Zain, 1999).

Every Islamic banks are mandatory to abide by the Sharia' law in all activities e.g operational, financial, audit and social etc. which required more vigilance through full revelation in their annual reports or on websites. On the bases of Ethical responsibility, Islamic banks therefore, are required to reveal full and relevant information disclosure to all their stakeholders (shareholders, customers, employees, government and public at large etc) regarding decisions making on the grounds of their stakes in Islamic banks business.

The Model of Corporate Social Reporting in Islam

The previous segment has been highlighted some expectations of CSRep practices and their associated disclosure. These encompass the model of Islamic CSRep themes that should be disclosed by the Islamic banks and financial institutions, and used in the framework for the content analysis in this thesis. Each theme of each Islamic CSRep is summarized as follows:

2.2.1 Vision and Mission Statement

From perspective of Islam, the Vision & Mission statement must be affiliated with the perception of accountability to *Allah* (SWT) and would lead the Islamic banks in the right way.

Islamic banks must provide a statement narrating that the entity's activities and operations are founded on *Shariah* principles and highlighting the significance of earning *halal* (permissible) yield (Muwazir and Muhamad, 2006).

This dimension explicitly emphasizes on two components,

- a) Islamic Banks & financial institutions commitments of operations within the Sharia Principles
- b) The profile of Sharia Supervisory Advisory Board or committee.

Islamic Banks & financial institutions is intended to segregate themselves from Conventional Banks through stating or expressing their commitment in operating within the Sharia principles in their mission and vision statements and also certify that all their bank business operations as per sharia compliance and fairly disclose in annual reports and on websites.

Opinion of Sharia Supervisory Advisory Board or committee has taken worth in Islamic Banks and all stakeholders trust and follow it so Stakeholders of the Islamic Banks intend to know about information of Sharia Supervisory Advisory Board or committee members profile regarding education, experience, knowledge of banking, competency in sharia and specially areas related to business transactions (Fiqha, Muamlmaat), to judge and evaluate their credentials those who have full authority in making financial & economic decisions and conduct the sharia review on their behalf in enforcing the rules of Allah.

Therefore, researchers expect from Islamic banks to communicate or disclose detailed aspects of Mission and Vision statements in annual reports or Websites

2.2.2 Sharia Supervisory Board or Committee

Sharia' moralities which are derived from the various sources of Islamic law; Sharia is a code of conducts and behavior for Muslims in Muammalat (financial and social transactions). The main motive for having SSB is to ensure that Islamic banks doing their business according to Islamic law and keep away from transactions that are prohibited in Islam and contradict with Sharia. SSB is an "in-house religious supervisor" (An SSB is not identical as the board of directors. The SSB oversees the activities of Islamic banks, assessments the contracts, provides a view and an opinion about whether the agreements would be permissible under Islamic law, and thus endorses the Islamic banking product as being Shariah-compliant.).The selection of SSB members play an important role to serve as a check, test, stability and balance and to provide

declaration that the products and services produced and offered by Islamic banks are fully Sharia-compliant.

The principle of Sharia is based on following main sources:

(i) The Holy *Quran*

(ii) The *Hadith / Sunnah*

(iii) The *Ijma*

(iv) The *Qiyas* (Muwazir and Muhamad, 2006).

For Muslim Islamic Sharia is contemplate as Stable (proven from Holy Quran and Sunnah) and Dynamic (established from Ijma and Qiyas). For interpretation of the Sharia' rules and guidelines those person who are responsible for this purpose are known as many names e.g the Ulama, Ustadzah and the Mufti etc determining what is permissible and what is not in the light of above said sources, and are afterward held responsible under the Sharia' law for their verdicts in the henceforth.

A significant mechanism of `Shariah governance is the Shariah Supervisory Board (SSB) (Grais & Pellegrini, 2006). The SSB is an independent and self-regulated governance mechanism that supports Islamic banks to manage their funds effectively & efficiently while every times as per Islamic Shariah compliance (Khir et al., 2008). The Board is responsible for managing, leading, reviewing and supervising the activities and operations of the bank to ensure compliance with Shariah in terms of interest-free financial instruments, products and services, Islamic permissible activities, equity participation, profit and loss sharing contracts and zakat payments. Any failure to comply with the Islamic finance and Sharia laws may cause of reputational risk for Islamic banks.

Therefore, Islamic Banks have an additional tier of governance represented by the SSB, an independent body which provides authentication on their compliance with Shari'ah (Grais and Pellegrini, 2006 b; Besar et al., 2009). Intrinsically, the `SSB plays a vital role in Shariah governance and is considered essential to the progress and success of Islamic banks (Ghayad, 2008).

In business and financial transactions related matters, Islam levies a high degree of responsibility on Sharia" boards or committee of Islamic Banks & `Financial Institutions", because they are the

caretakers to the Sharia “compliant accreditation of Islamic Banks & `Financial Institutions` financial `products & services; which are immensely inimitable due to their compliance with the Sharia” law. Bank manager is mediator for both `stakeholders & Mudaribs. Islamic banks do not permit return on their actions performed under Sharia (Usmani, 2002).

As per Islamic business perspective, leaders and managers must have certain characteristics to empower them to perform their duties and obligations as a ‘*trustee*’ of *Allah* SWT. Leaders and managers have required not only to put in force Shariah but also satisfy the desires and hopes of the Muslim Community. They are accountable to carry out the trust delegated to them, and in this manner are required to deal the business processes and activities in a successful and efficient way.

Along these lines, Islamic banks ought to provide the information of governing body/ board of directors (BOD) and Administrative/management group concerning their qualifications, capabilities and compensation, including the policy on appointment, re-appointment and termination or dismissal of the governing body/BOD/management and administrative team. These expectations about the disclosure of CSR facts have been shown to come from numerous stakeholders. Entities in an Islamic country, and specifically Islamic banks, may confront specific pressure from their Muslim stakeholders, consequently this is an important factor to include in a context for CSRep in an Islamic perspective.

Disclosure under the supervision of SSB consists of the report of SSB opinion, the details and background related to the participants of SSB including their remuneration, a statement certifying distribution of profits and losses are made as per Islamic Sharia law, announcement of recommendations to rectify defects in products/services, and examination of documents and contracts.

Every Islamic banks have a Sharia Supervisory Board or Committee whose responsibility is monitoring, examining all aspects of banking transaction, deals and activities and to ensure the IBs business and financial transactions are intact and in compliance with Islamic Sharia, providing approval to newly formulated and developed products and services within the ambit of Islamic sharia norms and values, providing opinion and issuing statements or comments in

annual reports or on websites, on IBs involvement in non-permissible transaction or deals. Therefore, Sharia Supervisory Board or Committee should communicate or disclose detailed aspects in annual reports or websites

- Name and remunerations of SSBC members
- Number of meeting conduct and attended by the SSBC members
- Experience, Islamic and professional qualifications of SSBC members
- Examination of documents and contracts
- Pre & post facto approval for business transactions
- Report defects in products and services and recommendation to rectify them
- Reports signed by all SSBC members
- Attestation and distribution of profits & losses comply with sharia

2.2.3 Product & Services:

Islamic Banks must offered those products or services which are not harmful to society. Islamic banks must be transparently disclose their products and services features and information. Products and services related all information which are related and useful for user and provide assistance to evaluate the business activities, operations and their responsibilities towards society (Muwazir and Muhamad, 2006).

The Products/services scope concerns the qualitative traits of the products/services, e.g product and services development, product & service quality, and marketing etc (Aribi and Gao, 2010).

Islamic banks and financial institutions are expected to offer only those products/services that are approved by the Shariah supervisory board, along with a description involving to the essence of Shariah notions for all approved product & service. Moreover, Islamic Banks should provide a declaration about the facts of products/services produced by the bank and their side effects and similarly a statement that shows Islamic banks policy on marketing is in compliance with Islamic code of conducts and ethical values.

a) Interest-free products and services

From theoretical and Practical viewpoint, Islamic banking is entirely different from conventional banking because interest (Riba) is strictly restricted in Islam. Because it has worst effect on society and the economic system.

Financial instruments developed by Islamic Banks on profit-and-loss sharing and real, tangible assets and real services (Aggarwal and Yousef, 2000). To keep competitive, Islamic banks offer their customers to innovative and variety of financial products that do not violate Sharia. Sharia entails transactions to be (halal) legal and prohibits transactions containing interest and speculation.

Financing instruments, products and services based on the former principle include

Mudharabah(venture capital)

Musharakah (Partnership arrangement)

Murabahah (Resale on Cost+stated profit)

Bay'al-salam (forward sale contract)

Ijarah (lease)

Qard Al-Hassan (benevolent Loan)

b) **Islamic permissible deals and activities**

Islamic banking is not just offer interest free products but also finance or invest in those deals, activities, projects and products that are acceptable (halal) in Islam and evade financing or investing in those deals or activities and projects that considered disgusting in Islam, such as alcohol, gambling, pork based products, and weapons manufacture and sales etc., or in short, those projects and activities that dangerous and bring harm to society and the environment. Islamic Banks also elude speculative transactions or extreme risks (gharar), such as investments in futures and forward contracts and markets, since the consequence is unknown. In Islamic point of views, all parties in contract should have well awareness and perfect knowledge of the counter values wants to be swapped or exchanged and cannot predetermine a definite yield. The rationale behind the restriction is the effort to protect the weaker from manipulation and destruction in society.

As per *Shariah*, unlawful transactions comprise those transactions which involve in *riba*, *gharar* and *maysir* (Lewis, 2001). Islamic banks would not involve in any activities and

operations that contradicts the Islamic *Shariah*. Nevertheless, in certain circumstances, Islamic banks might not be able to circumvent such transactions, e.g an Islamic bank may have to deal in transaction of letter of credit with a non-Islamic bank and Islamic bank is also bound to pay interest on that transaction. Islamic banks are permitted to conduct and perform unlawful transactions in specific limited circumstances, i.e. deals and transactions must not be relevant to the core business of Islamic banks and it must be sanctioned and authenticated by the SSB. Islamic banks should also fairly and comprehensively release the details of any unlawful transaction activities or operations which has been carried out (Rosly, 2005).

Being as Muslim, more transparency required by stakeholders so, IBFI should communicate or disclose detailed aspects of their products and services along with nature of the unlawful transactions including the amount of revenue & expenses from these transactions or operations, including the details for undertaking such transactions or operations and how the banks disposed, or intend to dispose of, revenues from unlawful transactions (Maali et al., 2006) in annual reports or on websites.

2.2.4 Employee Benefits and welfare activities:

Employees are the real assets of any organization which contribute viable role to achieve the organizational goals. Islam always emphasizes on social justice, free and fairness in dealing with employees. The welfare, wellbeing and benefit of employee's matters should be taken in vigilant and care of it.

Islamic banks should focus extensive attention towards adequate training and grooming of staff to equipped with the latest knowledge and concept about Islamic Sharia' aspects related to banks business activities to understanding of Islamic banking transactions so that employees may be able to easily convince the clients, offer better services as compare to competitors (conventional banks) to build and improve the image of Islamic banks in the eyes of existing and potential clients. Employees are also stakeholders of the Islamic banks and Islam always give primacy to social justices. Therefore, exploitation and discrimination among the employees are not tolerable in the light of Quran and Sunnah.

Allah Said: "*Do good to those whom your right hand possess (worker)*" (*Quran: Surah 4, Verse: 37*)

The Messenger of Allah (Peace Be upon Him) Said: *“Give the worker his wages before his sweat dries.”* [SunanIbnMajah, *The Book Of Pawning, Hadees: 2443*]

Thus, Islamic business organization’s and banks should also intended to offer sufficient equipment in good working condition, sustain a harmless working environment, provide shelter and safety in health, treat employees fairly in terms of wages, working hours etc., offer equal promotion opportunities, and participate in education and training of staff and their children’s (Aribi and Gao, 2010)

It is mandatory obligation of employer (Islamic Banks) to ensure that staff are paid fair and competitive salary, not put overload work and given opportunity to offer their spiritual compulsions. Islamic Banks intended to make true & fair polices regarding the Payment of wages, bonuses, pension, education and training, also conduct social, cultural and health improvement activities and offer equal opportunities and healthy working environment. Islamic banks put emphasis to take care of employee’s treatment, benefits and welfare and arguably need to provide disclosures in annual reports and on websites regarding policies for wages and bonuses, education and training for employees and their Children, equal opportunities for promotions, health and safety working condition and environment, would guide users to assessing whether banks abide by the Islamic sharia’ in the matter of dealing with employees. Therefore, IBFI should communicate or disclose detailed aspects in annual reports or on websites

- Employee’s welfare Scheme
- Number of employees
- Recruitment, Training & development Scheme
- Sharia awareness Training
- Equal opportunity policy
- Reward & Appreciation to Employees

2.2.5 Zakah, Charity (Saddaqa) & Benevolent Loan (Qard Al-Hassan):

Zakah is a religious mandatory obligation which is levied on Muslim individuals who are Sahib-e-Nisaab to Allah and also to socio-economic justice of society and state. Zakah purify the individual soul and also cleanse the wealth. There is burning issue discussion in the Islamic

literature in spectrum of who is accountable for zakah payment, whether the Islamic banks/entities or the shareholders/individuals.

As per Karim and Gambling (1991) who elucidated that zakah is mandatory on individuals who are Muslims subject to Sahib-e-Nisaab and therefore, Islamic entities /Banks are not responsible but others opposed that both shareholders and entities should pay-off the zakah. Notwithstanding, these divergent philosophies, in 1984 first Zakah conference which was held in Kuwait, unanimously reached on conclusion that businesses/entities are not obligatory to pay Zakah, except such a prerequisite is levied by law or agreed by their shareholders.

It is disparate taxes for the reason that it has a spiritual value and sense (Muwazir and Muhamad, 2006, Othman, 2013). Zakah is the most significant mechanism for redistribution of wealth from rich to poor in society. Islamic banks also required to pay Zakat from their own business.

Therefore, it is essential for the Islamic Banks to release the following facts in their annual reports or websites:

- a) Which party is accountable for zakah
- b) Statement depicting the sources and uses of Zakah fund
- c) Sharia Supervisory Board approval required for the reckoning and distribution of Zakah (Holy Quran lay down Eight recipients for Zakah called masarif of zakat who are entitled by the Quran to receive zakah).

AAOIFI also issue standard on Zakah Computation and standards also demanding from Islamic banks to provide such disclosures. In Zakah matter, Islamic Banks are required to clear any balance of Zakah amount which not yet distrusted or valid justification required for delay in distribution of amount which is still outstanding in Statements. However, in Pakistan according to Zakat and Ushr Ordinance 1980, All Islamic banks are required to pay Zakah on their depositors/shareholders behalf.

According to Pakistan today, August 1, 2011 by Tasleem, Religious scholar Mufti Muneeb ur Rehman said that it is up to the patrons if they intended to pay Zakah through the banks or themself.

In those countries, where State is not take any responsibility to collect the *Zakah*, Islamic banks play the role as Zakah collection center for collecting the *Zakah* funds and distribute them

among the needy, poor and deserving peoples directly or via other religious associations (Lewis, 2001).

Unlike Zakat, Sadaqa (charity) is voluntary (not compulsory) in nature. Islam promotes Muslims to do charity (Sadaqa). From the permission of Sharia board, on voluntary basis, such Sadaqa (charity) can be used by Islamic Bank and Financial Institution for society benefit or needy and poor people support. It is referred in the Holy Quran:

“And fear Allah (SWT) as much as you can, listen and obey; and spend in charity for the benefit of your own souls. And those saved from the covetousness of their own souls; they are the ones who achieve prosperity.” (Al-Quran 64:16)

Islamic banks must need to support charities. IBs should disclose the nature and the amount spent on charitable donations, inclusive of the sources of money used for charity. Islam encourage the charity for wellbeing of society. Basic concept of Islamic values are Zakat and charity, these social values are helpful to reduce the difference b/w rich and poor by circulation of wealth to reduces this gap (Lewis, 2001)

Qard-ul-Hassan factually means good/benevolent and without interest loan (beautiful loan in arabic), in which the person or institution that offers the loan does not demand any benefit therefrom. But, the principal amount must be paid back within a specified time. From this time, Islamic banks and financial institutions can assign a certain amount of Qard-ul-Hasan to invest in Islamic social business for society or human being welfare can be consumed to alleviate poverty and solve social harms. About 1500 years ago Prophet Mohammad Bin Abdullah (PBUH) introduced the concept of Qard ul- Hasan. Indeed, Islam encouraged Qard-ul-Hasan because the Quran revealed that it is a beautiful and good loan to Allah Himself.

Al-Qur'an encourages Muslims to practice Qard-ul-Hassan. Some verses from Al-Quran regarding Qard-ul-Hassan are given as follows:

“Who is he that will loan to Allah a beautiful loan, which Allah will double unto his credit and multiply many times? It is Allah that giveth (you) want or plenty, and to him shall be your return.” (Al-Baqarah 2:245)

Qard-ul-Hassan is an interest free loan. Islamic Banks contributions towards Society as Qard Hassan is considered as one of the best contribution. As indicated by Shariah, if a customer is

defaulting on installment because of poverty or neediness, at that point he should be given relief until the position when he is in a situation to payoff (Maali` et al., 2006). Allah SWT says:

“If the debtor is in a difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you, if ye only knew”. (Al-Quran 2:280)

In any case, if the borrower is defaulting without any valid reason (just like the general case), at that point the arrangement isn't in charging him an additional sum as a punishment, as this will establish Riba.

Late installment expenses, such a late charge, would be a type of interest. In Islamic Law, any borrow debt that is payable by somebody cannot be deferred for a higher sum or punished with any charge. Therefore, Islamic banks ought to provide their clear policy in managing late installments by debtors and on insolvent customers, including an announcement of Shariah supervisory board authentication regarding the punishment charges on late installments payment.

Islamic Banks should also disclose the Qard-ul-Hassan offering and dealing with insolvent beneficiaries' policies and Procedures.

Therefore, IBFI should communicate or disclose detailed aspects of Zakah, Charity & Qard-ul-Hassan in annual reports on websites

2.2.6 Commitments towards Community and Society:

Islamic banks, which generally handle huge funds and earned profit through business in accordance with sharia law, are expected to donate or contribute in community and wellbeing of society. Subsequently, Islamic banks would need to spread their charity, through involved in community development Schemes.

Therefore, Islamic banks & financial institute are voluntary required to participate in community, Socially and environmentally viable driven projects like Children educations programs, supporting NGOs to creating job opportunity for needy and poor people specially women, Donations to health care institutes etc Islamic bank's should also take a part in activities which address social problems like environment issues.

Islam never permit to harm, misuse, destroy and pollute the environment and natural resources and these entire delinquencies are against the holy arrangement.

“And when he goes away, he strives throughout the land to cause destruction therein and destroy crops and animals. And Allah (SWT) does not like mischievous act.” (Al-Quran, 2:205).

Destruction in physical environment which is dangerous for individual or community, is not permissible and banned in Islam (Alam, 1998). Banking is not directly involve in those activities but may be indirectly by the way that, e.g. financing in extractive and nuclear industries, Tobacco and cigarettes’ industry etc. that cause to harm the environment and human being society.

Being as the trustee of God’s resources, Islamic Banks should to develop plan and have good pollution regulator, waste recycling policy and energy preservation, and should not perform or support any activity and things that directly or indirectly harmful for environment, but would commence initiatives to promote environmental concerns.

For environmental confession, Islamic banks ought to be disclose the nature and amount of aids and contributions or activities for preserving the environment, and must also report whether or not the bank has funded any projects or activities that may directly or indirectly harmful for environment. Moreover, Islamic banks intended to donate in those activities and projects which are helpful and supportive in protection of environment.

Conventional banking focusses solitary on their own interest saving (William, 1999). To boost the social welfare and ethical investment, Islamic Banks and Financial Institutions work on profit and loss sharing without interest factor. It means if creditor bears the loss/profit, debtor also have equal sharing or sharing according to the indenture in loss/profit (Lias, 2008).

By elimination of interest factor, and using profit and loss sharing products, the Islamic banking system delivers greater opportunity for the poor to have access to credit (Iqbal, 2002). Through Charity and donations Islamic bank play role in enhancing economic development, addressing social problems like support in housing, education, Health and clean water. All these standards and ethics are not existed in conventional banking. Consequently, Islamic banks are intended to aid with resolving social issues and problems, funding community projects and schemes, take a part in the public affairs management committee, and contribute a role in society that goes away from profit maximization. In phrases of disclosure, Islamic banks must report on their position

and contributions in boosting the economic development and point-out the social issues such as literacy and housing issues etc and their role and steps for betterment.

2.3.1 Corporate Social Reporting (CSRep)

From the first discussion of CSR, we realize that society is progressively demanding the corporation to manage responsibility regarding a wide scope of unpredictable, complex and embracing social and economic issues. Numerous stakeholder groups are inserting weight on organizations and are requesting that the enterprises report their social and environmental execution and additionally their financial consequences (Labelle et al., 2006). In CSR, the major commitment is to recognize and give the facts requested by these stakeholders. In this way, entities need to address the issues of providing details regarding their social and environmental execution and this underscores the requirement for responsibility to society (Douglas, 2004) CS Rep is the way how the organizations convey their social obligation to their stakeholders.

CSRep assumes a vital part as a component to discharge the obligation of responsibility. Generally, CSRep is identified with issue of “triple-bottom line” reporting and the accounting for CSR. In order to legitimate their existence to civil society, Corporations need to represent their social, economic and environmental duty and to give facts and figures about execution of those three responsibilities (Dubigeon, 2006). CSRep includes express transparency and straightforwardness about the activities and inactions of a corporation by the issuance of an outside report; a natural report, a social report, or a triple bottom-line report (Waddock, 2006). In existing practice, enterprises can review and audit their social and ecological execution in any way they desire, report to such an extent or as slight of what they find as they desire, and use whatever pattern that suits them (Waddock,2006). Most organizations normally for the most part center their report of social responsibility just on positive actions (Waddock, 2008).

The irregularity and variations in CSRep results in challenges for stakeholders in accepting social information and equating social performance between various organizations, which recommends a requirement for reporting standardization. Initiated in 1997, the Global Reporting Initiative (GRI) welcomed a tremendous number of specialists from different stakeholder groups, including business, non-governmental associations, accounting associations, labour unions and different entities from around the world, to join a multi-partner alliance in order to gather sources of info and look for harmony and consensus in CSRep (GRI, 2008). The contributions from the

coalition were utilized to build and enhance the GRI sustainability and supportability revealing framework which gives regular and collective rules and guidelines to social, environmental, administration or sustainability reporting (Waddock, 2008). The GRI detailing rules are equally important to all sizes, segment, division and geographic locales of organizations for the reason that the rules and guidelines offer directions and standard social disclosures that sketch the foundation content of sustainability reporting (GRI, 2008). From that point to onward, the GRI has turned into an all-around the world perceived as recognized standardized social, sustainability or non-financial reporting structure which is like for the most resemble to generally acceptable accounting principles for financial reporting (Waddock, 2008). Among the organizations, the implementation of the GRI reporting is still on flexible and on voluntary basis (GRI, 2008). But, those organizations which implement the GRI reporting structure will empower stakeholders to do cross-company, cross-industry, and cross-country comparisons on CSRep (Waddock, 2008).

For this study, despite the fact that an important worldwide framework, GRI isn't utilized to investigate the CSR reporting of Islamic banks in Pakistan as there is a more particular CSR standard available. This investigation utilizes the announcing principles in view of AAOIFI and State bank of Pakistan Guidelines.

2.3.2 A Review of Studies that Investigate CSR and CSRep

This area examines the studies that have been led to break down the acts of CSR and CSRep. Initially, this area reviews CSR and CSRep studies that have been done in developed nations keeping in mind the end goal to give a general foundation to CSR reporting practice. At that point, CSR and CSRep considers which were directed in developing nations are evaluated as these are pertinent to this study which is likewise conducted for a developed nation. A summary of CSR and CSRep studies is provided at the end of this segment, with argument of how the matters are related to this investigation.

2.3.3 CSR and CSRep studies in developed countries

The lion's share of research on CSR has been led in Western developed nations, most usually the USA, Australia and UK, and furthermore Europe. Numerous elements have been appeared to

impact the volume of disclosures, for example, measure, size, industry, partners, stakeholders and economic execution. This segment offers a brief insight of indicative studies. In the UK longitudinal study from 1979 to 1991, conducted by Gray et al. (1995) to investigate the patterns and developments of CSR disclosure. The authors discovered significant variations in CSR disclosure patterns within the period.

Nevertheless, Gray et al (1995) investigation provides indication that UK corporations observed CSR disclosure as a trifling activity and as part of their business activities, these corporations did not seriously adopt CSR disclosure practices. But at the same time, on social and environmental issues, UK corporations had increased and improved disclosure practices over the investigation period (Gray et al., 1995).

In 1992, Roberts conducted a CSR investigation of 80 notable companies in the USA, during the time 1984 to 1986 which were inspected by the Council of Economic Priorities (CEP). In the examination, seven unique industries corporation choose as sampled corporations, namely vehicle, aircraft, oil, food, hotel, health/personal items and home appliances/household items industry, which the author classified into prominent industries and low profile industries (Roberts, 1992).

Roberts (1992) authenticated the use of stakeholder theory in explaining the persuasive factors on CSRep in USA organizations He established that power of the stakeholders, strategic posture, & prior performance of economic are altogether connected with CSRep level (Roberts, 1992). He likewise believes that the association between stakeholder power, strategic posture, economic performance and CSRep may be influenced by corporate age and industry order (Roberts, 1992). Maignan and Ralston (2002) examine the corporate sites of companies in the Netherlands, UK, USA and France in an examination analyzing the trend of CSR issues being disclosed on corporate sites. The CSR issues that are highlighted in this study and analysis comprise of CSR standards, procedures, and stakeholder issues (Maignan and Ralston, 2002). The particular companies in this study encompass companies from the industries of transportation, wholesale/retail, services, technology, chemical, food/agriculture and others. The researcher find various keenness levels exposed by enterprises across four nations in managing, and disclosing, socially responsible issues (Maignan and Ralston, 2002).

In presenting commitment towards CSR, the companies from various nations are found to perceive varied CSR standards, procedures and stakeholder issues (Maignan and Ralston, 2002).

The authors additionally find that organizations in the UK and USA are more passionate in communicating and reporting CSR issues than French and Dutch companies (Maignan and Ralston, 2002).

Asia Pacific located developed countries is an example of the study conducted by Gao, Heravi and Xiao (2005) through the examination of annual reports in Hong Kong for the period 1993 to 1997, who determine the trends of CSRep. During the five years of study, the investigation exposed that Hong Kong organizations CSRep increased. The level of CSR revelation principally depends upon the extent of enterprises and industry participation (Gao et al., 2005). The investigation likewise gives indication that Hong Kong organizations are less anxious about the environment, securing the wellbeing and soundness, safety and health of employees at the workplace and energy preservation. Hong Kong organizations annual reports demonstrate poor revelation in the Environment and Health and Safety classifications, and no disclosure in Energy class (Gao et al., 2005).

Numerous studies have been conducted on particular industrial segment. In 2000, Adams and Kuansirikun, for instance, examine the pattern of CSRep in the yearly reports of UK and German organizations, especially between the years 1985 and 1995 in the pharmaceutical and chemical industries. In the era of eleven years, disclosure level of CSR by the UK and German nations regarding volume increased. CSR reporting by German organizations is observed to be further progressive and they report more facts and figures than UK organizations particularly for the environmental category.

The differences in the idea of CSRep between the two nations all through the eleven-year period are for the most part because of the nonappearance of environmental and natural control regulations in the UK, and the connections between industry and government, social, culture and political pressure groups (Adams and Kuansirikun, 2000). In Australia 2008, Guthrie, Cuganesan and Ward considered CSRep in food and beverage industry with an end goal to build up an industry-particular social & environmental reporting system. In exploring and analyzing the annual reports & corporate websites, the authors find that most corporations in the Australian food and beverage industry pattern to report more social information concerning to industry-specific concerns (Guthrie et al., 2008). The procedures and methods used to report social information, facts and figures are significantly unique between corporations. However,

mostly narrative disclosure is chosen by many corporations (Guthrie et al., 2008). The corporations prefer to report social facts and figures on corporate websites rather than in annual reports, and furthermore report different sorts of facts in those two mediums of revelation (Guthrie et al., 2008). In the United Kingdom and Finland, An investigation for focus and standardized sustainability reporting was led in the biggest 100 organizations (Fifka and Drabble, 2012). The authors study not only encompassed the reporting and the media of disclosure, but also cover the reporting standards, rules and guidelines. Fifka and Drabble (2012) find mixed outcomes for the effect of culture & environment on the focal point of reporting and the use of standards, and the effect is limited. The authors likewise uncover that a culture-situated shareholder does not impact of further reporting on economic issues, and the quality and strength of environmentalism influences the degree of environmental reporting (Fifka and Drabble, 2012).

There have been numerous investigations that consider the banking and finance industry particularly, which are especially important and pertinent to this examination. From the previous review, the investigations of CSR and CSRep in developed nations seem to concentrate more on CSR standards and procedures and furthermore on a more strategic focus. In most developed countries, disclosure levels are increasing and variables of impact appear, by all accounts, to be for the most part size, industry and performance.

2.3.4 CSR and CSRep studies in developing countries

Research on CSR in less- developed nations is inadequate and limited, however, it is eminent that studies or researches are expanding. For instance, In Qatar, Al-Khater and Naser (2003) investigate the opinion of various stakeholder users of annual reports with respect to the responsibility and accountability process. The respondents were additionally queried some information about the view of CSR data being stated in annual reports (Al-Khater and Naser, 2003). The results demonstrate stakeholder users in Qatar are keen-sighted more CSR disclosure in annual reports as a segment of the responsibility and accountability process by an organization, and in that capacity, they have confident that legislation plays a vital role in encouraging the foundation & advancement of CSR disclosure (Al-Khater and Naser, 2003). Along these lines, all stakeholder users in Qatar society would be permitted and authorized for,

and have the chance to, approach the social information of a company. The authors comment that users of annual reports in Qatar are not anxious with the manner in which corporations are communicating CSR information, it might either be incorporated in the board of directors' statement or in a separate CSR segment within the annual report, as long as the CSR facts and figures are easily accessible by the corporate information users (AlKhater & Naser, 2003).

Katsiolouides and Brodtkorb (2007) led a questionnaire poll to investigate the familiarity with CSR in United Arab Emirates (UAE) enterprises. From every private segment in the Non-Free Zone in Dubai economy, the information on CSR familiarity among UAE companies are (Katsiolouides and Brodtkorb, 2007). The researcher conduct the CSR awareness study on three key traits of CSR: environment , community affairs, & consumer protection. Usually, the investigation finds that most organizations have a feeling of CSR awareness in UAE (Katsiolouides and Brodtkorb, 2007).

In UAE regarding the environment, numerous organizations adhere to the general legitimate prerequisites related with nature and environment but they don't generally promise to participate in development and advancement in ecological exercises, for example, assessing environment effect, thinking about the effects of supply chain on the environment, or setting pointers to avoid destructive actions and dangerous activities to the nature and environment (Katsiolouides and Brodtkorb, 2007). On community issues, a larger part of UEA organizations commit to be engaged with the network which their tasks serves, for instance through winning schemes and activities that could provide benefit to society (Katsiolouides and Brodtkorb, 2007). As far as customer protection is concerned, numerous organizations evaluate the performance of customer services utilizing customer complaints as a key measure (Katsiolouides and Brodtkorb, 2007). Absolutely, the authors sense a significant impact of Islam as an official religion in the UAE, with respect to the business obligations to environment, community affairs, and customer protection, in which regarding such obligations can determine significantly the success of a business (Katsiolouides and Brodtkorb, 2007).

A case study of CSRep practices of a major textiles organization in Bangladesh presented by Islam and Deegan (2008) i.e. (BMGEA). In order to achieve in depth understanding of CSRep disclosures, senior officers from BMGEA who were involved in cloth manufacturing and export related activities interviewed by the author regarding in developing country social and

environmental pressures and expectations confronted by the textiles corporations (Islam &Deegan, 2008).

As indicated by Islam &Deegan (2008), the Bangladeshi textiles industry is commonly condemned by the global media and NGOs for issues identified with sweatshops, human right misuse, and poor working condition related to security, health and safety of individuals in the work place. Furthermore, a textiles organization such BMGEA has business relations with worldwide buying organizations, for example, H&M, Reebok, Nike, and others (Islam and Deegan, 2008). The multinational buying organizations strictly follow social implicit rules and requirements that BMGEA also strictly to implement these sets of principles, whereby failing could consequence in orders termination. From this time, powerful stakeholders such as the agents of multinational buying organizations, the International Labor Organization (ILO), NGOs, UNICEF, and US and EU Governments, have great influence and social pressure on the textiles industry in Bangladesh particularly related about dealing with social issues (Islam and Deegan, 2008). Through the investigation, it was discovered that the Bangladeshi textiles industry responds to the influence and social pressure of powerful stakeholders through implementing operating policies, strategies and sets of accepted rules and conducts which are practically identical to the practices and acts of the powerful stakeholders in developed nations. In institutional theory, this is known as coercive isomorphism (Islam and Deegan, 2008).

A longitudinal analysis of CSR disclosure of the top 40 Thai corporations over the years 1997, 1999 &2001 conducted by Ratanajongkol et al.. (2006) which exposes that the volume of CSR disclosure has improved. The research also discovers that Thai corporations in varies industries emphasis on diverse themes of CSR disclosures, but normally human resources is the theme that is being given the most importance and attentions (Ratanajongkol et al., 2006). However the five years trend demonstrate an inconsistency within diverse industries (Ratanajongkol et al., 2006). In Thailand, the different patterns of CSR disclosure in the study are clarified through multiple different points of views. The authors describe that the increasing pattern of CSR disclosure by Thai businesses in the properties sector and service sector is owing to legitimacy theory (Ratanajongkol et al., 2006). In the finance sector, Thai organizations show a decreasing pattern of CSR disclosure and that can be described by monetary and economic conditions as a recession occurred in 1998 (Ratanajongkol et al., 2006). In the manufacturing industry, the pattern of

fluctuating CSR disclosure by Thai companies is clarified through the political economy theory and management self-interest (Ratanajongkol et al., 2006)

By using stakeholder theory, an investigation of CSR disclosure and corporate reputation has also been led in Libya (Bayoud et al., 2012). The authors studied annual reports of 40 Libyan companies to get CSR disclosure level and led questionnaires poll among employees and managers of companies to quantify corporate reputation. Bayoud et al. (2012) find that CSR disclosure level in Libya has grown-up owing to stakeholders' pressure. The authors also notice that managers and employees recognize that CSR disclosure is an indicator of better CSR conducts and consequently impacts the corporate reputation (Bayoud et al., 2012). High CSR disclosure level has strong connection with corporate reputation for stakeholder groups which is established through this study (Bayoud et al., 2012).

Overall, the pattern in developing nations as in developed nations, is growing disclosure. The limited literature also demonstrates that, stakeholders influence, emerging financial and economic conditions and industry are affecting components.

2.3.5 Summary of CSR and CSRep studies

In the previous sections, the investigation of CSR and CSRep in developed and developing countries were studied, and a number of important issues pointed-out. In terms of volume and quality, both CSR and CSRep disclosures are more advanced in developed countries, as expected. In developed countries, the investigation on CSR and CSRep have advanced to investigate the reasons, influences and motivations on CSRep such as strategic position, economic performance and stakeholder issues. In developed countries, the companies put emphases more CSR principles, standards and procedures.

As compared to developed countries in developing countries, CSR is less established. Studies in a Gulf countries like Qatar and UAE have quite begun to analyze the existence of CSR information in their corporations annual reports & the know-hows of CSR in their corporations. In Bangladesh as developing country, where globalization and business actions are probably going to have positive, negative and dramatic effects on environment and social, their CSR themes are more related to equal opportunities for women, hunger, poverty, disease, child labour and a healthier environment. Whereas in Thailand, a developing country where there is swiftly

expansion in economy and offering beneficial market growth for business, is dealing with how to promote and improve the CSR disclosures and this depends greatly on improvements and reforms in politics and economic advancement of the country.

On developing countries, there are other studies especially in the area of environmental reporting, but the general patterns are same. Obviously, CSRep is at an emergent stage but it is definitely on the agenda of corporations in these nations. Whereas Malaysia is a developing country just like to Thailand, and in both nations CSRep practices are expected to be more or less the similar, the basic difference between these two nations is the culture and particularly religion, which can also effect CSRep practices. As this thesis is in the context of Pakistan, it aims to add to a better understanding of CSRep practices in Pakistan from an Islamic point of view.

Chapter 3 **Methodology**

3.1 Methodology concept

Methodology depicts the way or process, by which researcher conduct studies research. Different ways of conducting a research are offered to researchers , by using these methods researchers treat their questions or hypothesis about research studies and these questions or hypothesis are the results of different problems from different field of studies. These researchers select appropriate way that support in their study problem solution and collect data for their studies from different sources. After the collection of data, researchers usually interpret and analyze the data results for the solution of research problem. So, there are several ways of research and scholars select one of the ways or the combination of methods to answer their research problem.

3.2 Research Methodologies types

- Quantitative research
- Qualitative research
- Mixed methodology

3.2.1 Quantitative Research

Quantitative method of research refers to the computational or statistical practice. For making a statistical model researcher use quantitative research. Quantitative research method measures the hypothesis, then results are linked to theories of research study. Estimation method is considered difficult for the study of quantitative research. The main reason behind it is the link of tentative observation with the scientific articulation through the quantitative link.

3.2.2 Qualitative Research

Another method of research is qualitative research in which an extensive approach is used. It is subjective method. It is used when answer to research question cannot be derived through quantitative method. It consists of open ended information.

3.2.3 Mixed Methodology:

It makes use of qualitative as well as quantitative methods depending upon nature of research questions. It is a methodology for conducting research that involves collecting, analyzing and integrating quantitative e.g., experiments, surveys and qualitative e.g., focus groups, interviews research. It is used when this integration provides a better understanding of the research problem than either of each alone.

Research Design:

Mixed method research design has been used to answer research questions. To answer our first research question we used quantitative approach i.e content analysis. To answer 2nd and third research question we have used qualitative approach.

Data Collection:

Primary and secondary have been used for analysis

Primary data:

To answer 2nd and 3rd research question we conducted semi structured interviews. We conducted interviews with employees of banks and customers of banks to determine their perception about Islamic bank social reporting.

Secondary data:

To answer our first research question, we collected data from annual reports of 21 Islamic banks. Later on content analysis was performed on data.

Quantitative Data analysis

Content Analysis:

In this study, we intended to discover the social reporting practices of Islamic banks in Pakistan and also make use of immanent critique, to highlight claims made by Islamic banks regarding their adherence to Sharia and social justice and counter these claims with the levels and quality of disclosures related to detail and specific social activities. In this study, we adopt ethical identity Index Benchmark which was developed by Hanifa & Huddaib (2007) and named Ethical Identity Index (EII), which required to explore the ethical identity of Islamic banks as communicated through annual reports or on websites. To attain this objective, content analysis is used as a research method to examine the annual reports or websites of the 21 Islamic banks that are operating in Pakistan. As per Krippendorf, (2004), Content analysis is a scientific tool for researcher and it provides new insight, increases a researcher's understanding on new phenomena and issues.

The extensive use of content analysis as research method is applied in social reporting literature (Maali et.al, 2003; Branco and Rodrigues, 2006 Gruning ,2007; Boesso &Kumar, 2007,; Holcomb, 2007) for determining the extent of an organization's social disclosures through media of communication, annual reports, company websites, press release or any other media. This is valid reason to prefer the content analysis as the research method in this research.

To determine whether or not Islamic banks in Pakistan are fulfilling the requirement of Sharia law by full comprehensive, true and fair disclosure of check listed items that were developed by Hanifa & Huddaib (2007), Islamic banks ought to be disclosed in their annual reports or on websites.

Sample Selection

As the researchers' this study is undertaken in Pakistan, Therefore, The primary population of this study consisted of entire network of Islamic banks that are operating in Pakistan. Presently, there are 21 Islamic banking institutions; 5 full-fledged Islamic banks and 16 conventional banks having standalone Islamic banking branches or Islamic Window Operations in Pakistan.

“Fully-fledged” denotes that the banks are stand-alone Islamic banks separately incorporated, and not merely Islamic windows. The decision is made to select both fully-fledged Islamic banks and conventional banks having standalone Islamic banking branches or Islamic Window to reckon that either only fully-fledged Islamic banks would be more committed towards adhering to Islamic Sharia, rather than Islamic windows which simply provide alternatives to interest products and not adhere with the Islamic Sharia principles but are still part of a conventional bank.

The population is laid down based on availability of information in SBP Bulletin. They are as follows: category

No.	Category	Banks	Number of Branches	Sub-Branches	Windows Branches
1	Islamic Banks	ABP	180	8	
2		BIP	218.	112.	
3		DIBP	200.		
4		MZB	601.		
5		MCB Islamic	76.		
		Sub Total	1,275.		
1	Standalone Islamic Banking Branches of Conventional Banks	ABL	117.		
2		ASK	91.	3.	
3		BAH	53.		126.
4		BAF	152.		121.
5		FBL	199.		
6		HBL	45.	2.	495.
7		HMB	29.		214.
8		NBP	170.		
9		SBL	30.		
10		Sindh Bank	14.		13.
11		Soneri Bank	18.		
12		SCB	9.		84.
13		SUB	14.		35.
14		BOK	84.		39.
15		BOP	68.	2.	
16		UBL	93.	1.	156.
	Sub-Total	1,186.	128.	1,283.	
Grand Total			2,589.		

Research Instrument

In this research, we adapted, the “ideal ethical identity” Dimensions constructs formulated by Hanif & Huddaib (2007) in order to determine the social reporting practices of Islamic banks in Pakistan. The purpose behind the adapting Hanif & Hudaib (2007)’ specification was because it encompassed all detailed list of matters known as “constructs” which Islamic banks must to reveal. In the disclosure patterns of Islamic banks, one the most latest and resent study was conducted by Hanif & Hudaib in 2007 and other one is Maali in 2006 and consequently conveyed the most recent trends in the field of social reporting practices by Islamic banks. In this study, we adapted Hanif & Hudaib (2007)’s index mostly.

Avery significant observation that did not take into account by Hanif & Hudaib (2007) in their identity index was the fact that the Islamic banks’ activities that effect directly or indirectly on the environment which ought to be integral part of the Islamic banks social reporting and banks must focus on it. As this study aim to explore the social reporting practices by the Islamic banks, it is very essential to include facts that dealing with the environment. To achieve this aim, wealso incorporated Maaliet.al’s (2006) study (examined Islamic banks social reporting practices) in our research. The main stimuli to select this study is that it is the resent time research that focused on environment as factor in social reporting practices of the Islamic Banks apart from Hanif & Hudaib(2007). In research 2006Maali built-in an “environment” dimension in their study instrument and under this dimension had one point that we expected from Islamic banks to disclose in their annual reports and on websites, and this is delineated as follows:

“The projects financed by the bank that may not lead to harming the environment”.

This “environment” “construct” itemized above was incorporated in the “ideal ethical identity Index” under the “Community” Dimension, as in the community, the environment is viewed as piece of the banks’ stakeholders.

Therefore, the agenda utilized by us for this study comprised of 6 dimensions and 62 constructs. This checklist copy is appended in the addendum section of this study.

Data Collection and Analysis Procedures

For Analysis, The annual reports of 21 Islamic banks operating in Pakistan were taken from their several websites for 5 consecutive years (2013-2017) covered in this study. The annual reports of these banks are read completely to determine the items that they revealed as required by the Benchmark Ethical identity checklist. To determine whether any inconsistency, discrepancy and divergence existed between actual disclosure levels and Benchmark disclosure levels as defined by the checklist, a disclosure index was applied which were developed by Hanifa and Hudaib (2007) and labelled the Ethical Identity Index (EII).

To determine the level of disclosure and immanent critique in the annual reports of the 21 Islamic banks, dichotomous, Zero score was allotted for every item or construct of the checklist that was not disclosed in the annual report or on websites of Islamic bank, and “1” score for every item disclosed in Annual reports or on websites, and item or construct disclosed in ambiguous way or in a less explicit way was given 0.5 score. Moreover, no Islamic Banks was given an extra score if it revealed a construct or item more than once in its annual reports or on websites.

Every dimension had a certain type and numbers of constructs under it, which Islamic banks intended to disclose to satisfy the Shariah Compliance requirements with full disclosures. To evaluate and determine how well Islamic banks ensured the disclosure for each of the 6 dimensions, the Ethical Identity Index of every dimension was calculated and computed from all annual reports and websites examined in past five years (2013-2017) covered by this study. The result assessment and computation is stated to as termed Ethical Identity Index (EII). The denoted the scores in the form of an indexes calculated as under:

$$EEI_y = \frac{\sum_{t=1}^{ny} X_{xy}}{n_y} \dots \dots \dots (1)$$

Where

EEI_y = 5 year annual dimension ethical identity index for “yth” bank

X_{xy} = number of items or constructs disclosed by yth bank under dimension “X”

And X_{xy} = 1 if xth construct or item is disclosed, 0 if xth item or construct is not disclosed

So that $0 \leq I_y \leq 1$.

n_y = ideal number of items to be disclosed under that dimension.

$n_y \leq 62$

Qualitative data analysis:

In the second portion of the thesis, the interviews were conducted from the Employees of Islamic banks. The main purpose was to find out the perception of employees of Islamic banks regarding Islamic social reporting. demographic details of all the interviews is given in the table below, the main themes of all the interviews and answer given by each of 12 interviewees are also shown below.

Research Design

As Per Yin (2002), qualitative study is an organized way of considering an issue, accumulating data, analyzing information & then preparing report about specific issue. After detailed review of literature, by taking into account strength, weaknesses, and implication of various qualitative techniques, we have used generic approach in our study and it was most suitable for our study. As per Cooper & Endacott (2007) the generic approach is used when researchers do not want to study cultural factors or to develop any theory, but want to examine only participants' view point about specific process or situation. This approach was necessary to discover that participants' opinion about Islamic banks social reporting

Population:

To answer 2nd research, population for semi-structured interviews involved managerial level employees of Islamic banks who had ample knowledge about financial matters and reporting of their banks. Whereas to answer 3rd research question, our population consisted of consumers of Islamic banks.

Sample:

In qualitative research, there is no defined sample size. As per Cooper & Endacott (2007) sample size of five to eight is regarded as sufficient. Saturation technique is used to extract and collect data. We started with purposive sampling and Interviews were taken until point of saturation. As per Mason(2010) it is the point where collection of additional data will not throw any light on issue under investigation. In our study Saturation occurred at 6th interview related to 2nd and third research questions. In total, we conducted 12 interviews.

Instrument:

Instrument elaborate queries which were inquired in meeting & interview process. It comprised of open ended questions in order to build rapport with respondents. Our interview protocol consisted of 2 questions to 2nd RQ while we utilized one interview questions in relation to 3rd RQ.

Validity

In qualitative research design there is no single reality. There is subjective realism. So it depends upon fact that how researcher interprets reality by using appropriate means of data collection.

Content validity:

To decide appropriateness and relevance of questions which were to be questioned in interviews we got experts & professionals views about our `topic under examination as well as questions. In this manner, specialists helped us to frame our final questions.

Triangulation:

Triangulation technique includes utilization of numerous techniques to cross verify information gathered. It is applied for not only data validity but also for reliability. Aside from interviews, we evaluated annual reports and different instructions circulars issued by SBP to validate claims/ views of participants.

Thematic Analysis:

Thematic analysis was utilized to analyse interviews, to create themes and to achieve an end. It is multi step procedure. At first phase we applied open coding and in second phase, we utilized axial coding technique.

Chapter 4 Analysis

Quantitative data analysis: content analysis

4.1. Vision and Mission Dimension

Over the 5-year period examination in Pakistan, the results under this dimension _ vision & mission' shows that Standard Chartered Bank scored the highest EII, followed by Al-Baraka Bank (Pakistan) , with Soneri Bank, Sindh Bank , Silk Bank, Faysal Bank, Bank Al-Habib, being the lowest for 5-consecutive years. For this dimension, 5-years mean EII (built on each bank) ranged from 0.06 to 0.89

In examination of Islamic banks five years annual reports in Pakistan, under dimension of "Vision and Mission statements" mostly Islamic banks disclosed appreciation to shareholders & customers and Emphasis on maximizing shareholders return construct in their annual reports. For instance UBL as reported in their annual report:

***Vision-**"To be a leading bank for partnering in financial growth through innovation and service"*

***Mission-**"To be a catalyst for economic growth, serving the nation through diversified product offering, innovation, superior service quality, universal banking capabilities, multiple delivery channels, investment in people and processes and work towards sustainable higher returns for stakeholders" (NBP)*

We noted that not a single bank communicated construct of Commitments to fulfil contracts via contract statement under this dimension from 2013 to 2017 period.

Among pure Islamic Banks only two Standalone Islamic Banking Branches of Conventional Banks named Standard Chartered Bank (Pakistan) and Habib Metropolitan Bank tend to emphasize the constructs related to Commitments in working within Shariah ideas / principles, Commitments in providing returns within Shariah principles, Current directions in serving the needs of Muslim community, Future directions in serving the needs of Muslim community, Commitments to engage only in permissible investment activities & Commitments to engage only in permissible financing activities.

For instance Meezan Bank as narrated in its annual report:

Vision-*“establish Islamic banking as banking of first choice...”*

Mission-*“To be a premier Islamic bank, offering a one-stop shop for innovative value-added products and services to our customer within the bounds of Shariah....” (Meezan Bank)*

Mostly Conventional Banks having Standalone Islamic Banking Branches or Islamic windows are operating and working under same Mission and Vision Statements as narrated or reported by the Conventional banks. Only two Standalone Islamic Banking Branches of Conventional Banks declared separate Mission and Vision Statement in addition to Conventional Banking Mission and Vision Statements

For instance Standard Chartered Bank as narrated in its Website:

Vision- *“To be the leading Islamic financial institution of Pakistan by being the preferred choice of customers seeking Islamic financial products in the market”.*

We also noted that ABL communicated its Islamic Banking Vision in its Annual report 2014 under this dimension after that bank did not do so till 2017 under the review of 5 years Annual reports. So this factor brought nominal Score variation from 0.30 to 0.31 within 2014

One possible explanation for ABL addressing this dimension in 2014 is due to start of Islamic Banking Operations its competitiveness in this region, as narrated in its annual report:

Our vision “To be the first choice Sharia Compliant Financial Services Provider for the customers”. (Allied Bank Annual Report 2014 P-29)

Only One Conventional Bank MCB Bank Ltd converted its standalone Islamic banking setup into separate entity and established it as a fully Islamic Bank in 2015. Therefore, MCB Islamic Bank report its Vision and Mission Statement separate from its Conventional Banking Mission and Vision statement.

For instance, it specified in its annual report

Vision- *To be the leading provider of high standard shariah compliant innovative financial products, quality service & superior value of our customers, shareholders, employees & community.*

Mission- *Islamic financial solutions for the global community, admired for their innovative nature and shariah compliance. (MCB Islamic Bank Annual Report 2015)*

13	Silk Bank Limited	0.06	0.06	0.06	0.06	0.06	0.06
14	Sindh Bank Limited	0.06	0.06	0.06	0.06	0.06	0.06
15	Soneri Bank Limited	0.06	0.06	0.06	0.06	0.06	0.06
16	Standard Chartered Bank Ltd	0.89	0.89	0.89	0.89	0.89	0.89
17	Summit Bank Limited	0.22	0.22	0.22	0.22	0.22	0.22
18	The Bank of Khyber	0.22	0.22	0.22	0.22	0.22	0.22
19	The Bank of Punjab	0.22	0.22	0.22	0.22	0.22	0.22
20	United Bank Limited	0.22	0.22	0.22	0.22	0.22	0.22
21	Bank Alfalah Limited	0.22	0.22	0.22	0.22	0.22	0.22
		0.30	0.31	0.34	0.34	0.34	0.32

4.2 Dimension: Shariah Supervisory Board (SSB)

Under the dimension Shariah Supervisory Board’, all Islamic Banks were found to communicate consistently over the 5- year period and there was further improvement held after April 07, 2015, when SBP circulated the Shariah Governance framework for Islamic Banking branches and meticulous compliance is mandatory for all Islamic Bank either pure Islamic Banks or Standalone Islamic Banking Branches of Conventional Banks. Before this Shariah Governance framework, except Meezan bank and Bank Islamic Pakistan, all Islamic Banks carried out their Islamic Business operation under the supervision of Shariah Advisor rather than Shariah Supervisory Board and Sharaih report was issued by all Islamic banks with the name of “Shariah Advisor's Report” rather than Report of “Shariah Board” which were acknowledged by only Shariah Advisor with his name or signature. At the year ended 2015 in Annual reports all Islamic banks were fully complied with the instructions passed by the SBP as regulatory body for Islamic Shariah reforms, acknowledged the Shariah report by all Sharia Supervisory Board Members. Only Meezan Bank and Bank Islamic Pakistan disclosed their Sharia Supervisory Board Members and their profile as

“ Two new members have been included in the Board namely Mufti Muhammad Hassan `Kaleem & Mufti Talha Saleem Kapadia. After reconstitution Mufti Irshad Ahmad Aijaz has been appointed as Chairman of the Shariah board & Shariah advisor of the bank. Brief profiles of the board members are.....”(Meezan Bank, Annual Report 2013)

We also noted that eight Islamic Bank named BAF, BOP, NBP, HBL, HMB, BAH, Summit Bank and Soneri Bank their Shariah Supervisory Board and/or Shariah Advisor had never signed off the Shariah Report. Only two Islamic bank attached the Pictures of Shariah Supervisory

Board members (Dubai Islamic Bank pasted only two Shariah Supervisory Board members out of three on their Website and MCB Bank Islamic Bank started this practice in their annual report since-2016). All Islamic Banks, with the exception of Dubai Islamic Bank and Habib Metro Bank, disclosed the Shariah Report publically. DIP and HMB, EII related to shariah supervisory board is significantly lower (0.23) and (0.29) respectively than the rest of the banks, representing potential problem with communicated ethical identity issues. On the websites of these two banks, Dubai Islamic Bank Pakistan Ltd only 2017 Shariah report is available, whereas HMB has published only two Annual reports i.e. 2016 & 2017.

Remarkably, we observed an upward movement in communication on Shariah supervisory board aspect through Islamic bank in Pakistan over the 5-years period. The 5-years mean EII also indicates seventeen Islamic Banks to `communicate more than 50 percent of the constructs under this dimension: In Pakistan, over the 5 consecutive years examination, the results under this dimension showed that Meezan Bank scored the highest EII (0.82), followed by FBL, UBL and Bank Islamic Pakistan Ltd with EII (0.78). For this dimension, the 5 years mean EII (based on each bank) ranged from 0.23 to 0.82.

For instance reported as

“During review, any matter requiring corrective measures have been noted and were resolved by the management or ensured to be rectified in future” (FBL Annual Report-2017)

All Islamic Banks, with the exception of Summit Bank, disclosed the remuneration of their SSB members (in the notes of Annual Report). During 5 years examination period, Only Meezan Bank consistently indicated the number of meetings held and to ensure the disclosure of how many SSB members meeting held during financial year, SBP issued IBD circular #1 on 7th April 2015 that has come into force with effect from 01 July 2015. Albarak Bank, Summit Bank, Soneri Bank, SCB, Silk Bank, BAF, Bank Al Habib, AKB and ABL still violating this instructions in their Annual Reporting. For instance Meezan Bank disclosed the SSB meeting as

“ Shariah Supervisory Board (SSB) of Meezan Bank held six meetings to review various issues, referred to them by the Bank” (Meezan Bank, Annual Report 2017).

SSB report of UBL proposed that their reviews were based on all transactions, as specified in the following words

“SCD carried its legacy of close surveillance of all matters of UBL Ameen Islamic Banking which are directly or indirectly related to Shariah. During the year, 131 visits were made by Shariah Compliance Department to Ameen Branches and Windows. Report of each visit was shared with Ameen District Managers, National Sales Manager and Head Islamic Banking for rectification and compliance. Shariah Compliance Department submitted its consolidated quarterly reports to Shariah Board for ratification. Reports consisted details of all Shariah reviews and opinions given and made during the year. For reviewing corporate transactions, SC process is divided into three steps

- 1) Pre Disbursement Stage*
- 2) Disbursement Stage*
- 3) Post Disbursement Stage” (UBL Annual Report-2017)*

On the other side, the SSB report of FBL clearly narrated that the reviews were based on samples. In terms of identifying whether there had been any `defects in the transactions or product and services that they examined, the SSB of all Islamic Banks consistently reported no `defects in specification or details in the product and services or transaction, as we can see from the following statement:

“During the reviews conducted by Shariah Compliance Department and Internal Shariah Audit, various transactions were referred to Shariah Board where due to violations of the Shariah guidelines under the approved process and policies were observed. (FBL Annual Report 2017).

But not clearly elaborated any specific defect or detail of defects in transaction or product and services The SSB reports of mostly Islamic Banks indicated defects in such away and described how they were rectified, as

... “During the reviews conducted by Shariah Compliance Department and Internal Shariah Audit, various transactions were referred to Shariah Board where due to violations of the Shariah guidelines under the approved process and policies were observed. PKR 0.556 million was attributed to such cases, which was transferred to charity funds” (FBL Annual Report 2017).

The SSB report of Islamic banks further indicated that SSB has been directed to enter or credit the profit to a charity account which earned through any resources that are not according to the Islamic ethical principles:

The system within the Bank is sound enough to ensure any earning realized from prohibited sources is not made a part of the income. The same is duly credited in the charity account and are being utilized properly... (ABL Annual Report 2015).

Unpredictably, in spite of the reporting of no defects in the transactions and process, there were conflicting and contradiction in statements in the ABL's SSB report in 2015, as evidenced by the following:

“The business affairs of ABL-IBG, especially with reference to transactions, relevant documentation and procedures, performed by the Bank during the year 2015 are in conformity with the principles and guidelines of Shariah and other guidelines issued by Shariah Advisor/ Board and State Bank of Pakistan”.(ABL Annual Report 2015).

“In order to ensure that income distributed to the stakeholders remains pure and Halal, income of Rs. 11 thousand has been transferred to Charity Account” (ABL Annual Report 2015).

The first statement emphasized compliance with Islamic shariah while the second statement advised that some parts and phases of earnings were from illegitimate resources or prohibited in Islam and that management was guided to dispose-off them to charitable sources. Interestingly, in the following 2 consecutive years, the SSB reports of UBL evidently state the existence of defects and their recommendations to management, as in the following:

“Shariah Board recommends that Provident & Gratuity Funds of Ameen Staff are still not Shariah Compliant after 1 years of Islamic Banking Operations”.(UBL Annual Report 2016 P-51).

“Shariah Board recommends that Provident & Gratuity Funds of Ameen Staff are still not Shariah Compliant after 11 years of Islamic Banking Operations”.(UBL Annual Report 2017 P-49).

SSB reports of all Islamic Banks consistently indicated that distribution of profits and losses were in line with Islamic Shariah, as evidenced by the following

“During the year, Profit was properly distributed to all saving account holders on Mudarabah guidelines. Pool calculations and Weightages were discussed with the Shariah Compliance Department on monthly basis and are subsequently vetted by RSBM. Internal Shariah Audit conducted its post disbursement audit on quarterly basis and presented its report to Shariah Board. UBL Ameen has complied with the SBP instructions on profit and loss distribution and pool management” (UBL, Annual Report 2017, p. 49).

Shariah Supervisory board							
S No	Name of Banks	2013	2014	2015	2016	2017	Overall Mean
1	Al-Baraka Bank (Pakistan) Ltd	0.09	0.09	0.73	0.73	0.73	0.47
2	Bank Islami Pakistan Ltd	0.73	0.73	0.82	0.82	0.82	0.78
3	Dubai Islamic Bank Pakistan Ltd	0.09	0.09	0.09	0.09	0.77	0.23
4	Meezan Bank Limited	0.82	0.82	0.82	0.82	0.82	0.82
5	MCB Islamic Bank Ltd	0.45	0.45	0.82	0.91	0.91	0.71
6	Allied Bank Limited	0.00	0.27	0.73	0.64	0.64	0.45
7	Askari Bank Limited	0.45	0.64	0.64	0.64	0.64	0.60
8	Bank Al Habib Limited	0.45	0.45	0.55	0.64	0.64	0.55
9	Faysal Bank Limited	0.73	0.73	0.82	0.82	0.82	0.78
10	Habib Bank Limited	0.45	0.55	0.73	0.64	0.73	0.62
11	Habib Metropolitan Bank Ltd	0.00	0.00	0.00	0.73	0.73	0.29
12	National Bank of Pakistan	0.64	0.64	0.64	0.73	0.73	0.67
13	Silk Bank Limited	0.73	0.73	0.73	0.73	0.73	0.73
14	Sindh Bank Limited	0.00	0.73	0.64	0.73	0.82	0.58
15	Soneri Bank Limited	0.64	0.64	0.64	0.64	0.64	0.64
16	Standard Chartered Bank Ltd	0.73	0.73	0.73	0.73	0.73	0.73
17	Summit Bank Limited	0.00	0.55	0.55	0.55	0.55	0.44
18	The Bank of Khyber	0.45	0.55	0.73	0.82	0.82	0.67
19	The Bank of Punjab	0.64	0.64	0.73	0.73	0.73	0.69
20	United Bank Limited	0.73	0.73	0.82	0.82	0.82	0.78
21	Bank Alfalah Limited	0.64	0.64	0.64	0.64	0.64	0.64
		0.45	0.54	0.65	0.69	0.73	0.61

4.3 Dimension: product and services

Under the dimension of “Products and Services”, all Islamic banks either pure Islamic banks or Standalone Islamic Banking Branches of Conventional Banks disclosed more than half of the required constructs in their annual reports of past 5 years examined.

The distinctiveness of the Islamic Banks is concerned to the nature of products and services that they offer, which has to be changed from that offered by conventional banks. In the interest of depositors, shareholders and other stakeholders, Islamic Banks required to be transparent, need to provide full and accurate information disclosure about their products and services, and to keep

concerned parties well informed. Therefore, on product-related information, corporate communication strategy is very important for users of business annual reports to evaluate and judge the Islamic Banks' ethical business conducts. We found Meezan Bank Limited to have the highest EII 0.9 Score, and remain constant 0.9 Score throughout 5 years on the other side, Sindh Bank Limited have lowest EII 0.54 Score related to this dimension. We also found communication of all Islamic banks either fully Islamic bank or Standalone Islamic Banking Branches of Conventional Banks on this dimension enhanced from 2013 to 2017 in their Annual reports or on their websites and overall Mean EII Score 0.73 for this dimension. Possible justifications can be time to time guidelines and shariah governance framework and close monitoring by the central bank (SBP):

The 5-years mean EII under this dimension ranged from 0.63 to 0.80, with the lowest for Sindh Bank Limited and the highest for Meezan Bank Ltd. No Single Islamic Bank out of 21 Islamic banks that are operating in Pakistan described the construct of this dimension "reason for involvement in non-permissible activities". All Islamic banks cover this gap through Sharia Report statement and "handling of non-permissible activities" construct through Charity to refine the income drive through non-permissible activities. Mostly Islamic Banks clearly stated no involvement in non-permissible activities. On an average basis all Islamic Banks disclosed that they have introduced new products and services for all 5 years.

"During the Shariah compliance review, it was confirmed that ABL-IBG did not earn any non-Shariah compliant income and thus no income was credited to Charity account" (Allied Bank Annual Report 2016)

Nearly all of the products offered by Islamic Banks are in Arabic expressions, Two Pure Islamic Banks named Meezan Bank Ltd and Bank Islamic Pakistan Ltd provided a glossary or a list of definitions of the products in their Annual reports as well as on their Websites rest of the Islamic banks provided glossary or a list of definitions of their products only on their websites. All Islamic Banks disclosed details of their financing and investment activities. However, the investing activities of all Islamic Banks are mostly in GoP Ijarah Sukuk etc and sharia approved firm. Regarding construct about Introduced new product, Approval ex ante by SSB for new product and Basis of Shari'ah concept in approving new product Meezan Bank Ltd stated

following statement about Product Development and Shariah Compliance department raises concern on the legitimacy of its claim of adhering to Islamic principles:

“Product Development and Shariah Compliance’ (PDSC) provides a centralized hub for research and product development activities, finding practical and Shariah compliant solutions for different financial needs, conducting Islamic banking trainings and Shariah compliance exercises. PDSC works under the guidance and direct supervision of the Bank’s Resident Shariah Board Member and the Shariah Supervisory Board (SSB) of the Bank.” (Meezan Bank Limited Annual Report 2017 P-100)

Unusually, All Islamic Banks either pure Islamic banks or Standalone Islamic Banking Branches of Conventional Banks communicated details of their financing activities in firms and different projects which were approved by Shariah.

Product							
S No	Name of Banks	2013	2014	2015	2016	2017	Overall Mean
1	Al-Baraka Bank (Pakistan) Ltd	0.60	0.60	0.70	0.70	0.60	0.64
2	Bank Islami Pakistan Ltd	0.90	0.90	0.80	0.90	0.90	0.88
3	Dubai Islamic Bank Pakistan Ltd	0.50	0.50	0.50	0.50	0.80	0.56
4	Meezan Bank Limited	0.90	0.90	0.90	0.90	0.90	0.90
5	MCB Islamic Bank Ltd	0.70	0.70	0.80	0.80	0.80	0.76
6	Allied Bank Limited	0.00	0.80	0.80	0.80	0.80	0.64
7	Askari Bank Limited	0.60	0.60	0.60	0.60	0.60	0.60
8	Bank Al Habib Limited	0.70	0.70	0.70	0.70	0.70	0.70
9	Faysal Bank Limited	0.80	0.70	0.60	0.90	0.90	0.78
10	Habib Bank Limited	0.70	0.70	0.70	0.90	0.90	0.78
11	Habib Metropolitan Bank Ltd	0.50	0.50	0.50	0.80	0.80	0.62
12	National Bank of Pakistan	0.50	0.80	0.70	0.80	0.80	0.72
13	Silk Bank Limited	0.50	0.80	0.70	0.80	0.80	0.72
14	Sindh Bank Limited	0.30	0.40	0.60	0.70	0.70	0.54
15	Soneri Bank Limited	0.80	0.80	0.50	0.50	0.50	0.62
16	Standard Chartered Bank Ltd	0.60	0.80	0.90	0.90	0.90	0.82
17	Summit Bank Limited	0.20	0.80	0.80	0.80	0.80	0.68
18	The Bank of Khyber	0.80	0.90	0.80	0.90	0.90	0.86
19	The Bank of Punjab	0.70	0.70	0.80	0.70	0.80	0.74
20	United Bank Limited	0.90	0.90	0.80	0.90	0.90	0.88
21	Bank Alfalah Limited	0.80	0.90	0.90	0.80	0.90	0.86
		0.63	0.73	0.72	0.78	0.80	0.73

4.4. Zakah, charity and benevolent loans

As religious duty, different matters discussed in this study may be insignificant as compared to zakah. It is mandatory for Islamic banks to disclose its payment as well as disclose its statement of sources and uses. The items included in the benchmark of the study is whether the Islamic Banks is liable to pay zakah or the owners (shareholders/customers) of the Islamic Banks have to pay it.

But in Pakistan, according to” the Zakat and Ushr Ordinance, 1980 (XVIII of 1980)”. Bank just deducted the Zakat @ 2.5% on outstanding amount at Minimum Balance amount which is declared by the Zakat committee every year before 1st Ramazan otherwise if shareholders/customers submitted the CZ-50 form to bank as per own Fiqa declaration It should be paid by shareholders/Customers on their Will.

“Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.” (HBL Annual Report 2017 Auditors’ ReportP-183)

As per Instructions of state in the light of Zakat and Ushr Ordinance, 1980, All Islamic banks operating in Pakistan are bound to deduct the Zakat and credit it to Centralized Zakat Committee fund A/C which is operated by the Centralized Zakat Committee and disbursed the funds to Provincial Zakat Committee, Divisional Zakat Committee and Local Zakat Committee to further distribution of Mustaheekin Person like widow, orphan children, needy students etc

The highest EII under this dimension for five consecutive years goes to Sind Bank, followed by BOK and NBP, with the rest of the eighteen Islamic banks being the lowest EII for 5 Year consecutive years. The lowest EII for five consecutive years was scored 0.20 by eighteen Islamic banks. The lower level of communication by eighteen Islamic banks in consecutive five years may be attributed to Zakat and Ushr Ordinance, 1980 (XVIII of 1980). The 5-years mean EII ranged from 0.20 to 0.31, the lowest being eighteen bank except BOK, NBP and the highest Sind Bank Ltd.

Opened more than 72,000 accounts of Zakat Mustehqeen and issued 'Benazir Muawanat Cards' for disbursement of Zakat to them through ATM. Benazir Muawanat Card focuses on supporting

the needy people in collaboration with Zakat and Ushr Department, Government of Sindh. (Sind Bank Annual Report 2017 P-11)

If we analyse statement regarding sources and uses of zakah, none of the Islamic Banks that examined in this study disclosed the statement of sources and uses of zakah in their annual reports. Only Al-Baraka Bank incorporated the Zakat Calculation Calculator regarding the computation of Zakah on its Website.

All Islamic Banks in Pakistan either pure Islamic or Islamic windows/standalone Islamic branches of conventional banks disclosed the uses & sources of charity. After approval from the SSB the following categories amount balances are transferred to charity account e.g to refine the dividend earnings earned from the investment made in the Shariah-compliant stocks by the Bank, any normal course of business on account of non-timely payments by customers in various financial transactions or any earnings realized from sources or by means prohibited by Shariah. The credit Balance amount of charity is disbursed to education, health and community development projects or schemes from the Charity A/C after authorization of the Resident Shariah Board Member.

Islamic Banks in Pakistan having practice the sources and uses of charity as under

<i>Opening Balance at Beginning of the year</i>		<i>xxxxxx</i>
<i>During the year, Add</i>		
<i>Overdue amount Received from clients</i>	<i>xxxxxx</i>	
<i>Purification of Div Amount</i>	<i>xxxxxx</i>	
<i>Nonshariah Income of Compliant</i>	<i>xxxxxx</i>	
<i>Yield on Charity Saving A/C</i>	<i>xxxxxx</i>	<i>xxxxxx</i>
<i>Less: Distribution of Charity</i>		
<i>Education</i>	<i>xxxxxx</i>	
<i>Health</i>	<i>xxxxxx</i>	
<i>Islamic Microfinance</i>	<i>xxxxxx</i>	
<i>Community Development</i>	<i>xxxxxx</i>	<i>xxxxxx</i>
<i>Closing Balance at December 31</i>		<i>xxxxxx</i>

One of the distinctive feature of Islamic Banks is the provision of Qard-ul-hassan (benevolent/good faith funds), i.e. offering loans without demanding any extra payment over and

12	National Bank of Pakistan	0.27	0.27	0.27	0.27	0.27	0.27
13	Silk Bank Limited	0.20	0.20	0.20	0.20	0.20	0.20
14	Sindh Bank Limited	0.27	0.27	0.33	0.33	0.33	0.31
15	Soneri Bank Limited	0.20	0.20	0.20	0.20	0.20	0.20
16	Standard Chartered Bank Ltd	0.20	0.20	0.20	0.20	0.20	0.20
17	Summit Bank Limited	0.20	0.20	0.20	0.20	0.20	0.20
18	The Bank of Khyber	0.27	0.27	0.27	0.27	0.27	0.27
19	The Bank of Punjab	0.20	0.20	0.20	0.20	0.20	0.20
20	United Bank Limited	0.20	0.20	0.20	0.20	0.20	0.20
21	Bank Alfalah Limited	0.20	0.20	0.20	0.20	0.20	0.20
		0.20	0.21	0.21	0.21	0.21	0.21

4.5 Dimension: commitments toward employees

Employee benefits and welfare is an essential aspect in which Islamic Banks have to maintain but also focus further improvement. In 5 years annual reports examination and websites study results indicated that almost all Islamic Banks disclosed all primary constructs of this dimension except Paid Training. Dimension Commitments toward employees revealed that all Islamic banks fulfilled more than half the prerequisite items in 5-years period.

The EII ranking for the 21 Islamic Banks over the 5-years period was determined to be consistent. In examination period 2013-2017, Meezan Bank, MCB Islamic, ABL, UBL, NBP and BAF shared the highest ranking and Scored 0.89 throughout 5 years of examination but the improvement was made by the Sind Bank it had lowest position in 2013 with Score of 0.44 but scored 0.67 in 2014 and further improved its Score to 0.78 in 2015 and remained consistent till 2017. Based on the 5-years mean, second highest scored followed by BOP, SCB, Soneri Bank, HMB, HBL and BIP, with the lowest being Silk Bank Scored 0.44. This dimension range was from 0.44 to 0.89. No single Islamic Banks communicated on paid Training construct except for Student internship program launched by NBP, UBL, HBL, MCB Meezan Bank etc. But All Islamic Banks revealed their commitments to provide Employees welfare only for their employees. However, for instance UBL, Meezan Bank and ABL communicated more regarding employees' welfare:

“The Bank has made full provision for Workers Welfare Fund based on profit for the respective years” (UBL Annual Report 2016 P-100)

“In 2012, The Bank established an Employee Benevolent Fund Trust (EBFT) for providing financial assistance to employees for welfare, education and marriage needs”. (Meezan Bank, Annual Report 2017 P-104)

Staff				
Rs. 249.43 (M)	Rs. 122.88 (M)	Rs. 39.84 (M)	Rs. 18.61 (M)	Female Staff: 1,569
Medical Facility Employees 1,867	Education expense Employees 951	Staff Welfare Fund Employees 96	Staff Cricket Tournaments - Events 4	Female Staff Ratio 15%
Medical Facility Ex- Employees 839	Training Expense No of Employees 9,586		Staff Hajj Employees	

(ABL, Annual Report 2016)

All Islamic Banks both pure Islamic along with Conventional Banks having Standalone Islamic Banking Branches or Islamic windows showed that they deliver proper training session for their staff members development and improvement in their awareness and understanding of the Shari’ah related Islamic banking matters and transactions or other training, as can be perceived in the following statement by NBP:

“Prior conversion and at the time new staff induction and for refresher, NBP-Aitemaad imparts with collaboration of Shariah Compliance Department 5 days basic Islamic Banking & Finance training sessions along with 2 days refresher courses to abreast them with Islamic Banking basic concepts, Alhamdulillah, 322 staff have been trained in 16 sessions in 2017. NBP had also availed the services of NIBAF to conduct this basic five-day training program.” (NBP, Annual Report 2017, P-97)

“Both in house and External Trainings courses, Bank spent Rs. 87.33 (M) on Trainings expenses; including foreign trainings as well”. (Allied Bank Annual Report 2016 P-73)

Under this dimension regarding construct about Training: student/recruitment scheme Pakistani 5Big banks which are NBP,HBL,UBL,ABL and MCB bank Islamic and SBP Tiers II Banks like Meezan Bank, For instance, it specified in its annual report 2017 by Meezan Bank

“In 2017, the Bank inducted 1,919 staff, out of which 232 were inducted through batch hiring. The batch hiring initiative enables the Bank to develop a regular talent pipeline for its ever expanding branch network. It also enables the Bank to contribute to the society by providing

employment opportunity to qualified, competent but otherwise professionally inexperienced youth and developing them into professional bankers “(Meezan Bank Annual report 2017 P-103).

“To enrich our human capital pool, HRMG has also completed hiring of trainee officers”. (NBP, Annual Report 2017, P-79)

This struggle is creditable because in offering exclusive and unique products, it is mandatory that staff members are provided with Special training (either through Shariah training or other training like IT, Soft skills etc.) to facilitate and improve the services offered. In other words, if employees are not equipped with latest technique, knowledge and not well familiar in the concepts of the Islamic banking system, they may not be competent to oblige or convince customer (either existing or potential) of the products and services offered, which may be cause of damage the image of corporate ethical identity.

All Islamic Bank disclosed their Employee numbers either permanent, temporary and out-source staff but here there is need of improvement for Conventional Banks having Standalone Islamic Banking Branches or Islamic windows to indicate their Islamic bank staff members' separately from Conventional banks staff because Conventional banks having Standalone Islamic Banking Branches or Islamic windows did not report Islamic bank branches or Islamic windows staff members separately and reported collectively with Conventional banks staff members here another improvement recommendation made by UBL Conventional bank having Standalone Islamic Banking Branches or Islamic windows shariah Supervisory board narrated as

“Shariah Compliant Staff Financing facilities like Home Financing & Car Financing should be introduced immediately as per the staff financing policy of the Bank. It is recommended to immediately implement Islamic financing products for the staff” (UBL Annual report 2013 P-36).

“Provident & Gratuity Funds of Ameen Staff are still not Shariah Compliant after 10 years of Islamic Banking Operations”(UBL Annual report 2016)

But regretfully, it is noted UBL shariah Supervisory board suggested same recommendation about Provident & Gratuity Funds of Ameen Staff once again in UBL Annual report 2017 that was not implemented by UBL Executive management.

10	Habib Bank Limited	0.78	0.78	0.78	0.78	0.78	0.78
11	Habib Metropolitan Bank Ltd	0.78	0.78	0.78	0.78	0.78	0.78
12	National Bank of Pakistan	0.89	0.89	0.89	0.89	0.89	0.89
13	Silk Bank Limited	0.44	0.44	0.44	0.44	0.44	0.44
14	Sindh Bank Limited	0.44	0.67	0.78	0.78	0.78	0.69
15	Soneri Bank Limited	0.78	0.78	0.78	0.78	0.78	0.78
16	Standard Chartered Bank Ltd	0.78	0.78	0.78	0.78	0.78	0.78
17	Summit Bank Limited	0.00	0.78	0.78	0.78	0.78	0.62
18	The Bank of Khyber	0.67	0.67	0.67	0.67	0.67	0.67
19	The Bank of Punjab	0.78	0.78	0.78	0.78	0.78	0.78
20	United Bank Limited	0.89	0.89	0.89	0.89	0.89	0.89
21	Bank Alfalah Limited	0.89	0.89	0.89	0.89	0.89	0.89
		0.69	0.74	0.75	0.75	0.75	0.73

4.6 Dimension: commitments toward community and society

In relation to this dimension, Over the consecutive 5-years results specify the Meezan Bank and MCB Islamic Bank had the highest EII. There was no communication on this aspect by Silk Bank in 5 years examination period. The general trend seems to be constant with little variation in such communication for most of the Islamic Banks. The 5-years mean EII ranged from 0.00 to 0.75, the lowest being Silk Bank with Scored 0.00 and the highest shared Score 0.75 of Meezan Bank and MCB Islamic Bank respectively.

In spite of corporate social responsibility forming an essential part of Islamic business ethics, it is astonishing to discover Islamic Banks not communicating much on this essential trait in their annual reports. Only one Islamic Banks specified that they are running exclusive ladies' branches, as confirmed in the following statement:

“HBL launched an all-women banking platform, HBL Nisa, in order to offer women financial freedom and increased opportunities. This monumental launch will change the face of banking for women across Pakistan”. (HBL, Annual Report 2015)

This shows obligation to meeting societal ethics in a state where discrimination of gender is public practice. In terms of responsibility and commitments to social role, All Islamic Banks clearly stated their role and contribution towards society. The following statements present the narrative as Islamic Bank:

“Bank spent Rs.45 million on general welfare of the community”. (Allied Bank Annual Report 2017 P-91)

Except AKB, Silk Bank, Soneri Bank, Summit Bank and BOP all Islamic Banks were offered Sponsorship of different events and communicated these in their annual reports or on their websites in the period of examination 2013-2017, as evidenced by the following statements:

“Bank sponsored social events, conferences and awareness programs, during the year 2016, by providing support of Rs.10.58 million” (Allied Bank Annual Report 2016 P-73)

In addition donating to charitable grounds, Islamic Banks also indicated commitments and responsibilities to participate and contribute in government and private social activities, as disclosed in the following schedule:

Society			
Rs. 20,234 (M)	Rs. 42.34 (M)	Rs. 21.84 (M)	Rs. 11.38 (M)
Outsourced Guards Financial Assistance Rs. 91.5 (M) Annual Increment for Outsourced Staff Rs. 1,500 p.m. (Min salary now: Rs14,500)	Sponsorship No. of Organizations 42	Education No. of Organizations 13	Healthcare No. of Organization

(ABL, Annual Report 2016p-67)

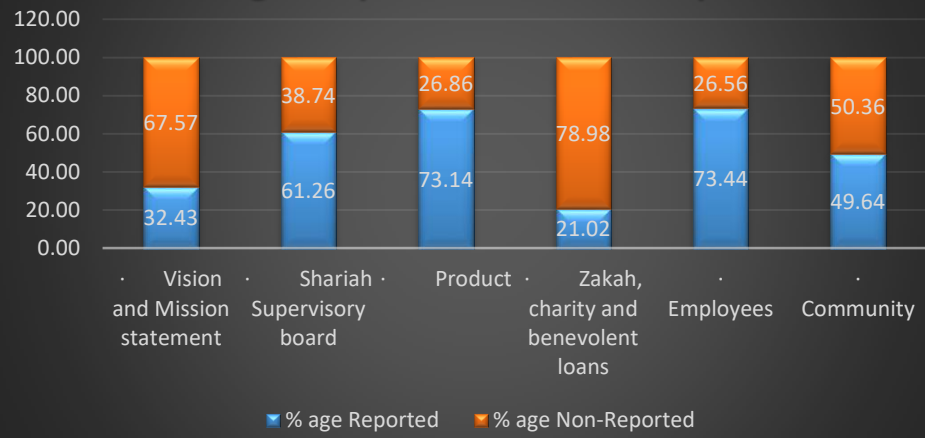
In content analysis under this dimension, construct about Environmental prospective, the projects financed and lend by the bank that may not lead to harming and damaging the physical environment showed that only one Islamic bank, BAF made disclosures regarding the environmental issues. In early 2015, vision with a responsible corporate citizen, BAF announced the Environmental and Management System (ESMS) in close support and coordination with International Finance Corporation (IFC) to support the Bank emphasis more vigilantly on the social and environmental issues in their financing and lending. BAF narrated it's as under

“The Environmental and Social Management System (ESMS) Framework is an integral part of the credit approval process and all relevant credit proposals require clearance of the E&S Officer prior to approval of the competent authority. The Environmental and Social Risk Management Unit is responsible for identifying, vetting and approving projects from an ESRM perspective.” (Bank Alfalah, Annual Report 2016).

In the response of significant development and action taken by BAF, in October 17, SBP issued Green Banking Guidelines for the banking sector. This demonstrates seriousness of regulators towards environmental issues and would greatly support banks in transforming their approach towards sustainable and viable development.

Community							
S No	Name of Banks	2013	2014	2015	2016	2017	Overall Mean
1	Al-Baraka Bank (Pakistan) Ltd	0.63	0.63	0.63	0.63	0.63	0.63
2	Bank Islami Pakistan Ltd	0.63	0.63	0.63	0.63	0.63	0.63
3	Dubai Islamic Bank Pakistan Ltd	0.63	0.63	0.63	0.50	0.50	0.58
4	Meezan Bank Limited	0.75	0.75	0.75	0.75	0.75	0.75
5	MCB Islamic Bank Ltd	0.75	0.75	0.75	0.75	0.75	0.75
6	Allied Bank Limited	0.63	0.63	0.63	0.63	0.63	0.63
7	Askari Bank Limited	0.13	0.25	0.25	0.00	0.00	0.13
8	Bank Al Habib Limited	0.63	0.63	0.63	0.63	0.63	0.63
9	Faysal Bank Limited	0.50	0.50	0.50	0.50	0.63	0.53
10	Habib Bank Limited	0.63	0.63	0.75	0.75	0.75	0.70
11	Habib Metropolitan Bank Ltd	0.63	0.63	0.63	0.63	0.63	0.63
12	National Bank of Pakistan	0.63	0.63	0.63	0.63	0.63	0.63
13	Silk Bank Limited	0.00	0.00	0.00	0.00	0.00	0.00
14	Sindh Bank Limited	0.13	0.63	0.63	0.63	0.38	0.48
15	Soneri Bank Limited	0.50	0.38	0.50	0.38	0.50	0.45
16	Standard Chartered Bank Ltd	0.63	0.63	0.63	0.63	0.63	0.63
17	Summit Bank Limited	0.00	0.13	0.13	0.13	0.00	0.08
18	The Bank of Khyber	0.38	0.38	0.50	0.38	0.38	0.40
19	The Bank of Punjab	0.13	0.13	0.13	0.13	0.13	0.13
20	United Bank Limited	0.75	0.63	0.00	0.00	0.63	0.40
21	Bank Alfalah Limited	0.63	0.63	0.75	0.75	0.75	0.70
		0.49	0.51	0.51	0.48	0.50	0.50

% age Reported & Non Reported

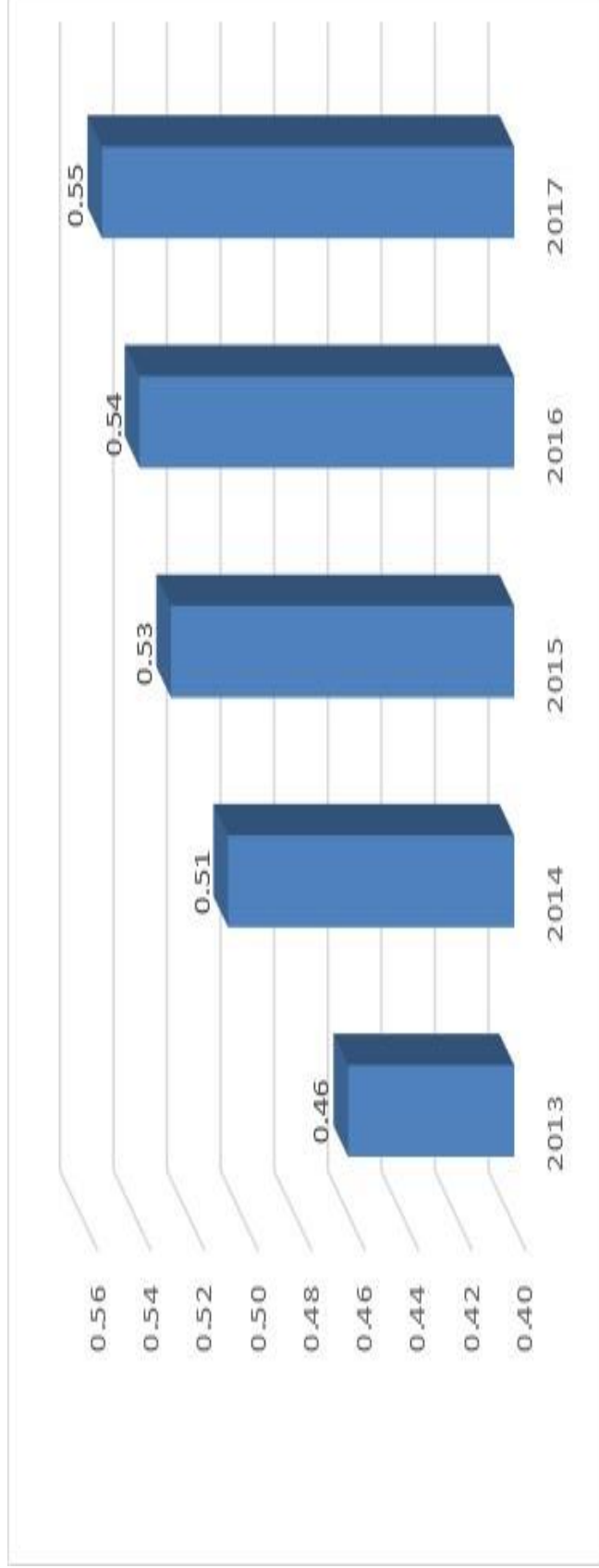


S.no	Name of Banks	Overall Mean	% age	2013	2014	2015	2016	2017
1	Al-Baraka Bank (Pakistan) Ltd	0.55	54.52	0.47	0.47	0.60	0.60	0.58
2	Bank Islami Pakistan Ltd	0.66	65.52	0.65	0.65	0.65	0.66	0.66
3	Dubai Islamic Bank Pakistan Ltd	0.40	39.93	0.37	0.37	0.37	0.35	0.52
4	Meezan Bank Limited	0.69	68.54	0.69	0.69	0.69	0.69	0.69
5	MCB Islamic Bank Ltd	0.66	65.50	0.54	0.54	0.72	0.74	0.74
6	Allied Bank Limited	0.50	50.44	0.30	0.52	0.58	0.56	0.56
7	Askari Bank Limited	0.38	38.38	0.36	0.41	0.41	0.37	0.37
8	Bank Al Habib Limited	0.47	46.54	0.45	0.45	0.47	0.48	0.48
9	Faysal Bank Limited	0.50	50.15	0.49	0.47	0.47	0.52	0.54
10	Habib Bank Limited	0.55	54.97	0.50	0.51	0.56	0.58	0.60
11	Habib Metropolitan Bank Ltd	0.54	53.93	0.47	0.47	0.47	0.64	0.64
12	National Bank of Pakistan	0.57	56.59	0.52	0.57	0.56	0.59	0.59
13	Silk Bank Limited	0.37	36.79	0.37	0.35	0.37	0.37	0.37
14	Sindh Bank Limited	0.44	44.13	0.20	0.46	0.50	0.54	0.51
15	Soneri Bank Limited	0.46	45.66	0.49	0.47	0.44	0.42	0.44
16	Standard Chartered Bank Ltd	0.67	67.32	0.64	0.67	0.69	0.69	0.69
17	Summit Bank Limited	0.37	37.26	0.10	0.45	0.45	0.45	0.42
18	The Bank of Khyber	0.51	51.47	0.46	0.50	0.53	0.54	0.54
19	The Bank of Punjab	0.46	45.93	0.44	0.44	0.48	0.46	0.48
20	United Bank Limited	0.56	56.22	0.61	0.59	0.49	0.50	0.61
21	Bank Alfalah Limited	0.58	58.46	0.56	0.58	0.60	0.58	0.60

Dimensions Disclosure Level over 5 years period



2013 2014 2015 2016 2017



Dimensions	2013	2014	2015	2016	2017	Overall Mean	% age Reported	% age Non-Reported
· Vision and Mission statement	0.30	0.31	0.34	0.34	0.34	0.32	32.43	67.57
· Shariah Supervisory board	0.45	0.54	0.65	0.69	0.73	0.61	61.26	38.74
· Product	0.63	0.73	0.72	0.78	0.80	0.73	73.14	26.86
· Zakah, charity and benevolent loans	0.20	0.21	0.21	0.21	0.21	0.21	21.02	78.98
· Employees	0.69	0.74	0.75	0.75	0.75	0.73	73.44	26.56
· Community	0.49	0.51	0.51	0.48	0.50	0.50	49.64	50.36
	0.46	0.51	0.53	0.54	0.55	0.52	52%	48%

Qualitative data analysis:

To get in-depth understanding about Islamic banking social reporting and responsibility we conducted interviews from two different sets of respondents.

First we conducted interviews with employees working in Islamic banks to get an understanding about their knowledge related specifically to Islamic social reporting system.

It was quite surprising that most of the bankers also feel that there is minute or no difference between Islamic and conventional banking moreover they considered corporate social responsibility and reporting as internal moral practices whereas corporate reporting was considered as external practice imposed by statutory body.

Two major themes were drawn from interviews. Themes generated were:

- Camouflage technique
- Create brand image

Employees Interviews				
Sr#	NAME	DESIGNATION	EDUCATION	ORGANIZATION
1	A	Senior Vice President/ Head Islamic Banking	MBA	Bank Islamic Pakistan
2	B	Senior Vice President/ Internal Shariah Audit Wing	MBA/Certification in Islamic Banking Shariah/ DIBP	National Bank of Pakistan
3	C	Senior Vice President/ Head Operation Islamic Banking	MA Economics/DIBP	National Bank of Pakistan
4	D	Vice President/ Islamic Banking Wing	MBA/JAIBP	Faysal bank Ltd
5	E	Chief Manager/ Islamic Banking Area Office Multan	MS in Business Administration/JAIBP/AIBP	Bank AL-Habib Ltd

Customers Interviews				
Sr#	NAME	AGE	GENDER	EDUCATION
1	A	27	FEMALE	MBA
2	B	35	MALE	MS FINANCE
3	C	34	MALE	CA FINALIST
4	D	35	MALE	MBA BANKING & FINANCE
5	E	43	MALE	MBA (MIS)
6	F	37	MALE	MBA
7	G	43	MALE	MBA BANKING & FINANCE
8	H	34	MALE	MBA
9	I	34	MALE	ACCA/CFA (LEVEL 2)

One of our respondent said that

In relation to Camouflage technique, our respondent said

Social reporting is sometimes used as camouflaged technique just to get more customers or to create positive image in society.

Another participant said:

Respondent C: Secondly Islamic banking practices are Islamic to some extent. I cannot say that it is altogether different from conventional banks.

In relation to third theme, our respondent said

CSR plays an important role in brand image of any organization, same goes for banking. In addition to prevailing norms an Islamic bank need to carry our business with ethical and regulatory correct methods. Islamic banks needs to be more careful towards its CSR Practices and norms.

When asked why social reporting has not gained importance, their answer generated sub theme which was

- Social reporting is a voluntary act not mandatory

One of our participants said that

Respondent A: Although few things have been made clear by banks, but I think like corporate social responsibility, social reporting is still considered a voluntary act rather than compulsory one.

Another said

Respondent B: Responsibility or social reporting is an internal practice by management it is more like moral activity, but corporate affair reporting is enforced by state bank of Pakistan.

To get understanding of customers about social reporting of Islamic banks, we conducted semi structured interviews with customers/ consumers of Islamic banks.

We asked three questions to consumer .when we asked consumer that why do they make investment or take services of Islamic Banks? As a result of this question with customers / consumers following themes were generated

- Investment due to Riba free product
- Peace of mind

One participant said:

I make investment in Islamic bank and also get other financing services from banks .Riba free Financing, belief in interest free transactions and mental peace & satisfaction

Another participant said:

I have invested in Islamic banking for Riba free income because the investment in Islamic banking is secured by the proper Products//Commodities based transactions.

Similarly other participant said:

Being Muslim, If Islamic Banking fulfill my requirements of Banking then we should take this opportunity, it gives me internal satisfaction that I have made riba free investment

Another participant quoted in similar way:

Due to personal satisfaction for Halal and Islamic Banks claim as Interest free banking, I always prefer Islamic banks over conventional banks

In relation to second question, which was “Do you read Islamic Banks reports in which you have invested? Why? Why not?” following themes were generated

- Do not read due to lack of time
- Read only financial data

One of our respondents said:

NO, I have not read any of their reports due to lack of time. I simply relay on their statement about Shariah.

Another said:

Yes, because report guide us where to invest and which product have to choose. But I am not concerned about other areas of reports, because reports are very huge in size.

Similarly other participant said:

Yes, The IMF reports that Islamic Banking can solve the macroeconomic and financial stability due to its Principles risk sharing and assets based financing. Islamic banking industry have been grown 30% annually. But apart from this I do not read other reports. I just simply read reports which are published in news papers

Another participant said the he read reports just to get information about products, that these products were according to Shariah Laws or Not

Yes, I do read the reports of Islamic banks to get the update about the products available, both assets side and liability side and also to get the mechanism of transactions that whether they are Shariah Compliance or not?

Similarly another participant stated that:

Yes, I read what is the mechanism behind the investment, whether it is according to Shariah compliance or not? So, Reports are very important but I have no idea about other contents of reporting or other aspects

Most of the respondents were only interested in financial data of banks. As one participant said that:

I only read calculation of Profit on saving A/C and profit of my Islamic bank in which I have been maintaining Account.

Similarly other participant said:

Yes, I do read reports to analyze future projections based on past and present business scenarios. But I do not read other contents of report. I am only interested in financial data

Whereas answering our third question “are you satisfied with your Islamic banks products and services? Why? Why not?” following theme was generated.

- Needs improvement.

One of our respondents said that:

As Islamic Banking is in growing stage in our country and they are not still in position to cater all needs of customers. So, sometimes, Customers have to acquire the conventional banking services. However, Overall Islamic Banking services and products are satisfactory.

Similarly another participant said:

I belong to middle family and fully satisfied with their services because I have very limited transactions with banking sector like Cash deposit, Online, Cash withdrawal etc. However, at corporate level, Islamic Banks require to do more work to compete with the conventional banking and snatch Market share. According to Customers' needs, I think there is more vacuum and opportunity is available for Islamic products and services

So from above qualitative data analysis, we can conclude that consumers usually make investment in Islamic bank just to get peace of mind, as they believe that profit and borrowings are interest free. They only read reports just to get information about different products of banks or profit and loss account of bank, they have no idea about social reporting or responsibilities of banks. They feel that Islamic Banks need to make improvement in their product and services.

Chapter 5

Discussions, Limitation, Implications and Conclusions

Discussion of results

Study commenced by Sulaiman in (2001) and Kasim et al. in (2009) bring into being that there is a gap between the benchmark theoretical framework and actual practices. In 2006 Maali et al. explore the guidance and impact of Islam on social reporting and disclosing. Through utilizing the content analysis technique, they made attempt to access or measure the degree levels of Corporate Social Reporting Disclosure of 29 Islamic Banks in 16 countries. Their outcomes suggested that the degree of Corporate Social Reporting Disclosure by Islamic Banks drops far short of concerning their desire or expectation level (13.3%). Investigation on Islamic Banks conducted by Maali et al. (2006) bring into being that there is gap between benchmark social reporting disclosures and actual social disclosures published and circulated in the annual reports of the Islamic Banks.

In 2010, Hassan & Harahap conducted content analyses in the annual reports of 7 Islamic Banks as sample and declared Corporate Social Reporting Disclosure level is 38% which is comparatively low comparing with its desires level or expectations as well as philosophies and rudiments of Islamic Banks. In 2010 Aribi and Gao, examine the extent or magnitude of Corporate Social Reporting Disclosures by 21 Islamic Banks as sample which working in the Gulf area. They also found that the degree of social disclosure (30%) was too lower their benchmark index. Farook. (2011) examine the determinants and degree in the annual reports of 47 Islamic Banks from 14 nations. They also found the Corporate Social reporting Disclosure level very short which is 16.8 %. As of late, in 2014, Farag et al. conducted the study to determine the relationship between Corporate Social Reporting and their financial performances. They found level for Corporate Social Reporting Disclosure (about 44%) which is too low.

Specifically, we analyzed the degree or strength of ethical identity based on the deviation between the communicated and Benchmark ethical identity Index of 21 Islamic Banks in Pakistan.

Our investigation results depict the highest and lowest 5-year mean EII to be 0.69 (Meezan Bank) and 0.37 (Silk and Summit Bank), respectively. Higher index shows less variation and more sloping towards the Benchmark ethical identity whereas a low index proposes vice versa. This means that in the case of Meezan Bank 69% of the items or constructs in our benchmark ethical list have been reported or communicated and only 37 % for Silk Bank & Summit Bank. The 5-year mean EII for the rest eighteen Islamic Banks ranged from 0.38 to 0.67, suggesting a huge variation and disparity between the communicated and Benchmark ethical identities. Over the 5-year period examination, we also determined the index of each bank to diverge, telling that communication and reporting is not static and often insignificant or minimal. This may be attributed to an indifference and unresponsive attitude of different stakeholders because each have its own interest which vary from the other that leads towards lack of pressure. We also found the leading contradictions between the communicated and Benchmark ethical identities under different dimensions. The consequences are surprising because Islamic Banks ultimately work for profit earning rather than not as social institutions, so they focus more to communicate only those dimensions that are not for welfare of society. Unfortunately, several Islamic Banks put slight effort to report and communicate their ethics and values in a consistent way and in ensuring resemblance and symmetry between their rhetoric in the annual reports and the ethical benchmark that based on Shariah law. Managers and employees of Islamic Banks must require to avoid ambiguous and confusing styles of communication and more focus on effectively and meritoriously communication, as these things are not only important for implications of corporate brand imaging and reputation but also for religious implications as well.

This investigation reviews the annual reports of 21 Islamic Banks in Pakistan to investigate their Ethical Disclosure Level by adapting the disclosure benchmark from Maali et al. (2006) and Hanifa & Huddaib (2007). Later, this benchmark applied to compare with Islamic Banks actual disclosures level in their annual reports or on websites. According to Hanifa & Huddaib (2007) the social objectives are equally important as their financial objectives for Islamic Banks.

The empirical results demonstrate that Islamic Banks in Pakistan have average level (EII 0.52) of revelation practices that claim to be operating under Shariah philosophies and guidelines. This is

astonishing but it might be because of the managers of Islamic Banks are trained with the conventional banking administration and system, therefore, not completely aware of the social implications of Islamic Banks. Another cause might be that Pakistani Islamic Banks works and operate in an environment where entire economy is under the supremacy and control of Conventional Banks setup, accompanied by way of the adoption of conventional or traditional IFRS. All these may have an impact on the Islamic Banks reporting and revealing practices.

The dimension representing the banks' commitment towards employees and Product were the most revealed, whereas the dimension pertain with the banks' actions with regard to the Zakah, Charity and Benevolent Loans were the least disclosed due to Federal Government Zakat and Ushr Ordinance 1980 implementation and Islamic Banks risk aversion strategy along with maximum profit earning .

In the light of above results and discussions, several recommendations can be drawn for better of Islamic banks specifically for Zakat, which is among the five mainstays of Islam, has not been properly dealt with by the Islamic banks as shown by the findings. In this manner, the investigation recommends that all Islamic banks should also pay-off zakat out of their profit and Government should also offer rebate against it in their corporate tax rate.

State bank as regulatory body also required to design policy regarding Benevolent Loan (Qard-ul-Hassna) to support needy, poor and deserving persons to establish their business or education etc and for all Islamic banks that are scheduled and operating under the flag of SBP are mandatory to offer specific amount out of their funds as described or capped by SBP.

Every Conventional banks having standalone Islamic branches or Islamic windows are required to narrate Separate Mission and Vision Statement (other than conventional Mission & Vision statements) which reflect Islamic Shariah concepts rather than traditional and conventional ideas. At presently, Islamic Banks are using KIBOR as a benchmark to calculate profit and loss likewise conventional banks. As a regulatory body (SBP) must require to make efforts to development of Islamic benchmarks or design the mechanism for pricing, profit or return calculation or other than Conventional Benchmark KIBOR which differentiate the Islamic banks from conventional banks exclusively.

In Pakistan, every banks have their own SSB which supervises and monitors the activities and issues of specific Islamic bank and issues Fatwa on different matters and on product and services

related issues which may be overlapped with the other Islamic banks Fatwas, it creates ambiguity and doubt. Similarly, Every Islamic Banks have their own format to report the Shariah Supervisory Report on performance. Therefore, State bank of Pakistan must develop standardized SSBR format and also a unanimous SSB which consist of all Islamic banks Shariah Supervisory Advisors who should pass Fatwa on issues which will resolve problems and create unity, harmony and solidarity among Muslims.

As regulatory body, SBP requires to circulate the prudential regulation regarding Environment related issue for all Islamic banks to develop a committee which should monitor and ensure that all loans sanctioned for the projects or firms are environment friendly and do not destroy or damage the physical environment. Every Islamic Bank must contribute through monitory efforts and their personal efforts to protect the environment.

Practical relevance of this Study

This study delivers a useful and valuable guiding toolkit for the Islamic Banks executive management to diagnose the gaps or violations which they fundamentally need to adopt to overcome the violations, fill the gaps and bring improvement in their social reporting practices either manually or virtually. Pakistani Government and regulatory body (SBP, SECP) can also take assistance through this study to guarantee that Islamic banks in Pakistan are complying with their corporate social responsibility. All other financial institutions that are founded on the principles of Shariah can also apply this study as a guiding toolkit to accomplish the incredible social reporting practices according to Shariah guidelines.

Other stakeholders of Islamic bank like that other members (Poor and deserving person, employees) of the community especially customers as well as non-governmental organizations will take benefit from this study usage. For Example Customers can also use this study's consequence to decide whether to retain their deposits with their current Islamic bank or move to another Islamic banks which have consistent and better social disclosure practices and fully comply with Shariah laws. Environmental protection agency can take stand against the banks to stop financing those corporations or projects that may cause damage or destruction of the physical environment.

Limitations of this Research

This study results are subject to several limitations,

- This study is restricted in Pakistan; Entire 21 Islamic banks are used as sample from Pakistan only therefore, our results may not be generalizable to Islamic banks & financial instructions in other regions or to western countries of the Islamic banking financial services industry, Future study could magnify by expanding the region and including Islamic countries as well as western countries.
- Annual reports and websites are used as available sources in measuring the extent of the corporate social reporting and disclosure practices adopted by the Islamic banks in Pakistan that are relatively small and limited access , which may bound the results of contents analysis conducted on the basis of this data. No availability and difficulties in approaching the Sharia scholars or members sitting in the boards or committees of Islamic banks in Pakistan, the researcher was not able to interview them to obtain their opinions and practices regarding all dimensions and their role in Islamic banks. Future research could be extended by containing other forms of reporting and disclosure such as interim reports, internal memorandum's or circular's, Procedures & policies guidelines manuals, press releases and others media, which provide a more complete and comprehensive understanding of disclosure practices of Islamic banks
- More realistic and refined research results can be deduced by using more sophisticated statistical analysis techniques for data analysis.

Future Study suggestions

For future study it is suggested that

- This research could be further expanded through introducing other Islamic financial institutions in addition to banks, such as investment funds and insurance companies.
- From Islamic perspective, this research emphasizes on the corporate social reporting in the context of stakeholder theory and social contract. Still, in the context of Muslim society, legitimacy theory is similarly applicable, as society provides the mandate to Islamic banks and financial institutions to operate as per Islamic philosophies and *Shariah*. Subsequently, the study of CSRep using legitimacy theory is recommended for future research from an Islamic viewpoint, philosophies and *Shariah*.
- Other research methods, such as in depth interviews (Shariah Boards members, Executive Managements members, Chairperson and employees) and surveys (Customers either existing or potential including general public opinions), and latest statistical techniques and tools are required to enhance the understanding of the importance of such disclosures.
- Likewise, a fascinating area for further research is to determine whether the Islamic banks and financial institutions are manipulating the perception and philosophies of Islam as religion for economic profit, or whether they are really responding and serving to the need to accommodate the multicultural society specially Muslim (Ummah) community and environment. An in-depth case study of the different sector industry and different nations (both eastern and western communities) would shed light on these issues.
- Similarly, an interesting gap for future investigation would be a comparison between controlled Islamic banks (Standalone branches of conventional banks/Islamic windows of conventional banks) and non-controlled Islamic banks (Fully Islamic Banks) by interviewing the, Shariah Supervisory Board members, Executive managements, managers, officers and directors to know whether they really have full power over their responsibilities and whether or not they are constrained and restricted by their parent Banks which are conventional banks. Interviews with Islamic bank's team would be a productive and fruitful area for next study and research.

- In this study we compared communicated disclosures against benchmark disclosures. The realism is that what is contained and disclosed in annual reports or websites may not portray the true and fair nature of social activities a company or bank has actually done or performed. Furthermore, research may accordingly consider through equating between actual social activities against those disclosed in their annual reports, or actual social activities against the Benchmark level of social activities. This would provide evidence and indications on whether or not Islamic banks and financial institutions deliberately deceive the stakeholders through reporting in their annual reports and other media, what actually they have not performed or done.
- Moreover, next study may also compare social responsibility disclosure by Islamic banks and financial institutions in their annual reports or on websites which is based on the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) with Islamic Social Reporting that entirely based on Global Reporting Initiative index (GRI). Finally, the quantity of samples used in the further studies may include wider range of Social and environmental community of Western and eastern counties as well, and it is not only limited on Islamic banks as well cover investment funds and insurance companies.

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Appendix-A

A	Vision and Mission statement
1	Commitments in operating within Shari'ah principles/ideals
2	Commitments in providing returns within Shari'ah principles
3	Focus on maximising shareholders returns
4	Current directions in serving the needs of Muslim community
5	Future directions in serving the needs of Muslim community
6	Commitments to engage only in permissible investment activities
7	Commitments to engage only in permissible financing activities
8	Commitments to fulfil contracts via 'contract (uqud) statement'
9	Appreciation to shareholders and customers
B	Shariah Supervisory board
1	Names of members
2	Pictures of members
3	Remuneration of members
4	Report signed by all members
5	Number of meetings held
6	Examination of all business transactions ex ante and ex post
7	Examination of a sample of business transactions ex ante and ex post
8	Report defects in product: specific and detailed
9	Recommendation to rectify defects in product
10	Action taken by mgmt. to rectify defects in product
11	Distribution of profits and losses comply to Shari'ah
C	Product & Services
1	No involvement in non-permissible activities
2	Involvement in non-permissible activities-% of profit
3	Reason for involvement in non-permissible activities
4	Handling of non-permissible activities
5	Introduced new product
6	Approval ex ante by SSB for new product
7	Basis of Shari'ah concept in approving new product
8	Glossary/definition of products
9	Investment activities-general
10	Financing projects-general

D	Zakah, Charity And Benevolent Loans
1	Bank liable for zakah
2	Amount paid for zakah
3	Sources of zakah
4	Uses/beneficiaries o? zakah
5	Balance of zakah not distributed? amount
6	Reasons for balance of zakah
7	SSB attestation that sources and uses of zakah according to Shari'ah
8	SSB attestation that zakah has been computed according to Shari'ah
9	Zakah to be paid by individuals-amount
10	Sources of charity (saddaqa)
11	Uses of charity (saddaqa)
12	Sources of qard al-hassan
13	Uses of qard al-hassan
14	Policy for providing qard al-hassan
15	Policy on non-payment o? qard al-hassan
E	Employees
1	Employees appreciation
2	Number of employees
3	Equal opportunities policy
4	Employees welfare
5	Training: Shari'a awareness
6	Training: other
7	Training: student/recruitment scheme
8	Training: monetary
9	Reward for employees
F	Community
1	Women branch
2	Creating job opportunities
3	Support for org. that provide benefits to society
4	Participation in govt. social activities
5	Sponsor community activities
6	Commitment to social role
7	Conferences on Islamic economics
8	The projects financed by the bank that may lead to harming the environment

Appendix-B

Islamic Banking Branch Network

No.	Type	Name of Bank	No of Branches	Sub-Branches	Windows
1	Islamic Banks	Al-Baraka Bank (Pakistan)	180	8	-
2		BankIslami Pakistan Ltd	218	112	-
3		Dubai Islamic Bank Pakistan Ltd	200	-	-
4		Meezan Bank Ltd	601	-	-
5		MCB Islamic Bank Ltd	76	-	-
		Sub-Total	1,275	-	-
1	Standalone Islamic Banking Branches of Conventional Banks	Allied Bank Ltd	117	-	-
2		Askari Bank Ltd	91	3	-
3		Bank Al Habib Limited	53	-	126
4		Bank Alfalah Limited	152	-	121
5		Faysal Bank Limited	199	-	-
6		Habib Bank Limited	45	2	495
7		Habib Metropolitan Bank Ltd	29	-	214
8		National Bank of Pakistan	170	-	-
9		Silk Bank Limited	30	-	-
10		Sindh Bank Limited	14	-	13
11		Soneri Bank Limited	18	-	-
12		Standard Chartered Bank (Pakistan) Ltd	9	-	84
13		Summit Bank Limited	14	-	35
14		The Bank of Khyber	84	-	39
15		The Bank of Punjab	68	2	-
16		United Bank Limited	93	1	156
	Sub-Total	1,186	128	1,283	
Grand Total			2,589		

Appendix-C

Islamic Banks Professional Staff Interviews

Q1: What is your perception about Corporate Social responsibility and corporate social reporting of Islamic Banks?

Q2: Do you feel any difference between Corporate Social responsibility and reporting?

Interview 1:

Question1:

Corporate social responsibility is a good thing provided that banks practice with honesty

Q2:

There is huge difference between social reporting and corporate social responsibility.

Islamic Banks claim so many things in reporting but these banks actually do not completely follow shariah rules. Recently advisor of UBL Shariah Board has resigned on ground that most of the products of UBL are not according to true spirit of Islam, these products are similar to conventional banks. The said advisor warned the management from time to time.

Islamic banking is sometimes used as camouflaged technique just to get more customers.

A (Senior Vice President)

Head Islamic Banking

Bank Islamic Pakistan

Interview 2:

Question1:

Islamic banks are contributing tremendously towards corporate social responsibility by providing hefty amount for charity which they recover from defaulted borrower. The same amount is reported in annual reports, which are also audited.

Q2:

To me responsibility is a moral and ethical duty to perform, something for which one can be held accountable. The term reporting is actually used to provide information to different stakeholders.

Responsibility is an internal practice by management it is more like moral activity, but reporting is enforced by state bank of Pakistan.

Islamic banking industry is currently evolving few things are still conventional

B (Senior Vice President)

Internal Shariah Audit Wing Islamic Banking

National Bank of Pakistan

Interview 3:

Question1:

Corporate social responsibility is a buzz word today, Islamic banks being Shariah Compliant institutions have great responsibility towards society e.g getting involved in activities which are for the welfare of society.

Q2:

Reporting is actually passing of facts and figures to the competent authority and public at large it is used for transparency, clarity and accountability but I guess corporate social responsibility is adopted voluntarily.

Secondly Islamic banking practices are Islamic to some extent. I cannot say that it is altogether different from conventional banks

C (Senior Vice President)

Head operations Islamic Banking

National Bank of Pakistan

Interview 4:

Question1:

CSR plays an important role in brand image of any organization, same goes for banking. In addition to prevailing norms an Islamic bank need to carry our business with ethical and regulatory correct methods. Islamic banks needs to be more careful towards its CSR Practices and norms.

Q2. Reporting is usually imposed by regulatory body, it needs to be followed meticulously, but responsibility is a very vast term. It does not only include reporting but also covers ethical values and norms.

But responsibility is very difficult practice.

D (Vice President)

Islamic Banking Wing

Faysal Bank Ltd

Interview 5:

Question1:

CSR Activity is performed for the betterment of society. It can be undertaken by any organization including Islamic banking institutions as well. However, it is necessary/ mandatory for IBI's to do CSR in terms of regulations of the State bank of Pakistan (SBP) which ensures that the balances of charity gets fully exhausted/utilized on the date of finalization of audited financial statements. There are certain avenues/sum of money which during the ordinary course of Islamic business activities gets available to IBI's which are meant to be utilized for CSR activities specifically/exclusively. If we have a look at the Audited Financials of Islamic banks, these are detailed in the "notes to the accounts". Money which the IBI's have to spend in CSR comes from such transactions which are declared non shariah compliant and though the late payments of financing customers as a result of non-fulfilment of commitments (either through default-loss, substandard, doubtful) and resultantly, in order to discourage the casual and habitual late repayment behavior of the customers, IBI's recover charity from them and deploy the same in CSR activities after getting shariah approval from its shariah board as the charity amount so recovered cannot be used by them in their " income Head". List of charitable institutions are approved by its shariah board which are distributed the charity by the close of audited financial year.

Q2.

Responsibility includes any act in terms of which someone is bound to perform a particular function; either it is fixed by any regulatory authority or morally or ethically etc.; whereas reporting includes the

submission of certain information desired by the regulatory/lawful authority like SBP or SECP etc. Charity amount which is collected by IBI's is used to pay off to charitable institutions; hence, responsibility of helping out for a social cause is fulfilled. Afterwards, reporting of the same in Audited Financial Statements is done by IBI's narrating therein the details of charity amount and approved charitable institutions to whom the said amount is paid.

E (Vice President)

Islamic Banking Area Office Multan

Bank Al-Habib Ltd

Customers Interviews

Q1: Why do you invest and take services in Islam Banks?

Q2: Do you read Islamic Banks reports in which you have invested? Why? Why not?

Q3: are you satisfied with your Islamic banks products and services? Why? Why not?

Interview 1:

Q1: Riba free Financing, belief in interest free transactions and mental peace & satisfaction

Q2: Yes, I read what is the mechanism behind the investment, whether it is according to Shariah compliance or not? So, Reports are very important.

Q3: Yes, I am satisfied with Islamic banks products and services because they justify the mechanism and our funds relates to specific assets (underlying assets). Islamic banking is assets backed banking.

A

Interview 2:

Q1: I have invested in Islamic banking for Riba free income because the investment in Islamic banking is secured by the proper Products//Commodities based transactions.

Q2: Yes, I do read the reports of Islamic banks to get the update about the products available, both assets side and liability side and also to get the mechanism of transactions that whether they are Shariah Compliance or not?

Q3: Yes, majorly, I am satisfied with Islamic banking products and services as they are Shariah Compliant and are more secure than Conventional Banking Products and services.

B

Interview 3:

Q1: As per my information, I am agreed that Islamic banking is governing under Shariah Laws and funds are invested in Profit center's which are governed under Shariah Laws and Interest free.

Q2: Yes, I read the reports of funds wherever I have invested in past because I must learn and have information about the rules of governing funds under Shariah Laws.

Q3: Yes, I am satisfied with Islamic banking products and services because Shariah Boards has been charged with governance about pre-decided funds and pools.

C

Interview 4:

Q1: Being Muslim, If Islamic Banking fulfill my requirements of Banking then we should take this opportunity.

Q2: Yes, The IMF reports that Islamic Banking can solve the macroeconomic and financial stability due to its Principles risk sharing and assets based financing. Islamic banking industry have been grown 30% annually.

Q3: I am belonging to middle family and fully satisfied with their services because I have very limited transactions with banking sector like Cash deposit, Online, Cash withdrawal etc. However, at corporate level, Islamic Banks should require to do more work to compete the conventional banking and snatch Market share. According to Customers' needs, I think there is more vacuum and opportunity is available for Islamic products and services

D

Interview 5:

Q1: Due to personal satisfaction for Halal and Islamic Banks claim as Interest free banking.

Q2: NO, I have not read any of their reports due to lack of time. I simply relay on their statement about Shariah.

Q3: We have not proper Islamic banking system. But in conventional banking, we have complete system but personal satisfaction is more important than system. So Choice clear for Islamic banking but Islamic banking system required to improve the System to compete the conventional banking setup.

E

Interview 6:

Q1: As Muslim, we have to adopt Shariah Compliant measures in every field of life.

Q2: Yes, because report guide us where to invest and which product have to choose.

Q3: Yes, As Muslim, Riba free products and services are most essential for Muslims. Islamic Banking products and services are risk sharing, assets based and interest free.

F

Interview 7:

Q1: I am investing and availing services of Islamic Banks due to my religious background. Islamic Banking is interest free and assets based banking

Q2: To some extent just to overview the financial performance and to check whether bank is offering Islamic shariah based products and services.

Q3: As Islamic Banking is in growing stage in our country and they are not still in position to cater all needs of customers. So, sometimes, Customers have to acquire the conventional banking services. However, Overall Islamic Banking services and products are satisfactory.

G

Interview 8:

Q1: I invest and avail services of Islamic Banks due to interest free return, good services quality and competitive rate of return.

Q2: Only read calculation of Profit on saving A/C and profit of my Islamic bank in which I have been maintaining Account.

Q3: Yes, I am satisfied with Islamic products because they are providing and covering all needs of individual and business which they expect from banks. More attractiveness is that they are all shariah compliant.

H

Interview 9:

Q1: Shariah compliant banking and investment and lending is assets backed.

Q2: Yes, I do read reports to analyze future projections based on past and present business scenarios.

Q3: Yes, Islamic banking are working very well in difficult conditions and specially well-established conventional banking industry and they are continuously expanding business, market share and popularity as compare to complete conventional banking system .

I