# Corporate Social Responsibility Reporting of Islamic Banks in Bangladesh

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***Abstract***

*Purpose: the study is aimed at finding out the CSR disclosure practice of the Islamic banks (IB) in Bangladesh*

*Research Methodology: The study entails a content analysis of 6 full-fledged IBs in Bangladesh for the year 2015, investigating their CSR compliance level as per the CSR dimensions as has been followed by Daus et al. (2014) in the study ‘Social responsibility reporting of Islamic Banks: evidence from Indonesia”. An equally weighted index is used for scoring the CSR disclosures.*

*Findings: The results revealed that the Islamic Banks disclosed most about their ‘Corporate Vision’ and ‘Top Management’ respectively, while least about their ‘Products, Service and Fair dealings with supply chain ‘related activities. The banks varied remarkably in disclosing about their CSR activities towards their employees and the environment, with a range of 60% and 63% respectively. The banks’ shariya compliancy in business transactions is found to be 61% on average.*

*Research limitation: The scope of the result lies within the realm of the disclosures made in annual reports only. Moreover, the CSR disclosure coding overwhelmingly has been done by the researcher only.*

*Contribution/practical implication: Creating awareness amongst the Islamic banks (IB) and their stakeholders about any discrepancy between the ethical claims of the IBs and their communicated CSR activities, can lead to a scope of a positive change in the social roles of the banks in future.*

*Further research: a time series analysis may be carried out on the IBs of Bangladesh to gauge a better picture of the CSR practice of IBs in Bangladesh, using data from more sources.*

Keywords: Corporate social responsibility, Islamic Banks, Bangladesh

1. **Introduction****:**

Although coined first in 1953 (Bowen, 1953, as cited by Darus et al.,2014), the concept of corporate social responsibility is increasingly gaining attention as proven by a growing number of academic literatures on it (Bakker, Groenewegen, & Hond, 2005). According to European Commission, 2011 (cited by Darus et al.,2014,p. 358) the concept of CSR may be defined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with the stakeholders on a voluntary basis”.Although there may be many motivations behind a corporation’s social responsibility activities, including the establishment of a positive corporate image (Khan, Halabi, & Samy,2009)to ensure long term sustainable growth and thus reaping long term economic benefits ( Tsoutsoura, 2004)but probably the strongest, and most enduring motivation behind CSR activities would be the moral conscience that arises from an entity’s belief system. Like many other religions, Islam is deeply rooted in its ethical teachings which must logically be reflected in the operations of an Islamic organization, such as Islamic Banks.

Ever since the revival of the Islamic banking system in 1975(Alharbi, 2015), IBs have successfully made its place not only in the Muslim nations but also in many non-Muslim countries like USA, Canada etc.( Khan, 2008). Being such a booming industry of banking institutions, IBs are expected to not only leave a positive trail of their success in the economic development(Darus et al., 2014) but more so in the social development of a country because as Sharia(Islamic law) compliant institutions, it is not only their moral obligation but a religious duty to strike a balance between their economic gains and social responsibilities. Such an intriguing topic has led this study to explore how well the IBs, in this case from Bangladesh, are performing in fulfilling their social responsibilities. It measures the CSR disclosure level of 6 full-fledged sample IBs through content analysis of their annual reports for the year 2015.It basically aims to create awareness amongst the IBs and its stakeholders on the CSR practices of the banks so that any reported discrepancy between banks’ actual and claimed social roles may be diminished, for a more prosperous society in future. This study is a further contribution to the scarce literature done on this topic from a Bangladeshi context.

The following sections chronologically include objective, literature review, methodology, finding and analysis, conclusions, practical implications and further research.

1. **Objective:**

This study is aimed at exploring the CSR practices of IBs in Bangladesh in order to create awareness amongst the IBs and its stakeholders about any gap between the ethical claims of the IBs and their communicated CSR activities, so that actions may be taken to reduce this gap for a more positive change in the social roles of the banks in future.

1. **Literature Review:**

The concept of Islamic Corporate Social responsibility is founded on the religious principles of vicegerency(representativeness of mankind for the entrustments of Allah), Divine Accountability of one’s actions and the principle of enjoining good and forbidding evil(Farook, 2007). Rooted in such religious values, Islamic Banks(IB) are expected to be the epitome of socially responsible institutions. However, studies depict quite a different scenario. Similar studies carried out,( Haniffa & Hudaib, 2007; Hassan &Harahap,2010; Kamla, 2013)all find a disparity between communicated and ideal ethical identity of studied IBs.

CSR disclosure levels of IBs are also found to vary between different dimensions both within and between different banks( Samina, 2012; Vinnicombe, 2012).Studies(Darus et al., 2014; Farag, Mallin, & Ow-yong, 2014) show that IBs often disclose more about their corporate vision ,mission, board of directors and management than do they about the environmental dimension. Among the seven sample banks studied, Haniffa & Hudaib (2007) finds the least disclosure levels in ‘commitment to society’ dimension. Surprisingly! It is found that most banks which are less concerned about their responsibility towards the society or environment, actually claim to be Sharia compliant(Haniffa&Hudaib,2007; Kamla, 2013; Maali et al., 2006; Samina, 2012).This could mean that the IBs are more concerned with their outwardly corporate images than they are about their social responsibilities. Such discrepancy in disclosure levels may arise due to a lack of proper regulations or other external pressure from stakeholders.

The first step for any revolution or reform is the awareness of the existence of the problem in the first place. Stakeholder’s knowledge about the CSR disclosure practices of IBs are still globally scant and in that regard Bangladesh stands tall. In Bangladesh, only 2 studies were carried out in this area so far. A27 yearlong longitudinal study(Belal, Abdelsalam, &Nizamee, 2011) done on the CSR disclosure practice of IslamiBank BangladeshLtd(IBBL) found some good news of an increasing trend in its CSR disclosure practices over the years studied and most disclosures were made about community involvement, charity and Shariah awareness respectively, while least about complaints. Another study found that one of the underlying reasons behind an IB’s involvement in CSR practice is religion.i.e Islam, in Bangladesh (Sobhani, Zainuddin, &Amran, 2011).A study by Samina (2012) revealed an average 0f 81.67%involvement of the sample banks in the CSR disclosure practice. However, there was no mention of the measurement scales (CSR disclosure checklist) based on which such result was found, which makes the findings questionable. Drawing on this research gap and that of the lack of studies done in this area in Bangladesh, this will be the third study aiming to explore the CSR disclosure practices of the IBs in Bangladesh.

1. **Methodology:**

**4.1 Sample and Data design**

Although there are total eight full-fledged IBs in Bangladesh but only six of them are used as samples using convenience sampling. The annual reports of the two banks couldn’t be collected. According to a recent report(Bank, B., 2016)the six sample banks account for more than 80% of the market share, so they should be quite representative of the population. Since 2015 and 2016 are consecutive years so it is assumed that the market share statistics of the IBs in both years should be close. The banks under study are Al Arafah Islami Bank (AIBL), First security Islami bank (FSIBL), Islami Bank Bangladesh Limited (IBBL), Social Islami Bank Limited (SIBL), ShahajalalIslami Bank Limited (SJIBL), and EXIM bank. Data has been collected from the annual reports of the sample banks for 2015. Annual reports are used as the source of data because it is the single most used avenue where corporations make comprehensive disclosures about their practices so that investors can assess company’s position(Samina, 2012).

**4.2 Research Tools**

The current study employs the research technique of content analysis. Content analysis is a systematical coding of content of documents based on some specific criteria (Belal et al.,2011)so as to draw insights from the quantitative data . Content analysis is a poplar technique used by many studies (Belal et al., 2011; Darus et al.,2014; Haniffa& Hudaib,2007; Hassan & Harahap,2010; Kamla, 2013) so its validity is confirmed.

This study codes the CSR disclosures based on dimensions as has been followed by Darus et al. (2014) in the study ‘Social responsibility reporting of Islamic Banks: evidence from Indonesia”. Darus et al. (2104) compiled these dimensions based on the studies of Haniffa & Hudaib (2007), Hassan & Harahap (2010) and AAOIFI standards, so they are deemed to be comprehensive.

**Table 1: Measurement Bases for CSR disclosures**

|  |  |  |
| --- | --- | --- |
| *Dimension* | *Sub dimension* | *Score* |
| Strategy | * Corporate vision
 | 4 |
| Governance | * Top management and board of directors
* Sharia Compliant
 | 1514 |
|  Product | * Product, services, and fair dealing with supply chain
 | 8 |
| Community development and social goals | * Strategic social development
 | 13 |
| Employment | * Employees
* Research, Development and training
 | 105 |
| Environment | * environment
 | 8 |
| Total score |  | 77 |

The research instrument consists of a total of 77constructs, a detail of which is presented in the appendix. The CSR disclosure is scored using an equally weighted index under the formula.

$$\sum\_{i=1}^{m\_{j}}\frac{d\_{j}}{N}$$

The index measures the disclosure levels of the banks., where for a given bank, ‘N’ is the total number of disclosed items and, dj=1, if disclosure is made, dj=0, for no disclosure of an item.

1. **Findings and Analysis:**

**5.1 Summary of the CSR practices of sample IBs**

The results in Table 1 reveal the all the banks have CSR index above 50% with an exception to FSIBL(49%).In this regard, IBBL ranks first(75%), followed by SIBL(70%), SJIBL(60%), AIBL(58%) and Exim bank(53%).The results confirm that IBs are performing better in rendering their CSR than other IBs around the world, whose CSR indexes fall below 50% in most cases(Haniffa & Hudaib, 2007; Hassan & Harahap, 2010)

**Table 2: CSR Disclosure score**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Dimension | EXIM | IBBL | FSIBL | AIBL | SIBL | SJIBL | AVG | Range |
| Corporate vision | 3 | 4 | 3 | 4 | 3 | 4 | 3.5 | 1 |
| Top Management (out of 15) | 11 | 14 | 10 | 10 | 13 | 12 | 11.7 | 4 |
| Sharia Compliant (out of 14) | 7 | 11 | 7 | 9 | 9 | 8 | 8.8 | 4 |
| Product& fair dealing with supply chain (out of 8) | 2 | 3 | 0 | 3 | 2 | 0 | 1.7 | 3 |
| Strategic socialDevelopment (Out of 13) | 9 | 10 | 8 | 7 | 9 | 9 | 8.7 | 3 |
| Employees (out of 10) | 3 | 7 | 8 | 5 | 8 | 9 | 6.7 | 6 |
| Research, Development & training (out of 5) | 1 | 2 | 3 | 3 | 2 | 1 | 2 | 2 |
| Environment (out of 8) | 5 | 7 | 2 | 4 | 4 | 3 | 4.2 | 5 |
| CSR Index (out of 77) | 41 | 58 | 38 | 45 | 50 | 46 |  |  |
| Percentage (%) | 53 | 75 | 49 | 58 | 70 | 60 |  |  |
| Ranks | 5 | 1 | 6 | 4 | 2 | 3 |  |  |

**5.2 Dimension-wise CSR practices of the IBs**

Figure1. Average disclosure level of the CSR dimensions

According to figure 1, from an overall perspective, Strategy (88%) and Governance (70%) are the most disclosed dimensions by the IBs. This is consistent with findings of the studies by Darus et al. (2014); Farag et al.(2014). The third best disclosed dimension is ‘Community Development and Social Goals (67%)’. From such results an insight can be drawn that the IBs are not only claiming to be well governed, but they are trying to back up their claims through their commitment to the community.

The banks are performing average in rendering their responsibilities towards employees (58%) and environment (53%).However, they are meagerly disclosing about their products (21%).

**5.3 Disclosure practices of individual IBs**

Figure 2. CSR disclosures based on the sub-dimensions

*Note: The percentages above the bars are the average values*

Taking a deeper look from figure2, it is found that IBBL (≈80%) is the most sharia compliant IB in terms of business transactions. It also sticks out in its disclosure level in most of the other dimensions, such as Top Management, and Strategic Social Development. Possible explanations for such well performance, based on findings of Farook & Lanis, (2011)maybe the strong hold of sharia supervisory committee and more influence from stakeholders as IBBL is the market leader(37.37% of deposits) (Bank, B., 2016) among IBs in Bangladesh. A longitudinal case study done on IBBL reported about their increasing commitment towards the society which doesn’t conflict the findings of this study as IBBL discloses close to 70% about their social development practices. All the banks also closely contest with IBBL in rendering their responsibilities towards strategic social development, 67% on average. One of the biggest reason for this could be the requirements, (see DOS Circular No. 01 dated 1June, as cited by SIBL in annual report, 2015), imposed by Bangladesh Bank (BB) (central bank of Bangladesh) for CSR activities.

Surprisingly FSIBL and SIBL are found to make no disclosures in the ‘Product and Fair dealing with supply chain’ dimension. This is very alarming and prompt actions must be taken by not only these two but all the IBs in increasing their disclosures levels about their endeavors in preserving the trust of their clients, regarding the delivery of sharia compliant products, services and their fair dealings with supply chain. The ‘Research, Development and Training’ is yet another less focused dimension, with EXIM bank and SJIBL having least disclosures (20%), while AIBL and FSIBL the most(60%) with a range of 40%.Furthermore, a high variance in the disclosure levels of the dimensions, ‘Environment’ and ‘Employees’, between the sample IBs is noticed. The range of the disclosure levels between the banks for the ‘Employment’ dimension is 60%.Although employees are an indispensable stakeholder for a company, but a reported variance in the disclosure level of this dimension may hint a lack of proper governance to ensure employees’ rights. On the other hand, the range in the ‘Environment’ dimension is 63%. Despite Bangladesh Bank’s(BB),(see BRPD Circular no. 02 dated 27.02.2011as cited by SIBL annual report 2015)guidelines for Green Banking activities(SIBL Annual Report, 2015),most IBs are still lagging behind in the complete adoption of the guidelines.

Failure to make 100% disclosures in the ‘Sharia Compliant’ dimension (61% on average) could be a reflection of the IBs’ insincerity towards their religious obligations which should have ideally been a monitor over their actions above and beyond any human-set regulations.

1. **Conclusion:**

Most of the investigated IBs of Bangladesh are performing above average in rendering their CSR. In this regard, IBBL ranks first(75%), followed by SIBL(70%), SJIBL(60%), AIBL(58%) and Exim bank(53%).The results confirm that IBs are performing better in rendering their CSR activities than many other IBs around the world, whose CSR indexes fall below 50% in most cases, (Hassan &Harahap,2010 ; Haniffa & Hudaib, 2007). While ‘Corporate Governance’ and ‘Top Management’ are most disclosed dimensions, but more attention should be drawn on the poorly disclosed ‘Research, Development and Training’ and ‘Products, Services and Fair dealing with supply chain’ dimensions. A variance in the disclosure level of the dimensions ‘Employees and Environment’ are recorded amongst the sample banks. The range for the ‘Employees’ dimension is 60% and for ‘Environment’ is 63%.Such variability in disclosure level among IBs may hint of a lack of proper governance that calls for more regulations. As Sharia complaint banks, regulations should come secondary to the banks’ own religious duty of being socially responsible to all its stakeholders, however a lack of 100% disclosure in the sharia compliant dimension(average 61%) gives an indication of the banks’ unwholesome sincerity towards their religious obligations.

1. **Practical Implication & Further Research:**

The awareness aimed to be created by this study amongst the IBs and its stakeholders about the reported gap between the ethical claims of the IBs and their communicated CSR activities, can lead to a scope of an improvement in the social roles of the banks in future. More regulations/pressure can be put in place both from external parties (such as Bangladesh Bank, depositors etc.) and internal parties (such sharia supervisory board) to reduce this gap.

This study had the scope of analyzing the CSR disclosure level of sample IBs based on a single year’s (2015) annual reports only. Further research can be carried out entailing a longitudinal study using a time series analysis to gauge a better picture of the CSR practice of IBs in Bangladesh

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**Appendix**

**Measurement Dimensions Detailed**

**Dimension 1: Strategy Corporate vision**

• operates within Sharia principles

• FOCUS on stakeholders and distribution of profit

• Appreciation to shareholders and customers

• building long-lasting relationships with customers

**Dimension 2: Governance**

**Top management**

• Name of the board of directors

• Position of the board members

• Academic qualifications of board

• Profile of the board of directors

• Remuneration of the board of directors

• Shareholding of the board of directors

• Various sub-committees which exist and number of meeting held

• Audit committee exists

• Multi-directorship exist among board of directors

• Name and position of the management team

• Member in the subcommittee of the management team members

• Academic qualifications of the management team

• Governance structure of the IB including committees under the highest governance

Body responsible for specific task, such as setting strategy or organizational oversight

• Mechanism for shareholders and employees to provide recommendations or direction to the highest governance body and annual general body meeting

• risk management practices

**Sharia compliant**

• Name of Sharia Supervisory Board (SSB) members

• Qualifications of SSB members*.*

• Number of SSB members

• Remuneration of members

• Report sign by all members

• Number of meetings held

• Examination of documents based on sample

• No defects in products

• Report defects in product

• Report of SSB

• Nature of unlawful transactions

• Certification of distribution of profits/losses complying with Sharia

• Zakat calculated according to Sharia

• Sharia screening during investment

**Dimension 3: Product**

**Product, services, and fair dealing with supply chain**

• Introduction of SSB-approved new product

• Basis of Sharia concept on new products

• Glossary/definition of new product

• No investment in non-permissible activities

• Nature of unlawful transaction

• Fair dealing with those in supply chain

• Promotion of research and development

• Market survey and feasibility report

**Dimension 4: Community development and social goals**

**Strategic social development**

• funding to organizations that provide benefits to community for social equity

• fostering strong links with the community/public service

• creating job opportunities

• Amount spent in community activities

• Participation in government-sponsored social activities

• Zakat payment – monetary

• Zakat payment – beneficiaries

• Qardh-Hassan – monetary

• Qardh-Hassan – beneficiaries

• Sadaqah – monetary

• Sadaqah – beneficiaries

• Community cohesion

• Debt policy and amount of debts written off

**Dimension 5: Employment**

**Employees**

• Equal opportunities policy

• Employees’ welfare

• ensuring diversity

• Training: Sharia awareness

• Training: professional skill

• Encouraging talent

• keeping policy of international labor standard

• Reward for employees

• Employees’ appreciation

• focus on safety of staff

**Research, development and training**

• Capacity building

• Regular performance and career development report

• Strategy formulation and decision-making support to the top management

• standardize training curriculum

• Database management

**Dimension 6: Environment**

**Environment**

• Introduction of green product

• Glossary/definition of green product

• Investment in recycling bin project (recycling for nature) and other sustainable

Development project

• Amount of donation in environmental awareness

• financing in any project which may lead to environmental damage

• Investment in sustainable development projects

• Initiatives to mitigate environmental impacts of product and services, and extent of impact mitigation

• focus on risk-based corrective actions