

Corporate Social Responsibility in Islamic Banks in Pakistan

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Abstract

This study holds two forms of investigation. First is to investigate the disclosure about CSR in vision and/or mission statements and annual reports of the banking companies. Secondly, it investigates CSR as perceived by the managers (middle and higher level) of selected Islamic banks. The study is conducted on five Islamic banks, where perception of managers is investigated through survey questionnaires and banks' annual reports for five years (2009-13). This study highlights the differences, if any, in the real time investments for CSR as disclosed by the companies in annual reports and the perceived CSR as reported by managers. This study adds value by presenting insights both for existing CSR practices, as apparent from vision and mission statements and annual reports and about CSR perceptions of managers. It also highlights the real time CSR as adopted by Islamic banks and gives direction for future working. It will help the management to overcome the deficiencies existing at either end.

Keywords: Islamic banking, Corporate social responsibility, Sharī'ah, stakeholders' perception.

KAUJIE Classification:

JEL Classification:

1. Introduction

Corporate social responsibility (CSR) has been in debate for a decade or more. CSR is usually also termed as corporate responsibility (CR) or socially responsible organization (SRO). The notion of CSR/SRO/CR refers to a business or an entity which is ethically responsible for all of its stakeholders. It may also be referred to as the business practices aimed at achieving sustainable economic, social and environmental goals/challenges while balancing the wider interests of stakeholders (Siwar & Hossain, 2009).

CSR upgrades brands' standing and the recognition that the stakeholders hold in their relationship with the organization. CSR is not an

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idea of philanthropy; rather, it is an idea of benefiting by fulfilling the prerequisite for all related stakeholders. For instance, in USA, clients blacklisted more than 800 items because these items were untrustworthy to the general public. Therefore, CSR has emerged as important objective as the profit making itself is. This has led to the development of a new socio-economic scenario in the corporate world (Samina, 2012). Dusuki and Dar (2005) and Zaman (2005) explained that CSR is a standard outlined behavior that tells an organization what it is supposed to do while aligning its objectives with leaving a positive and healthy influence on stakeholders' values, norms and beliefs and the overall society. Morrison (2000) valued the consideration of cultural, ethical, moral and social variables besides economic objectives while defining the goals of organizations. Religion plays a pivotal role in determining such objectives. But, it is distressing to know that limited numbers of studies are available considering the role of religion (Anderson et al., 2000). Therefore, linking religious aspects with the organizational objectives is an important consideration for researchers of present era (Aribi & Gao, 2010).

Islamic financial institutions (IFIs) are the organizations which focus on the business practices led by religious thought (Mohammed, 2013). Islamic banking institutions (IBIs) as Islamic banks are collectively termed in Pakistan are bound to follow both Sharī'ah and economic objectives. It is noteworthy that Islamic business framework values both economic and normative elements in objectives of business. In this framework, a business is meant to make reasonable profit, charge just price, pay just wages to workers, but should primarily focus on the welfare and social cause (Azid et al., 2008; Choudhury et al., 2006). It is, therefore, imperative for an IFI or IBI to focus on social cause while working for profits and growth. But how the banks are really working on such issues, is an area that has rarely been investigated in literature. The literature available on CSR in Islamic institutions is widely classified as: studies focusing on CSR practices as guided by Sharī'ah laws (e.g. Dusuki, 2008; Mohammed, 2013); difference between conventional and Islamic banks (e.g. Aribi & Gao, 2010); CSR disclosure (e.g. Arabi & Gao, 2010; Othman & Thani, 2010; Samina, 2012); and stakeholders' perception of CSR (e.g. Dusuki & Yusof, 2008). But the literature is largely silent about comparing the disclosure (claim) by the institutions and the perceptions of stakeholders (Dusuki, 2008). This study evaluates this gap and covers the investigation from two perspectives: (1) corporate disclosure of CSR by the banks, and (2) perception of managers about the CSR as being implemented by the organization.

2. The basis for CSR in Islamic Perspective

The basis of Islamic thoughts and concepts is the oneness of Allah (SWT) Who sent messengers to convey His message and guide the people to the right path. Islam values the teachings of all messengers from Adam to Moses to Jesus and their righteous paths. However, Muhammad (PBUH) is the last messenger of Allah and the book revealed on him is the last message and book (Qur'ān) aimed at guiding the people and solving the prevailing and rising problems of mankind. Qur'ān provides the theoretical framework while the life of Prophet (PBUH) is the practical example of that framework (termed as 'Sunnah'). Qur'ān and Sunnah are the guidelines and source of the teachings of Islam that serve as the basis for CSR from Islamic perspective (Mohammed, 2008).

3. Theories and Dynamics of CSR

For the last five decades, business and society relationship has been given a great amount of emphasis by the theorists and management thinkers (Carroll & Buchholtz, 2000), which lead to the basis of CSR. There are numerous differences in the opinion of practitioners and thinkers about the social responsibilities of business and towards whom businesses are responsible. While looking at the traditional view of business, Friedman (1970) was of the view that corporations solely work for profit making and do not owe anything else. It was also said that CSR incurs additional cost for business and can significantly influence the overall performance (Henderson, 2001; Pikston & Carroll, 1996). On the contrary, few other scholars, e.g. Carroll (1999), Donaldson and Preston (1995) argued that corporations owe numerous responsibilities towards their stakeholders. These responsibilities are backed by various theories ranging from classical view to instrumental theory and stakeholders' theory.

The classical view of CSR was presented by Friedman (1967,1996). It considers socially responsible real investments and not those focused on voluntary activities as the source of increasing profits. On the other hand, social contract theory assumes that a business should work in a reasonable manner by not only focusing on economic and commercial gains but also valuing the social contribution (Moir, 2001). Furthermore, this theory highlights the social aspects of a business institution and considers the business like a family where benefits of all stakeholders are respected on merit and no one is valued over others. Instrumental theory considers social investments as an optional program where it can be used for creation of good image and to gain competitive advantage (Greenfield, 2004; Johnson, 2003; Lantos, 2002; Burke & Jeanne, 1996); whereas

legitimacy theory considers CSR as an outcome of the pressure caused by economic, social, and political forces. It is, therefore, believed that survival of business is dependent upon the consideration for society as a whole (Deegan, 2002; Suchman, 1995).

Finally, the stakeholders' theory focuses on the rights and needs of all the stakeholders as a way to develop socially responsible practices (Maignan & Ferrell, 2004). Moreover, CSR is a responsibility taken by the organization which influences communities, employees, environment and shareholders. It implies working beyond the statutory obligations to improve the quality of life for organisation's employees, customers, communities and society as a whole. CSR is, therefore, believed to be an ethical commitment of organization while focusing on the economic development, and refinement of the quality of life of the employees, their families, community and society as a whole (Siwar & Hossain, 2009).

4. CSR from Islamic Perspective

Islam is a complete and comprehensive code of life as based on the teachings of Qur'ān and Sunnah. These sources give us guidelines about faith and belief, worship, and morality and ethics. These guidelines are not subject to change and their applicability is universal (on economics, business, social, politics and religious affairs) (Kamali, 1989). Islam values human being as a representative of Allah (SWT) and everything as His creation. So it's our responsibility to take care for the creation and representatives of Allah. Islam does not allow misuse of any of the resources provided by the Creator. For instance, Muslims are not allowed to waste water even for '*ibādah* e.g. while making ablution. Therefore, the main purpose of teachings of Islam is collective and holistic welfare (Ahmad, 2002). These moral and ethical considerations create enduring, absolute and eternal principles which can work as guidelines for a sole being, a social being, a business, or an economic interaction (Ahmad, 2003).

Traditional concepts of CSR determine righteous and wrong doings as perceived by the human using logics and reasoning (Nyazee, 2000). Islam looks at CSR in broader sense of *taqwá* (consciousness to Allah SWT), where a man works as vicegerent to Allah and has to abide by His rules and teachings in every aspect of life (Dusuki, 2008). Hassan (2002) narrates that such relations are inspired by truthfulness, kindness, fairness and uprightness rather than the evils of discrimination, backbiting and envy. This should be noticeable in business, social life, economic

interactions and any sort of dealing with any stakeholder (Siwar & Hossain, 2009).

Considering the significance of Sharī'ah in Islamic paradigm, a bond based on religious thoughts is considered more worthy than a social bond. The religious bond requires a complete submission to Sharī'ah and spending life as per the teaching of Qur'ān and Sunnah where ethics, virtue, moral consciousness and welfare are the prime considerations (Dusuki, 2008). Religious bond demands a commitment for moral as well as social norms as guided by Sharī'ah. A man is not expected to work in a self-centered manner and is supposed to balance his rights and responsibilities towards the society (Chapra, 1992). Thus, it is justifiable to claim that the notion of social responsibility is firmly adorned within the religious bond.

5. Methodology

This research is based on a mix methodological approach, where both primary and secondary data are used. It used secondary data to investigate the CSR disclosure in annual reports of selected Islamic banks, while primary data has been used to see the perceptions of managers of those banks about CSR practices implied by their banks. Five full-fledged Islamic banks were selected for investigation. Their annual reports for five years (2009-13) were used to observe their CSR disclosure patterns. Twenty five managerial level personnel were interviewed about the CSR practices being applied by their banks. These included: i) Middle level managers (area managers; ii) Higher level managers (regional managers) were also contacted in order to enhance the quality of responses. Broadly speaking, regional managers have the responsibility of supervising area managers. The questionnaire was used as a tool to elicit their responses, where 23 managers responded back with completely filled in questionnaires. The initial set of questions was taken from the work of Siwar and Hossain (2009). It was further modified considering the dimensions of CSR discussed in literature. These responses were reported at five point Likert scale (strongly disagree to strongly agree) and were compared with the Islamic parameters [i.e. *farḍ-wājib* (religious binding), *mustahab* (liked or virtuous act), *makrūh* (disliked), *ṣaghīrah gunnāh* (small sin), and *kabīrah gunnāh* (big sin /heinous crime)]. SPSS version 19.0 was used for data analysis.

6. Data Analysis

Table 1 shows the disclosure of CSR in vision, mission statements and annual reports. It is evident that the banks, except Bank Islami and Burj

Banks, have valued the presence of welfare and social responsibility in their vision statements. But these two banks (i.e. Bank Islami and Burj Bank) have disclosed such notions in their mission statements, while Dubai Islamic bank has no such disclosure in their mission statement. Meezan Bank and Bank Albarka are the banks which have shown signified CSR in both vision and mission statements.

A look at the annual reports of these banks shows that these banks are largely focusing on elements towards society and community as a whole. Thus, it confirms that Islamic banks intended to work on the objectives of social and communal nature along with making profits. When we have a look at other stakeholders, it is apparent that none of the banks is focusing on the welfare of their employees and customers. Environment is also not focused by all of the banks. Thus, it is evident that these banks intended to work for the welfare and benefit of society as a whole while other stakeholders are given secondary or not as much of importance.

Table 1: CSR Disclosure in Vision, Mission and Annual Reports

Banks	Vision	Mission	Annual Reports				
			Customer	Community	Employees	Society	Environment
Meezan Bank	Yes	Yes	No	Yes	No	Yes	Yes
Bank Islami	No	Yes	No	Yes	No	Yes	No
Dubai Islamic Bank	Yes	No	Yes	Yes	No	Yes	No
Bank Albaraka	Yes	Yes	Yes	Yes	No	Yes	No
Burj Bank	No	Yes	No	Yes	No	Yes	Yes

7. Banks' Managers' Opinion on CSR in Islamic Banks

7.1 Kruskal-Wallis Test

In order to compare the opinions of managers from selected Islamic banks, Kruskal-Wallis test was used. It is a non-parametric test and is widely accepted and used when data cannot meet the basic requirements of parametric tests. It requires less strict assumptions about population and type of data. It requires data not, necessarily, to be distributed normally or at intervals. Though, it is not as powerful tool as parametric tests, but increasing the sample size can increase its worth (de Vaus, 2002). Its results are presented in Table 2.

The Kruskal-Wallis test reveals that the managers from selected Islamic banks reported different opinions over various CSR activities (five activities assumed here). For instance, when managers were inquired for their banks preference towards the welfare of customers, it was noticed that managers responded with varying responses where Dubai Islamic bank and Bank Albaraka managers (mean rank = 19.95 & 20.48) reported that their bank focuses on the welfare of the customers, while managers of other banks reported that their banks are not focusing on the values of customers at all. Similarly, managers reported that environment is a concern for few of the banks (i.e. Meezan and Burj Bank) while other managers reported that their banks do not value environment as an important objective of their existence. Contrarily, managers from all of the selected banks reported that their banks are considerably focusing on value creation for society and community, but there is no focus towards employees ($\chi^2 = 20.460$, significance = 0.05; $\chi^2 = 21.693$, significance = 0.05; and $\chi^2 = 7.640$, significance = 0.05 respectively). The mean ranks show that managers perceive that their banks are focusing on the values for community and society as a whole, while employees are not given due importance.

Table 2: Comparison of Stakeholders' Perception of Islamic Banks

Variables/Factor	Subgroup	N	Mean Rank (Σ)	χ^2	Asymp sig (p)
Customers	Meezan Bank	04	12.34	$\chi^2=13.446$.000
	Bank Islami	05	10.72		
	Dubai Islamic Bank	05	19.95		
	Bank Albaraka	05	20.48		
	Burj Bank	04	10.33		
Community	Meezan Bank	04	21.67	$\chi^2=20.460$.348
	Bank Islami	05	22.54		
	Dubai Islamic Bank	05	23.87		
	Bank Albaraka	05	23.55		
	Burj Bank	04	22.87		
Employees	Meezan Bank	04	9.34	$\chi^2=7.640$.440
	Bank Islami	05	8.56		
	Dubai Islamic Bank	05	10.45		
	Bank Albaraka	05	9.44		
	Burj Bank	04	7.30		
Society	Meezan Bank	04	22.76	$\chi^2=21.693$.303
	Bank Islami	05	21.45		
	Dubai Islamic Bank	05	22.78		
	Bank Albaraka	05	21.56		
	Burj Bank	04	22.90		
Environment	Meezan Bank	04	19.40	$\chi^2=15.864$.001
	Bank Islami	05	9.30		
	Dubai Islamic Bank	05	7.44		
	Bank Albaraka	05	7.65		
	Burj Bank	04	20.33		

8. Conclusion

This study focuses on investigating the disclosure and perception of managers about CSR practices followed by Islamic banks in Pakistan. The inquiry made on five Islamic banks shows that these banks are valuing CSR either in their vision statement, mission statement or in both. A look at their annual reports shows that these banks are mainly focusing on the societal and communal objectives. On the other hand, employees are the most neglected part as none of these banks is working on welfare of their internal stakeholders.

These results are further validated by the managers who reported that community and society are the main stakeholders who are valued by their respective banks. It shows that the Islamic banks intend to focus on value creation for society and community as a whole, which is one of the prime objectives of organizations based on the principles of Shari'ah. Customers and environment are the areas which are given not as much of importance. This may be attributed to the fact that customers are the source of profit and earning which is also an important objective of any business organization. Islamic banks need to work mainly for the stake of societal and communal welfare. Therefore, this emphasis is quite in line with the philosophy of Islamic organizations which are backed by the laws and principles of Shari'ah. It is interesting to notice that none of the banks is focusing on the welfare and value creation for their employees, who are one of the most important internal stakeholders. It is imperative for banks to have motivated, dedicated and loyal employees and customers and their strength is actually organizational strength (Dusuki, 2014). Importance of all these stakeholders has been realized by previous studies e.g. Dusuki (2014); Siwar & Hossain (2009); and Gerrard and Cunningham (1997).

8.1 Managerial Implications

This study leaves a valuable message for the top management of Islamic banks, who are to make decisions for Shari'ah compliance as well as day to day operations. They should focus on all stakeholders whether those are internal or external. It is noticed that Islamic banks in Pakistan intend to focus on only society and community. Though both society and community are the prime consideration as highlighted by the Shari'ah, it is also vital to focus on customers and environment which are not given due importance as well as employees who are also ignored. Both customers and employees are the main parties which can contribute towards the attainment of the goals like profit making, smooth operation, better performance, etc. Moreover, both these stakeholders are the prime source

of earning profit (commercial objectives), another important purpose of Islamic banks (Dusuki, 2014). Therefore, CSR should focus on all round value creation, which should cover both internal and external stakeholders.

This study highlights an area that needs attention from the top management, i.e. to pay attention on the career, training, development and growth of their employees focusing on the moral and professional needs highlighted in teachings of Islam. Thus all IFIs should cater to the needs of their employees, train and groom them to understand and share that understanding with the customers and all other stakeholders.

8.2 Limitations and Directions for Future Research

This study has few limitations in its methodological underpinnings. The foremost is the limited number of respondents and consideration of only one stakeholder, out of a number of diversified lists. The sample is also small, which can be enriched by considering the Islamic windows' operations of conventional banks operating in Pakistan. This study can be replicated in other parts of the world by increasing the sample size and number of responding stakeholders. Moreover, future researchers could concomitance this study with the objectives of Islamic banks (Dusuki, 2008) and whether CSR stands tall with the other objectives or not?

This study also focuses on the disclosure (in vision, mission statements, and annual reports) and perception of managers about CSR practices of Islamic banks. A related area of research could be comparison of what vision and mission statements of Islamic banks say and what is the ground reality based on operational results of Islamic banks. Moreover, a comparison between Islamic and conventional banks can also be a distinctive study which may differentiate Islamic banks from its counterparts. Additionally, a study demands investigation of a large sample of Islamic banks widespread across the globe. A list given by '*The Bankers*' or any other authentic source can be used to select Islamic banks operating in different countries for this purpose.

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