



Management Research Review

Customer-centric corporate social responsibility: A framework for Islamic banks on ethical efficiency

Mamunur Rashid Islam Abdeljawad Siti Manisah Ngalim M. Kabir Hassan

Article information:

To cite this document:

Mamunur Rashid Islam Abdeljawad Siti Manisah Ngalim M. Kabir Hassan, (2013), "Customer#centric corporate social responsibility", Management Research Review, Vol. 36 Iss 4 pp. 359 - 378

Permanent link to this document:

<http://dx.doi.org/10.1108/01409171311314978>

Downloaded on: 24 August 2014, At: 04:34 (PT)

References: this document contains references to 38 other documents.

To copy this document: permissions@emeraldinsight.com

The fulltext of this document has been downloaded 807 times since 2013*

Access to this document was granted through an Emerald subscription provided by 467320 []

For Authors

If you would like to write for this, or any other Emerald publication, then please use our Emerald for Authors service information about how to choose which publication to write for and submission guidelines are available for all. Please visit www.emeraldinsight.com/authors for more information.

About Emerald www.emeraldinsight.com

Emerald is a global publisher linking research and practice to the benefit of society. The company manages a portfolio of more than 290 journals and over 2,350 books and book series volumes, as well as providing an extensive range of online products and additional customer resources and services.

Emerald is both COUNTER 4 and TRANSFER compliant. The organization is a partner of the Committee on Publication Ethics (COPE) and also works with Portico and the LOCKSS initiative for digital archive preservation.

*Related content and download information correct at time of download.



Customer-centric corporate social responsibility

Customer-centric
CSR

A framework for Islamic banks on ethical efficiency

359

Mamunur Rashid, Islam Abdeljawad and Siti Manisah Ngalm

*Graduate School of Business, Universiti Kebangsaan Malaysia,
Bangi, Malaysia, and*

M. Kabir Hassan

*Department of Economics and Finance, University of New Orleans,
New Orleans, Louisiana, USA*

Abstract

Purpose – The purpose of this paper is to investigate customer-centric corporate social responsibility (CSR) in Islamic banks of Bangladesh, Malaysia and the Arabian Gulf Region. The new framework is found from the incomplete link between managerial motivation and their actual involvement with CSR activities.

Design/methodology/approach – The study uses annual reports of 16 Islamic banks from three regions. Using content analysis method, the study produces an ethical identity index on eight dimensions. The average index scores are ranked to get a view of the importance given by Islamic banks to the path of social responsibility.

Findings – In this study, the customer-centric CSR framework assumes that there are two layers of CSR involvement in Islamic banks. The upper layer assures the commitment towards Allah (SWT) by operating under Islamic Shari'ah. The bottom layer ensures the commitment towards customers, employees and society. The reports of Islamic banks show that the selected banks are too customer centric and efficiency driven. However, that efficiency is targeted at the cost of sacrificing Shari'ah norms. Their commitments to basic Islamic rules fall far behind the average.

Research limitations/implications – The study uses content analysis of the annual report to identify CSR involvement of the Islamic banks. There are various issues related to CSR and corporate management that are not reported in annual reports. Moreover, disclosure norms and regulation also have an influence on reporting standards. Thus, this study is limited to what is found in the reports only.

Originality/value – The study contributes to the existing literature on customer-centric CSR and customer-centric marketing. There is evidence that the findings from this study are consistent with other studies. Islamic banks are becoming customer centric because of the competition from conventional banks. However, they must not forget the very essence of the establishment of these banks which is the spiritual freedom based upon sole submission to Allah (SWT).

Keywords Islam, Banks, Corporate social responsibility, Ethics, Bangladesh, Malaysia, United Arab Emirates, Bahrain, Kuwait, Saudi Arabia, Customer-centric CSR, Efficient ethics, Islamic banks, Ethical Identity

Paper type Research paper



JEL classification – M14, N25, N35

The authors acknowledge the assistance with the data derived from Hassan and Rashid (2010) and the research assistantship of Tahasina Akhter, Razu Ahmed Khan and Ainun Nishat from East West University, Dhaka, Bangladesh.

1. Introduction

An important body of literature identifies corporate social responsibility (CSR) as a strategic input to corporate performance (Bagnoli and Watts, 2003; Baron, 2001; Porter and Kramer, 2006; Siegel and Vitaliano, 2007). Another group of researchers find CSR to influence customer satisfaction and corporate profitability (Bhattacharya and Sen, 2004; McDonald and Rundle-Thiele, 2008). However, there is an increasing number of studies investigating decreasing corporate motivation for CSR involvement (Brown and Dacin, 1997; Schwartz and Carroll, 2003; Smith, 2003; Stewart, 2006; Thronhill, 2007; Vilanova *et al.*, 2009). Corporate impression management versus strategic social change (Hooghiemstra, 2000), complexity of managing multiple layers of stakeholders (Aguilera *et al.*, 2007) and measurement of relationship between investment in CSR and corporate performance (Simpson and Kohers, 2002) are among the primary reasons for this deterrence. In addition to these, Luo and Bhattacharya (2006) argue that the best approachable link between CSR and corporate strategic value addition is customer satisfaction.

Customer-centric CSR (Rashid, 2010b) assumes that all corporate strategies are centered towards satisfaction of the customers. Thus, the owners build a company to earn profit by delivering better value to customers. Similar to Carroll (1979), customer-centric CSR envisions that economic responsibility is at the core of any business operation. Therefore, if the CSR has to be strategic, it has to concentrate on economic value addition of the customers. Rashid (2010a) identified four areas for banks to be customer centric in their CSR involvement. These center on investing in quality and innovation, establishing operational ethics, social contribution for change, and compliance to laws and norms. On one side, these four principles keep unblemished differences from the traditional CSR principles based on charity and donations. On the other hand, customer-centric CSR relates closely to frontline CSR standards, such as the standards reported in World Business Council for Sustainable Development and UN Global Compact, theory of sustained competitive advantage, service dominant logic, and the general principles of customer-centric marketing.

Islamic finance runs on profit and loss sharing. Thus, it makes the customers the partners in business. Similar to the service dominant logic (Vargo and Lusch, 2004), the Islamic financial system considers the customer as the co-creator of service. The Islamic banking system aims at achieving a risk-sharing process instead of a conventional practice of risk transferring (Chapra, 1985; Usmani, 2002). In various discussions, our beloved Prophet Mohammad (PBUH) said that if we do not serve our customers well, then Allah's (SWT) angels would curse us. It is also a common discussion that honest businessmen will stand beside the messengers, *siddiqieens*, and martyrs (Tirmidhi) on the Day of Judgment. The very source of business in the Prophet's life was his trustworthiness while handling others' money, which credited him (PBUH) the name "*Al Amin*". Allah (SWT) makes trading *halal* and interest or *ribaharam*. Additionally, in various Qur'anic verses (2:274, 13:22, 14:31, 16:75, 35:29), Allah (SWT) made it clear to promote human and social value. *Zakah* is given more social priority than economic value. Therefore, the best way of doing Islamic business is having partnership with trust, engaging in trading of goods and services that increases the satisfaction level of the customers, and promoting the social relations of the businesses. However, all these will be meaningless without having complete faith in and submission to Allah (SWT).

This study attempts to identify a plausible blend of nominal Islamic business practices in the present business condition with respect to CSR of the Islamic banks. Under the customer-centric CSR framework, the study examines the current status of CSR involvement of Islamic banks in Bangladesh, Malaysia, and the Arabian Gulf Region. The determinants of customer-centric CSR were investigated and compared between the three different regions. The findings exhibit that Islamic banks are becoming too customer friendly; however, at the cost of Islamic principles.

2. Past studies

The holy *Qur'an* provides guidelines on individual and collective social responsibility. Prophet Mohammad (PBUH) used to work for others' businesses before taking the role of a businessman. The basis for him (PBUH) becoming a fully pledged businessman was trust and honesty. Thus, at present, CSR should be related to the identity of the individual and collective traits of businessmen, their employees, and partners. Plenty of groundbreaking studies have been conducted in the area of ethical identity and social reporting of the Islamic banks since the beginning of the twentieth century. The essence of these studies is to investigate the value of (religious) belief, transparency, trust, and accountability in the operation of Islamic banks (Berrone *et al.*, 2007; Farook, 2008; Gray and Balmer, 2001; Haniffa and Hudaib, 2007; Hassan and Rashid, 2010; Hassan *et al.*, 2010; Hooghiemstra, 2000; Maali *et al.*, 2006). These studies investigated the disclosure of social activities by Islamic banks via their annual reports. Gray and Balmer (2001) and Haniffa and Hudaib (2007) opened up further research interest into this area by introducing an ethical identity index (EII).

Hassan and Rashid (2010) studied the EII for Islamic banks in Bangladesh, Malaysia, and the Arabian Gulf Region. Following the methodology of Haniffa and Hudaib (2007) and Hassan and Rashid (2010) identified the authority of Islamic banks in the Arabian Gulf region over the banks in Bangladesh and Malaysia. (1) Clearly stated mission and vision statements, (2) profile of board of directors (BOD) and top management, (3) innovation and quality of product and services, (4) distribution of *zakah*, charity, and benevolent funds, (5) commitment towards employees, (6) commitment towards debtors, (7) commitment towards society, and (8) details about Shari'ah Supervisory Boards (SSBs) are the eight dimensions that Hassan and Rashid (2010) borrow from Haniffa and Hudaib (2007). Both studies used content analysis method to find out the presence of these eight factors in annual reports published by the banks. Hassan and Rashid (2010) reported that commitment to debtors (depositors in cases of banks) gets the top priority in all the regions. Innovation and quality of products and services, commitment towards society, and details of the BOD and top management are the remaining major factors.

The Islamic banking industry is growing at a double digit rate every year (KFH, 2009; McKenzie, 2010). The enormous competition carries the risk of trust, transparency, and commitment towards service excellence. Thus, the social reporting standards of the Islamic banks fall short of the stakeholders' expectations. Farook (2008) asked for a new framework for Islamic banks for their involvement in social responsibility, while Dusuki (2008) extended the concepts of Islamic CSR based on *Maslahah*. Even though it is written in annual reports that Islamic banks' operations are based on Islamic Shari'ah, there are however areas where Islamic banks fall short of integrated quality in the existing Islamic framework, especially while

working in a dual banking system. In this regard, Farooq (2007) found the link between equity financing and profit-loss sharing with the partnership banking system. Farooq (2007) also asked questions on the relationship between activities and objectives of the Islamic system in the current financial state.

In any state of business or human life, the Prophet (PBUH) teaches us to carry sole faith in Allah (SWT). Thus, the existing teaching of customer centric marketing (Sheth *et al.*, 2000), the commitment-trust theory (Morgan and Hunt, 1994) and the service dominant logic (Vargo and Lusch, 2004) will be true in Islamic banking with a little change. Islamic banks must serve their customers with the best service efficiency – however, via establishing their sole faith in Allah (SWT). Trust and commitment towards stakeholders cannot be given equal importance to the faith in Allah (SWT). The Islamic banking responsibility framework should follow a top-to-bottom approach, meaning that the banks should serve the customers because they want to satisfy Allah (SWT). Therefore, the customer-centric CSR framework in Islamic banks should start serving the customers while keeping satisfaction of Allah (SWT) at the center of all activities.

This study divides the eight dimensions of ethical identity, in Hassan and Rashid's (2010) study, into two stages: stage one, identifying the commitment towards Allah (SWT) and stage two, commitment towards others. First, the faith on the directions of Allah (SWT) and the teachings of Prophet Mohammad (PBUH) are reflected in four dimensions:

- (1) the mission and vision statement;
- (2) BOD and top management committed to upholding the faith of Allah (SWT);
- (3) the payment of *zakah* to comply with basic directions of Allah (SWT); and
- (4) clarity and efficiency of the SSB responsible for certifying the activities according to the directions of Allah (SWT) and Prophet (PBUH).

Second, the customer-centric CSR framework for Islamic banks should include a commitment towards quality and innovation of the services, debtors, employees, and society.

Figures 1-3 show the customer centric CSR framework by Rashid (2010b), EII by Hassan and Rashid (2010), and customer-centric CSR framework for this study, respectively. The new framework in Figure 3 redefines the framework given in customer-centric CSR framework shown in Figure 1 (Rashid, 2010b). In this study, the two constructs, "compliance" and "operational ethics" shown in Figure 1 by Rashid (2010b), are linked to compliance with basic Islamic norms and directions of Allah (SWT).

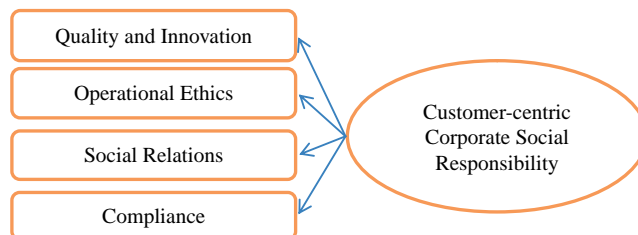
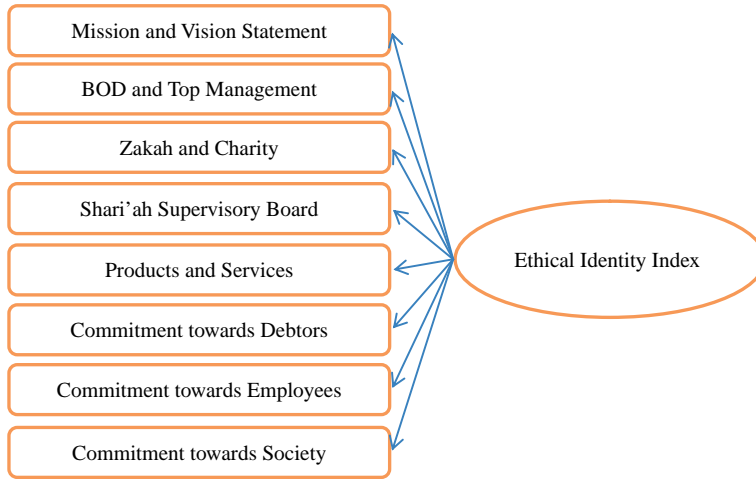


Figure 1.
Customer-centric CSR
framework

Source: Rashid (2010a, b)



Source: Haniffa and Hudaib (2007)

Figure 2.
Ethical identity index



Figure 3.
Customer-centric CSR for
Islamic banks: framework
of this study

Therefore, in the first stage of this study, compliance towards Allah (SWT) represents compliance and operational ethics reported in Rashid (2010b). In the second stage, commitment towards other stakeholders reported in this study is linked to quality and innovation, and social relationship included in Figure 1 by Rashid (2010b).

3. Data and method

Islamic banks publish their CSR involvement in annual reports every year. Haniffa and Hudaib (2007) and Hassan and Rashid (2010) used the definitions given in Table I (eight dimensions of ethical identity) to identify the presence or absence of the items in annual reports for different years. Using the appearance method of content analysis (Weber, 1990), if the item is available, in meaning or in theme, "1" is given, indicating that the bank considers the dimension as important. Otherwise, the value is "0",

<i>Dimension 01: mission and vision statement</i>	
1	Commitments to operate within Shari'ah principles/ideals
2	Commitments to provide returns within Shari'ah principles/ideals
3	Commitments to engage in investment activities that comply with Shari'ah principles
4	Commitments to engage in financing activities that comply with Shari'ah principles
5	Commitments to fulfill contractual relationships with various stakeholders via contract (<i>uqud</i>) statements
6	Current and future directions in serving the needs of Muslim communities
7	Statements of appreciation to stakeholders
<i>Dimension 02: BOD and top management</i>	
1	Names and positions of board members and top management
2	Pictures of board members and top management
3	Profile of board members and top management as indicators of their knowledge of and competence in banking and Shari'ah
4	Balanced board
5	No role duality
6	Having an audit committee
7	Limited multiple directorships and shareholdings
<i>Dimension 03: products and services</i>	
1	Details of investment activities
2	If new products have been introduced, whether they have been approved by the SSB (<i>ex ante</i>) as well as an explanation of the basis of the Shari'ah concept legitimizing the new product
3	Any involvement in non-permissible activities
<i>Dimension 04: zakah, charity and benevolent funds</i>	
1	Which party is liable for <i>zakah</i>
2	If the bank is liable, whether <i>zakah</i> has been paid, the sources of <i>zakah</i> funds, the uses of the <i>zakah</i> funds, any balance of <i>zakah</i> not distributed and the reason for it, and attestation from the SSB that they have been properly computed and that the sources and uses of the funds are legitimate based on God's rules
3	The amount and the sources and uses of charity funds, separate from the <i>zakah</i> funds
4	The amount and the sources and uses of benevolent funds
5	The bank's policies in providing such funds and how non-repayment of such funds will be dealt with
<i>Dimension 05: commitment towards employees</i>	
1	Employees' welfare
2	Training and development (especially on Shari'ah awareness), amount spent on training, provision of special training or recruitment schemes
3	Equal opportunity
4	Reward to employees
<i>Dimension 06: commitment towards debtors</i>	
1	Debt policy and type of debt
2	Amount of debts written off
<i>Dimension 07: commitment towards customers</i>	
1	Having a female branch
2	Creating job opportunities
3	Supporting organizations that benefit society and participating in government social activities
4	Sponsoring Islamic educational and social events

Table I.
Eight dimensions
of ethical identity

(continued)

Dimension 08: Shari'ah SSB

1	Names of SSB members
2	Pictures of SSB members
3	Remuneration of SSB members
4	Number of meetings held
5	Whether there are defects in the products offered and if there are, what are their recommendations to rectify the defects and the actions taken by management
6	Basis of examination of the documents
7	Attestation that profits are gained lawfully
8	Signatures of all members

Source: Haniffa and Hudaib (2007)

Table I.

indicating the absence of the dimension for a specific bank in a specific year. The EII is the average of these items (Table I) for each of the eight categories for a specific bank in a given year. The process is repeated for each bank, each year, and each country for three regions; Malaysia, Bangladesh, and the Arabian Gulf Regions. A total of five banks from Bangladesh, five banks from Malaysia, and six banks from the Arabian Gulf Region were selected for the study. Table II shows a list of banks with their years of annual reports.

The selected banks are all listed in different stock exchanges and are bound to publish their annual reports on the web. Banks are listed for this study based on the availability of the information for an equal number of years on their web sites. The EII should indicate the importance given by the bank in each of the eight areas. According to the conceptual framework in Figure 3, there are two layers of the CSR framework for Islamic banks. Islamic banks must put higher importance to the upper layer. Even

Bank name	Country	Year
<i>Bangladesh</i>		
Islami Bank Bangladesh Limited	Bangladesh	2001-2006
Al-Arafa Islamic Bank Limited	Bangladesh	2001-2006
Social Islamic Bank Limited	Bangladesh	2001-2006
Export Import Bank Limited	Bangladesh	2004-2006
Shahjalal Islamic Bank Limited	Bangladesh	2006
<i>Malaysia</i>		
Affin Bank	Malaysia	2004-2008
Bank Islam Malaysia	Malaysia	2004-2008
Bank Muamalat	Malaysia	2004-2008
CIMB Islamic	Malaysia	2006-2008
RHB Islamic	Malaysia	2005-2008
<i>Arabian Gulf Region</i>		
Abu Dhabi Islamic Bank	UAE	2004-2006, 2008
Al-Baraka Banking Group	Bahrain	2006-2007
Al-Rajhi Bank	Saudi Arabia	2006-2008
Dubai Islamic Bank	UAE	2005-2008
Kuwait Finance House	Kuwait	2004-2008
Shamil Bank	Bahrain	2004-2006

Table II.
List of banks
used in the study

though it is not possible to identify each of the statements with perfect accuracy, a below average score in EII for any of the levels would indicate a severe impairment to compliance with the Shari'ah, accountability, and efficiency.

4. Results

This study identifies the presence of customer-centric CSR involvement in Islamic banks by analyzing their annual reports for eight dimensions of ethical identity. The study divides the existing ethical identity into two layers. First, the upper layer, which indicates the level of sole faith in Allah (SWT) by declaring four significant items related to compliance, transparency, and ethical operations. These four items are mission and vision statement, *zakah* and charitable funds, profile of the BOD and top management, and profile and activities of the SSB. In the second layer, the four items are commitment to debtors, society, employees, and products and services. Items in the second layer are related to efficiency, quality and innovation, and stakeholders' satisfaction. Table III reports the EII scores of the upper and lower layers of the customer-centric CSR framework for Islamic banks. Scores for eight dimensions are averaged and are reported for Bangladesh, Malaysia, and the Arabian Gulf Region. The highest possible score is 1 whereas the lowest is 0. Below each of the score for each region and dimension, there is a ranking shown in brackets. The average score of each dimension for all three regions are shown in the last column with their respective ranking among the eight dimensions. Detailed results for each bank and region are available in Appendix.

The first four rows constituting the upper layer, which contains indication for sole faith in Allah (SWT) and compliance with Shari'ah. The best scores are formatted in bold. Islamic banks have to operate based on Shari'ah. The profile of the members of

Dimensions (Average of the sample period)	Comparison among three regions			Ranking of dimension
	Bangladesh	Malaysia	Arabian Gulf Region	
<i>Upper layer (commitment to Allah)</i>				
Mission and vision statements	0.34	0.26	0.60	0.399
Ranking among three regions	[2]	[3]	[1]	[7]
BOD and top management	0.32	0.54	0.41	0.424
Ranking among three regions	[3]	[1]	[2]	[4]
<i>Zakah</i> , charity and benevolent loans	0.37	0.34	0.55	0.421
Ranking among three regions	[2]	[3]	[1]	[5]
Shari'ah Supervisory Board	0.40	0.34	0.42	0.387
Ranking among three regions	[2]	[3]	[1]	[8]
<i>Lower layer (commitment to other stakeholders)</i>				
Products and services	0.52	0.35	0.73	0.531
Ranking among three regions	[2]	[3]	[1]	[2]
Commitment towards employees	0.47	0.28	0.49	0.413
Ranking among three regions	[2]	[3]	[1]	[6]
Commitment towards debtors	1.00	1.00	0.90	0.967
Ranking among three regions	[1]	[1]	[2]	[1]
Commitment towards society	0.60	0.09	0.61	0.434
Ranking among three regions	[2]	[3]	[1]	[3]

Table III.
Customer-centric CSR:
evidence from annual
reports

the board and the top management should reveal their experience and ideology with respect to Shari'ah. The banks must distribute their *zakah* and, if needed, the *zakah* of the customers. *Zakah* is one of the five basic pillars of Islam. SSB members are responsible for endorsing the activities of the Islamic banks. Their experience and education are very important to establish compliance with Shari'ah.

The basic objective of any company should come at the hinge of the mission and vision statements (Jensen and Meckling, 1976). Table III shows that Islamic banks, on average, in Bangladesh and Pakistan are falling short of complying with the basic norms of Shari'ah. Islamic banks in the Arabian Gulf region reach an above average level scoring 0.60 in reporting their compliance to Shari'ah in mission and vision statements. Banks in Malaysia scored the lowest at 0.26 followed by banks in Bangladesh (0.34). According to the ranking of the dimensions, mission and vision statements is ranked seventh among the total eight dimensions. The average dimension score is 0.399.

Banks operate according to the directions of their BOD and top management. Their honesty and experience guide the Islamic banks towards their mission. Banks in Malaysia score the highest in reporting the profile of the members of the BOD and top management. Banks in the Arabian Gulf and in Bangladesh score 0.41 and 0.32, respectively. Overall average of this dimension is 0.424 with an overall ranking of four among the eight dimensions. Banks have to pay their *zakah*, and at the same time be involved with plenty of charity and benevolent funding. Proper distribution of the *zakah* indicates a direct compliance to Shari'ah. Banks in the Arabian Gulf score the highest with 0.55 and ranked first among the three regions. Banks in Bangladesh distribute their *zakah* and charitable fund more effectively than banks in Malaysia. Their overall average score of the dimension of *zakah* and charitable fund stood at 0.421 and ranked fifth among eight dimensions. Explanation on SSB is given the least priority by Islamic banks in all regions. This dimension is ranked at number eight and reported as giving the lowest average score.

Islamic banking products and services are still developing. Banks in the Arabian Gulf report their products using creative channels and introduce new services. Their score is 0.73 followed by banks in Bangladesh (0.52) and Malaysia (0.35). Innovation in products and services represents investment in quality and innovations. The overall score of the quality and innovation dimension is 0.531, which is ranked second out of eight dimensions. The ranking clearly indicates that Islamic banks regard quality and innovation for development of newer services as second most important. On another note, employees are at the core of operation. They must have a proper training and compensation package. According to their annual reports, banks in the Arabian Gulf region report a poor score of 0.49, which is the highest among the three under this dimension. The overall score of this dimension, commitment towards employees, stood at 0.413, which is ranked at number six out of eight dimensions. Customer-centric CSR envisions that banks would be committed to their customers. However, this commitment would be directed by their commitment towards Allah (SWT). Banks were found to show almost perfect commitment to their customers. This is reflected by the overall score of 0.967, then regarded as the most important factor of all. Apart from customers and employees, banks must be responsible to the society that they are working in. Banks in the Arabian Gulf and in Bangladesh reported a close competition while banks in Malaysia fall back with a poor score. The dimension scored 0.434 and ranked as the third most important factor out of the eight.

Good results seem bad if they are targeted with bad intention. Anything Islamic should be first judged with its intention to serve Allah (SWT). As assumed by the theory of customer-centric CSR for Islamic banks, it is clear from Table III that banks in the sample allow room for compliance to Shari'ah. There is no doubt that the Islamic banks are customer centric. However, this does not carry any weight in the eyes of Islam when they sacrifice the upper layer that is commitment to Allah (SWT). Out of four, three dimensions of the bottom layer scored as the top three among the eight dimensions. On the other hand, upper layer items are ranked at sixth, seventh, and eighth. These results indicate that Islamic banks are targeting customers and becoming more service oriented; however, they could not keep a clear distance from the ideologies of conventional banks. Commitments of Islamic banks to the basic Islamic requirements are reported with less importance. Rashid *et al.* (2009) find similar results after investigating the bank selection criteria of Islamic banks' customers in Bangladesh. Their study reported that Islamic banks' customers want efficiency more than spiritual benefits. A higher degree of customer centrism is an outcome of intense competition against conventional commercial banks (Rashid, 2010a). However, the survival in competition and speed for efficiency should not drive out the basic essence of Shari'ah.

5. Conclusion

The primary responsibility of Islamic banks is to completely submit to Allah (SWT) by strictly operating under Shari'ah. They should satisfy customers and other related stakeholders for the ultimate satisfaction of Allah (SWT). This study offers a two-layer framework for CSR of the Islamic banks based on a customer-centric CSR framework. Using the content analysis method, this study analyzes the annual reports of the Islamic banks for eight dimensions of the EII. The scores of each dimension for three regions – Bangladesh, Malaysia, and the Arabian Gulf Region, are ranked to understand their relative importance in the CSR framework. The results indicate that Islamic banks are becoming more customer friendly and efficient; however, this is happening at the cost of Islamic belief and faith in Allah (SWT). The study suggests that Islamic banks should be fully operationalized with Islamic principles and not merely complying with Islamic practices.

References

- Aguilera, R.W., Rupp, D.E., Williams, C.A. and Ganapathi, J. (2007), "Putting the S back in corporate social responsibility: a multi-level theory of social change in organisations", *Academy of Management Review*, Vol. 32, pp. 836-63.
- Bagnoli, M. and Watts, S.G. (2003), "Selling to socially responsible consumers: competition and the private provision of public goods", *Journal of Economics & Management Strategy*, Vol. 12, pp. 419-45.
- Baron, D.P. (2001), "Private politics, corporate social responsibility, and integrated strategy", *Journal of Economics & Management Strategy*, Vol. 10, pp. 7-45.
- Berrone, P., Surroca, J. and Tribó, J.A. (2007), "Corporate ethical identity as a determinant of firm performance: a test of the mediating role of stakeholder satisfaction", *Journal of Business Ethics*, Vol. 76, pp. 35-53.
- Bhattacharya, C.B. and Sen, S. (2004), "Doing better at doing good: when, why, and how consumers respond to corporate social initiatives", *California Management Review*, Vol. 47, pp. 9-24.

- Brown, T.J. and Dacin, P.A. (1997), "The company and the product: corporate associations and consumer product responses", *The Journal of Marketing*, Vol. 61, pp. 68-84.
- Carroll, A.B. (1979), "A three-dimensional conceptual model of corporate performance", *Academy of Management Review*, Vol. 4 No. 4, pp. 497-505.
- Chapra, M.U. (1985), *Towards a Just Monetary System*, The Islamic Foundation, Leicester.
- Dusuki, A.W. (2008), "What does Islam say about corporate social responsibility (CSR)?", *Review of Islamic Economics*, Vol. 12, pp. 5-28.
- Farook, S. (2008), "Social responsibility for Islamic financial institutions: laying down a framework", *Journal of Islamic Economics, Banking and Finance*, Vol. 4, pp. 61-82.
- Farooq, M.O. (2007), "Partnership, equity-financing and Islamic finance: whither profit-loss-sharing?", *Review of Islamic Economics*, Vol. 11, pp. 67-88.
- Gray, E. and Balmer, J.M.T. (2001), "Ethical identity: what is it? What of it?", Working Paper No. 01/15, Bradford University School of Management, Bradford.
- Haniffa, R. and Hudaib, M. (2007), "Exploring the ethical identity of Islamic banks via communication in annual reports", *Journal of Business Ethics*, Vol. 76, pp. 97-116.
- Hassan, M.K. and Rashid, M. (2010), "Ethical identity and market value of Islamic banks", paper presented at the 9th Harvard University Islamic Finance Forum, Harvard Law School, Harvard University, Cambridge, MA, 26-27 March.
- Hassan, M.K., Rashid, M., Imran, M.Y. and Shahid, A.I. (2010), "Ethical gaps and market value in the Islamic banks of Bangladesh", *Review of Islamic Economics*, Vol. 14.
- Hooghiemstra, R. (2000), "Corporate communication and impression management – new perspectives why companies engage in corporate social responsibility", *Journal of Business Ethics*, Vol. 27, pp. 55-68.
- Jensen, M.C. and Meckling, W.H. (1976), "Theory of the firm: managerial behavior, agency costs and ownership structure", *Journal of Financial Economics*, Vol. 3, pp. 305-60.
- KFH (2009), *Global Islamic Finance Directory 2009*, Kuwait Finance House, Kuala Lumpur.
- Luo, X. and Bhattacharya, C.B. (2006), "Corporate social responsibility, customer satisfaction, and market value", *Journal of Marketing*, Vol. 70, pp. 1-18.
- McDonald, L.M. and Rundle-Thiele, S. (2008), "Corporate social responsibility and bank customer satisfaction: a research agenda", *International Journal of Bank Marketing*, Vol. 26, pp. 170-82.
- McKenzie, D. (2010), *IFSL Research: Islamic Finance-2010*, International Financial Services London, London.
- Maali, B., Casson, P. and Napier, C. (2006), "Social reporting by Islamic banks", *Abacus*, Vol. 42, pp. 266-89.
- Morgan, R.M. and Hunt, S.D. (1994), "The commitment-trust theory of relationship marketing", *The Journal of Marketing*, Vol. 58 No. 3, pp. 20-38.
- Porter, M.E. and Kramer, M.R. (2006), "Strategy and society", *Harvard Business Review*, Vol. 84, pp. 78-92.
- Rashid, M. (2010a), "A case study on the risk perception and reporting in Islamic bank in Malaysia: lessons for emerging nations", paper presented at International Seminar on Islamic Finance in India: Products, Institutions and Regulations, IDB, Kochi.
- Rashid, M. (2010b), "Customer centric corporate social responsibility", SSRN e-library, Working Paper Series, available at: <http://ssrn.com/abstract=1691563> (accessed 12 March 2012).

- Rashid, M., Hassan, M.K. and Ahmad, A.U.F. (2009), "Quality perception of the customers towards domestic Islamic banks in Bangladesh", *Journal of Islamic Economics, Banking and Finance*, Vol. 5, pp. 109-31.
- Schwartz, M.S. and Carroll, A.B. (2003), "Corporate social responsibility: a three-domain approach", *Business Ethics Quarterly*, Vol. 13, pp. 503-30.
- Sheth, J.N., Sisodia, R.S. and Sharma, A. (2000), "The antecedents and consequences of customer-centric marketing", *Journal of the Academy of Marketing Science*, Vol. 28, pp. 55-66.
- Siegel, D.S. and Vitaliano, D.F. (2007), "An empirical analysis of the strategic use of corporate social responsibility", *Journal of Economics & Management Strategy*, Vol. 16, pp. 773-92.
- Simpson, W.G. and Kohers, T. (2002), "The link between corporate social and financial performance: evidence from the banking industry", *Journal of Business Ethics*, Vol. 35, pp. 97-109.
- Smith, N.C. (2003), "Corporate social responsibility: whether or how?", *California Management Review*, Vol. 45, pp. 52-76.
- Stewart, T.A. (2006), "Corporate social responsibility: getting the logic right", *Harvard Business Review*, Vol. 84, p. 14.
- Thronhill, J. (2007), "Damning verdict on banks. This is money", No. 28, available at: www.thisismoney.co.uk/saving-and-banking/article.html?in_article_id=416878&in_page_id=7 (accessed 8 January 2011).
- Usmani, M.T. (2002), *An Introduction to Islamic Finance*, Kluwer Law International, The Hague.
- Vargo, S.L. and Lusch, R.F. (2004), "Evolving to a new dominant logic for marketing", *Journal of Marketing*, Vol. 68, pp. 1-17.
- Vilanova, M., Lozano, J.M. and Arenas, D. (2009), "Exploring the nature of the relationship between CSR and competitiveness", *Journal of Business Ethics*, Vol. 87, pp. 57-69.
- Weber, R.P. (1990), *Basic Content Analysis*, Sage, Newbury Park, CA.

About the authors

Mamunur Rashid is currently studying for a PhD in Finance at the Graduate School of Business, Universiti Kebangsaan Malaysia (UKM-GSB). Before joining UKM-GSB as a PhD student, he was serving as a Senior Lecturer at East West University, Bangladesh. An active researcher, he publishes widely in Islamic economics, investor behaviour and corporate social responsibility and has presented papers at the Harvard University Islamic Finance Forum, Islamic Development Bank conference in India, Asian Finance Association in Macao and Malaysian Finance Association in Malaysia, among others. Mamunur Rashid is the corresponding author and can be contacted at: mamun.finance@gmail.com

Islam Abdeljawad is a financial economist interested in the area of corporate finance. He has teaching and consulting experience in corporate finance, investments, Islamic finance and local development. He was a member of consulting teams provided consulting services to the international donors engaged in the development of Palestinian areas. Consultations are provided to the World Bank (WB), United Nations Development Programme (UNDP), Norwegian Government, KfW (a German development bank), GTZ (a German-based international cooperation enterprise for sustainable development), Government of Palestine and international NGOs such as Welfare Association. He received his BA in Accounting from the University of Jordan, Amman, Jordan, and his MA in Finance from the Arab Academy for Banking and Financial Sciences, Amman, Jordan. He is currently a PhD candidate in the Graduate School of Business, National University of Malaysia (UKM). He is a Lecturer of Finance at Al-Najah National University, Nablus, Palestine. He has several refereed papers and text books published

in Arabic language and has also presented several research papers at professional conferences organized by Asian Finance Association, Malaysian Finance Association and Taiwan Finance Association.

Siti Manisah Ngalm is a Lecturer in Accounting and Finance at the Faculty of Economics and Management, Universiti Putra Malaysia. She has been lecturing since 2003, teaching Intermediate and Advance Financial Accounting, Management Accounting, Cost Accounting and was an instructor for UBS and MYOB. She earned her undergraduate degree in Accounting and Finance from Lancaster University, UK and her MBA in Accountancy from Universiti Malaya, Malaysia. She has written several chapters in books and presented papers in Accounting, Finance, Economics and Education, Comparative Religions and Islamic Finance. She initiated al-Ikhsaan and Dai'e Development Projects that use Islamic financing contracts to assist the needy to start small businesses and financing young da'ies in their da'wah development knowledge and skills, respectively. She is currently a PhD candidate at the Graduate School of Business, Universiti Kebangsaan Malaysia.

Dr M. Kabir Hassan is a financial economist with consulting, research and teaching experiences in development finance, money and capital markets, Islamic finance, corporate finance, investments, monetary economics, macroeconomics and international trade and finance. He has provided consulting services to the World Bank (WB), International Monetary Fund (IMF), Islamic Development Bank (IDB), African Development Bank (AfDB), USAID, Government of Bangladesh, Organization of Islamic Conferences (OIC), Federal Reserve Bank, USA, and many corporations, private organizations and universities around the world. He received his BA in Economics and Mathematics from Gustavus Adolphus College, Minnesota, USA, and his MA in Economics and PhD in Finance from the University of Nebraska-Lincoln, USA. He is now a tenured Full Professor of Finance in the Department of Economics and Finance at the University of New Orleans, Louisiana, USA. He has 130 papers published in refereed academic journals to his credit. He has supervised 27 doctoral theses, and many of his students are now well placed in the academia, government and private sectors. He is editor of *The Global Journal of Finance and Economics* and *Journal of Islamic Economics, Banking and Finance*, *International Journal of Islamic and Middle Eastern Finance and Management*, and Co-Editor of *Journal of Economic Cooperation and Development*. He has edited and published many books along with articles in refereed academic journals. He is co-editor (with M.K. Lewis) of *Handbook of Islamic Banking and Islamic Finance*, *The International Library of Critical Writings in Economics* (Edward Elgar, 2007), and co-editor (with Michael Mahlknecht) of *Islamic Capital Market: Products and Strategies* (John Wiley & Sons, 2011). He is co-author of *Islamic Entrepreneurship* (Routledge UK, 2010). He is currently working on a textbook development project on *Islamic Finance* to be published by Pearson in 2012 and has recently been commissioned by Oxford University Press to bring out an edited volume on *Islam and the Economy*. A frequent traveller, he gives lectures and workshops in the USA and abroad, and has presented over 150 research papers at professional conferences.

(The Appendix follows overleaf.)

Appendix

Dimensions	AAIB			EXIM			SHIBL			IBBL			SOIBL			EII				
	Y01	Y02	Y03	Y04	Y05	Y06	Y06	Y06	Y01	Y02	Y03	Y04	Y05	Y06	Y06					
Mission and vision statements	0.57	0.57	0.57	0.57	0.14	0.14	0.29	0.29	0.57	0.57	0.57	0.57	0.57	0.14	0.14	0.14	0.14	0.14	0.34	
Yearly average Ranking of banks on yearly average	0.57				0.14		0.29		0.57		0.57		0.57	0.14					0.34	
BOD and top management	0.14	0.14	0.29	0.29	0.29	0.29	0.43	0.43	0.14	0.14	0.29	0.29	0.29	0.33	0.33	0.43	0.43	0.43	0.43	[7]
Yearly average Ranking of banks on yearly average	0.24				0.29		0.43		0.14		0.24		0.29	0.40					0.32	
Products and services	0.67	0.67	0.67	0.67	0.33	0.33	0.33	0.33	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	[8]
Yearly average Ranking of banks on yearly average	0.67				0.33		0.33		0.67		0.67		0.67	0.61					0.52	
charity and benevolent loans	0.20	0.20	0.40	0.20	0.20	0.20	0.20	0.20	0.80	1.00	0.80	1.00	0.80	1.00	0.00	0.00	0.00	0.00	0.60	
Yearly average	0.27				0.33		0.20		0.80		0.90		0.90	0.13					0.37	(continued)

Table A1.
Summary results for EII for banks in Bangladesh

Dimensions	AAIB			EXIM			SHIBL			IBBL			SOIBL									
	Y01	Y02	Y03	Y04	Y05	Y06	Y06	Y06	Y01	Y02	Y03	Y04	Y05	Y06	Y01	Y02	Y03	Y04	Y05	Y06	EII	
Ranking of banks on yearly average			3		2	4		1				5										[6]
Commitment towards employees	0.25	0.25	0.50	0.50	0.50	1.00	0.50	0.50	0.50	0.50	0.50	0.00	0.50	0.50	0.00	0.00	0.00	0.25	0.25	0.50		0.50
Yearly average			0.42		0.75	0.50		0.50				0.17										0.47
Ranking of banks on yearly average			3		1	2		2				4										[4]
Commitment towards debtors	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Yearly average			1.00		1.00	1.00		1.00				1.00										1.00
Ranking of banks on yearly average			1		1	1		1				1										[1]
Commitment towards society	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50

(continued)

Table AI.

Customer-centric
CSR

Table AI.

374

MRR
36,4

Dimensions	AAIB						EXIM						SHIBL						IBBL						SOIBL											
	Y01	Y02	Y03	Y04	Y05	Y06	Y04	Y05	Y06	Y06	Y06	Y06	Y01	Y02	Y03	Y04	Y05	Y06	Y01	Y02	Y03	Y04	Y05	Y06	Y01	Y02	Y03	Y04	Y05	Y06	EII					
Yearly average Ranking of banks on yearly average			0.50					0.75		0.50								0.75												0.50					0.60	
Shari'ah Supervisory Board			2					1		2								1												2					[2]	
Yearly average Ranking of banks on yearly average			0.38	0.38	0.50	0.63	0.63	0.13	0.38	0.38	0.50	0.38	0.38	0.38	0.38	0.50	0.38	0.63	0.13	0.13	0.13	0.38	0.13	0.38	0.13	0.38	0.50							0.40		
Grand EII			0.46	0.46	0.55	0.54	0.57	0.54	0.42	0.48	0.56	0.47	0.60	0.63	0.62	0.66	0.62	0.67	0.30	0.37	0.39	0.39	0.42	0.54							4					[5]
Yearly avg. EII			0.52					0.29		0.50								0.44												0.27					0.40	
Yearly average EII			1					3		1			0.60	0.63	0.62	0.66	0.62	0.67	0.30	0.37	0.39	0.39	0.42	0.54							4					[5]
Yearly average EII			0.52					0.49		0.47								0.63												0.40					0.40	

Notes: AAIB – Al ArafatIslamic Bank; EXIM – Export Import Bank Limited; SHIBL – Shahjalal Islamic Bank Limited; IBBL – Islami Bank Bangladesh Limited; SOIBL – Social Islamic Bank Limited; EII – ethical identity index; amount in [] parenthesis represents ranking of dimension with respect to EII

Dimensions	Affin Bank		Bank Islam		Bank Muamalat		CIMB Islamic		RHB Bank		EII avg.						
	Y04	Y05	Y06	Y07	Y08	Y04	Y05	Y06	Y07	Y08		Y05	Y06	Y07	Y08		
Mission and vision statements	0.14	0.14	0.14	0.29	0.00	0.14	0.14	0.14	0.57	0.29	0.29	0.29	0.29	0.14	0.14	0.14	0.259
Yearly average	0.20				0.17				0.46					0.18			
Ranking of banks (yearly average)	3				5				1					4			[7]
BOD and top management	0.29	0.29	0.43	0.71	0.43	0.71	0.71	0.71	0.00	0.57	0.71	0.71	0.57	0.43	0.43	0.57	0.54
Yearly average	0.49				0.60				0.54					0.50			
Ranking of banks (yearly average)	5				1				3					4			[2]
Products and services	0.25	0.25	0.50	0.50	0.25	0.25	0.25	0.25	0.50	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.35
Yearly average	0.35				0.25				0.30					0.50			
Ranking of banks (yearly average)	2				5				4					1			[3]
<i>Zakat</i> , charity and benevolent loans	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.00	0.00	0.20	0.340
Yearly average	0.40				0.40				0.40					0.10			
Ranking of banks (yearly average)	1				1				1					2			[4]
Commitment towards employees	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.280
Yearly average	0.25				0.40				0.25					0.25			
Ranking of banks (yearly average)	2				1				2					2			[6]
Commitment towards debtors	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Yearly average	1.00				1.00				1.00					1.00			1.00

(continued)

Customer-centric
CSR

Table AII.
Summary results for EII
for banks in Malaysia

Table AII.

Dimensions	Affin Bank			Bank Islam			Bank Muamalat			CIMB Islamic			RHB Bank			EII avg.		
	Y04	Y05	Y06	Y07	Y08	Y04	Y05	Y06	Y07	Y08	Y06	Y07	Y08	Y05	Y06		Y07	Y08
Ranking of banks (yearly average)	1			1			1				1				1			[1]
Commitment towards society	0.00	0.00	0.50	0.50	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Yearly average	0.20			0.25			0.00				0.00				0.00			0.09
Ranking of banks (yearly average)	2			1			0				0				0			[8]
Shari'ah Supervisory Board	0.25	0.25	0.25	0.13	0.13	0.13	0.25	0.38	0.63	0.38	0.38	0.38	0.25	0.38	0.38	0.38	0.50	0.50
Yearly average	0.25			0.30			0.38				0.38				0.44			0.339
Ranking of banks (yearly average)	5			4			2				3				1			[5]
Grand EII	0.32	0.32	0.34	0.49	0.31	0.31	0.41	0.49	0.60	0.35	0.43	0.43	0.45	0.38	0.39	0.42	0.40	0.34
Yearly avg. EII	0.39			0.42			0.42				0.42				0.37			0.40

Notes: EII – ethical identity index; amount in [] represents ranking of dimension with respect to EII

<i>Part I</i>																
<i>Albaraka</i>																
	Abu Dhabi Islamic Bank			Albaraka Bank			Shamil Bank			Dubai Islamic Bank						
	Y04	Y05	Y06	Y08	Y08	Y07	Y04	Y05	Y06	Y07	Y08	Y04	Y05	Y06	Y07	Y08
Dimensions	0.86	0.86	0.71	1.00	0.86	0.86	0.57	0.71	1.00	1.00	1.00	0.00	0.14	0.14	0.14	0.14
Mission and vision statements																
Yearly average	1															
Ranking of banks (yearly average)	0.14	0.14	0.43	0.71	0.57	0.57	0.71	0.71	0.86	0.86	0.86	0.14	0.00	0.00	0.00	0.00
BOD and top management																
Yearly average	0.36															
Ranking of banks (yearly average)	3															
Products and services	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50	0.75	1.00	1.00	0.50	0.25	0.25	0.25	0.25
Yearly average	1.00															
Ranking of banks (yearly average)	1															
<i>Zakat</i> , charity and benevolent loans	0.40	0.60	0.60	0.60	0.60	0.60	0.60	0.40	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Yearly average	0.55															
Ranking of banks (yearly average)	3															
Commitment towards employees	0.75	0.50	0.75	0.75	0.25	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Yearly average	0.69															
Ranking of banks (yearly average)	2															
Commitment towards debtors	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.50	1.00	0.50	0.50	1.00	1.00	1.00	1.00	1.00
Yearly average	1.00															
Ranking of banks (yearly average)	1															
Commitment towards society	0.50	0.75	0.75	1.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Yearly average	0.75															
Ranking of banks (yearly average)	2															
Shari'ah Supervisory Board	0.38	0.38	0.38	0.38	0.50	0.50	0.63	0.50	0.75	0.38	0.38	0.50	0.50	0.50	0.50	0.50
Yearly average	0.38															
Ranking of banks (yearly average)	4															
Grand EII	0.63	0.65	0.70	0.80	0.63	0.69	0.75	0.60	0.81	0.73	0.73	0.53	0.50	0.50	0.50	0.50
Yearly avg. EII	0.70															

Table AIII.
Summary results for
EII for banks in Arabian
Gulf Region

Table AIII.

Dimensions	Part 2										EII avg.
	Al-Rajhi Bank					Kuwait Finance House					
	Y06	Y07	Y08	Y04	Y05	Y06	Y07	Y08	Y07	Y08	
Mission and vision statements	0.14	0.14	0.29	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.60
Yearly average		0.19									[4]
Ranking of banks (yearly average)		3									
BOD and top management	0.14	0.14	0.14	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.41
Yearly average		4									[8]
Ranking of banks (yearly average)		4									
Products and services	0.25	0.25	0.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0.73
Yearly average		0.25									[2]
Ranking of banks (yearly average)		5									
Ranking of banks (yearly average)	0.40	0.40	0.40	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55
Zakah, charity and benevolent loans		0.40									[5]
Yearly average		4									
Ranking of banks (yearly average)		4									
Commitment towards employees	0.25	0.00	0.25	0.00	0.25	0.50	0.25	0.00	0.25	0.00	0.49
Yearly average		0.17									[6]
Ranking of banks (yearly average)		5									
Commitment towards debtors	1.00	1.00	1.00	0.50	0.50	0.50	1.00	1.00	1.00	1.00	0.90
Yearly average		1.00									[1]
Ranking of banks (yearly average)		1									
Commitment towards society	0.75	0.00	0.00	0.50	1.00	1.00	0.75	0.75	0.75	0.75	0.61
Yearly average		0.25									[3]
Ranking of banks (yearly average)		4									
Shari'ah Supervisory Board	0.00	0.00	0.00	0.63	0.63	0.63	0.63	0.63	0.63	0.63	0.42
Yearly average		0.00									[7]
Ranking of banks (yearly average)		0									
Grand EII	0.37	0.24	0.29	0.56	0.66	0.69	0.69	0.63	0.69	0.63	
Yearly avg. EII		0.30									

Notes: EII – ethical identity index; figures in [] represent ranking of dimension with respect to EII