

Social Responsibility and Corporate Governance of Islamic Banks

Naif Mansour M. Mathkur
Business College, Jazan University,
Jazan, Kingdom of Saudi Arabia

ABSTRACT

The goal of this research undertaking is to provide the perspicacious insights on corporate social responsibility and Shari'ah governance activities of Islamic banks. This research offers illuminations on how Islamic banks can improve their corporate social responsibility and Shari'ah governance endeavors. For this, the study adopts a comprehensive and fastidious literature review that covers an array of primary, secondary, and tertiary sources. The study finds that the Social responsibility and Shari'ah corporate governance practices of Islamic banks are combinations of obligatory and recommended programs. Most Islamic banks do not adequately meet the expectations placed upon them by adherents of the Islamic faith in matters of social disclosure and scope of corporate social responsibility activities. The Islamic banking industry has come a long way in issues of corporate governance. However, Islamic banks need to be at the forefront of pioneering innovative, impactful, and far-reaching social responsibility and corporate governance practices since for starters, they are faith-based institutions. Islamic banks need to stop resting on their laurels and stop playing catch up in these domains. Moreover, Islamic banks need to deal conclusively with the array of challenges facing their Shari'ah corporate governance endeavors so as to meet their objectives in a more effective manner. This paper is exploratory in nature. There is a need for further empirical investigation.

Keywords: Islamic banking, corporate social responsibility, Shari'ah governance.

INTRODUCTION

Corporate social responsibility (CSR) has become an important activity of any modern organization. No man is an island, and no corporation does all operations on its own without dealing with various stakeholders in its quotidian activities. Human beings are social in nature. They cannot live in solitude like some lower life forms do. For civilization to transcend the incumbent level, man needs to forge progressive cooperation with fellow men (Tyer, 2001). A body corporate must propitiate the needs, hopes, and aspirations of the purlieus stakeholders who include employees, the government, its suppliers, its customers, the regulators, and the immediate and wider societies in which it is situated (Abdullah, Hussein, & Omar, 2014). High degrees of corporate performance can be obtained by incorporating corporate social responsibility as a critical managerial duty (Hanzaee & Sadeghian, 2014). From an Islamic point of view, people and corporations should not conduct the economic, social, and other worldly activities as self-centered utility maximiser economic agents, as highly advocated for in the neoclassical economic theories, but they should strike a fair equilibrium between their respective rights and responsibilities and those of the wider society (Dusuki, 2005). According to the harm prevention tenets that are strongly entrenched into the Shari'ah, all economic activities are supposed to be conducted in a manner that does not inflict injury or cause grief to human beings. Harm prevention is two-pronged and is attained through the removal of hardship (raf' al-haraj) and the actual prevention of harm (daf' al-darar) (Dusuki, 2005). CSR activities can be viewed as an ethical investment since they enhance the positive aspects of an entity. Lack of standardization in the field of corporate social responsibility has given rise to a scenario where different measurement tools are used to gauge the extent and impact of

corporate social responsibility. Efforts to measure CSR started in the last two decades, most notably in the developed countries (Giannarakis, Litinas, & Theotokas, 2009). For instance, the measurement of CSR activities is a sophisticated endeavor in the developed countries that has culminated in the establishment of the Dow Jones Sustainability Group Indexes (DJSI) that provides a global assessment of CSR activities in the United States of America, Canada, Korea and the Asia Pacific region (Giannarakis, Litinas, & Theotokas, 2009). Over the last few decades, there has been a meteoric rise in the number and scope of corporate social responsibility activities by players in multitudinous industries. There is a notable absence of specialized CSR framework to back as a guideline for Islamic banks in the implementation of CSR activities (Jusoh & Ibrahim, 2015). Consequently, not all Islamic banks disclose their CSR activities, and this does little to improve the corporate image of Islamic banks as compared to the Western conventional banks that are more outspoken in matters of initiating, promoting, implementing, and reporting their CSR goings-on. Since Islamic banks offer faith-based banking and finance products and services that comply with the principles of Shari'ah, members of the public and stakeholders in the financial industry have huge levels of expectations with regard to the scope, intensity, pursuit, and disclosure of CSR activities carried by the Islamic financial institutions. However, Islamic banks have not closed in on the expectations gap arising from discrepancies between the CSR activities that Islamic banks actually do and the high hopes attached to these entities. While there are huge levels of awareness of the importance of CSR activities in the policymakers of Islamic banks, this knowledge has not been put to practical application through the active commitment and pursuit of CSR endeavors on a large scale by most Islamic banking institutions (Jusoh & Ibrahim, 2015).

Corporate failures, executive greed, economic stagnation, globalization, privatization, and internal awareness of the business case are some of the factors responsible for the increased interest in practices aimed at enhancing the leadership and governance of corporations (Saidi, 2007). Corporate governance provides a structure to which the goals of a company are met, and the means of attaining the envisaged objectives through suitable performance monitoring tools (Saidi, 2007). One of the main aims of corporate governance is the resolution of the principal/agent conflict of interest. The principal/agent conflict of interest is one of the most long-running controversies in the field of business. It arises when the agent who is entrusted to run an enterprise through proper stewardship and to the best interests and objectives of the principal pursues courses of action that are contrary to the maximization of the principals' interests. There are internal and external stakeholders in any Islamic bank. The stakeholders include the owners (shareholders), the board of directors, senior management, depositors, government bodies, and the wider society. In steering an Islamic banking outfit, the board of directors and the senior management may pursue courses of actions that are contrary to the well-being of their primary principals who are the shareholders, as well as the other auxiliary stakeholders resulting to corporate governance quandary. While the performance of Islamic banks regarding corporate governance has been generally impressive, these institutions have occasionally fell into the trappings of weak corporate governance structures (Chapra & Ahmed, 2002).

CORPORATE SOCIAL RESPONSIBILITY OF ISLAMIC BANKS

Aspects of Corporate Social Responsibility of Islamic Banks

All the activities of Muslims and Islamic entities are supposed to follow the objectives of Shari'ah known as Maqasid al-Shari'ah. According to the prominent Muslim sage, scholar, philosopher, and prolific teacher of the days of ere known as Al-Ghazali, "The objective of the Shari'ah is to promote the well-being of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect ('aql), their posterity (nasl) and their wealth (mal).

Whatever ensures the safeguard of these five serves public interest and is desirable” (Chapra, 2000, p. 118). Individuals, businesses, and the society are equal partners that owe amongst themselves reciprocal responsibilities (Dusuki, 2005).

CSR practices are not new to Islamic banks (Aribi, 2009). Corporate social responsibilities are a vital component of the aggregate total of the cases of action carried out by any commercial undertaking. Corporate social responsibilities of Islamic banks entail social, economic, ethical, and unrestricted responsibilities (Abbasi, et al., 2012). There is a lack of a universal modified body of standards and framework of CSR for Islamic banks (Jusoh & Ibrahim, 2015). The absence of guiding standards on Islamic CSR sways Islamic banks to adopt the CSR practices used by the conventional counterparts which are bedrocked on Western cultures, beliefs, principles, and ideals (Hamdan, 2014). Most Islamic banks do not observe their social responsibilities fully. They only meet part of the expected social duties. Various Islamic banks observe minimal social obligations that revolve around, avoidance of negative actions and the non-engagement with the activities traditionally prohibited by the Shari’ah. Most of the CSR activities of the majority of Islamic banks center around religious and philanthropic undertakings. A survey of CSR activities of Islamic banks in Malaysia revealed that strategic motives like promotion of corporate image; qualification for tax deductions; increased employee satisfaction; and moral inspiration stemming from top management awareness; genuine philanthropy; and accountability were the critical factors that influenced the top management’s decision to pursue CSR activities (Jusoh & Ibrahim, 2015). In the case of Islamic banks operating in Malaysia, coercive measures such as legal requirements; pressure from the public and government quarters do not influence the Islamic banking institutions to commit to CSR courses (Jusoh & Ibrahim, 2015). Globally, a number of Islamic banks observe CSR activities that exclude the advancement of human rights, environmental issues, and human resource development (Jusoh & Ibrahim, 2015). CSR endeavors can be categorized into obligatory and recommended programs. The critical areas for the effective assessment CSR for Islamic banks involves the parameters of economic development; zakat deductions; social justice and accounting policies; new channels of investment; and social disclosure (Abbasi, et al., 2012).

Social justice

The Shari’ah – on which Islamic banking is predicated – attaches an imperative importance to the promotion of fairness and justice all the activities and relationships that take place in the world. The Shari’ah provides enduring and stable mechanisms for adapting to change in all manner of situations in a morally correct manner that pleases Allah (SWT) and upholds the social good of all humanity. The Shari’ah provides a value system that tends to all aspects of the human life, including personal, social, economic, and political facets while providing guidelines for responding to changing exigencies (Sardar, 2003). According to the Shari’ah, all dealings should be aimed at attaining the perfect and blissful Hereafter referred to in the Quran while addressing the immediate and future worldly needs. According to the underpinning teachings of Islam, justice is a pivotal ingredient of holistic socio-economic advancement. The heights of a model Muslim society cannot be attained in the absence of justice.

One of the fundamental goals of Islamic banking is the attainment of financial inclusion for all and sundry. Those who conduct business activities owe a duty of care to humanity (Haniffa & Cooke, 2001). The creation and accumulation of wealth through the exploitation of the dire exigencies of the economically deprived by the wealthy is forbidden in Islam. Islam advocates for charity. There is more joy in giving than in receiving. Shari’ah encourages all to rise above the deprivation so that they can share in the joy of giving. Islamic banks fund social causes aimed at uplifting the needy from the shackles of penury through the provision of socio-

economic empowerment opportunities. CSR activities of any entity should aim to promote socio-economic justice. Islamic banks carry out CSR activities aimed at creating income-generating opportunities for the economically deprived in lieu of charitable donations (Ayyash, 2010)

Islamic banks are expected to uphold righteousness and moral responsibility in all their undertakings. They should not provide financing for activities that pose severe health risk problems and environmental degradation. Islamic banks should not at any time fund ventures aimed at perpetrating activities that are forbidden by the Shari'ah. The prejudicial dealings that are detrimental to the morals of the public include gambling, pornography, prostitution, money laundering, and the production and trafficking of drugs and drug paraphernalia.

Ethical valuse

Islam promotes a deep sense of humanity in all dealings between people. In the perpetuation of the Islamic spirit, Islamic banks are expected to observe ethical principles that create value for customers and other stakeholders through the provision of fair products and services (Jusoh, Ibrahim, & Napiah, 2014). The observance of ethics in Islamic banking serves to impede exploitation of customers and the stakeholders in the wider society. Total compliance with the Shari'ah guarantees the upholding of ethical values since it forbids participation morally corrupt and destructive activities. The ethical ideals enshrined in Islamic law facilitate Islamic banks to empower people from various cadres of the society with the provision of equal opportunity and empowerment for all for all for all. Islamic banks are expected to treat their employees – who are the internal customers – in a dignified fashion that promotes the overall advancement of their members of staff. The holistic development of the workers of Islamic banks has a multiplier effect since a happy workforce is more productive, effective and efficient. Islamic banks are compelled by the Shari'ah to provide career advancement opportunities, like training, development, and employee benefits, in a fair manner to their staff. The Islamic law forbids prejudice, nepotism, and other forms of discriminative favoritism at the workplace. According to the fundamental concepts of Islam, everyone is accountable to Allah (SWT) for his or her actions. Positive actions merit blessings and good favor from God. Undignified and unwholesome actions beget punishment from Allah (SWT). Being participants in a faith-based and responsible financial system, Islamic banks are expected to pursue courses of actions that are to the good of all stakeholders while serving the greater social interests of the current generation as well as posterity. Islamic banks observe ethical ideals to minimize the risks forced by the activities to all groups of people that have a stake in their existence.

The teachings of Islam forbid the payment and receipt of interest since money is not a commodity, but a store of value and a measure of wealth. The absence of the element of interest is one of the most conspicuous differences between the Islamic banking system and the Western conventional banking system. Since the carrying out of economic activities that result in profit is allowed, Islamic banks are permitted by the Shari'ah to undertake profit/loss arrangements with their clients. Islamic banks are expected to pursue those courses of action that reduce the incurrance of huge losses and maximize profits without contravening the teachings of Prophet Mohammed (peace be upon him) and the Holy Quran. Islamic banks owe a duty of care to the investors and depositors of funds.

The Shari'ah prohibits speculation and excessive risk-taking. All Islamic financial institutions are expected to comply with these pronouncements. The taking of colossal risks and the indulgence in highly speculative activities was one of the primary causes of the global credit crunch that led to a severe financial crisis that nearly paralyzed the Western conventional banking system. The Islamic law provides a definitive framework for upholding stability in

business activities that all Islamic banks are supposed to oblige to. The thrill of making quick gains through underhand methods is a constant temptation to most business ventures. Most get-quick-gains schemes have concealed nefarious activities that exploit the other party to a deal. Islamic banks are expected to uphold the tenets of the Islamic faith that forbid profiting through dishonest means. The surefire way of achieving this ideal is through the effective perpetuation of the moral and ethical values espoused in the Holy Quran and the teachings of Prophet Mohammed. Islamic banks stand to improve their ethical identity by aligning their mission, vision, and activities to the service of God and all humanity.

Social disclosure

In the perfect world, all Islamic banks ought to disclose their CSR activities, even in cases where they might be reporting to overriding national secular jurisprudence in non-Muslim dominated countries since they are accountable to the wider Islamic society (Maali, Casson, & Napier, 2003). However, the number of Islamic banks that make full disclosure of their social responsibility activities is dismally small (Abbasi, et al., 2012). Many Islamic banking fail to make the most out of the multifarious fecund opportunities available for making the comprehensive revelation on the extensive details of their CSR activities, and this denies them a chance to improve their brand image to members of the society and led the Western conventional counterparts will capitalize on such openings. Social disclosure promotes accountability of Islamic banks. Adequate reporting on the CSR activities conducted by Islamic banks that comply with the Shari'ah increases public confidence in Islamic banks. Adequate disclosure of social courses advanced by Islamic banks assures members of the public that Islamic banking institutions are not led by excessive avarice in the pursuit of profit. Social disclosure creates and enhances the perception that Islamic banks share in the social values espoused by members of the wider society in general and Muslims in specific. In order to survive by gaining a competitive edge, it is of imperative importance for Islamic banks to make comprehensive revelations about their CSR endeavors. Adequate social disclosure has the potential of netting in new partners and donors who may fund the future social responsibility activities of Islamic banks. While in the past with the social disclosure of Islamic banks has been heavily influenced by the immediate political environment as well as the proportion of Muslims in their country of domicile, it is the high time that Islamic banks placed a premium on making full social disclosures of their CSR activities since the modern world is a global village and the Muslim Brotherhood in other countries may be interested in their external financial reports.

Economic development

There exists a strong positive correlation between the carrying out of corporate social responsibility activities by Islamic banks and the promotion of economic development in the society (Abbasi, et al., 2012). There are several measures used in engaging the level of economic development in a given country. One of the most reliable parameters of economic development is the minuscule occurrence of cases of poverty. Palpable economic advancement in the society can be achieved through the salvation of people from the imprisoning and debilitating shackles of poverty.

Economic development is stimulated by improving the well being of the providers of the primary factors of production. Those who contribute land, labor, capital, and entrepreneurship to the economic system should be handsomely recompensed for their efforts. CSR practices of Islamic banks and other commercial entities are strong in those countries that have strong laws safeguarding the best interests of the providers of the factors of production.

The salaried staff and wage earners are the providers of labor to an institution. Islamic banks are expected to reward the manual and intellectual sweat of their workers by providing fair and competitive remuneration.

CSR activities encourage economic development by restraining the expansion of unemployment, unequal distribution of wealth, economic injustices, socio-economic exclusion, and corruption (Abbasi, et al., 2012).

Zakat deductions.

Zakat and donations were introduced to the Islamic faith to facilitate the distribution of between the rich and the have-nots (Lewis, 2001). Zakat creates a balance between the wealth creation and wealth distribution mechanisms in a given socio-economic order. Zakat is one of the five primarily pillars of Islam. Zakat avails a voluntary system of making charitable contributions to the noble causes aimed at addressing the distress of those at the lowest cadres of the society. Zakat facilitates the emancipation of the needy from the retarding influence of dire penury. Muslims are expected to make zakat offerings to the poor. Islamic banks facilitate the observance of the spiritual publication by making zakat deductions and depositing the funds into zakat institutions according to the directions given by their account holders.

Maslahah (Consideration of public interest).

Maslahah is a fundamental tenet of Islam. There exists a clear nexus between Maslahah and the virtues espoused by the teachings of Prophet Muhammad and the Holy Quran. Speaking of Maslahah, Al-Ghazali is quoted as saying, "As for Maslahah, it is essentially an expression for the acquisition of benefit or the repulsion of injury or harm, but that is not what we mean by it, because acquisition of benefits and the repulsion of harm represent human goals, that is, the welfare of humans through the attainment of these goals. What we mean by Maslahah, however, is the preservation of the ends of Shari'ah" (Nyazee, 2000, p. 180). Maslahah is broadly categorized into the essentials (daruriyyat), the complementary (hajiyyat), and the embellishments (tahsiniyyat) (Dusuki, 2005).

The essentials (daruriyyat) are the critical interests upon which the lives of people primarily depend on as envisaged by the Maqasid al-Shari'ah i.e. faith (din), human self (nafs), intellect ('aql), posterity (nasl) and wealth (mal) (Dusuki, 2005). Failure to uphold daruriyyat leads to chaos and the destruction of the proper order and the regular functioning of the society. The perpetration on actions that threaten daruriyyat should be met with chastisement. For instance, to deal with the possible threat of harm on intellect ('aql), alcohol and drugs should be prohibited. Those engaging in the manufacture and peddling of narcotics should meet the full force of the Islamic law. Environmental degradation is a grave risk to the human self (nafs) and posterity (nasl). Islamic banks should conduct due diligence and resist from finding the activities of companies that pollute the environment by way of dumping toxic wastes.

The complementary (hajiyyat) are those interests that supplement the essential interests. The inevitable corollary of overlooking hajiyyat is hardship (Dusuki, 2005). Shari'ah legalizes various innovations of Islamic banks out of the necessity of alleviating distress and deprivation from the lives of people.

The embellishments (tahsiniyyat) are those interests whose attainment leads to refinement, perfection, and high levels of fulfillment in the conduct of people (Dusuki, 2005). Islamic financial institutions are expected by the Shari'ah to go beyond making and facilitating the collection of the mandatory zakah obligation. Islamic banks have the social responsibility of

engaging in philanthropic activities, as well as observing gentleness, pleasant speech, and uphold fair dealings with all the people constituting their socio-economic ecosystem.

CORPORATE GOVERNANCE

Corporate governance is the system by which companies are directed and controlled. It involves a set of relationships between a company's management, the board of directors, the shareholders, as well as other stakeholders. (Saidi, 2007). External and internal factors influence the corporate governance structure. The external factors that shape corporate governance framework include the mandatory laws and regulations in the legal environment that specific company operates in. The internal factors that define corporate governance include the articles of association; the corporate governance code; the board charter; by-laws; and company policies (Saidi, 2007). Due to the significant consideration of faith matters, the corporate governance structures for Islamic banks differ from those of the Western conventional banks, as the Islamic banking institutions must comply with a different set of rules that are laid out in the Holy Quran and the Shari'ah. Strong Shari'ah corporate governance practices increase accountability, transparency, responsibilities, fairness, and honesty of Islamic banking institutions while augmenting the confidence that the stakeholders place in the activities of a specified Islamic bank (Suleiman). In order to maintain higher accountability levels in an organization, it is important to hold the management to be accountable to the board of directors, and the board of directors should be answerable to the shareholders. To encourage fairness in corporate dealings, the rights of shareholders should be protected at all times; all shareholders including minorities should be treated equitably; and there should be the provision of effective mechanisms of redressing violations made on the rights of stakeholders. To augment corporate governance through improved transparency, it is of imperative importance to ensure that timely and accurate disclosures are made on all the matters that may have a significant influence on the making of economic decisions by shareholders. In order to boost the level of responsibility in a body corporate, it is essential to recognize the rights of all stakeholders and encourage cooperation between the company and the pertinent stakeholders in issues touching on wealth creation, jobs, and sustainability (Saidi, 2007).

Internal Control System

The internal control system serves to increase the efficiency and effectiveness of an enterprise through the prevention occurrence of fraud and error. The internal control system attains its goals through proper documentation; security of assets; segregation of duties; and proper authorization of transactions. The internal control system spans the entire organization and covers all aspects of the day-to-day activities of an enterprise. All transactions must be properly documented so as to leave an audit trail and make it easy to correct errors that may have been committed in the preparation of financial statements. Most financial reporting errors are non-intentional while all frauds are intentional since they begin with the premeditation of contravening ethical principles. Acts of fraud constitute corporate crime since they are intended to steal funds and resources from the rightful stakeholders, who in most cases happen to be either the stockholders or the government.

A strong internal control system serves to ensure that a body corporate abides by the germane laws and professional standards. The disregard of rules, regulations, and professional pronouncements bears the heavy costs occasioned by fines, legal fees, inefficiency, and corruption.

External and Independent Auditing

The main task of the external auditors is to express an opinion as to whether the financial reports prepared by an entity represent the true and fair view of the financial condition of an enterprise. The detection of fraud is incidental to external audit; it is not the chief goal of external audit. The responsibility for the prevention of fraud squarely rests with the management of a company. In making their assertions, the external auditors may provide advisory services aimed at improving the standing of a corporation with respect to compliance with rules and regulations, as well as offer suggestions on how to improve efficiency by incorporating best practices in the various policies and diverse activities of a company. The external auditors act as a watchdog of the owners of a business. Auditing brings to light the activities of the board of directors and top management of a company to the external consumers of financial information. As such, it seeks to curb the commission of unethical practices.

Due to the fact that Islamic banks are faith-based institutions, it is necessary to seek assurance that all the provisions of the Shari'ah are met in the operating environment of these enterprises. It is of paramount importance to engage the services of independent religious auditors who provide a reasonable guarantee that matters of faith are not contravened in the policies, procedures, and activities of Islamic banks.

In complying with the AAOIFI standards, Islamic banks are required to establish Shari'ah Review Units. The Shari'ah Review Units can either be part and parcel of the audit department or be independent of all the other departments in a company. The Shari'ah Review Units are tasked with ascertaining that the transactions commissioned and implemented by the management comply with the rulings of the Shari'ah Supervisory Board (Saidi, 2007).

Government Regulation

The government exerts an external influence on the corporate governance practices of a company through legislation and regulatory supervision. To facilitate corporate governance in the private and public sector, the government of a nation needs to curb corruption, improve the regulatory quality, ensure that the rule of law is upheld, and strive to attain government effectiveness (Saidi, 2007). In as much as Shari'ah-compliant banking institutions must adhere to Islamic jurisprudence, Islamic banks are subject to national secular jurisdictions (Casper, 2012). Since Islamic banks are grounded in a belief system that strongly promotes moral and ethical activities, it is important for Islamic banking institutions to be at the forefront of complying with the prevailing government regulations in so far as those rules do not contravene the fundamental principles of Islam. Cases of non-compliance with government regulations through the engagement of illegal activities would highly discredit the image of a faith-based banking institution and cause disparaging damage to the entire Islamic banking industry.

Shari'ah Supervisory Boards

To promote observance of Islamic principles and ethical standards, Islamic banks are expected to institute independent Shari'ah Supervisory Boards (Abbasi, et al., 2012). The duties and responsibilities of Shari'ah Supervisory Boards include the certification of permissible financial instruments through fatwas; the verification of whether the transactions of an Islamic bank comply with the Shari'ah; the disposal of non-Shari'ah compliant earnings; and the provision of advisory services (Saidi, 2007). Additionally, Shari'ah Supervisory Boards control and effect innovations in the Islamic banking rules (Abbasi, et al., 2012).

CHALLENGES FACING THE CORPORATE GOVERNANCE OF ISLAMIC BANKS

The following are the impediments to the successful implementation of corporate governance in Islamic banks:

- There are numerous unresolved issues emanating from the pending fatwa of Shari'ah Supervisory Boards.
- There is a lack of adequate finance and economics skills on the part of some of the members of Shari'ah Supervisory Boards.
- Ideally, the Shari'ah Supervisory Boards are supposed to be independent of the influence of Islamic banks. However, there are cases where independence of Shari'ah Supervisory Boards has been compromised.
- Lack of adequate exposure of corporate governance of Islamic banks by the mainstream media poses a challenge in the creation of awareness of Shari'ah governance.
- Most external auditors do not have an in-depth understanding of the Shari'ah. Consequently, the services of external auditors may not be effective in providing assurance on Shari'ah compliance of Islamic banks.

CONCLUSION

Corporate social responsibility activities bring immense benefits to the social fabric as well as the respective entities pursuing such endeavors. The CSR activities of Islamic banks promote the financial inclusion of all and sundry and the welfare of the society. CSR practices facilitate Islamic banks to conduct business activities that generate profits while at the same time upholding high moral and ethical values. While the CSR pursuits of Islamic banks benefit the society through the empowerment of the financially excluded and the economically deprived, they benefit the respective Islamic banking institutions in a myriad ways. The adequate disclosure of corporate social responsibility activities has the effect of increasing the stock price of the reporting Islamic bank as analysts and members of the investing public attach a greater value to corporations that are socially responsible. The increase in the market price of a traded security exerts an upward pressure on the total net-worth of an enterprise, and this maximizes the wealth of the stockholders. There is a pressing need to have a clear and standardized CSR framework to act as a reliable guideline for social responsibility activities of Islamic banks.

Institutional investors have an inclination to commit their funds to well-governed companies. Shari'ah corporate governance in the Islamic banking sector aims to ensure that the operations of an Islamic bank are in congruence with the religious beliefs of the stakeholders. Islamic banks need to augment their corporate governance structures so as to achieve high levels of effectiveness and efficiency in the pursuit of their economic and faith-based goals.

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