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RESEARCH ARTICLE

SOCIAL REPORTING PRACTICES OF THE ISLAMIC BANK OF BRITAIN

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ABSTRACT

Islamic banks are said to possess ethical identity because their social goals are just as important if not more important than financial goals because of the fact that they are based on religious foundations, i.e. the Islamic *Shari'ah* which has as its ultimate goal, the betterment of society. Islamic banks are thus expected to portray a high level of corporate social responsibility which would be evident in their social reporting practices as evidenced in their annual reports. This study replicated the Haniffa and Hudaib study by examining the social reporting practices of the Islamic Bank of Britain made through its annual reports against an ideal level of social disclosures that an Islamic bank ought to make, over the years 2005-2009. The findings revealed that at present, the Islamic Bank of Britain has much more in common with its conventional counterparts than it does with banks that are supposedly based on *Shari'ah*. Indeed, the core dichotomy expected between an Islamic bank and a conventional bank in relation to Islamic ethics was not clearly shown.

INTRODUCTION

In Islam, dealing with interest is strictly forbidden. In fact it is only one of two sins which Almighty Allah declares war on those who engage in it. This is clear from the following verses of the Holy Qur'an, the sacred book of Muslims: "O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, take notice of war from Allah and His Messenger. But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly." *(Quran 2:278-279.*

In the light of the verses above, the establishment of the Islamic bank of Britain (henceforth referred to as IBB) in 2004 was a welcome relief to the 1.6 million Muslims in the UK (Office for national statistics, 2011). This was because it was the first financial institution to provide them with banking services without the hassle of dealing with interest. IBB recognizes this fact as it proclaims boldly on its website that it is "the first stand-alone Islamic retail bank in the western world" (Islamic bank of Britain, 2004). IBB as an Islamic bank is said to possess an ethical identity because its social goals are just as important if not more important than financial goals. This is as a result of the fact that Islamic Banks are based on religious foundations, i.e. the Islamic *Shari'ah* , which is the Islamic code of law "derived from the Holy Qur'an, Hadith of the Prophet Muhammad (Peace be upon him), and juristic reasoning (ijtihad) of Islamic scholars" (Kamali, 2000: 1).The *Shari'ah* has as its ultimate goal, the betterment of society. Islamic banks are thus expected to portray a high level of corporate social responsibility.

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What this means for IBB is that they have a much bigger role to play than simply providing an interest-free banking environment for Muslims in the UK and the rest of Europe. Haniffa and Hudaib (2007) developed a checklist which outlines all the items an Islamic bank ought to disclose in its annual report in order to attain the ideal demanded by the Shari'ah. This paper adopts this checklist, with a few modifications, to analyze the annual reports of IBB over the period 2005 to 2009 in order to determine whether or not they are been truly "Islamic". This is important considering the fact that Allah says in the Holy Quran*, "O you who believe, why do you say that which you do not do? Greviously odious is it in the sight of Allah that you say that which you do not do." (as-Saff: 2-3)*. The rest of the will be organized as follows: Islamic banking – theories and practices, theories of social reporting, research methodology, analysis and discussion of results, overview of findings and implications.

Literature Review

Islamic Banking – Theories and Practices: Islamic banking refers to a system of banking activity that is in conformance with the Islamic law (*Shari'ah*) in all aspects. "Among other things, *Shari'ah* prohibits dealing in interest and undertaking transactions with unknown fate, while it requires transactions to be lawful (halal), and also requires Muslims to pay the religious [levy] *Zakāt*. Abolishing interest from their dealings is the fundamental principle on which Islamic banks are based" (Maali *et al.,* 2003: 3). The online dictionary, Dictionary.com, defines an objective as "something that one's efforts or actions are intended to attain or accomplish; [a] purpose [or] goal". Based on this definition, it can be stated that for conventional banks, the ultimate objective is profit maximization, which is in line with the Capitalist worldview on which these banks are founded upon. This situation is not so for Islamic banks as they are founded on the basis of the religion of Islam. Although, banks are viewed as separate and legal entities unto themselves, in reality they are run by human beings. Islamic banks are thus run by Muslims, and the ultimate objective of a true Muslim is to be successful in this world and the Hereafter by pleasing Almighty Allah in all his affairs. With this reasoning, the Islamic banks also possess this as their ultimate objective. This is not to say that profit is not a major objective of Islamic banks; on the contrary, Islamic bank managers are expect to strive earnestly to make a reasonable profit for its depositors and shareholders, but all the while adhering to the principles of Islam in all their dealings (Maali et.al 2003; Haniffa and Hudaib, 2007). So unlike conventional banks, profit maximization is not the primary objectives of Islamic banks, as they "have to incorporate both profit and morality into their objectives" (Haron, 1997: 7). Social justice as exemplified by the betterment of the whole society is a concept that is mandated for all Muslims by the Holy Quran, as expounded in the following verse:

"O ye who believe! Eat not up your property among yourself in vanities; but let there be amongst you traffic and trade by mutual goodwill; nor kill (or destroy) yourself: for verily Allah hath been to you most merciful. If any do that in rancor and injustice – soon shall we cast them into fire: and easy it is for Allah" (an-Nisa: 29-30).

Islamic banks thus have to obtain a balance between earning and spending in order to achieve this noble target of betterment of the whole society. As regards the concept of equity, in Islam it is understood that absolute ownership of everything belongs to Allah, and in His infinite wisdom he allocates resources to people in varying degrees. The following verse of the Holy Qur'an illustrates this absolute ownership of Allah:

"To Allah belongeth the dominion of the heavens and the earth; and Allah hath power over all things" (al-Imran: 189).

For this reason, it is expected that those apportioned with more resources than others understand that they have a responsibility of helping others less fortunate than them. Allah says:

"*And in their wealth and possessions (was remembered) the right of the (needy), him who asked, and him who (for some reason) was prevented" (Qur'an, al-Maryam: 51).*

The implication of the above verses for Islamic banks is that "while making profit from business is allowable in Islam, the accumulation of profit without utilization for the betterment of the community is forbidden… Islamic banks are expected to be more sensitive to the needs of society, promote more social programs and activities, and make contributions towards the needy and poor families" (Haron, 1997: 17). The *Shari'ah* prohibits the involvement with interest in very strong terms as is evidenced by the following verses of the Holy Quran:

"That which ye lay out for increase through the property of (other) people, will have no increase with Allah: But that which ye lay out for charity, seeking the countenance of Allah (will increase): it is these who will get a recompense multiplied". (ar-Rum: 39. "That they took Riba (usury), through they were forbidden and that they devoured men's substance wrongfully – We have prepared for those among men who reject faith a grievous punishment." (an-Nisa: 161)

This prohibition forces Islamic banks to pursue other avenues of business transactions that are in line with the *Shari'ah*. Haron (1997) states that these principles can be broadly classified into three categories:

1) Profit and loss sharing principles

The two most common modes of financing under this principle currently in use by Islamic banks are the *Mudaraba* and *Musharaka*. *Mudaraba* is an agreement between an investor or capital provider (*rabb al-mal*) and an agent or entrepreneur (*mudarib*), where the mudarib invests the funds in a project. The profit is shared between the two parties based on a predetermined ratio, while all loses are borne by the *rabb al-mal*. (Haron, 1997; Chiu and Newberger, 2006). Musharaka is an equity participation contract whereby the bank and its clients contribute funds to engage in a project. Profits and losses are usually distributed based on proportion of funds contributed. It is in effect a partnership where both parties share in profit as well as losses (Qorchi, 2005; Chiu and Newberger, 2006; Wilson, 2007). These two principles of *Mudaraba* and Musharaka which permit risk-sharing between the banks and its clients are viewed as strongly Islamic in a consensus among Muslim scholars, as they conform to Islamic objectives in both form and substance (Haron, 1997). Unfortunately, most Islamic banks focus more on fees or charges based principles as they most strongly resemble the conventional mode of charging interests (Maali *et al.,* 2003; Haniffa and Hudaib, 2007).

2) Fees or charges based principles

These refer to debt-based transactions, the most popular of which is the *Murabaha*. *Murabaha* which is the most widely used financing method used by Islamic banks today, involves a bank purchasing a good required by a customer and then re-selling the good to the customer at a pre-determined profit. The customer agrees to pay for the good over a given period in installments (Polard and Samers, 2007). To be truly in line with Islamic principles, the bank must take actual ownership of the good before reselling it to the client. However the practice today in Islamic banks more closely resembles conventional interest-based financing whereby the bank does not take actual ownership of the good in question, but rather advances the client with the money to purchase the good, and which the client pays back over time with an added amount which the Islamic banks call profit but in reality is considered a "back door" to interest (Dusuki, 2006). This is why some scholars refer to debt-based principles as weakly Islamic as actual practice is Islamic in form but not in substance (Haron, 1997).

3) Free services principles

These principles reflect the social role that Islamic banks are expected to play as expounded by the *Shari'ah*, with the ultimate goal of betterment of society thorough their activities.

This principle is manifested mainly through the provision of interest-free loans known as *Qard hasan* to those clients most in need of such funds (Pollard and Samers, 2007; Haniffa and Hudaib, 2007).

"All Islamic banks have a *Shari'ah* Supervisory Board (SSB) whose role is to ensure that any new formulations and modalities are in line with *Shari'ah* principles and within the ambit of Islamic norms" (Haniffa and Hudaib, 2007: 102). The SSB usually comprises eminent scholars of the area, and although they are hired by the bank management, they are considered to be independent and possess the authority to sanction or reject any proposals made by the bank management in light of Islamic law (Dar and Pressly, 2000). Usually contained along with an Islamic Bank's annual report, the SSB are required to confirm the discharge of the functions by providing a *Shari'ah* report. This report provides the bank's stakeholders with an assurance on whether or not the bank complied with the *Shari'ah* in all its dealings, and in instances of noncompliance, discloses where the noncompliance occurred, why it occurred, and what steps are taken to make sure it never occurs again.

Theories of Social Reporting (SR)

Gray et al. (1987: 4) define social reporting (SR) as: "The process of providing information designed to discharge social accountability. Typically this act would … be undertaken by the accountable organization and thus might include information in the annual report, special publications or reports or even socially oriented advertising." Driven by recent business scandals around the world such as Enron, WorldCom and Parmalat, just to name a few, there has being growing interest in corporate, environmental and social reporting for achieving better corporate accountability (Hess, 2007). Proponents of social reporting also argue "that organizational transparency through social reporting is the key to meaningful stakeholder engagement" (Hess, 2007: 454). The SR literature provides various theories propounded to explain the motivation for disclosing social information by firms and the particular set of stakeholders for whom such social information is provided for. The more prominent theories are as follows:

1. Legitimacy theory

Legitimacy theory implies that given a growth in community awareness and concern, firms will take measures to ensure their activities and performance are acceptable to the community In other words, the legitimacy theory as related to social disclosure implies that the reason why companies disclose their environmental activities is because it is required by the community in which they operate, and failure to disclose could have adverse implications for the company (Wilmshurst and Frost, 2000; Milne and Patten, 2002; Campbell *et al.,* 2003; Nik Ahmad and Sulaiman, 2004; Mobus, 2005; Moerman and Van der laan, 2005).

2. Decision Usefulness Approach

The decision usefulness approach propounds that firms provides social disclosures because they are deemed useful for stakeholders (Campbell and Beck, 2004; O'Dwyer *et al.,* 2005; Campbell *et al.,* 2006; Solomon and Solomon, 2006; Boesso and Kumar, 2007). For example, Campbell et.al (2006: 96) explore "community disclosures in annual reports examining annual reports for 5 UK FTSE 100 sectors between, 1974 and 2000". Their findings suggested that community disclosure was positively associated with public profile. These findings were consistent with "reporting behavior found in other categories of voluntary disclosure, *where disclosure has being found to be associated with the presumed information demands of specific stakeholders*" (Campbell *et al.,* 2006: 96, emphasis added).

3. Stakeholder Theory

"Stakeholder theory identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the "Principle of Who or What Really Counts" ("Stakeholder theory" 2006: para 1). Applying this theory to social reporting, it implies that a firm will disclose social information as part of a dialogue between itself and its stakeholders (Maali *et al.,* 2003). In other words, stakeholder theory views social disclosure as a response to significant pressures from a firm's external environment. Apart from the investment community, such pressures may arise from pressure groups or the general public (Brammer and Pavelin, 2006; Danastas and Gardenne, 2006; Hess, 2007; Belal and Owen, 2007). The common thread running connecting all these theories is the fact that they have human origins, in that they have all being propounded by human beings who are fallible by nature. In Islam, reasons for actions are obtained from a divine source, the *Shari'ah*. "Social reporting takes place within a framework of social relations. Fundamental to an Islamic perspective on social reporting is an understanding of the concepts of accountability, social justice and ownership that are central to social relations" (Maali *et al.,* 2003: 11).

1. Accountability

The Western concept of accountability is usually restricted to an organization's stakeholders as can be seen in the following definition of this concept: "Accountability refers to the process through which an organization makes a commitment to balance the needs of stakeholders in its decision-making processes and activities, and delivers against this commitment" ("Global accountability report", 2007). This concept is restricted to the human realm when envisioned from the Western viewpoint; however, from the Islamic viewpoint the concept is much broader and transcends the human realm. In Islam, accountability is first and foremost to Almighty Allah.

"On that Day will men proceed in companies sorted out, to be shown the deeds that they (had done). Then shall anyone who has done an atom's weight of good, see it! And anyone who has done an atom's weight of evil, shall see it" (Qur'an, az-Zilzal: 6-8).

The verse of the Holy Quran above captures in a nutshell the concept of accountability in Islam. Allah has provided for mankind various resources and blessings, too numerous to count. Man is expected to use these blessings in the service of

Allah, and on the Day of Resurrection, each man shall have to give an account on how he used these blessings. He who used these blessings in the service of Allah is rewarded with Paradise and he who does otherwise is doomed to Hellfire. This awareness is supposed to drive the action of each and every Muslim at all times in all aspects of life, be it personal or business, and in his or her dealings with others as well. It can thus be said that "accountability to God implies accountability to society" (Maali *et al.,* 2003: 12).

2. Social Justice

"Social justice means giving each individual what he/she deserves in the distribution of financial benefits in the society, and providing equally for basic needs. It is also the egalitarianism in opportunities, i.e. each person has a chance to climb up the social ladder" ("Social Justice in Islam", n.d.). Social justice is critical for the development of a moral and justice society, and for this reason is greatly emphasized in Islam, as evidenced by the following verses of the Holy Quran:

Allah doth command you to render back your Trusts to those to whom they are due; and when ye judge between man and man, that ye judge with justice: Verily how excellent is the teaching which He giveth you! For Allah is He Who heareth and seeth all things (an-Nisa: 58).

O ye who believe! Stand out firmly for Allah, as witnesses to fair dealing, and let not the hatred of others to you make you swerve to wrong and depart from justice. Be just: that is next to piety: and fear Allah. For Allah is well-acquainted with all that ye do (al-Ma'idah: 9).

The prohibition of *Riba* to prevent exploitation of people, the imposition of *Zakāt* to help alleviate poverty in the society, and the recommendation to help others through charity, are all examples of Islam's emphasis on social justice. "For Islamic businesses, the requirement to deal justly encompasses all dealings with employees, customers and all members of the society in which these businesses operate" (Maali *et al.,* 2003, p.13).

3. Ownership and Trust

Allah is the ultimate owner of everything and man has being entrusted with resources as a trust to be used in accordance with the commands of Allah. This concept is closely linked to the concept of accountability as it is for these entrusted resources that each man has to account for on the Day of Resurrection. The following verse of the Holy Qur'an illustrates this absolute ownership of Allah:

"To Allah belongeth the dominion of the heavens and the earth; And Allah hath power over all things" (al-Imran: 189).

The implication of this concept for an Islamic business is that its resources must be used in accordance with the commandments of Allah and for the benefit of society. It can thus be concluded that the three concepts of accountability, social justice and ownership are interlinked and co-dependent; One cannot exist without the others.

MATERIALS AND METHODS

Research Method

The researchers' study adopts as a guide the study carried out by Haniffa and Hudaib (henceforth referred to as H&H) in 2007, which sought to explore the ethical identity of Islamic banks as communicated via annual reports. The researchers' study sought to discover the social reporting practices of IBB . To achieve this objective, content analysis was utilized in order to examine the annual reports of IBB for the years 2005-2009. Content analysis was selected as research method for the researchers' study because it is "a research technique for making replicable and valid inferences from texts to the content of their uses. As a research technique, content analysis provides new insight, increases a researcher's understanding of new phenomena, or informs practical action. Content analysis is a scientific tool" (Krippendorf, 2004: 18). In many previous social disclosure studies, content analysis has been the method of choice for determining the extent of an organization's social disclosures through whatever media of communication; whether annual reports (Maali *et al.,* 2003; Grunning, 2007; Boesso and Kumar, 2007), company websites (Branco and Rodrigues, 2006; Holcomb, 2007) or any other media. This widespread use of this method by previous social reporting literature is another reason why content analysis was chosen as the research method by the researchers. To determine whether or not IBB was fulfilling the *Shari'ah* requirement of full disclosure, a checklist of items that Islamic banks ought to disclose was developed. This checklist was adopted from two studies, H and H (2007) and Maali *et al.* (2003).

Research Instrument

The researcher adopted, the "ideal ethical identity" checklist developed by H&H (2007) in order to determine the social reporting practices of IBB. The reason for adopting H&H (2007)'s checklist was because it contained a detailed list of items known as "constructs" which Islamic banks ought to disclose. In addition, H&H (2007)'s study was one of two most recent studies on the disclosure patterns of Islamic banks (the other one is Maali *et al.,* 2003), and thus provided the most recent scholarship in the area of Islamic banks social reporting practices. The researchers did not adopt H&H (2007)'s checklist completely, as a few modifications had to be made to fit the UK context. One of the constructs was eliminated, as it was not relevant based on an analysis of the UK Islamic banking climate. The construct eliminated was under Dimension 7, "Community" and required Islamic banks to disclose whether or not they had branches for women. This is inapplicable to the UK where men and women can bank in the same institution.

An important note was the fact that H&H (2007) focused on the ethical identity of Islamic banks, and thus did not take into consideration the banks' activities effect on the environment which is an important part of social reporting. As the researchers' aim was to explore the social reporting practices of IBB, it was important to include a dimension dealing with the environment, which is an integral part of the social reporting process. To accomplish this, the researchers looked to Maali *et al.,* 2003 study which examined the social reporting practices of Islamic banks. The reason the researcher chose this study was because it was the only other one in the literature apart from H&H (2007) in recent times that examined the reporting practices of Islamic banks. Maali *et al.* (2003) included an "environment" dimension in their research instrument and this dimension had two items that Islamic banks were expected to disclose, and these are outlined as follows:

i) The amount and nature of any donations or activities undertaken to protect the environment, and
ii) The projects financed by the bank that may lead to harming the environment.

This "environment" dimension and its two "constructs" listed above were inculcated into the "ideal ethical identity checklist" under the "Community" theme, as the environment is considered a part of the banks' stakeholders in the community. Therefore, the checklist utilized by the researcher for the study consisted of 4 themes, 9 dimensions and 79 constructs. A copy of the checklist is presented in the appendix of the researchers' study.

Data Collection and Analysis Procedures

The annual reports of IBB were obtained via its website for the years covered by the study, 2005-2009. These annual reports were then read completely to discover the items that IBB disclosed as required by the ideal ethical identity checklist. To measure whether a discrepancy existed between actual disclosure levels and ideal disclosure levels as delineated by the checklist, a disclosure index was utilized which H&H (2007) dubbed the Ethical Identity Index (EII). In determining the level of disclosure in the annual reports, a score of 1 was assigned for every item or construct of the checklist that was disclosed in the annual reports, and zero for every item not disclosed. In addition, no given extra marks were given if a construct was disclosed more than once in any given annual report. Each of the 9 dimensions had a certain number of constructs under it, which IBB had to disclose to fulfill the *Shari'ah* requirement of full disclosure. To determine how well IBB did in terms of disclosure for each of the 9 dimensions, the EII for each dimension was computed for each annual report examined in every year covered by the study. The resultant computation was referred to as the Annual Dimension EII (ADE). The ADE was calculated as follows:

ADE = Xy/Xj…………………………………(1)
where
ADEy = the annual dimension EII for a bank "y"
Xy = number of items disclosed by a bank "y" under dimension "X";
Xj = ideal number of items to be disclosed under that dimension.

Thus for each year, IBB's total disclosure score for a particular year could be determined by adding up its scores for each of the 9 dimension. Doing this would reveal whether there was improvement over the years, 2005-2009. The resultant computation was termed the Annual Bank EII (ABE). For each of the five years covered in the study, the ABE for each bank that had an annual report available in that year was calculated as follows:

$$ABEy = \frac{\Sigma ADEy}{79} \quad \ldots\ldots(2)$$

Where:
ABEy = Annual Bank EII for a bank "y"
ADEy = the number of items disclosed by a bank "y" across the 9 dimensions; 79 = represents the total ideal number of items to be disclosed.

Table 1. ADE & ABE (2005-2009)

	DIMENSION	ADE (2005)	ADE (2006)	ADE (2007)	ADE (2008)	ADE (2009)
A	Vision and Mission Statements	0.67	0.56	0.56	0.67	0.33
B	BODs and top management	0.31	0.23	0.31	0.38	0.31
C	Product and services	0.20	0.60	0.40	0.50	0.50
D	*Zakāt*, charity and benevolent loans	0.00	0.14	0.14	0.14	0.14
E	Commitments Toward employees	0.33	0.22	0.22	0.22	0.11
F	Commitments toward debtors	0.75	0.75	0.75	0.75	1.00
G	Commitments toward society	0.00	0.17	0.50	0.00	0.17
H	Environment	0.00	0.00	0.00	0.00	0.00
I	SSB	0.27	0.27	0.18	0.27	0.27
	ABE	0.27	0.24	0.32	0.33	0.29

RESULTS AND DISCUSSION

This section presents the results of the analyses of the annual reports examined for the IBB for the years 2005-2009.

Discussion of Results A: ADE by year (2005-2009)

The basis of discussion is in perspective of a dimensional approach. Overall performance of the bank throughout the specific years covered by the study is measured and its performance discussed. In 2005, only 2 dimensions, that is Dimension A–Vision and Mission and Dimension F– Commitment towards Debtors, scored above average. While other dimensions scored below average. In 2006, there was a slight improvement, with 3 dimensions scoring above average. The new dimension added to the previous ones this year was Dimension C– Products and Services. While the other six dimensions score below average. In 2007, Dimension C– Products and Services scored below average while Dimension G – Commitment towards Society joins Dimensions A and F as the 3 dimensions that scored above average. The remaining dimensions scored below average. In 2008, Dimension C– Products and Services replaced Dimension G– Commitment towards Society, and joins Dimensions A and F as the only dimensions that scored above average. The remaining dimensions scored below average. Finally, in 2009, there was a regression, with only dimension C– Products and services and dimension F – Commitment towards debtors scoring above average. The remaining dimensions scored below average.

Discussion of Results B: ABE (2005-2009)

It is observed that over the five years covered in this study, IBB failed to disclose up to 50% of the items that an Islamic bank ought to have disclosed. The highest score 33% in 2008.

Overview of findings and implications

The results revealed that the Islamic Bank of Britain (IBB) had poor disclosure practices for an institution that claimed to be operating on *Shari'ah* principles. Results of the analysis indicated that of the 9 dimensions, the dimension demonstrating the banks' commitment to debtors was the most disclosed, while the dimension dealing with the banks' activities as regards the environment was the least disclosed. In fact, the largest incongruence between actual level of disclosures and ideal level of disclosure was under four dimensions: "Environment", "*Zakāt*, charity and benevolent loans", "Employees", "*Shari'ah* Supervisory Board". The implication of these findings is that at present, IBB has much more in common with its conventional counterparts than it does with banks that are supposedly based on *Shari'ah*. This is because it disclosed a reasonable amount of information on debtors and its corporate governance practices which is what one would expect from conventional banks. However in areas that would demonstrate its ethical identity and ultimate goal of betterment of society that separates it from its conventional counterparts, it disclosed very little information in this regard in its annual reports.

As Haniffa and Hudaib (2007: 111) put it, the findings are surprising because Islamic banks, as social and economic institutions are expected to disclose more on those dimensions that reflect accountability and justice not only to society, but also ultimately to God. What can be gathered is that IBB in the UK has a lot of work to do before it becomes worthy of the tag it claimed of been Islamic. This is not to imply that the establishment of an Islamic bank in the UK is not a step in the right direction; it is, but, this institution has to realign its activities and priorities to make sure it truly reflects the Islamic principles which it claimed to follow. This is vitally important if it is to retain its credibility and reputation in the society in which it operates. Perhaps an even more important implication for the managers of the IBB is their accountability to Allah, regarding their claim to operate under the precept of *Shari'ah* which at present is not truly been reflected by their actions. As Allah said in the Holy Quran*, "O you who believe, why do you say that which you do not do? Grievously odious is it in the sight of Allah that you say that which you do not do." (Surat as-Saff, 61:2-3)*

APPENDIX

RESEARCH INSTRUMENT

Summary:
4 Themes
9 Dimensions (a new "environment dimension" added as this study examines "social reporting practices" as opposed to "ethical identity" as in original study).
79 constructs (one eliminated from original instrument as it is not applicable to the UK; two constructs added under new "environment"dimension)
Constructs eliminated:
1) Zakāt to be paid by individuals (in Dimension 4)
Constructs added:
1) The amount and nature of any donations or activities undertaken to protect the environment
2) The projects financed by the bank that may lead to harming the environment

Theme 1: Underlying Philosophy and Values

A. Dimension: vision and mission

	Construct	Disclosed (Y or N)
1.	Commitments in operating within *Shari'ah* principles/ideals	
2.	Commitments in providing returns within *Shari'ah* principles	
3.	Focus on maximizing shareholder returns	
4.	Current directions in serving the needs of Muslim community	
5.	Future directions in serving the needs of Muslim community	
6.	Commitments to engage only in permissible investment activities	
7.	Commitments to engage only in permissible financing activities	
8.	Commitments to fulfill contracts via contract (*uqud*) statement	
9.	Appreciation to shareholders and customers	

B. Dimension: BOD and top management

	Construct	Disclosed (Y or N)
1.	Names of board members	
2.	Positions of board members	
3.	Pictures of board members	
4.	Profile of board members	
5.	Shareholdings of board members	
6.	Multiple-directorships exist among board members	
7.	Membership of audit committee	
8.	Board composition: executive vs. non-executive	
9.	Role duality: CEO is Chairman of board	
10.	Names of management team	
11.	Positions of management team	
12.	Pictures of management team	
13.	Profile of management team	

Theme 2. Interest-Free and Islamically Acceptable Deals

C. Dimension: product

	Construct	Disclosed (Y or N)
1.	No involvement in non-permissible activities	
2.	Involvement in non-permissible activities - % of profit	
3.	Reason for involvement in non-permissible activities	
4.	Handling of non-permissible activities	
5.	Introduced new product	
6.	Approval ex ante by SSB for new product	
7.	Basis of Shari'ah concept in approving new product	
8.	Glossary/definition of products	
9.	Investment activities – general	
10.	Financing projects – general	

Theme 3: Development and Social Goals

D. Dimension: *Zakāt*, charity and benevolent loans

	Construct	Disclosed (Y or N)
1.	*Zakāt* to be paid by individuals	
2.	Bank liable for *Zakāt*	
3.	Amount paid for *Zakāt*	
4.	Sources of *Zakāt*	
5.	Uses/beneficiaries of *Zakāt*	
6.	Balance of *Zakāt* not distributed – amount	
7.	Reasons for balance of *Zakāt*	
8.	SSB attestation that sources and uses of *Zakāt* according to Shari'ah	
9.	SSB attestation that *Zakāt* has been computed according to *Zakāt*	
10.	Sources of charity (*saddaqa*)	
11.	Uses of charity (*saddaqa*)	
12.	Sources of *qard al-hassan*	
13.	Uses of *qard al-hassan*	
14.	Uses of *qard al-hassan*	
15.	Policy on non-payment of *qard al-hassan*	

E. Dimension: Employees

	Construct	Disclosed (Y or N)
1.	Employees appreciation	
2.	Number of employees	
3.	Equal opportunities policy	
4.	Employees welfare	
5.	Training: Shari'ah awareness	
6.	Training: other	
7.	Training: student/recruitment scheme	
8.	Training: monetary	
9.	Reward for employees	

F. Dimension: Debtors

	Construct	Disclosed (Y or N)
1.	Debt policy	
2.	Amount of debts written off	
3.	Type of lending activities – general	
4.	Type of lending activities – detailed	

G. Dimension: Community

	Construct	Disclosed (Y or N)
1.	Creating job opportunities	
2.	Support for org. that provide benefits to society	
3.	Participation in government social activities	
4.	Sponsor community activities	
5.	Commitment to social role	
6.	Conferences on Islamic economics	

H. Dimension: Environment

	Construct	Disclosed (Y or N)
1.	The amount and nature of any donations or activities undertaken to protect the environment	
2.	The projects financed by the bank that may lead to harming the environment	

Theme 4: Reviews by Shari'ah Supervisory Board

I. Dimension: Shari'ah Supervisory Board (SSB)

	Construct	Disclosed (Y or N)
1.	Name of members	
2.	Pictures of members	
3.	Remuneration of members	
4.	Report signed by all members	
5.	Number of meetings held	
6.	Examination of all businesses transactions ex ante and ex post	
7.	Examinations of a sample of business transactions ex ante and ex post	
8.	Reports defects in products: specific and detailed	
9.	Recommendation to rectify defects in products	
10.	Action taken by management to rectify defects in product	
11.	Distribution of profits and losses comply to Shari'ah	

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