Evaluation of Social Reporting Practices of Islamic Banks in Saudi Arabia

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Abstract

Islamic banks are said to possess ethical identity (Haniffa and Hudaib, 2007) 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.However, two prominent studies of the social reporting practices of Islamic banks have shown otherwise (Maali et.al, 2003; Haniffa and Hudaib, 2007). This study replicated the Haniffa and Hudaib study by examining the social reporting practices of Islamic Banks in Saudi Arabia. This examination involved a comparison of the social disclosures of 4 Islamic banks made through their annual reports against an ideal level of social disclosures that Islamic banks ought to make, over the years 2008-2009. This comparison was accomplished using the Ethical Identity Index (EII) developed by Haniffa and Hudaib (2007). The findings revealed that at present, Islamic banks in Saudi Arabia have much more in common with their conventional counterparts than they do with banks that are supposedly based on Shari'ah. Indeed, the core dichotomy expected between Islamic banks and conventional banks in relation to Islamic ethics was not clearly shown.

Introduction

After many centuries of domination by the West, and the subservience and adoption of Western culture and values as a result of this domination, there has been a revival of Islamic principles and values in Muslim countries. This revival was a result of a growing discontent among the Muslims with the values of the West. This discontent spread to all aspects of life, including the economic aspect. Specifically, there were grave concerns for the conventional banking practices present in these Muslim countries. These banks were involved in the charging and collection of interest (riba) which is strictly prohibited in Islam. "The desirability of abolishing fixed interest rates and the Islamization of financial systems" (Haqiqi and Pomeranz, n.d.) is one of the main reasons for the establishment of Islamic banks.

Ideally, Islamic banks and other Islamic financial institutions are supposed to adhere strictly with the precepts of the Shari'ah', 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). Due to the prohibition of interest in Islam, they could not offer conventional financial services and had to offer those in compliance with the Shari'ah. Examples of such services include Mudarabah, Musharakah, and Ijarah. Whereas the goal of conventional banks is to make as much profit as possible and at any means; for Islamic banks, whereas profit is a part of its goals, it isn't the most important goal. To understand the goal of an Islamic bank, one has to understand the objectives of the Shari'ah. Imam Ghazali (as cited by Dusuki n.d.) states that "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 safety of these five serves public interest and is desirable". From these noble objectives, it can be gathered that the most important role of Islamic banks is to promote the betterment of the society in which they are set up by providing means by which members of the society can better themselves, particularly improving their posterity and wealth.

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 you do not do." (as-Saff: 2-3) and the researchers' study had as a goal, a determination of whether Islamic banks in Malaysia were fulfilling their claim of complying with the Shari'ah by comparing their disclosures as reported in their annual reports against an ideal level of disclosure as measured by the "Ethical Identity Index" developed by Haniffa and Hudaib (2007).

This paper 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] Zakā. 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 & 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 Zakat 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 etal. 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.

Research methodology

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 Islamic banks in Saudi Arabia. To achieve this objective, content analysis was utilized in order to examine the annual reports of the selected Islamic banks. 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 Islamic banks in Saudi Arabia were 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 & H (2007) and Maali et.al (2003).

Sample Selection

As the researchers' study was undertaken in Saudi Arabia, the population was four (4) fully-fledged Islamic banks operating in Saudi Arabia. "Fully-fledged" implies that the banks are standalone Islamic banks separately incorporated, and not merely Islamic windows. The decision was made to select only fully-fledged Islamic banks as it was reckoned that they would be more committed to adhering to Shari'ah principles, rather than Islamic windows which simply provide alternatives to interest products, but are still part of a conventional bank whose foundation does not rest on the principles of Shari'ah.

The population was narrowed down based on availability of annual reports on the internet. This led to a final sample of 4 Islamic banks in Saudi Arabia. They are as follows:

1. Al Rajhi banking and investment corporation
2. National Commercial Bank
3. Saudi Hollandi Bank
4. Riyad Bank

Research Instrument

The researchers adopted, the "ideal ethical identity" checklist developed by H&H (2007) in order to determine the social reporting practices of Islamic banks in Saudi Arabia. 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 adopted H&H (2007)'s checklist completely.

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 Islamic banks in Saudi Arabia, 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's 2003 study which examined the social reporting practices of Islamic banks. The reason the researchers 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 researchers for the study consisted of 4 themes,

9 dimensions and 80 constructs. A copy of the checklist is presented in the appendix of the researchers' study.

Data Collection and Analysis Procedures

The annual reports of 4 Saudi Arabia banks in the sample were obtained on their various websites for the years covered by the study, 2008-2009. These annual reports were then read completely to discover the items that they 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 of the 4 Islamic banks in the sample, a score of 1 was assigned for every item or construct of the checklist that was disclosed in the annual report for each bank, and zero for every item not disclosed. In addition, a company was not given extra marks if it disclosed a construct more than once in its annual report.

Each of the 9 dimensions had a certain number of constructs under it, which Islamic banks had to disclose to fulfill the Shari'ah requirement of full disclosure. To determine how well a bank 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:

ADEy = 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.

Analysis and discussion of results

This section presents the results of the analyses of the annual reports examined for the 4 Islamic banks in the sample of this study for the years 2008-2009.

Table 1: ADE (2008)

DIMENSION	ARB	NCB	SHB	RB
Vision and Mission Statements	0.88	0.77	0.55	0.66
BODs and top management	0.23	0.00	0.46	0.61
Product and services	0.3	1	0.90	0.90
Zakat, charity and benevolent loans	0.26	0.60	0.26	0.33
Commitments toward employees	0.66	1.00	0.77	0.77
Commitments toward debtors	1.00	0.75	1.00	1.00
Commitments toward society	0.71	1.00	0.14	1.00
Environment	0.00	1.00	0.00	0.50
SSB	0.18	0.27	0.18	0.09
Community	0.71	1.00	0.14	1.00

Table 2: ADE (2009)

DIMENSION	ARB	NCB	SHB	RB
Vision and Mission Statements	0.77	1.00	0.44	0.88
BODs and top Management	0.38	0.69	0.69	0.69
Product and services	0.40	0.90	1.00	0.80
Zakat, charity and benevolent loans	0.33	0.46	0.26	0.46
Commitments toward employees	0.66	0.33	0.77	0.88
Commitments toward debtors	1.00	1.00	1.00	1.00
Commitments toward society	0.71	0.85	0.14	1.00
Environment	0.50	0.00	0.00	1.00
SSB	0.18	0.18	0.18	0.18
Community	0.71	0.85	0.14	1.00

Findings

The basis of discussion is in perspective of a dimensional approach. Overall performance of the banks throughout the specific years covered by the study is measured and their performance discussed.

In 2008, the "Vision and Mission statements" dimension, all banks disclosed more than half of the required items necessary in the annual report. In 2009, there was an improvement with 3 of the 4 banks disclosing at least half except Saudi Hollandi.

Contrary to the previous dimension results, on "BODs and top management", 1 out of 4 of the banks disclosed more than half required items in 2008. In 2009, there was an improvement in disclosure with 3 of the 4 banks disclosing more than half the required items.

Under the 3rd dimension, "Products and Services", three of the banks disclosed up to half of the required items in 2008 and 2009.

Under the "Zakat, charity and benevolent loan" dimension, only one bank disclosed up to half the required items in 2008 and disappointedly , none in 2009.

The 5th dimension, "Commitments toward employees" revealed that all the banks disclosed up to half the required items in 2008 while in 2009, 3 of the 4 banks disclosed up to half the required items.

The 6th dimension, "Commitment toward debtors", unsurprisingly revealed that all the banks disclosed almost all the required items both 2008 and 2009.

Under the 7th dimension, "Commitment towards society", 3 of the 4 banks disclosed up to half the required items in 2008 and 2009. However, Saudi Hollandi refused to disclose up to half the required items in 2008 and 2009 respectively.

The 8th dimension, "Environment" revealed that 2 banks disclosed up to half the required items in 2008 and 2009.

The 9th dimension, "SSB" revealed that none 4 banks disclosed up to half the required items in 2008 and 2009.

Lastly, the tenth dimension, "Community" revealed that 3 out of the 4 banks disclosed more than half of the items required with an exception of Saudi Hollandi bank.

Discussion of results

The results revealed that Islamic banks in Saudi Arabia had poor disclosure practices for institutions that claim to be operating on Shari'ah principles. Results of the analysis indicated that of the 10 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 five dimensions: "Environment", "Zakā, charity and benevolent loans", "Products and services", "Commitment to community" and "Vision and mission statements". The implication of these findings is that at present, Islamic banks in Saudi Arabia have much more in common with their conventional counterparts than they do with banks that are supposedly based on Shari'ah. This is because they disclosed a reasonable amount of information on their debtors and their corporate governance practices which is what one would expect from conventional banks. However, in areas that would demonstrate their ethical identity and ultimate goal of betterment of society that separates them from their conventional counterparts, they disclosed very little information in this regard in their 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 Islamic banks in Saudi Arabia have a lot of work to do before they become worthy of the tag they claim of been Islamic. This is not to imply that the development of Islamic banks in Saudi Arabia is not a step in the right direction; it is, but, these institutions have to realign their activities and priorities to make sure they truly reflect the Islamic principles which they claim to follow. This is very important if they are to retain their credibility and reputation in the society in which they operate. Perhaps an even more important implication for Islamic bank managers 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.

In particular Zakat, which is one of the five pillars of Islam, has not been appropriately taken care of by the Islamic banks as indicated by the findings. Therefore, the study suggests that all the banks should take as a matter of urgency the issue of Zakat as important as it has a great impact other dimensions such as "Commitment towards society", "Community", and "Environment". Islamic banks, by their very nature, are supposed to adhere strictly to Shariah precepts as evidenced by the dimensions. The sad truth is that this is not reflected by Islamic banks in Saudi Arabia as reflected by the poor social disclosure practices. 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)

Limitations and future research suggestions

The researchers' study of disclosure in annual reports of Islamic banks in Malaysia answered the call for further research made by Haniffa and Hudaib (2007) and thus added to prior related studies on corporate social disclosures that focus mostly on the Western concept and hardly provide an Islamic perspective of this phenomenon. However, the findings of this study were subject to several limitations.

Firstly, there were limitations that arose as a result of the use of content analysis. Content analysis tends to focus on the quantity of information disclosed, rather than the quality. This affects the reliability of inferences and interpretations derived from such an analysis (Guthrie et.al, 2004). Another limitation of content analysis is the problem of subjectivity involved in coding when developing the research instrument (Wilmhurst and Frost, 2000). The instrument used in the researchers' study was adopted from Haniffa and Hudaib (2007), and Haniffa and

Hudaib mitigated this weakness by using two coders to score the research instrument and resolving any problems and discrepancies that arose via a set of basic coding rules (Haniffa and Hudaib 2007, p103). Another limitation of content analysis as used in the researchers' study was as regards the subjectivity involved in determining the disclosure levels of each bank. Only the researchers scored the banks and thus could have been affected by a bias, which would thus affect the reliability of the scores. To mitigate the weaknesses of content analysis, future research should consider other methodological approaches such as detailed interviews with management and stakeholders, in combination with content analysis, so as to enhance understanding of company social reporting practices.

Secondly, the researchers' study focused only on comparing disclosures made in annual reports with ideal levels of disclosure. It failed to take into account other means by which companies can communicate their social activities; for example via website, newspapers and magazines. Future research should thus consider disclosures in these other media.

Thirdly, the researchers' study compared communicated disclosures against ideal disclosures. The reality is that what is contained in annual reports may not reflect the true nature of social activities a company has actually done. Future research may thus consider comparing between actual social activities against those disclosed in annual reports, or actual social activities against an ideal level of social activities. This would provide evidence on whether or not Islamic banks intentionally mislead stakeholders by reporting what they have not actually done in their annual reports and other such media, all in an attempt to enhance their reputation.

Practical relevance of the paper

This study provides a useful toolkit for the management of Islamic banks to identify the gaps they need to fill and improve upon their social reporting practices. Also, the Saudi Government can also benefit from this study by using it to ensure that Islamic banks fulfill their corporate social responsibility. All other institutions that are based on the principles of Shariah can also utilize this study as a guide to achieving excellent social reporting practices in accordance with Shariah precepts.

Other Islamic bank stakeholders such as customers and other members of the community as well as non-governmental organizations will find this study useful. Customers, for example, can use this study's result to determine whether to stick with their current Islamic bank or shift to another one which has better social disclosure practices.

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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).
78 constructs (two eliminated from original instrument as it is not applicable to Malaysia; two constructs added under new "environment"dimension)

Constructs eliminated:
1) Zakat to be paid by individuals (in Dimension 4)
2) Branches for women (in Dimension 7)
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

		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: Zakat, charity and benevolent loans

	Construct	Disclosed (Y or N)
1.	Bank liable for Zakat	
2.	Amount paid for Zakat	
3.	Sources of Zakat	
4.	Uses/beneficiaries of Zakat	
5.	Balance of Zakat not distributed – amount	
6.	Reasons for balance of Zakat	
7.	SSB attestation that sources and uses of Zakat according to Shari'ah	
8.	SSB attestation that Zakat has been computed according to Zakat	
9.	Sources of charity (saddaqa)	
10.	Uses of charity (saddaqa)	
11.	Sources of qard al-hassan	
12.	Uses of qard al-hassan	
13.	Uses of qard al-hassan	
14.	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 meeting held	
6.	Examination of all business transactions ex ante and ex post	
7.	Examination of a sample of business transactions ex ante and ex post	
8.	Report defect in product : specific and detailed	
9.	Recommendation to rectify defects in products	
10.	Action taken by management to rectify defect in product	
11.	Distribution of profit and losses comply to shariah	