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Corporate Social Reporting: A Preliminary Study of Bank Islam Malaysia Berhad (BIMB)

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Abstract

The purpose of this paper is to examine the themes, locations, extent, and also trends of corporate social responsibility (CSR) disclosure of Bank Islam Malaysia Berhad (BIMB) from 1992 to 2005. A disclosure index (checklist) and the extent of such disclosures were measured using content analysis based on number of sentences. The findings of this study show that BIMB prefers to disclose themes associated with employees, product, and service contributions and community involvement. Among the most popular locations in disclosing such information are in the chairman's statement, financial statements, and directors' report. The results also reveal that the bank has improved in terms of volume and the manner of presenting or disclosing CSR from year to year. This study is the first of its kind to be conducted on a company in a specific industry in Malaysia using a longitudinal approach, and its empirical findings complement the findings of prior studies.

Keywords: *Bank Islam Malaysia Berhad; corporate social reporting; disclosure; content analysis; longitudinal; Malaysia.*

Introduction

Bank Islam Malaysia Berhad (BIMB) was established as the first Islamic bank in Malaysia on 1 July 1983 and the bank was listed on the Main Board of Bursa Malaysia (formerly known as Kuala

Lumpur Stock Exchange) on 17 January 1992. The banking activities are based on *Shariah*¹ principles which represent the absolute ethical codes of Islamic religion and culture. These Islamic codes impose strong social obligations on Muslim individuals and organisations

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(Maali et al., 2003). Maliah (2000) opined that from the Islamic perspective, one's accountability to Allah also encompasses one's accountability to society and therefore may be interpreted as promoting social justice and social responsibility. Consequently, a firm operating in Islamic surroundings is expected to be conscious of the impact of its activities on the community.

In general, Luan (2005a) stated that corporate social responsibility (CSR) is concerned about the way in which companies meet their obligation both to the employees and community. In the Islamic context, the social responsibilities are derived from Allah and from the Prophet Muhammad [peace and blessings be upon him (pbuh)]. Thus, social role is very important for Islamic banks and some researchers described Islamic banks as *banks having a social face*. This role is mainly a reflection of the importance of upholding the Islamic principles upon which these banks operate and how they address these social issues (Maali et al., 2003). Therefore, the bank needs to disclose all related information regarding its social activities to the public. On the other hand, the communities are expecting enhancement in transparency, greater involvement in solving social issues and improved ethical behaviour from companies.

Islamic banks offer their clients a variety of financial products that do not violate *Shariah* principles and have set up their own *Shariah* supervisory board to monitor their activities according to Islamic

Shariah. *Shariah* prohibits dealing in interest, undertaking transactions with unknown fate, ensures all transactions to be lawful (*halal* in substance and form) and also requires business entities to pay the religious tax, *zakat*². Islam strictly bans any dealing with interest, which is deemed oppressive. In addition, Islamic businesses are required to undertake charitable activities and to help the poor and the needy. This is emphasised in many of the *Quranic* verses and *hadith* of Prophet Muhammad (pbuh). Allah says "*Take from their wealth a charity by which you purify them and cause them increase*" (*Quran*, 9:103). The requirement to pay *zakat* is a clear example of such obligation.

Furthermore, according to the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI, 1998), Islamic banks should disclose all information necessary to inform the community about their operation and this is related to the concept of accountability, which means that the community has the right to know how the organisation's activities are affecting their well-being. Thus, the content of Islamic Bank's annual report must provide social information, focusing in detail the aspects of *zakat*, *Qard al-Hasan*³ funds, and employee information which have particular relevance to the social accountability principle (Baydoun & Willett, 2000), including environmental, energy, and other social information (Che Zuriana, Kasumalinda, & Rapih, 2001) in order to meet the increasing needs of the stakeholders for such information for their decision making pur-

¹ *Shariah* is the Islamic law of human conduct. It is based on the word of Allah in the *Quran* and the deeds and sayings of Prophet Muhammad (pbuh).

² *Zakat* represents business *Zakat*. It is an obligatory amount payable by the bank to comply with the principles of *Shariah*.

³ *Qard al-Hasan* is a loan that is to be repaid, depending on the ability of the borrower, without any interest or charges or share in the profit or loss of the business.

poses. This study attempts to look at the issue of how far, as a pioneer in Islamic banking, does BIMB disclose and apply Islamic values in reporting its corporate social responsibility. Therefore, this study tries to examine the theme and extent of CSR disclosure in BIMB's annual reports from 1992 (being listed at Bursa Malaysia) to 2005. Furthermore, this study tries to look at the trend of CSR disclosures, whether the bank improves its CSR disclosure and whether CSR disclosure is affected by some external events such as the financial crisis in 1997 to 1998.

This study extends previous studies on CSR in Malaysia (Maali et al., 2003; Thompson and Zarina, 2004; and Ramasamy and Ting, 2004) but looks specifically at one particular company in the banking sector. The empirical findings from the first study done by Maali et al. (2003) suggested that social reporting is not a major concern for most Islamic banks and the banks tend to disclose only those items that help to construct a positive image, such as matters relating to charity and Zakat. Besides, the study conducted by Thompson and Zarina (2004) revealed that corporate social responsibility reporting, specifically the corporate environmental reporting in Malaysia is still in the early stage. According to Ramasamy and Ting (2004), companies in Malaysia and Singapore tend to have low levels of CSR awareness based on the perspective of employees in both countries. They added that in both countries, companies are willing to be responsible corporate citizens but financial and organisational constraints may reduce their CSR activities.

The main contribution of this study is to provide some descriptive data on the

disclosures of CSR and the extent of such disclosures in a particular Malaysian bank's annual reports. Previous research in this area have focused only on Islamic banks in Jordan, Sudan, Iran, Bahrain, U.A.E., Palestine, Egypt, Turkey, Pakistan, Kuwait, Bangladesh, Qatar, Albania, South Africa, Russia, and Mauritania (Maali et al., 2003). Thus, there is a need to focus on Islamic banks in Malaysia, which have a different economic environment. Secondly, this study employs a longitudinal approach in examining the trend of social disclosures in annual reports whereas most of the previous studies employed the cross sectional approach. Lastly, this study provides some useful insights for the public in determining how far BIMB meets its obligations to employees and the community as a whole in Malaysia.

The remainder of the paper is organized as follows: first, the previous literature on CSR disclosures is examined together with the views from the Islamic perspective; second, the research design and the method of content analysis are described. Finally, the results and a discussion are offered, and conclusions drawn.

LITERATURE REVIEW

Concept and Definitions

Basically, the major catalyst in the focus of relationship between business and society comes from the idea of Milton Friedman. He believed that the social responsibility of business is to increase profit (Friedman, 1970). During the 1970s, the development of corporate social reports were initiated and supported through practical use by established accounting firms such as Ernst and Young. Due to the newly estab-

lished concept of corporate social reports, deficiencies of social reporting have become almost acceptable. However, the concept that was brought by Friedman and the deficient practice by companies were short-lived. It was seen that the community has increased their demand for better and more complete information of social accounting as a basis for better decision making (Gibson, 2004). According to Luan (2005b), CSR is concerned about what businesses do and how their actions impact the environment and society at large. The intent of business, therefore, is not just about creating wealth alone, but doing it responsibly. He added, many companies acknowledge and recognise that CSR should be at the heart of the corporate governance agenda.

Holt (2004) defines CSR as a matter of reporting the impact of a corporation's activities on a range of stakeholders which consist of investors, lenders, employees, customers, regulators, government, communities, and the society as a whole. In general, it focuses on the policies and practices of the company regarding issues of human rights, community involvement, and environmental impact and sustainability. Doing CSR is simply not enough. Rather, how companies involve and communicate CSR actions to customers and shareholders are more vital. It speaks a lot of their reputation, brand, as well as their products and services. Ultimately it would affect their customers. This signifies the importance of corporate social reporting or the disclosure of CSR information.

Corporate Social Reporting and Disclosure

The issues of CSR have become a grow-

ing concern among business communities in recent years. Yap and Sin (1981) reported that Malaysian companies are becoming more aware of the adverse effects of some their activities but the practice of reporting social performance of companies in Malaysia is practically non-existent yet. They argued that the primary mission of the business is to make profit, but a business must also become active in matters of social concern in the environment in which it operates. This was supported by the findings of Ramasamy and Ting (2004). In their study on corporate social awareness level in Malaysia and Singapore, they found that the absence of management awareness and regulation has resulted in a lack of disclosure of social responsibility. Other contributory factors include the lack of recognised reporting framework for corporate social reporting, the cost of reporting, and fear on how readers would react (Thompson & Zarina, 2004).

Basically, there are three types of corporate social disclosure; purely descriptive (using narrative), non-financial (quantitative other than financial information) and financial (Belal, 2001; Guthrie & Parker, 1990; Zeghal and Ahmed, 1990). These three types of disclosure can be classified into several dimensions or types. In a review of various literatures, the most common dimensions of disclosures emphasised by researchers are:

1. Human resource / employee information
2. Environmental
3. Community involvement
4. Product and services contribution
5. Customer and consumer

The previous studies reveal that Malaysian companies tend to disclose more on

employees and human resource, community involvement and environment (Thompson and Zarina, 2004; Hanim Norza and Mustafa, 2004; Che Zuriana et al., 2001) in the chairman's statement, financial statement, and directors' report in the form of narrative information (Hanim Norza and Mustafa, 2004; Che Zuriana et al., 2001).

An Islamic Perspective on Social Reporting

In Islam, the rights and obligation of individuals and organisations with respect to each other are clearly defined. Thus, responsibilities dimension in Islam is well defined and does not change or become irrelevant over time or place because it is derived from Allah and Prophet Muhammad (pbuh). There are three criteria used in Islamic corporate reporting; based on *Quran, Hadith, Sunnah*, and *Shariah*, full disclosure and public accountability (Baydoun & Willett, 2000). The main purpose of an Islamic business is to satisfy the will of Allah and based on what has been given by the *Quran, Hadith, Sunnah*, and also *Shariah*. This does not mean that they cannot seek profit, which is essential to business survival, but working or conducting business in Islam is considered part of the worship of God (Maali et al., 2003). Thus, social reporting takes place within a framework of social relations.

From the Islamic perspective of social reporting, there are several concepts used to discuss social relations like accountability, social justice, and ownership. The concept of accountability in Islam is derived from the concept of *Tauhid* (the unity of Allah). This concept implies total submission to Allah's will and following the religious require-

ment in all aspects of life (Maali et al., 2003). Baydoun and Willett (2000) opine that the concept of the unity of Allah gives rise to different and broader concepts of accountability than those implied by the Western models. The verse "*Allah takes careful account of everything*" (*Quran*, 4:86) reinforces the notion that everyone is accountable to Allah on the Day of Judgement for their actions during their lives. Accountable to Allah implies accountable to society, which emphasises the rights of others.

The second concept is social responsibility and justice. The term brotherhood (*Ukhuwwah*) in Islamic societies is a clear example of the importance of social responsibility in Islam. Muslims are supposed to take care of others in the society – the Prophet Muhammad (pbuh) said, "*The Muslims in their mercy towards each other are like a body, if single part of it complains the other parts would be affected*" (Al-Bukhari and Muslim). For instance, *zakat* is an annual payment required of every Muslims or enterprises who owns a minimum amount of assets specified by *Shariah* to be paid to eligible persons. *Zakat* should be paid to certain people specified in the *Quran* which includes the poor, the needy and debtors in financial difficulty, and volunteers who dedicate their efforts and time to spread the Islam teachings (Maali et al., 2003). The prohibition of *Riba* (usury) is a clear example of the Islamic emphasis on social justice. Islam also encourages individuals and businesses to provide a *Qard* fund (non-interest bearing loan). This fund allows the borrower to use the money without having to pay any interest or profit (Maali et al., 2003). In addition, Islamic businesses are required to deal justly in all aspects of their activities and also in

dealing with employees, customers and all members of the society.

The last concept is ownership and trust that emphasises on the concept of a person that holds property in trust for Allah and he or she should use this property according to Allah's will. Islam respects private ownership but ownership is not absolute and the benefits of society should be given priority when dealing with properties.

From the above concepts, the objectives of corporate reporting in Islamic businesses are to show business entities' compliance with *Shariah* and also to assist users in making economic decisions. Therefore, the Islamic businesses should disclose all information about their operations because in the Islamic context, the Muslim societies have the right to know how organisations could affect their well-being. The duty to disclose the truth is emphasised several times in the *Quran* such as: "*and cover not the truth with falsehood, nor conceal the truth when you know*" (*Quran*, 2:42).

An Islamic bank is required to follow accounting and reporting practices that are based on the ruling of its *Shariah* Supervisory Board⁴, as well as other accounting and reporting guidelines like Guidelines on the Specimen Financial Statements for Licensed Islamic Banks (GP8-i) and Financial Reporting Standard (FRSi-1), and also rules set by the AAOIFI.

Corporate Social Reporting and Disclosure in Islamic Financial Institutions

⁴ *Shariah Supervisory Boards* are in-house religious advisors.

Muslim researchers nowadays place a great concern on the disclosure of financial indicators and a system that considers justice, fairness, and ethical practices in the capitalistic practice (Maali et al., 2003; Sofyan, 2003). Although the conventional accounting system provides mandatory and voluntary criteria regarding the level of disclosure in the annual report, it seems that Islamic accounting somehow includes a different set of disclosure requirements by the banking sector. According to the model of disclosure presented by AAOIFI in 1998, Islamic banks must comply with *Shariah* regulations and apply Islamic values within their activities and also disclosures. The values are related to the concept of disclosing all information necessary to inform the community about their operation, and this relates to the concept of accountability - meaning that the community has the right to know how the organisation is affecting their well-being. Sofyan (2003) states that there are seven items on Islamic value information which need to be disclosed, which are also required to be disclosed by AAOIFI. They are:

1. basic information about the Islamic bank,
2. unusual supervisory restrictions,
3. earnings or expenditures prohibited by *Shariah* law,
4. the method used by the Islamic bank to allocate investment profit (loss) between unrestricted investment account holders or their equivalent and the Islamic bank as a *Mudarib* or as an investor with its own funds,
5. statement of changes in restricted investments,
6. statement of sources and uses of funds in the *Zakat* and charity fund, and
7. statement of sources and uses of

funds in the *Qard* fund.

The Islamic community emphasises on the information of compliance with *Shariah* regulation, besides information related to financial indicators. Therefore, under the principle of full disclosure, it is appropriate to disclose information of particular relevance to the social accountability principle, such as *Zakat*, *Qard* funds, and employment details (Baydoun & Willett, 2000).

A few items on social reporting that should be disclosed in Islamic banks' annual reports were suggested by Maali et al. (2003). These items should be disclosed by Islamic banks wherever they operate, based on the moral responsibility accepted by Islamic scholar. The proposed items are:

1. disclosure of *Shariah* supervisory board opinion,
2. any unlawful transaction,
3. *Zakat*,
4. social responsibility and justice,
5. ownership and trust,
6. *Qard al-Hasan*,
7. charitable and social activities
8. employees,
9. late repayments and insolvent client,
10. environment, and
11. other aspects of community involvement.

Some of the suggested items namely *Zakat*, *Qard al-Hasan*, and charity are similar to the disclosure requirements by AAOIFI. In the case of Bank Muamalat Indonesia (BMI) and disclosure on Islamic values, Sofyan (2003) found that BMI has recognised the importance of disclosing information regarding Islamic values within the financial statements. BMI disclosed five out of seven of the Islamic values recommended by

AAOIFI. He also indicated that the disclosure of BMI is more thorough as compared to Bank Islam Malaysia Berhad (BIMB) and Faisal Finance Institution Inc. (FFII). This could be seen by looking at the contents of the BIMB 1996 annual report, where BIMB failed to include information related to asset restrictions, *non-halal* (unlawful) transactions, and the sources and uses of *Zakat*. Starting from 2004, Financial Reporting Standard on i-1 (FRS i-1) on Islamic accounting required Islamic banks and financial institutions to disclose all *Zakat* obligations except for *Zakat* fund that can be voluntarily disclosed. As for FFII, the 1998 annual report disclosed limited information on Islamic values. There was also no disclosure on *Shariah* Supervisory Council and *Zakat* which are required by AAOIFI.

Basically, there are several items which relate to the Islamic values that need to be disclosed by Islamic Financial Institutions as required by the FRS i-1. The items consist of:

1. encouragement to disclose unusual supervisory restrictions;
2. disclosure of *Shariah* advisor or board and *Zakat* obligations;
3. encouragement to disclose the earnings or expenditure prohibited by *Shariah*;
4. concentration and distribution of investment accounts;
5. encouragement to disclose any principal uncertainties it faces, environmental report, and value added statement; and
6. encouragement to disclose other useful statements to users (e.g., *Zakat* fund and *Qard* fund).

RESEARCH METHOD

Data Collection

This study focussed on disclosures made in the corporate annual reports. This is because the annual report is the common document produced by companies on a regular basis and is widely used in prior studies related to CSR (Gray, Kohny, & Lavers 1995; Fathilatul Zakimi, Mohamad Sharofi, & Azhar, 2002; Hanim Norza & Mustafa, 2004; Kua-sirikun & Sherer 2004). The annual reports of BIMB from 1992 to 2005 were requested from its main office in Kuala Lumpur. The authors accessed the information within the annual reports of BIMB from the compact disk provided by the bank.

Company Selection

Bank Islam Malaysia Berhad (BIMB) was selected as a subject for this study due to the following reasons.

1. BIMB is the first Islamic bank established in Malaysia, where the banking activities are based on the *Shariah* principles.
2. Some of BIMB's corporate objectives include:
 - to provide its customers with Islamic banking facilities and services of the highest possible quality;
 - to develop a motivated workforce inculcated with appropriate work ethics fully committed to the bank and to offer efficient and courteous service to customers;
 - to be always conscious of its responsibilities and duties as an Islamic corporate citizen; and
 - To be actively involved in social activities to increase the well

being of the *Ummah*⁵.

Content Analysis Procedure

A checklist of disclosure item for social disclosures was designed to determine the items that could be disclosed in the bank's annual reports. The checklist is based on the modification of instruments designed by Maali et al. (2003), items that are required and recommended by AAOIFI and FRSi-1 to disclose in annual reports of Islamic banks, and also based on other established literatures, especially previous studies on 29 banks operating according to Islamic principles (located in 16 countries, excluding Malaysia). Some modifications were made to this checklist in order to adapt it to the conditions and characteristics of an Islamic bank in the Malaysian context. The checklist instrument describing the items for identifying social disclosures that come within nine themes is summarised in Table 1. It is designed to codify the qualitative information contained in the annual report. The nine themes include both mandatory and voluntary disclosure as required by FRS i-1. The mandatory themes are *Zakat* obligation and *Shariah* Supervisory Council. Although both thematic themes disclosures are required by FRS i-1, they are being considered as CSR items because as suggested by Maali et al. (2003) the moral responsibility accepted by religious banks and the Islamic principles that consider ethical issues are quite different from the conventional banks which follow the Western cultures. This is important especially for Muslim customers to ensure that their expectations on *Shariah* principles are being fulfilled. The voluntary themes which are encouraged by FRS i-1 include unusual supervisory

⁵ *Ummah* is Muslim societies.

restrictions, unlawful transaction, *Qard fund*, community involvement, employees, environment, and product and service contribution.

To measure the extent of social disclosures in the annual reports, a content analysis method was used. Content analysis has a strong foundation in the social disclosure literature (Ingram, 1978; Ingram & Frazier, 1980; Guthrie & Parker, 1989). The method has been widely adopted in prior social responsibility disclosures studies (for example see the studies by Guthrie and Parker, 1990; Zeghal and Ahmed, 1990; Hackston and Milne, 1996; Hanim Norza and Mustafa, 2004; and Kuasirikun and Sherer, 2004). Weber (1985), as quoted in Hackston and Milne (1996), defined content analysis as a method of codifying the text or content of a piece of writing in various groups or categories depending on the selected criteria.

The themes have been identified to ensure that each definition is unambiguous and mutually exclusive in order to eliminate overlapping interpretations. The number of words, sentences, and pages could be used to measure the volume of disclosures. Referring to Ingram and Frazier (1980), they advocate the use of number of sentences because a sentence is easily identified and is less subject to inter-judgement variations than phrases, classes, and themes. The use of number of pages as a measure of disclosure would be problematic due to variation of margin, font size, and graphics. Concise or verbose styles of writing would be problems if the numbers of words were used (Hackston & Milne, 1996). Besides, although most of the previous studies used words, paragraphs, and pages to measure the content of social

and environment text, they actually used sentences to determine the classification of the text. Milne and Adler (1999) stated that using sentences for both coding and measurement would provide complete, reliable and meaningful data for further analysis. Thus, the number of sentences was chosen for this study to codify and measure the disclosures of CSR.

The annual reports of BIMB were read thoroughly to identify the social disclosures from 1992 to 2005. Then, two testable dimensions were designed to measure the volume of disclosures. The first dimension is to determine the themes of CSR using the same checklist disclosures and the second dimension is the location of the CSR items in the annual reports following the approach used in the study by Hanim Norza and Mustafa (2004). We identified a few potential locations that were expected to provide corporate social disclosures. The locations are chairman's statement, directors' report, calendar of the year, notes to the accounts and others (for example, special page or section), statement of corporate governance, additional compliance information, and report of *Shariah* Supervisory Council. The inter-coder reliability measurement was conducted by performing pre-testing procedure adopted from Hackston and Milne (1996) and Fathilatul Zakimi et al., (2002). The first two authors reviewed the annual reports independently and counted the number of CSR sentences based on the initial checklist developed. The data were then coded and compared by the third author to detect any inconsistencies in the coding process. If inconsistencies were found, the annual reports were reanalysed and amendments to the initial checklist were made.

Table 1.
Checklist for CSR disclosures for BIMB and BHB from 1992 to 2005

Themes	92	93	94	95	96	97	98	99	00	01	02	03	04	05
Unusual supervisory restrictions	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Unlawful (<i>haram</i>) transactions	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Zakat obligation	/	/	/	/	/	/	/	/	/	/	/	/	/	/
<i>Qard</i> fund	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Community involvement	x	x	/	/	/	/	/	/	/	/	/	/	/	/
Employees	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Environment	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Product/service contribution	/	/	/	/	/	/	/	/	/	/	/	/	/	/
<i>Shariah</i> Supervisory Council	/	/	/	/	/	/	/	/	/	/	/	/	/	/

/ - disclosed

x- not disclosed

FINDINGS AND DISCUSSIONS

Overall Disclosure

As discussed earlier, the themes of the CSR were derived from previous studies, AAOIFI, and FRS i-1. Table 1 shows the themes of CSR disclosed by BIMB and BHB from 1992 to 2005. Two themes namely unusual supervisory restrictions and unlawful transactions (consisting of both earnings and expenditures) were not disclosed. Unusual supervisory restrictions and unlawful transactions are items that need to be disclosed as required by AAOIFI but not by FRS i-1. The study also found that no environmental disclosure was made in the annual report throughout the 14 years.

Zakat obligations and *Shariah* Supervisory Council (SSC) were disclosed consecutively. This is due to the fact that

payment pertaining to *Zakat* matters, reports, and attestation of SSC, as well as the investment account, is required to be disclosed by paragraph 71 and 72 of the FRS i-1. This implies that social reporting that exists in the annual reports seems to be influenced by the legislative requirements (Douglas et al., 2004). The theme disclosed for *Zakat* consisted of the statement of distributions of *Zakat* in terms of amount (RM), SSC attestation regarding the computation of *Zakat* and the distribution of the fund. As for the SSC, the theme disclosed was derived from the list of SSC's membership and report of SSC which attested that the operations of the bank were conducted according to the *Shariah* principles. The roles of SSC pertaining to the monitoring of bank's activities and *Zakat* were also disclosed under the theme.

The community and involvement theme

is disclosed every year except for the year 1992 and 1993. The items disclosed under the theme include the bank's role in economic development especially for small and medium-sized enterprises. BIMB is also involved in donating to projects for the community, including scholarships for students, health activities, and campaigns for blood donation.

The next theme disclosed by the bank is employees. This theme concerns employees' training, assistance, remuneration, and benefits. It also focuses on the management style or programme that directly affects the employees. The bank has its own training department which conducts programmes for its staff and the training provided are given to all groups and levels of employees. For example in the year 2005, more than 500 programmes were held involving 3,707 staff. On average, each employee would receive at least three days of annual training per year. Any changes of Group Corporate Mission and organisational structure would be supplied with curriculum training to support these changes. The bank also implements the Employee Share Option Scheme (ESOS) for eligible employees.

Product and service contributions were also reported by BIMB in its annual reports. This theme focuses mainly on product and service quality and also product and service development and research. BIMB has consistently im-

proved the quality and development of new products and services for the convenience of its customers. They have expanded the ATM network, opened new branches, introduced E-Banking and new products such as *Ijraa* savings account⁶ and *Rahnu*⁷ scheme to its customers. The other theme disclosed by BIMB is the distribution of *Qard* fund, which is recommended by the FRS i-1. The item related to the disclosure of *Qard* fund is the amount distributed to its beneficiaries.

Themes and Extent of CSR Disclosure

Table 2 summarises the results of content analysis based on the selected themes from 1995 to 2005. Consistent with most prior studies (Guthrie & Parker, 1990; Hackston & Milne, 1996; Thompson & Zarina, 2004; Hanim Norza & Mustafa, 2004), BIMB made most disclosures on employees (39.45 percent), product and service contribution (34.25 percent) and community involvement (12.49 percent) from the overall CSR disclosure. The percentage of employee social disclosure of 39.45 percent is quite similar with the percentage obtained in a study done by Thompson and Zarina (2004) where they found that in year 2000, companies in Malaysia disclosed 40 percent of their CSR activities on human resource and employees.

Table 2. Descriptive statistics on the themes of CSR disclosure for BIMB and BHB (1992 to 2005)

Themes	Sentences	Percentages (%)
<i>Zakat</i> obligation	6.74	
<i>Qard al-Hasan</i> fund	1.88	
Community involvement		12.49
Employees	39.45	
Product/Service contribution	34.25	
<i>Shariah</i> Supervisory Council	47	5.19
Total	905	100

The focus on employee disclosure tends to promote the image of employees' well-being, mutual interest with the company, as well as matters related to wages, health, and safety (Kuasirikun & Sherer, 2004). *Zakat* obligation and *Shariah* supervisory council as compulsory disclosed items are tagged at 6.74 percent and 5.19 percent respectively, while *Qard* fund was the least disclosed items with only 17 sentences or 1.88 percent.

Appendix 1 shows the number of sentences disclosed by BIMB from 1992 to 2005. The total number of sentences reported was 905. The most disclosed CSR theme is employees with 357 sentences, mostly disclosed in the year 2002 (44 sentences), 2004 (55 sentences), and 2005 (43 sentences), and these findings are consistent with those of Douglas et al. (2004), Kuasirikun and Sherer (2004), and Che Zuriana et al. (2001). All the three studies found that human resource issues were the most reported by their sampled companies (Irish Financial Institutions, Thailand companies, and Malaysian companies, respectively). Besides, a study by Guthrie and Parker (1990) on UK, US and Australian companies found that human resources was the most reported CSR, which is similar to the result of the current study.

The next most reported theme by BIMB is product and service contribution with 310 sentences, which is mostly disclosed in the year 2002 (41 sentences), 2004 (61 sentences), and 2005 (46 sentences). A previous study by Thompson and Zarina (2004) also revealed that most of Malaysian companies gave products and services as the second most disclosed

theme. It seems to suggest that customers' satisfaction and expectation which reflect the bank principles and values in providing financial solutions (products and solutions) in line with *Shariah* principles have proven to be very important for the long term sustainability of the bank.

The third most disclosed theme is community involvement. The analysis showed that 113 sentences were disclosed throughout the 14 years, and year 1998, 2002, and 2004 show the highest amount of disclosure with 20 sentences, 19 sentences, and 23 sentences, respectively. This result is supported by the finding of Thompson and Zarina (2004) who found that community involvement was the third highest theme reported by Malaysian listed companies. The result is also consistent with those reported by Kuasirikun and Sherer (2004). Their study showed that community involvement is the third highest CSR category being reported after employee and environment in the annual reports of Thailand companies. Besides, our analysis also shows a lack of disclosure on activities related to community involvement in the first six years being listed in the Main Board of Bursa Malaysia. This may suggest that the bank gave more emphasis on internal matters, such as development of human resource, products, as well as services enhancement during its initial stage of being a listed company.

The *Shariah* supervisory council theme is constantly disclosed as one sentence for each year from 1992-2002 indicating that there was no additional function of the council except to make sure that the banking activities are in line with *Shariah's* requirements. Starting from

⁶ *Ijraa* savings account is a savings account for teenagers.

⁷ *Rahmu* scheme is a collateralised borrowing scheme.

2003 to 2005, the amount of disclosures had increased to 12 sentences for all the three years. This was due to the introduction of FRSi-1 in 2004 which requires all Islamic Financial Institutions (IFI) to disclose all activities pertaining to authority and roles of the *Shariah* board.

Zakat obligation is reported with 61 sentences with the highest amount reported in the year 2004 (10 sentences) and 2005 (7 sentences). The incremental nature of *Zakat*'s disclosure is consistent with the increase in *Zakat* distribution activities carried out by BIMB within the two years. On the other hand, the *Qard* fund is disclosed once in every year except for the year 2003, where four sentences are disclosed regarding *Qard* fund distribution.

Table 3 shows the rank of CSR disclosure from 1992 to 2005 based on mean of sentences. As stated in the earlier part of the study, employees are the most disclosed theme with the overall mean of 25.50 sentences ranging from 14 to 55 sentences disclosed per year. A prior study by Baydoun and Willett (2000) supports this finding as they opined that a set of Islamic Corporate Reporting (ICR) has to focus in detail on aspects which have particular relevance to the social accountability principle including employment. The disclosure of employee theme is also in line with one of BIMB's mission, which is to provide a conducive working environment and to become an employer of choice for top talents in the market reflecting highly the importance of human resource to the organisation (BHB, 2007).

Table 3.
Level of social responsibility disclosure of BIMB by theme from 1992 to 2005

Themes	Mean Sentence Per Year	Standard deviation	Minimum	Maximum
Employees	25.50	13.849	14	55
Product/Service contribution	22.14	18.451	3	61
Community involvement	8.07	7.985	0	23
<i>Zakat</i> obligation	4.36	1.906	3	10
<i>Shariah</i> Supervisory Council	3.36	4.684	1	12
<i>Qard al-Hasan</i> fund	1.21	0.802	1	4

The second highest mean is the product/service contribution theme, having 22.14 sentences ranging from 3 to 61 sentences per year. This theme was least disclosed in the year 1992 and 1993 (see Appendix 1). This might be due to the fact that during the beginning years of the bank's operation as a listed company, less new products and services were being introduced as most of the expenses were channelled to maintain the new organ-

isational structure of the bank.

The third highest mean of disclosure is community involvement with a mean of 8.07 sentences, ranging from 0 to 23 sentences. None of the community involvement activities were disclosed in the year 1992 and 1993 (see Appendix 1). *Zakat* obligation, *Shariah* supervisory council and *Qard* fund are ranked at fourth, fifth and sixth place with means

of 4.36, 3.36, and 1.21 sentences, respectively.

Location and Extent of CSR Disclosure

In determining the location of CSR disclosures in the annual reports, there are a few potential places that were identified, such as chairman's statements, directors reports, calendar of the year, financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity, and notes to the accounts), statement of corporate governance, additional compliance information, report of Shariah supervisory council, and others (e.g. special page or section).

As shown in Table 4, the most preferred location for the bank to disclose CSR is in the chairman's statement of the an-

nual reports with about 318 sentences (35 percent), followed by the financial statements with 208 sentences (23 percent), and directors' reports with 199 sentences (22 percent). The results obtained are consistent with the study conducted by Che Zuriana et al. (2001). Their study shows that Malaysian companies prefer to disclose CSR in the chairman's statement, financial statements and directors' reports. However, another study by Hanim Norza and Mustafa, (2004) revealed that the vast majority of Malaysian companies placed the corporate social disclosure in the chairman's statement, followed by the directors' report and notes to the accounts. This reflects the more emphasis given to the chairman's statement as a location to report all CSR activities, business strategies and bank achievements' for the whole year.

Table 4.
Descriptive statistics on the location of CSR disclosures for BIMB (1992 to 2005)

Location	Number of Sentences	Percentage (%)
Chairman's statement	318	35.13
Directors' report	199	21.98
Calendar of the year	25	2.76
Financial statements	208	22.98
Statement of corporate governance	15	1.66
Additional compliance information	28	3.10
Report of <i>Shariah</i> supervisory council	47	5.2
Others (e.g. special page)	65	7.19
Total	905	100

In addition, from year to year the bank shows an improvement in presenting its annual report by creating new locations and also the manner the information is reported. As a matter of fact, some new

sections have been created, such as additional compliance information starting from 2001, statement of corporate governance starting from 2002, and calendar of the year starting from 2004, which

also contains pictorial information. However, the frequency of disclosure in these three sections is low, which is 28 sentences (3.1 percent) for the additional compliance information, 25 sentences (2.76 percent) for calendar of the year, and 15 sentences (1.66 percent) for the statement of corporate governance.

Trend of CSR Disclosure

Over the period from 1992 to 2005, all the annual reports of the bank disclosed some amount of social disclosures. Table 5 and Figure 1 (to be read together with Appendix 1) show the overall trend of disclosing corporate social responsibility information.

Table 5.
Descriptive statistics on the trends of CSR disclosures

Year	Sentences	Percentage (%)
1992	38	4.2
1993	26	2.87
1994	32	3.54
1995	29	3.2
1996	29	3.2
1997	29	3.2
1998	75	8.29
1999	49	5.42
2000	39	4.31
2001	64	7.07
2002	109	12.05
2003	101	11.16
2004	162	17.9
2005	123	13.59
Total	905	100

In general, the bank shows a fluctuating trend of CSR disclosure over the 14 years (Figure 1). The highest amount of disclosures is in 2004, with 162 sentences and this represents about 17.9 percent of total volume of disclosure. We suggest that this result might be due to the backdrop of Malaysia's sustained economic growth and during this year, the bank had almost completed the im-

plementation of a far-reaching organisational restructuring exercise (BHB, 2004). However, in 2005, the amount of CSR disclosure had decreased by 24 percent (with 123 sentences, representing about 14 percent of total volume of disclosure) from the previous year which was attributed to the loss suffered by the bank due to bad debts (BHB, 2005). The lowest volume of disclosure was in 1993

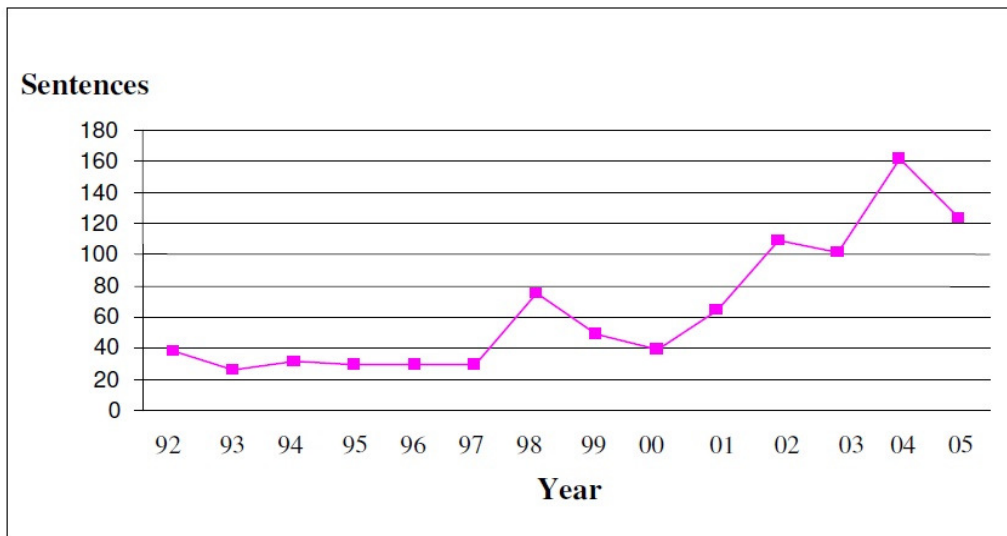


Figure 1. Line chart portraying the trends of BIMB's CSR disclosures (1992 to 2005)

In general, the bank shows a fluctuating trend of CSR disclosure over the 14 years (Figure 1). The highest amount of disclosures is in 2004, with 162 sentences and this represents about 17.9 percent of total volume of disclosure. We suggest that this result might be due to the backdrop of Malaysia's sustained economic growth and during this year, the bank had almost completed the implementation of a far-reaching organisational restructuring exercise (BHB, 2004). However, in 2005, the amount of CSR disclosure had decreased by 24 percent (with 123 sentences, representing about 14 percent of total volume of disclosure) from the previous year which was attributed to the loss suffered by the bank due to bad debts (BHB, 2005). The lowest volume of disclosure was in 1993 with 26 sentences (2.87 percent), a year after the bank had been listed in Bursa Malaysia. Starting from 2000 to 2004, the volume of CSR disclosures increased significantly from the first eight years. Referring to legitimacy theory, an or-

ganisation should properly suit its activities to meet the society's expectations, which is based on the notion that the business operates in a society via a social contract. Therefore, the organisation needs to perform socially desired action and disclose appropriate social information to reflect itself as a good corporate citizen (Guthrie and Parker, 1989; Maali et al., 2003). From this theory, it seems like by disclosing more CSR information, it would create a better perception on the bank itself from the perspective of society and stakeholders. Besides, by increasing CSR activities and disclosure, it may reduce the legitimacy threat. The significant increment of disclosures might also be due to the establishment of a second Islamic bank in Malaysia, Bank Mualamat Malaysia Berhad on 1 October 1999 which creates a competitive environment for BIMB in enhancing its image as the pioneer Islamic bank in offering Islamic products in the country.

The fluctuation of these disclosures from

year to year might be influenced by many factors like size, culture, profitability, growth, and structure of the bank. It has been proven by prior studies that the variations in the extent of disclosure are associated with several company attributes like firm size (Fathilatul Zakimi et al., 2001) and also corporate governance and culture of the company (Haniffa and Cooke, 2002).

The results also showed that during the financial year crisis from 1997 to 1998, the level of CSR disclosures were still increasing. This phenomenon could be influenced by the fact that during the year, the parent company, BIMB Holdings Berhad (BHB) had been incorporated, and there was an exchange of shares between BIMB and BHB, and subsequently the listing of BHB shares on the Main Board of Bursa Malaysia. This findings support earlier findings by Hanim Norza and Mustafa (2004) and Che Zuriana et al. (2001), where they found that during the financial crisis, the companies still disclosed social information in the annual reports. In addition, in that year, the bank presumably would like to disclose more information about CSR to keep attracting new investors or depositors, and to create confidence among the existing investors and the public to place their money in the bank. This assumption is based on the argument by Fathilatul Zakimi et al. (2001) that during the Asian financial crisis, greater impact was faced by banking and financial institution. As such, by making corporate social disclosures, it would create confidence among investors and the public.

Regarding the trend of disclosure according to themes, the findings show that the majority of such disclosures fall

under the employees theme. One of the reasons was due to the BIMB's emphasis on Islamic principles regarding the concept of accountability, which requires the Islamic bank to disclose employment details (Baydoun and Willett, 2000). An extract from the chairman statement in 2004's annual report of BIMB is shown below:

The success of Islamic Banking and the Group in particular depends greatly on the human factor. We need strong pool of intellectual capital to stay ahead of the competition and to realise our long-term vision of being a global player in the Islamic banking sector. Training also plays an important role in ensuring internal career growth and succession planning. In the face of organizational changes affecting the Group, the training curriculum has been geared to support the new structure and Group Corporate Mission.

(BHB, 2004)

In addition, the trend of disclosure for product and service contribution is also constant, similar to the employee theme and just slightly fluctuated over the years. The total disclosures in 2004 were 61 sentences, which represents about 20 percent from the total CSR disclosures for that theme. This finding reflects the competitive environment whereby other conventional banks are also introducing new Islamic banking products to attract the public to place their money in the bank. However, the community involvement theme shows a fluctuating trend throughout the years. Although the level of disclosure for this theme varied over the years, there was a marked improvement in disclosing such information. This seems to suggest that the bank

wants to inform the public about its contribution in addressing social problems and the role of the bank in facilitating the advancement of Islamic banking and finance in Malaysia (BHB, 1999).

Another theme that shows improvement in terms of volume of disclosure is the *Shariah* supervisory council theme. The item regarding the role and authority of *Shariah* supervisory council has been disclosed starting from 2003 as required by FRS i-1. The disclosure of such information would make the public or users of annual reports aware of the function and role of the council in advising and monitoring the operational activities of the bank.

Conclusion, Limitation, and Suggestion for Future Research

From the Islamic perspective, the concept of full and truthful disclosure is emphasised many times in *Quranic* verses, *Hadith*, and *Sunnah*. As an Islamic bank, BIMB is expected by the public to disclose all the information that may impact directly on the employee and community's well-being. In fact, one of the bank's mission statements, which supports this expectation is to be a responsible and prudent corporate citizen (BHB, 2007). Thus, this study had sought to examine the theme or type, location, and the extent of CSR disclosure in the annual reports of BIMB and BHB, and also to investigate the trend of such disclosure from 1992 to 2005.

In Malaysia, even though the CSR disclosure is considered a voluntary disclosure, BIMB has put some efforts and initiatives in disclosing or reporting such information. Overall, this study found that over these 14 years, BIMB had

made some kind of CSR disclosure in its annual reports. The themes disclosed by the bank are employees, product and service contribution, community involvement, *Zakat* obligation, and *Shariah* supervisory council which comprised both compulsory and voluntary disclosure as regulated and encouraged by AAOFI and FRS i-1. Consistent with most prior studies, the most disclosed themes are employees, product and service contribution, and community involvement. *Zakat* obligation, *Shariah* supervisory council and *Qard* fund are the least disclosed themes by BIMB.

In addition, the most popular location for these disclosures is in the chairman's statement, followed by the financial statements, and directors' report. We believe that the chairman's statement is the most attractive location for users of financial statements to find out such information and to know all activities, business strategies, and BIMB's achievements for the whole year. Generally, the bank shows improvement in terms of the amount and the manner of disclosing such information from year to year. Over the 14 years, the trend of CSR disclosure showed a fluctuating trend but increased steadily starting from 2000 to 2004. This suggests that the establishment of a second Islamic bank, Bank Muamalat Malaysia Berhad has created a competitive environment for Islamic banking and finance industries in Malaysia. The overall result of this study contradicts with Maali et al. (2003), where they suggested that social reporting is not the major concern of Islamic banks, although we can see that the volume of CSR disclosures of BIMB has increased from year to year.

This study also revealed that during fi-

nancial turmoil in 1997, the level of CSR disclosure was not affected and this result could be due to the fact that during this time, BHB had been incorporated, and they need to disclose more information, especially CSR activities to attract and create confidence among new or existing investors and the public to place their money in the bank.

There are some limitations in this study. Firstly, the findings cannot be generalised to all financial institutions in Malaysia because it only focus on one financial institution and using only a single industry. Secondly, the CSR disclosure contents are solely extracted from the annual reports despite the availability of other resources such as Internet, newspapers, brochures and advertisements being available.

In future research, the relationship of factors or variables that can influence the level of disclosure of CSR by Islamic financial institutions can be examined. This will indicate whether a company is a socially responsible citizen or it has been pressured by the stakeholders in order to meet regulatory compliance. The variables may include size, regulation requirement, corporate governance variables, auditor type, etc. Besides, a comparative study can be done between Islamic and conventional financial institutions in order to see the extent of the understanding and awareness of CSR disclosure between managers of financial institutions that are based on different value systems. Furthermore, research on the constraints and limitations of corporate social responsibility activities and disclosure amongst financial institutions can be useful to gain insights into the possible reasons for such phenomena.

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APPENDIX 1
Types of CSR Disclosures for BIMB and BHB from 1992 to 2005

Themes	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Zakat obligation	4	4	4	4	4	4	4	4	3	3	3	3	10	7	61
Qard fund	1	1	1	1	1	1	1	1	1	1	1	4	1	1	17
Community involvement	0	0	4	1	1	1	20	7	5	9	19	9	23	14	113
Employees	29	15	15	15	15	14	16	15	17	28	44	36	55	43	357
Product/Services contribution	3	5	7	7	7	8	33	21	12	22	41	37	61	46	310
Shariah Supervisory Council	1	1	1	1	1	1	1	1	1	1	1	12	12	12	47
Total	38	26	32	29	29	29	75	49	39	64	109	101	162	123	905

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