

The Market Values of Islamic Banks and Ethical Identity

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Abstract

Ethical identity refers to the set of guidelines that promote ethical practices within and by the organization. This concept is embedded in the Islamic teaching. This study examines the ethical identity of Islamic banks in Bangladesh, Malaysia, and the Arab Gulf region under eight distinctive dimensions to explore the difference between ideal and communicated ethical conducts via annual reports. This study's findings reveal an immediate need to develop ethical identity disclosure requirements for Islamic banks. Other areas of special importance include focused social and developmental goals, putting the Shari'ah strategically in the mission and vision statements, enhanced employee welfare policy, and effective Shari'ah monitoring of banking operations.

Keywords: Ethical norms, Content analysis, Islamic banks, Disclosure and reputation

JEL: P4, G2 and G3

And give full measure when you measure out, and weigh with a true balance; this is fair and better in the end. (Q. 17:35).

Allah does not bless usury, and He causes charitable deeds to prosper, and Allah does not love any ungrateful sinner. (Q. 2:276)

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Introduction

During the twentieth century, ethical business principles shifted from a macro issue to a more concrete and strategic paradigm.¹ Business managers are ready to implement anything to secure a higher bottomline. The ideas of corporate governance, strategic alliances, diversification, integration, and economies of scale and scope have not only made businesses more powerful and influential in society, but have also enabled them to control global interests. Consequently, large corporations have delved into the idea that giving charity and making donations are business responsibilities, keeping aside the core responsibility of “what is right and wrong” in the conduct of business. Corporate leaders have been driving the notion that profit and principles are mutually exclusive,² an approach that has sacrificed the interest of the stakeholders and society at large. The outcome of this has been abysmal for global corporate identity in the form of the loss of customer loyalty and customers, invasion from environmentalists, and strict government regulations. This can be seen in such negative customer-related outcomes as reduced profits and market shares.³

As the most unique economic unit, corporations must accomplish their economic role by satisfying their stakeholders’ ethical, legal, and philanthropic demands.⁴ Stakeholder normative theory argues that corporations are responsible for maximizing the value of the stakeholder’s portfolio, which results in a sustainable relationship and trust among both parties.⁵ Since it is difficult for all stakeholders to know the corporation’s strategic intention, the latter are solely responsible for adhering to standardized best practices as related to human rights, a safe environment, and overall human development for present and future generations.⁶ Banking is based on ethics and trust; therefore, bankers are entrusted with the fiduciary responsibility of managing the stakeholders’ interest both legally and ethically by searching proactively for ethical forms of business operations and meaningfully blending them into the banks’ operations and strategy.⁷ In an Islamic bank, ethical identity is fundamental due to the “partnership” type of business and higher level of relationship between customers and bankers.⁸ Part of their ethical identity includes compliance with the Shari‘ah.⁹

Ethical identity started attracting growing public attention after the appalling failures of, among others, WorldCom, Enron, Arthur Andersen, and Adelphia. Large corporations found themselves increasingly challenged by regulators and the public media, which amplified their need to acquire a strategic ethical identity.¹⁰ Ethical identity is defined (by the firm’s stakeholders)



as the system by which the actions taken by a firm and its authorized representatives are determined to be morally appropriate.¹¹ Stakeholders often consider governance structures, environmental safety, community development, employee relations, and other related matters as ethical issues.¹² Even though ethical identity has a positive impact on firm's strategic processes and competitiveness, the degree of influence that ethical decisions can have on its performance and market value are still being debated.¹³ Moreover, subjective influence has made it very difficult to measure a firm's ethical identity.

The banking industry deals with people's money and contributes to economic growth by channeling funds from surplus-spending units to deficit-spending units. Banks can communicate their corporate identity through their mission and vision statements, as well as strategy and corporate social responsibility, via annual reports. An orderly disclosure of such information can increase a corporation's image and lead to a competitive advantage. Moreover, positive imaging can increase a bank's profitability and operational efficiency. Reports of ethical conduct published in the public media and annual reports also create a positive impression among stakeholders.

A distinguishing feature of Islamic banks is their ethical business practices, as enshrined in Shari'ah. However, recent experience shows that these banks do not adequately communicate their ethical standards to stakeholders.¹⁴ In light of this gap and the growing importance of ethical identity, Haniffa and Hudaib developed the Ethical Identity Index (EII) for Islamic banks by taking samples from the Arab Gulf region (hereinafter "Gulf").¹⁵ Their research found a below-average performance of Islamic financial institutions (IFIs) with regard to communicating ethical identity to the stakeholders via annual reports. Hassan, Rashid, Imran, and Shahid,¹⁶ following Haniffa and Hudaib's methodology,¹⁷ studied the EII by taking samples from Bangladesh and extended the study by relating the index with the banks' market value. The study found a positive correlation between the two. While researchers show that corporate ethical conduct has a significant impact on a firm's financial performance and market value, empirical studies on ethical identity and bank performance are very limited in Islamic banking, especially from an empirical point of view.¹⁸

This study extends the lessons learned from Haniffa and Hudaib¹⁹ and Hassan et al.²⁰ to test the EII using the former's methodology²¹ and relating it to market value of Islamic banks in Bangladesh, Malaysia, and the Gulf. It will contribute to the existing limited knowledge on the ethical identity of Islamic banks that has been practiced and reported to stakeholders via annual reports. We chose two different regions – Asia and the Middle East – to de-



termine whether the ethical banking practices differ in these two regions. Like Haniffa and Hudaib,²² we used corporate annual reports to examine communicated ethical identity because these reports reflect management's views at a particular point in time, have a wider distributional impact among the business community, are more accessible for research purposes, and have been used by stakeholders to obtain corporate information.²³ Our analysis will shed more light on Islamic banks' corporate communication, identity, and adherence to the ethical principles enshrined in the Shari'ah. The sample covers two important and high-growth regions for Islamic banking. Therefore, the EII study related to the selected banks will be generalizable for ethical practices in the Islamic banking industry. This paper is organized as follows: a literature review, an explanation of the methodological issues, an account of the research findings, and a summary and conclusion.

Literature Review

The accelerated growth of Islamic financial products worldwide is raising new challenges to the industry's ethical conduct. The Islamic Financial Services Board (IFSB) argues that the industry is growing at an annual rate of over 15 percent. Evidence indicates that non-Muslims are becoming part of Islamic banking operations mainly due to its commitment to profit-and-loss sharing and social development.²⁴ Ideally, these banks should operate in accordance with the Shari'ah, defined as the combination of Islamic principles suggested in the Qur'an, the Hadith literature, *ijmā'*, and *qiyās*. Among many others, the basic guiding principles here are prohibiting *ribā* (interest), *gharar* (uncertain information), and *maysir* (gambling); not producing harmful products (alcohol etc.); distributing zakat (alms giving) and charity; creating jobs and eradicating poverty; and establishing overall human rights.²⁵ Islamic banking started with a socioeconomic motive back in 1950s and grew substantially in the 1980s in the oil-rich Middle Eastern countries.²⁶ As the industry has been facing aggregate competition, the most important issues now facing it are operational efficiency and ethical concerns. Table 1 (see appendix) briefly summarizes the relevant ethical identity literature.

Anas and Mounira argue that ethical values are ingrained in Islamic teachings and that increasing numbers of investors and customers are asking for socially responsible banks.²⁷ The need for Islamic ethical conduct has been necessitated by a sudden increase in preference for socially responsible investment and the tremendous growth of the Islamic finance industry worldwide. Moreover, Islamic finance owns the lion's share of the world's energy



solution.²⁸ A great deal of literature explores the ethical conduct of corporations from the perspective of corporate social responsibility (CSR). Under this paradigm, stakeholder value maximization theory suggests that a corporation should be responsible to owners and also strive to accomplish those goals that relate to employee welfare, customer satisfaction, environmental safety, and regulatory compliance.²⁹ Under the broad spectrum of strategic management, corporate ethical and philanthropic principles should be geared toward adding strategic value.³⁰ Therefore, there has been an ongoing interest in exploring the relationship between the ethical substance of corporate operations and the ultimate corporate bottom line.

Following the EII concept of Gray and Balmer³¹ and Berrone et al.³² in non-financial firms, Haniffa and Hudaib³³ examined the ethical identity of Islamic banks in the Gulf. Based on published annual reports, they sought to measure the level of ethical identity for seven banks based on an ideal vs. a communicated ethical identity framework. Even though their study did not relate the EII with market value or any other performance measure, the gap between the ideal and the communicated ethical identity revealed the selected banks' poor performance. Their study featured eight dimensions of ethical identity: (1) mission and vision statements, (2) board of directors (BODs) and top management, (3) products and services, (4) zakat, charity, and benevolent funds, (5) commitment to employees, (6) commitment to debtors, (7) commitment to society, and (8) the Shari'ah Supervisory Board (SSB).

Even though specific interest in ethical identity has been largely neglected in academic and corporate arenas, the dimensions of corporate social identity, partially portraying ethical conduct, has been well established in various studies. Ethical identity has been partially discussed in the form of CSR disclosure in Islamic banks.³⁴ However, Haniffa and Hudaib's study shows the unique importance of ethical identity for Islamic banks. Alongside the famous UN Global Compact, the Dow Jones Sustainability Index, the World Business Council for Sustainable Development (WBCSD), the Global Reporting Initiative, and the ISO 14001, corporate social identity has been discussed in the Committee for Economic Development's three circle of CSR measurement,³⁵ Carroll's four CSR components,³⁶ Wilson's seven CSR dimensions,³⁷ and the six CSR dimensions developed by CSR Europe.³⁸

The literature shows an insignificant relationship between ethical identity and financial performance or market value due to the category of stakeholders' unique understanding and perception of the code of ethics.³⁹ Cummings concluded that ethical identity has an inconclusive link to the performance of Australian non-financial firms.⁴⁰ Ethical identity has been similarly taken in few



studies under the “code of conduct” notion. Kaptein’s study of the world’s largest 200 firms found that slightly more than half of them have a complete code of conduct.⁴¹ Langlois and Schlegelmilch compared ethical identity gaps in large companies in the United States and the United Kingdom and found that the ethical gap was lower in American companies.⁴² Two studies on ethical codes of large non-financial firms on the Toronto Stock Exchange found slightly opposite issues. Singh found that ethical identity mostly helps the companies in proactive defense,⁴³ whereas Donker et al. found a positive relationship between corporate ethical identity and market performance.⁴⁴ Berrone et al. analyzed the ethical conduct of non-financial firms on the basis of revealed and applied corporate ethics.⁴⁵ Their investigation of the relationship between EII and market performance showed a positive relationship. Therefore, one can conclude that the relationship between ethical identity and financial performance is largely inconclusive across industries.

Ethical identity has been measured according to preset scales or indices⁴⁶ or by content analysis.⁴⁷ Berrone et al.⁴⁸ has taken ethical identity information from Sustainable Investment Research International (SiRi) Company’s Global Profile Database. Haniffa & Hudaib use eight ethical identity dimensions to develop their EII, which is premised on ideal vs. communicated ethics. They use ethical-based information communicated by Islamic banks via their annual reports. The ideal ethical conduct is based on the Shari‘ah and subsequent Islamic literature. To proxy firm performance, among a variety of available accounting and market-based performance measures, the return on assets (ROA) and return on equity (ROE) are widely used. Market-based measures, the market-to-book value (ME/BE) ratio, and market price per share have also been used in performance literature. As ethical identity is supposed to have a long-term impact, choosing which performance-related variable to employ is crucial.⁴⁹ Berrone et al. use market value added (MVA), which is the difference between market value and capital investment, to proxy market performance. On the other hand, Donker et al. use the ME/BE ratio to proxy market performance the firm.⁵⁰

Conceptual Framework

Haniffa and Hudaib explain five themes that shape the EII’s eight dimensions: (1) underlying philosophy and values, (2) provision of interest-free products and services, (3) restriction to Islamically acceptable deals, (4) focus on developmental and social goals, and (5) subjection to additional SSB reviews. With the exception of the fourth theme, the others are distinctive requirements



of the Islamic financial system designed to differentiate its ethical conduct from the conventional financial system. Social and developmental focus can be fulfilled by satisfying the stakeholders' requirements. Under this theme, Haniffa and Hudaib presented the banks' commitment to society, debtors, and employees, as well as the proper management of zakat, charity, and benevolent loans, as dimensions of their ethical identity. Included in these four dimensions as variables are, among others, creating job opportunities for local and international markets, sponsoring social events, ensuring employee welfare, rewards and excellent training facilities, an Islamically acceptable debt policy and writing off debt, and finally, using zakat for social causes, poverty eradication, and helping poor people worldwide.

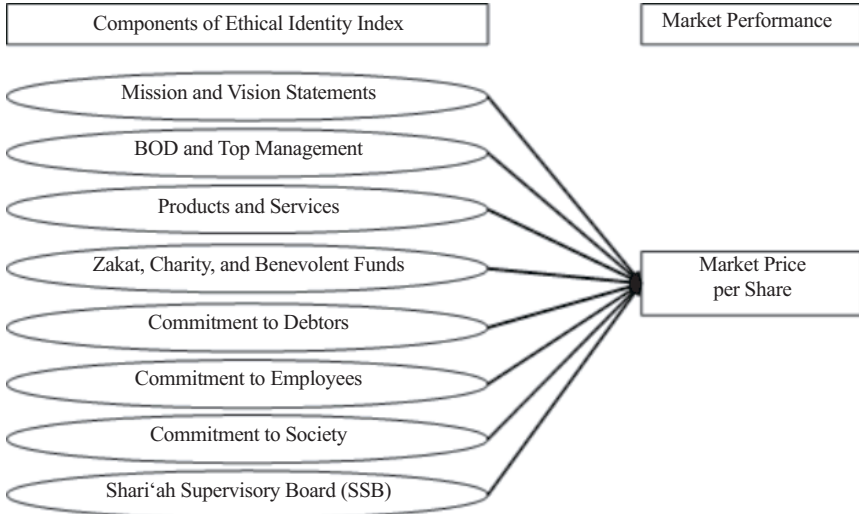
Prophet Muhammad stressed the business' intention (*nīyah*), which should be the guiding light for the operationalization of its mission and vision statements. Kaptein argued that ethical identity should be reflected primarily in these statements. Islamic banks must ensure that their intention is to operate in accordance with the Shari'ah. Therefore, these two statements must be reviewed and even to rewritten in order to communicate the bank's intention. Ethical identity should also reflect the profile of the members of the BOD and top management, as they will govern in line with these statements; hence, their identity is very important to the bank's ethical identity. The SSB actively monitors all new products, explores processing defaults, and provides possible remedies to these defaults. Customers trust a reliable SSB and its attestation of the level of ethical practice in a given Islamic bank's operations. This profile, including the expertise and formal attestation of the SSB members, is thus a vital element of ethical identity.

Banking is becoming increasingly customer-centric. As customers come to Islamic banks to bank in accordance with Islamic principles,⁵¹ the available products and services should be Islamically acceptable. These banks must provide the details of their investment and financing products, how they meet Islamic ideals, and whether an SSB has sanctioned them. Hitt and Collins assert that ethical disturbance comes from those transactions in which relationships among stakeholders take priority.⁵² Islamic banks, due to their relationship with their clients as "partners," must strive to maintain a consistent and continuous relationship with those partners. The details of investment and financing products should also state whether the banks have engaged in any non-permissible activity and what they are doing to mitigate future mistakes. In sum, a proper description of the financial products and services' ethical substance will help investment banks communicate their commitments to customers. A detailed view of the eight dimensions is given in box 1 (see appendix). Based on the



eight dimensions of ethical identity and market price per share (MPS) of Islamic banks, figure 1 illustrates this study's conceptual framework.

Figure 1: Conceptual Framework of the relationship between Ethical Identity and Market Performance of Islamic Banks.



This study, which adheres to Haniffa and Hudaib's methodology, intends to (1) build the EII for selected Islamic banks in Bangladesh, Malaysia, and the Gulf and (2) examine the relationship between the EII and market price per share of the selected banks. Islamic banking in these regions covers a significant percentage of the population of Islamic countries; hence, the selected publicly listed banks will act as representative sample of ethical identity of Islamic banks in general. The banks were selected based on the availability of English-language annual reports published on their websites. A list of banks included in the sample is given in Table 2 (see appendix). The data on Bangladesh is provided by Hassan et al.⁵³ A sample frame for Malaysian Islamic banks is available on the Bank Negara Malaysia's website, and the Gulf banks were chosen from Haniffa and Hudaib's original study.

As this study follows the content analysis method,⁵⁴ contents based on certain criteria will be coded using certain measurement scales. Adopting Haniffa and Hudaib's method, the researchers coded the presence of any content in the annual report by an "√" (to represent "1") and the absence of any content by an "X" (to represent "0"). Construct validity is measured by mentioning the page numbers of the annual report (pdf version) beside the check mark. A

simple average of the check marks provides the ethical identity for dimension wise, yearly for each bank, and the group of banks for the region. This average is called the EII. A high EII indicates less variation and more inclination toward the ideal ethical identity, whereas a low index suggests otherwise. The EII is determined according to the formula presented in equation 1. The market share price (MPS) data were collected from the Bankscope database and then converted into a common currency, namely, the American dollar, according to its exchange rate with the respective currency during a specific year. Exchange rate data were collected from the Economists Intelligence Unit (EIU) database. Since the effect of ethical identity will be in long-run, MPS data is deferred by one year. Therefore, for the EII of 2001 the respective MPS data is taken from year 2002. The MPS is as at the end of each year except for the year 2009, where data were available only until October 2009.

$$EII_{jt} = \frac{\sum_{i=1}^n x_{ijt}}{N} \dots\dots\dots (1)$$

Here: EII_{jt} = ethical Identity Index for dimension j and period t .

$\sum x_{ijt}$ = Variable X from 1 up to n for dimension j and time t .

N = Number of variabes/statements.

The study would like to draw the reader’s attention to the relationship between the Islamic banks’ market price per share and their respective EII. If EII_t is the ethical identity index at time t and MPS_{t+1} is the American dollar deferred MPS, then the following regression model is used for this study:

$$MPS_{t+1} = \alpha_0 + \beta_1(EII_t) + e_t \dots\dots\dots (2)$$

Here: EII_t = Ethical Identity Index for period t .

MPS_{t+1} = Deferred market price per share.

The sample selected for this study is appealing for various reasons: It facilitates a comparison of EII among three regions. According to a 2009 *Asian Banker* report, banks in the United Arab Emirates (UAE), Kuwait, Bahrain, and Saudi Arabia fall into the world’s top fifty Islamic banks. Moreover, this study extends EII study for banks in the Gulf, which enables a researcher to



compare the development over the years with Haniffa and Hudaib's findings. Malaysia, which holds a good portfolio of Islamic banks, is said to be building a rising modern Islamic culture in order to nurture the possibility of becoming an Islamic banking hub. Bangladesh's first Islamic bank, the Islami Bank Bangladesh Ltd., began operating in 1983; the country now has six Islamic banks. A recent study by Rashid, Hassan, and Ahmad examines a rise in customer concern about ethical banking among them and stressed the possibility of mergers and acquisition and the conversion from non-Islamic to Islamic banking due to increased customer demand.⁵⁵ However, data collection is still the largest problem in these regions. More specifically, given that most Islamic banks are subsidiaries of large holding companies, they are listed on the stock exchanges through the holding companies. This is even more so for Malaysian banks. In such cases, this study utilizes the holding company's MPS.

Table 2 (see appendix) lists the selected banks. In the case of Bangladesh, the Social Investment Bank Ltd. recently changed its name to the Social Islamic Bank. The Export Import Bank of Bangladesh became an Islamic bank in 2004. Shahajalal Islami Bank Ltd. was listed on the Dhaka Stock Exchange in 2006. Of these six banks, the ICB Islamic Bank opened its doors in 2007 after buying a near-bankrupt Islamic bank: Al-Baraka Bank Ltd. This new bank was not included in the sample due to data limitations.

In the case of Malaysia's seventeen banks under local and foreign ownership and offering Islamic banking services through pure Islamic and Islamic window services, we were able to collect data for only five of them. The remainder were either not listed on the Kuala Lumpur Stock Exchange or the full version of their annual report was unavailable on their website. Of the selected banks, Bank Muamalat and Bank Islam Malaysia are locally owned pure Islamic banks. Affin Bank, CIMB Bank, and RHB Bank are conventional banks offering separate Islamic window services. Haniffa and Hudaib considered seven Gulf banks over the time period 2002 through 2004. This study excluded the Bahrain Islamic Bank due to the unavailability of full annual reports for our period of study (2004-08). The Shamil Bank's 2008 annual report was available; however, it was dropped from the study because the 2009 MPS was unavailable.

Analysis of our Empirical Findings

We will first describe the EII findings and then explain the regression analysis to investigate the relationship between the selected Islamic banks' EII and market performance. The overall analysis of ethical identity shows that



Malaysia's banks are, on average, doing worse than their Gulf and Bangladeshi counterparts. However, the range (difference between highest and lowest EII) of EII is the lowest in Malaysian banks. The highest EII was 0.81 out of 1 (Shamil Bank, the Gulf, 2007), and the lowest was 0.31 out of 1 (the Social Islamic Bank, Bangladesh, 2001). The Gulf reports the highest range (0.57), followed by Bangladesh (0.37) and Malaysia (0.29). Malaysian banks are more consistent in reporting ethical practices. Table 3 (see appendix) highlights the EII statistics. Among the eight dimensions, banks are doing poorly in directing their mission and vision statements toward the Shari'ah and justifying their existence in society as "social institutions." Their commitment to debtors, products, and services, as well as to the BOD and top management, are the most successful areas of ethical dimensions for most banks.

The EII among Banks in Bangladesh

Table 4 (see appendix) summarizes EII results of EII for the selected Bangladeshi banks. Of the six banks, Islami Bank Bangladesh Limited (IBBL) and Al-Arafa Islami Bank (AAIB) scored the highest (0.57 out of 1) in communicating their mission and vision statements representing Islamic principles. However, they scored very low (0.24) in communicating the names and profiles of the BOD and top management members as compared to Social Islamic Bank Limited's (SOIBL) score of 0.40. AAIB and IBBL scored the highest in the product and services category and are followed by SOIBL. Shahjalal Islami Bank Limited (SHIBL) and Export Import Bank Limited (EXIM) scored very low (0.33). IBBL scored the highest in communicating its zakat- and charity-related information, whereas other banks scored very low (the second highest is EXIM's 0.33). EXIM, which was converted into an Islamic bank during 2004, scored the highest in commitment to employees (0.75), followed by IBBL (0.50) and SHIBL (0.50). The industry average is 0.47, which raises questions about Islamic banks' concern for their employees.

All of the banks have communicated their debt and debt write-off policies. Banks in Bangladesh performed above average in stating their commitment toward society in terms of job creation and social wellbeing (the industry average is 0.60). AAIB and SHIBL scored the highest in relaying information regarding the SSB. From EII's overall score, it seems that experience dominates the industry. IBBL, the most experienced bank, scored the highest in EII (0.63), followed by AAIB (0.52) and SOIBL (0.40). The newer banks, EXIM and SHIBL, are doing relatively well with scores of 0.49 and 0.47, respectively. The industry average considering all dimensions is 0.51, which is



above average and higher than the Gulf's score reported by Haniffa and Hudaib. After a full score of commitment to debtors, the banks' commitment toward society comes second. The banking industry in Bangladesh, one of the largest providers of jobs, makes a significant contribution to the GDP's growth rate and comprises a significant proportion of the stock market's capitalization. The country's banks are providing inadequate information on their mission and vision statements, BODs and top management, and zakat, charity, and benevolent funds. The lowest score of the industry is in information related to BODs and top management (0.32).

The EII among Banks in Malaysia

The results for Malaysia's Islamic banks are reported in table 5 (see appendix). They were found to perform poorly in communicating their mission and vision statements in accordance with Islamic principles. The industry average is only 0.26. Bank Muamalat scored the highest (0.46). Sufficient information was available regarding the BOD's and top management's profile and experience. A clear explanation of the various products and services offered is another impediment to ethical identity. The industry average is 0.35, with RHB Bank scoring the highest (0.50). Except for RHB Bank, the other four banks conveyed sufficient zakat information. Even though the industry average is 0.34, four banks scored 0.40 each. Malaysian banks performed poorly in relaying their commitment toward employees. The industry average is among the lowest (0.28) in the eight dimensions. Bank Islam scored the highest (0.40) in this category. Similar to banks in Bangladesh, Malaysian banks also reported their full commitment to debtors.

Malaysia, with its organized legal and Shari'ah infrastructure and a positive attitude toward Islamic banking, expects to be the next generation market for Islamic banks. However, the true value of Islamic banking for social development is missing in ethical reporting. The lowest score among the eight ethical identity dimensions is from their commitment toward society (0.09). Bank Islam scored the highest with 0.25. Malaysia is one of the front-line Asian countries based on the SMEs' contribution to growth and its multi-racial culture. Islamic banking must focus on the diverse socioeconomic opportunities available in this market, for the ethical reporting shows that, for some reason, it is neglecting Malaysian society. The SSB is yet another obstacle (industry average 0.339) in their ethical identity. The low score in this category may suggest the Shari'ah advisors' low average quality. Such advisors have less control over the banks' operating procedure. Since these advisors are an



important strategic component of Islamic banks, the shortage of skilled advisors often results in one advisor working for several Islamic financial institutions. Finally, except for their commitment toward debtors, the most successful part of ethical identity in Malaysia is information regarding the BODs and top management. Right now, the most important area they need to address is the information regarding their commitment toward society.

The EII among Banks in the Gulf

The results for the Gulf are reported in tables 6.1 and 6.2 (see appendix). These banks have established a track of reporting ethical conduct for Islamic banks. Annual reports presented full profiles of BODs and top management, full details of investment and financing products, full profiles and even signatures with photos of SSB members. However, the mission and vision statements are among the key areas of weakness for the Dubai Islamic Bank and Al-Rajhi Bank. While Islamic banks from Bangladesh and Malaysia were nearly struggling to report the right format of these statements, the Abu Dhabi Islamic Bank, the Shamil Bank of Bahrain, and Al-Baraka Bank of Bahrain have set a precedence on how to proactively put the Shari'ah into a strategic vision. An example of this enlightened vision statement is given below:

Shamil Bank strives to become one of the leading Islamic financial institutions in the region, offering a broad range of Islamic banking services through efficient and convenient channels to all categories of markets in which it operates, to achieve the highest possible returns for stakeholders. (The Shamil Bank, 2008, p. 6)

The Shamil Bank scored the highest (0.80) in reporting the status, profile, and characteristics of the BOD and top management, followed by Al-Baraka Bank and the Kuwait Finance House (KFH; 0.57). The Dubai Islamic Bank and Al-Rajhi Bank lag far behind; they scored 0.03 and 0.14, respectively. The Abu Dhabi Islamic Bank and Al-Baraka Bank fully reported the required criteria for product and services. The Dubai Islamic Bank and Al-Rajhi Bank are still at the end. The SSB clearly specified the source and use of zakat, whether it was given and how it was calculated; however, its exact amount was missing. This may happen because zakat is the shareholders' responsibility and banks are not obliged to report that information. Therefore, a more robust standard is needed for reporting zakat in this region. Commitment toward employees is one of the poorest areas of performance in this region. To foster local employment, banks had to sacrifice the equal opportunity princi-



ple. However, the training and welfare of employees have been reported well. Reporting commitment to debtors is similar to those of the banks in Bangladesh and Malaysia, the highest score among all the dimensions.

KFH has proceeded its effective participation in the active social activities carried out during the year, as it provided KD 2 million to Bait Al-Zakat (Kuwait Zakat House) for philanthropic activities, KD 800,000 for assisting poor families, KD 500,000 for the execution of charitable projects in the name of KFH in poor countries, KD 250,000 for the relief and disaster recovery activities outside the State of Kuwait, and KD 250,000 for assisting patients in buying the necessary medications as per the laws and regulations applicable in Bait Al- Zakat. (Kuwait Finance House, 2008, p. 23)

KHF's social contribution is shown by the small paragraph above, which impacts the lives of millions of people. This bank reports its social responsibility in a separate column, which is absent for banks in Bangladesh and Malaysia. It scored the highest (0.80), followed by the Abu Dhabi Islamic Bank, the Shamil Bank, and the Dubai Islamic Bank, with the same score of 0.75. Apparently, the more experienced Islamic banks can afford to spend more in the social responsibility category.

Islamic banking began with a new spirit with the growth and prominence of the region's oil economy. Therefore, it is expected that they will have a record of proactive social responsibility as compared to banks in Bangladesh and Malaysia. A positive change is expected in the Asian Islamic banking community as well. Information on the SSB is one of the problem areas. Al-Rajhi Bank has not provided even the minimum required information. KFH scored the highest (0.63). Based on overall findings, the region's best bank is the Shamil Bank (0.72), followed by the Abu Dhabi Islamic Bank (0.70), Al-Baraka Bank (0.66), and KFH (0.65). The Dubai Islamic Bank is the worst performer (0.51). After commitment to debtors (0.90), information on product and services was given the highest priority (0.73), and information on the board and top management was given the lowest importance (0.41).

Comparison of Ethical Identity Indices

We provide a comparative analysis of the ethical performance of Islamic banks in different regions in table 7 (see appendix). Our comparative analysis is limited by the differences in industry structure and existing regulations. Of the three regions, Malaysian banks failed to adequately communicate information on their mission and vision statements, products and services, zakat, charity and benevolent loans, commitment toward employee, commitment toward

society, and the SSB. Malaysian Islamic banks provided comparatively more information on the BODs and top management and commitments to debtor. Banks in the Gulf outperformed others in almost all categories. Banks in Bangladesh reported inadequate information only on the BODs and top management. Even though banks in Malaysia scored the lowest in many of the ethical dimensions, their consistency was commendable. All of them followed the same standard, and intra-bank differences in the various dimensions were negligible. This represents a higher opportunity for developing a common ethical disclosure requirement very easily. On the contrary, banks in the Gulf suffered from severe inconsistency. The Dubai Islamic Bank and Al-Rajhi Bank lagged far behind. Therefore, government intervention is necessary to bring about a change in ethical disclosure requirements.

Market Performance and the EII

Table 8 (see appendix) presents the relationship between Islamic banks' market performance and ethical identity. Berrone et al. found the relationship between ethical identity and market performance for non-financial firms, where the relationship is mediated by stakeholders' satisfaction. The relationship between ethical conduct and market performance depends on the stakeholders' perception and the unique cultural context.⁵⁶ Although this study finds this relationship to be positive, it is not statistically significant. This inconclusive result may stem from several reasons. First, our study's result is similar to the findings of earlier research.⁵⁷ Moreover, Berrone et al. suggested having various control variables, such as firm size, firm risk, a dummy for the country, and a dummy for firm's sector. Ramsey's RESET2 of this study (1.23, $p = 0.271$) also shows a significant misspecification of the model, which tells us to control for other factors in the regression. Jarque-Bera test (28.35, $p = 0.000$) indicates a significant violation of the normality assumption. Therefore, the relationship between EII and the market price of Islamic banks for Bangladesh, Malaysia, and the Gulf is statistically insignificant.

Prophet Muhammad was given the title "al-Amīn" because of his ethical monetary dealings. Muslims should ask themselves why Allah chose the best prophet from a business pool? As we know, Muhammad and Khadijah ran a very successful business. This may indicate a divine blessing supporting a positive relationship between business performance and ethical conduct. As the Prophet said, "the most worthy of earnings are those of the merchant who, if they are spoken to, do not lie, if they are trusted, do not betray, if they promise, do not fail, if they buy, do not condemn, if they sell, do not extol, if they owe, do not delay and if they are owed, do not press.



Summary of the Findings

The Shari'ah teaches people how to embed ethical principles in banking practices and strategies. However, the recent trend in Islamic banking raises questions about their ethical underpinning. Haniffa and Hudaib extended Gray and Balmer's study from a corporate ethical perspective to an Islamic banking context for the Gulf. This study extends the study done by Haniffa and Hudaib to Bangladesh, Malaysia, and an extended period for the Gulf. Eight dimensions of ethical identity, developed earlier by Haniffa and Hudaib, were based on a comparison of ideal and communicated ethical conduct via the banks' annual reports. As the Prophet stressed the proper and timely dissemination of business information, which reduces *gharar* and *maysir*, Islamic banks must report relevant information so that stakeholders can make informed decisions. Based on this philosophy, we study the extent of communicated ethical conducts via annual report for Bangladesh (six banks [2001-06]), Malaysia (five banks [2004-08]) and the Gulf (six banks [2004-08]). Our findings suggest the need for more transparency and disclosure of ethical information.

Haniffa and Hudaib found that banks in the Gulf communicated a below-average standard of ethical identity information. However, we obtained contrasting results where they outperformed others banks. Similar to their findings, banks in this region scored highest in communicating their commitment to debtors. In the earlier sample, they put the least importance on commitment to society. However, in our study they made that their third-highest commitment, which is higher than the banks in the other two regions. No change occurred in communicating information on products and services (ranked 4) and zakat, charity, and benevolent loans (ranked 5). However, ranking in commitment toward employees improved from to sixth from fourth. So, an overall positive change took place during the two additional sample periods: The Bahrain Islamic Bank (BIB) was ranked number 1 and the Shamil Bank became number 2 in the earlier study. Our study excluded BIB due to missing data. However, the Shamil Bank is ranked number 1 in the current study. Al-Rajhi Bank was ranked last in both studies. The similarities of these two banks' ethical performance in the two studies shows that they made a concerted and combined effort to develop and redesign their information disclosure framework.

The communication of a strategic objective requires a proper understanding of the customers and social demands. Old and experienced banks in Bangladesh reported mission and vision statements in line with the Shari'ah, as compared to their counterparties. Among Malaysian banks, our study shows a deficient and curtailed mission and vision statements. One reason for this in-



completeness is that Islamic banks in Malaysia offer Islamic window services, which means that they have a dual mission and vision to cater to both conventional and Islamic customers. This phenomenon makes it difficult for them to embark upon a single and complete strategic vision for the whole bank. Few good examples can be taken from banks in the Gulf, which also reported separate mission and vision statements for the banks and for individual departments. A few banks also included a “short profile” of their activity to give a glimpse of the ethical issues highlighted in their operations.

A major problem occurred at the time of data collection using the existing research instrument suggested by Haniffa and Hudaib. The first question was the name and profile of the BOD and top management. Many banks did not separately publish the members’ names and profiles; some reported only one or the other. The same thing happened for photos of the BOD and top management personnel. Banks in Malaysia and Bangladesh have not published photos of top management, but have published photos of the BOD in their annual reports. This information can easily be incorporated in their annual reports. Banks in Bangladesh reported below-average information on BOD and top management. However, our inquiry shows that they provided more information on these groups on their websites. It should be understood that in a country like Bangladesh, information and communication development have not been properly planned. As a result, annual reports are a comparatively better way of reporting information. However, banks in Malaysia have reported the names, photos, and profiles of BOD and top management. As Haniffa and Hudaib explain, the reporting standard and culture dominate the manner of ethical reporting in certain countries.

Similar to the mission and vision statements, experienced banks reported more on new products, SSB guidelines on new product announcements, details on investment and financing products, and about any undertaking of a non-permissible investment. It seems that old banks used annual reports as marketing and advertisement tools to disseminate product and service information. More Shari’ah scrutiny is advisable in this dimension for banks in Malaysia because most of them operate according to Islamic window services and thus may be selling questionable Shari’ah-compliant products.

Almost all banks in the three regions reported zakat issues. However, an increased level of charity reporting was due to their increasing engagement with non-permissible activities. While it is good news that banks are reporting such activities, it is imperative that they try to engage only in Shari’ah-certified operations. The more profitable Islamic banks in Bangladesh and Malaysia reported higher rates of giving charity. The SSB members should play a more



active role in this matter. For example, the SSBs of Gulf banks lucidly wrote that the banks were not engaged in any non-permissible activities, and yet they contributed a substantial amount of funds in charity. *Qard hassan* (benevolent loans) was not always correctly reported in their annual reports.

Most banks in Bangladesh and Malaysia failed to report their commitment to society. Islam emphasizes specific dress codes to maintain social dignity, and hence separate branches for men and women are advisable. To cater to female customers, banks may establish separate counters with female officers. Banks in the Gulf are compelled by government regulation to create jobs for local people, thereby leaving less chance for them to be equal opportunity providers. Banks were more enthusiastic in reporting their commitment to debtors. However, Shari'ah issues such as whether payment has been deferred without charging any penalty were not reported in detail. Many banks did not report whether they correctly wrote off their debtor obligations. Employee training was conspicuously absent in reports on banks in Bangladesh. An employee reward system was missing in banks in Malaysia and Bangladesh. We suggest that banks should report their commitments to stakeholders separately. More social areas, such as SME credit, job creation, and micro-credit, should be the focal area in reporting commitments to society. Many banks did not mention if they support any social organization.

The SSB's role is to monitor and guide Islamic banking products and practices. Its members attest that bank operations comply with the Shari'ah. Most of the banks in the Gulf did not provide the photos and full profile of the SSB members. Photos, profiles, and signature were totally missing in the annual reports of Bangladesh and Malaysian banks. It is suggested that Islamic banks report full details of the SSB members, their education, and any special comments to communicate the Islamic banking framework's strength and to determine whether the law was applied correctly while determining the judgment.

Policy Implications

Our empirical findings in the previous sections allow us to make a number of definitive policy statements.

1. *Ethical disclosure requirement.* To achieve a better reporting of ethical conduct, a uniform reporting standard for Islamic banks is inevitable. Ethical reporting must be a Shari'ah requirement, rather than a regulatory requirement. Regulators should introduce an ideal ethical reporting



guideline for Islamic banks. The Accounting and Auditing Organization for Islamic Financial Institutions (AAIOFI) has suggested some mandatory and voluntary disclosures; however, they have yet to be adopted and there is no regulatory pressure to implement them.⁵⁸

2. *Social development.* Islamic banks should channel part of their profits toward social projects and the social development needs of communities worldwide, especially those that create jobs and eliminate poverty and starvation. Investing in social causes in more affluent countries (e.g., the UAE) and building skyscrapers in large cities are not necessarily consistent with the understanding of Islamic egalitarianism.
3. *Islamic product and service management.* Islamic banks are mimicking conventional banking practices by making conventional products Shari'ah compliant but not Shari'ah based. Islamic banks and institutions must offer such partnership financing arrangements as *muḍārabah* and *mushārakah*. Many Islamic banks do not practice *qard ḥassan*. Islam prohibits making loans for a lavish personal lifestyle, yet many Islamic banks give loans to buy costly automobiles and apartments in Dubai.
4. *Employees' right to Shari'ah knowledge.* Bank employees should be trained in Islamic commercial jurisprudence. A majority of them come straight from conventional banks and thus know only interest-based banking practices. Such training will help them understand that Islamic banking is both prohibition-driven and welfare-oriented banking.
5. *Strategic Shari'ah Board.* We find that one Shari'ah scholar often sits on two or more SSBs. To compete with conventional banks and survive in the cut-throat financial world, Islamic banks have to maintain their trade secrets and strategic values. Since the SSB decides on many of the bank's operational aspects, the current situation might be detrimental.
6. *An ethical culture.* A culture of strategic disclosure will guide Islamic banks on reporting the expected level of ethical behavior. The variety of meanings attached to ethics by stakeholders across regions led to a positive but insignificant relationship between EII and stock price performance. But the meaning of ethics from an Islamic perspective should be uniform across all regions. Perhaps a uniform ethical culture could be developed by following the dictates of the Qur'an and prophetic hadith.

Conclusion and Directions for Future Research

The ethical operation of financial institutions is crucial for a transparent and sustainable social value chain in our globalized world. In order to establish



justice, financing operations must comply with the given society's basic norms and best principles. Financial institutions must publish their record of compliance with social practices and how their practices differ from the ideal. Consequently, the differences will be known to users and enable them to become informed users of financial services. The expected level of satisfaction will be easy to accomplish, for transparency and accountability are closely connected. If their activities are not transparent, the resulting difficulty in ensuring accountability will lead to major unintended socioeconomic consequences. Therefore an understanding of how such institutions behave will facilitate the addition of social values.

Research on ethical identity is still in its embryonic stage, as the research instruments are riddled with problems and shortcomings. Although the research goal is to define common ground, one obstacle to defining ethical identity is the engagement of multiple stakeholders. It is rather difficult to put all opinions into one frame. As the Prophet called upon businesspeople to be honest and transparent with their customers, ethical identity can also be examined by applying a very recent phenomenon known as "customer centrism." Islamic banks are geared more toward clients than to catering to multiple stakeholders. An increased database with more Islamic banks and over a longer period of time will provide better results and yield a more meaningful relationship between stock prices and the EII. One can also test the same relationship by using the market-to-book ratio or Tobin's Q to measure for market performance in order to acquire a better understanding. In addition, a qualitative methodology in the form of extensive case studies can be used in future research. For example, three in-depth case studies on IBBL in Bangladesh, Bank Islam in Malaysia, and the Shamil Bank in the Gulf can be undertaken to investigate the processes of their ethical conduct and their implications on business performance.

Appendix

Table 1: Summary of the Extant Literature

Author(s)	Major Findings: Defining Ethical Identity
Farook & Lanis, 2005 Haniffa & Hudaib, 2007 Chapra, 1985	The basic guiding principles of Islamic financial transactions include prohibiting <i>ribā</i> (interest), <i>gharar</i> (uncertain information), and <i>maysir</i> (gambling); not producing harmful products (alcohol etc.); distributing zakat (almsgiving) and charity; creating jobs and eradicating poverty; and establishing overall human rights
Hitt & Collins, 2007	Corporate ethical conduct in a conventional environment is largely affected by the underlying culture, leadership style, and country code of ethics



- Markwick & Fill, 1997
Balmer, 1998
Scott & Lane, 2000
Fombrun, 1996
Ahmed, 2008
- A conventional bank's corporate identity includes its activities and processes, philosophy, values, history, strategy, and business scope, all of which can be integrated to serve the stakeholders proactively and to differentiate the bank's service from its competitors
- Anas & Mounira, 2009
- In Islamic philosophy, the value and meaning of ethics is standardized: to "uphold the theological concept of God-consciousness (*tawhīd*)"
- An Islamic bank will direct its strategies, processes, and contribution to continuously upgrade the quality of services to stakeholders in accord with the guidance of the Qur'an, the Hadith literature, *ijmā'*, and *qiyās*.
- Author(s)** **Major Findings: Ethical Guidance in Islamic Banks**
- Haniffa & Hudaib, 2007
- An expert panel of Shari'ah scholars, known as a Shari'ah Supervisory Board (SSB) is entrusted with guiding the Islamic banks' management toward the targeted philosophy. It keeps track of and attests to these banks' ethical identity
- Author(s)* *Major Findings: The Base of Ethical Identity in Islam/Islamic Banks*
- Anas & Mounira, 2009
- Ethical values are ingrained in Islamic teachings, and a growing number of investors and customers are asking for socially responsible banking operations
- Beekun & Badawi, 2005
- The sudden increased preference for socially responsible investment, as well as the tremendous growth of the diversified and worldwide Islamic finance industry that owns the lion share of world's energy solution, has shown the need for Islamic ethical conduct
- Cragg, 2002
- The enhanced appeal of company shares due to socially responsible investors
- Sethi, 2005
- Provides ethical substance of corporate operation
- Hummels & Timme, 2004
- A company's long-run mission statement
- Fombrun, 1996
- Helps to create reputational capital
- Fombrun & Foss, 2004
- Hillman & Keim, 2001
- Hosmer, 1994
- Helps to reduce future uncertainty regarding investment
- Waddock & Graves, 1997
- Gives a positive signal about the company's resources, since mostly financially capable companies can invest in ethical concern
- Author(s)** **Major Findings: Ethics, CSR, and Strategic Management**
- Porter & Kramer, 2006
Baron, 2001
Farook & Lanis, 2005
Farook, 2008
Usmani, 2002
Maali et al., 2003
- Under the broad spectrum of strategic management, corporate ethical and philanthropic principles should be geared toward strategic value addition. Ethical identity under the broader spectrum of CSR
- Griffin & Mahon, 1997
Schwartz & Carroll, 2003
Simpson & Kohers, 2002
- The relationship between CSR and corporate financial performance is mostly inconclusive. The inconclusive link is due to CSR measurement problem.
- Lue & Bhattacharya, 2006
Fombrun et al., 2000
- The relationship is found to be positive mediated by stakeholders' satisfaction. Customer satisfaction is one of the key issues.
- Author(s)** **Major Findings: Ethical Reporting/Disclosure Standards of Islamic Banks**
- Berrone et al., 2005
- Corporate revealed ethics and corporate applied ethics
- Jones, 1995
Jones & Wicks, 1999
- Proactive vs. reactive communication



Balmer & Soenen, 1999	Actual, communicated, ideal, and desired ethical identity
Farook & Lanis, 2005	Recent disclosure requirements have put forward the importance of social disclosures through annual reports
Wilson, 2002	Irrespective of the level of ethical conduct, Islamic banks do not communicate the information to the annual report.
Anas & Mounira, 2009	
Author(s)	Major Findings: Ethical Identity: Measurement, and Performance
Gray & Balmer, 2001	Corporate ethical identity for non-financial contexts
Berrone et al., 2005	Corporate ethical identity and its positive relationship with market performance is mediated by the stakeholders' satisfaction with the non-financial sector
Haniffa & Hudaib, 2007	The ethical identity index (EII) for Islamic banks in the Gulf, which resulted in below-average performance of the selected Islamic banks.
Bauer et al., 2007	The relationship between ethical identity and performance is statistically insignificant in the mutual fund industry.
Barnett & Salomon, 2006	The relationship between ethical identity and performance in the mutual und industry is negative in the short-run; however, it is positive in the long-run.
Hitt & Collins, 2007	Explored an indirect relationship between ethical conduct and financial performance due to significant stakeholder intervention in the relationship.

Table 2: List of Banks used in the study

Bank Name	Country	Year (in Sample)
Islami Bank Bangladesh Ltd.	Bangladesh	2001-2006
Al-Arafa Islamic Bank Ltd.	Bangladesh	2001-2006
Social Islamic Bank Ltd.	Bangladesh	2001-2006
Export Import Bank Ltd.	Bangladesh	2004-2006
Shahjalal Islamic Bank Ltd.	Bangladesh	2006
Affin Bank	Malaysia	2004-2008
Bank Islam Malaysia	Malaysia	2004-2008
Bank Muamalat	Malaysia	2004-2008
CIMB Islamic	Malaysia	2006-2008
RHB Islamic	Malaysia	2005-2008
Abu Dhabi Islamic Bank	UAE	2004-2006, 2008
Al-Baraka Banking Group	Bahrain	2006-2007
Al-Rajhi Bank	Saudi Arabia	2006-2008
Dubai Islamic Bank	UAE	2005-2008
Kuwait Finance House	Kuwait	2004-2008
Shamil Bank	Bahrain	2004-2006

Table 3: Average, Maximum-Minimum and Range of Ethical Identity Index (EII)

	Malaysia	Bangladesh	Arabian Gulf Region
Average	0.40	0.51	0.59
Max	0.60	0.67	0.81
Min	0.31	0.30	0.24
Range	0.29	0.37	0.57



Com. twd. Employees Yearly Average Ranking of Banks (Yearly Average)	0.25 0.25 2	0.25 0.40 1	0.25 0.25 1	0.25 0.40 1	0.25 0.25 2	0.75 0.25 2	0.50 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.25 0.25 2	0.280 [6]
Com. twd. Debtor Yearly Average Ranking of Banks (Yearly Average)	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1	1.00 1.00 1
Com. twd. Society Yearly Average Ranking of Banks (Yearly Average)	0.00 0.20 2	0.00 0.25 1	0.50 0.25 1	0.50 0.25 1	0.00 0.00 0	0.00 0.00 0	0.50 0.00 0	0.25 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.00 0.00 0	0.09 [8]
Shari'ah Sup. Board Yearly Average Ranking of Banks (Yearly Average)	0.25 0.25 5	0.25 0.30 4	0.25 0.13 4	0.25 0.38 2	0.63 0.38 2	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.38 0.38 3	0.339 [5]
GRAND EII YEARLY AVG. EII	0.32 0.39	0.32 0.42	0.34 0.49	0.49 0.41	0.31 0.60	0.41 0.49	0.41 0.60	0.35 0.42	0.43 0.42	0.43 0.43	0.43 0.43	0.43 0.43	0.45 0.40	0.38 0.40	0.39 0.42	0.42 0.37	0.34 0.35	0.35 0.40

EII = Ethical Identity Index Amount in [] represents ranking of dimension with respect to EII.

Table 6.1.: Summary Results for Ethical Identity Index for Banks in Arabian Gulf Region [Part I]

Dimensions	ABU DHABI ISLAMIC BANK Y04 Y05 Y06 Y08	ALBARAKA BANK Y06 Y07	SHAMIL BANK Y04 Y05 Y06 Y07 Y08	DUBAI ISLAMIC BANK Y04 Y05 Y06 Y07 Y08
Mis./Vision Statements Yearly Average Ranking of Banks (Yearly Average)	0.86 0.86 1	0.86 0.86 1	0.86 0.86 1	0.00 0.14 4
Board of Directors & Top Management Yearly Average Ranking of Banks (Yearly Average)	0.14 0.36 3	0.14 0.57 2	0.14 0.71 1	0.14 0.86 5

Product & Services Yearly Average Ranking of Banks (Yearly Average)	1.00 1.00 1.00 1.00	1.00 1.00	1.00 0.50 0.75 1.00 1.00	0.50 0.25 0.25 0.25 0.25	0.25
Zakat, Charity & Benevolent Loans Yearly Average Ranking of Banks (Yearly Average)	0.40 0.60 0.60 0.60	0.60 0.60 0.60	0.40 0.60 0.60 0.60 0.60	0.60 0.60 0.60 0.60 0.60	0.60
Com. twd. Employees Yearly Average Ranking of Banks (Yearly Average)	0.75 0.50 0.75 0.75	0.69 0.38 0.75 0.75	.75 0.75 0.75 0.75 0.75	0.75 0.75 0.75 0.75 0.75	0.75
Com. twd. Debtor Yearly Average Ranking of Banks (Yearly Average)	1.00 1.00 1.00 1.00	1.00 1.00 0.70 1.00	0.50 1.00 0.50 0.50 1.00	1.00 1.00 1.00 1.00 1.00	1.00
Com. twd. Society Yearly Average Ranking of Banks (Yearly Average)	0.50 0.75 0.75 1.00	0.75 0.38 0.75 0.75	0.75 0.75 0.75 0.75 0.75	0.75 0.75 0.75 0.75 0.75	0.75
Shari'ah Sup. Board Yearly Average Ranking of Banks (Yearly Average)	0.38 0.38 0.38 0.38	0.38 0.50 0.53 0.50	0.50 0.75 0.38 0.38 0.50	0.50 0.50 0.50 0.50 0.50	0.50
GRANDEII YEARLY AVG. EII	0.63 0.65 0.70 0.80	0.63 0.69 0.75	0.60 0.81 0.73 0.73 0.53	0.50 0.50 0.50 0.50 0.50	0.51

EII = Ethical Identity Index

Figures in [] represent ranking of dimension with respect to EII.

Table 6.2: Summary Results for Ethical Identity Index for Banks in Arabian Gulf Region [Part 2]

Dimensions	AL RAJHI BANK			KUWAIT FINANCE HOUSE					EII Avg.
	Y06	Y07	Y08	Y04	Y05	Y06	Y07	Y08	
Mission & Vision Statements	0.14	0.14	0.29	0.71	0.71	0.71	0.71	0.71	
Yearly Average	0.19			0.71					0.60
Ranking of Banks (Yearly Average)	3			2					[4]
Board of Directors & Top Management	0.14	0.14	0.14	0.57	0.57	0.57	0.57	0.57	
Yearly Average	0.14			0.57					0.41
Ranking of Banks (Yearly Average)	4			2					[8]
Product and Services	0.25	0.25	0.25	1.00	1.00	1.00	1.00	0.75	
Yearly Average	0.25			0.95					0.73
Ranking of Banks (Yearly Average)	5			2					[2]
Zakat, Charity, & Benevolent Loans	0.40	0.40	0.40	0.60	0.60	0.60	0.60	0.60	
Yearly Average	0.40			0.60					0.55
Ranking of Banks (Yearly Average)	4			1					[5]
Commitment toward Employees	0.25	0.00	0.25	0.00	0.25	0.50	0.25	0.00	
Yearly Average	0.17			0.20					0.49
Ranking of Banks (Yearly Average)	5			4					[6]
Commitment toward Debtor	1.00	1.00	1.00	0.50	0.50	0.50	1.00	1.00	
Yearly Average	1.00			0.70					0.90
Ranking of Banks (Yearly Average)	1			2					[1]
Commitment toward Society	0.75	0.00	0.00	0.50	1.00	1.00	0.75	0.75	
Yearly Average	0.25			0.80					0.61
Ranking of Banks (Yearly Average)	4			1					[3]
Shariah Supervisory Board	0.00	0.00	0.00	0.63	0.63	0.63	0.63	0.63	
Yearly Average	0.00			0.63					0.42
Ranking of Banks (Yearly Average)	0			1					[7]
GRAND EII	0.37	0.24	0.29	0.56	0.66	0.69	0.69	0.63	
YEARLY AVG. EII	0.30			0.65					

EII = Ethical Identity Index,

Figures in [] represent ranking of dimension with respect to EII.



Table 7: Summary Table: Countrywide Comparison and Ranking of Dimensions

Dimensions	Comparison among the Three Regions			Ranking of Dimension
	Bangladesh	Malaysia	Arab Gulf Region	
(Average of the Sample Period)				
Mission and Vision Statements	0.34	<i>0.26</i>	0.60	0.399
Ranking among three regions	[2]	[3]	[1]	[7]
Board of Directors and Top Management	<i>0.32</i>	0.54	0.41	0.424
Ranking among three regions	[3]	[1]	[2]	[4]
Product and Services	0.52	<i>0.35</i>	0.73	0.531
Ranking among three regions	[2]	[3]	[1]	[2]
Zakat, Charity, & Benevolent Loans	0.37	<i>0.34</i>	0.55	0.421
Ranking among three regions	[2]	[3]	[1]	[5]
Commitment toward Employees	0.47	<i>0.28</i>	0.49	0.413
Ranking among three regions	[2]	[3]	[1]	[6]
Commitment toward Debtor	1.00	1.00	0.90	0.967
Ranking among three regions	[1]	[1]	[2]	[1]
Commitment toward Society	0.60	<i>0.09</i>	0.61	0.434
Ranking among three regions	[2]	[3]	[1]	[3]
Shari'ah Supervisory Board	0.40	<i>0.34</i>	0.42	0.387
Ranking among three regions	[2]	[3]	[1]	[8]

Note: Figures in **bold** represent best result. Figures in *italics* represent worst among three.

Note: Ranking of eight dimensions is shown in [] in last column.

Table 8: Regression Results

Mean of dep. var. = 16.0850	LM het. test = 6.85091 [.009]			
Std. dev. of dep. var. = 24.7744	Durbin-Watson = .150326 [.000,.000]			
Sum of squared residuals = 38149.7	Jarque-Bera test = 28.3504 [.000]			
Variance of residuals = 605.551	Ramsey's RESET2 = .543055 [.464]			
Std. error of regression = 24.6080	F (zero slopes) = 1.86853 [.177]			
R-squared = .028805	Schwarz B.I.C. = 303.589			
Adjusted R squared = .013389				
Variable	Estimated Coefficient	Standard Error	t-statistic	P-value
C	.625924	10.9962	.056922	[.955]
EII	31.0399	24.8269	1.25025	[.216]
Standard Errors are heteroskedastic-consistent (HCTYPE=2)				
Dependent variable: MPS_USD				

Box 1: Eight Dimensions of Ethical Identity according to Haniffa and Hudaib (2007)**Dimension 1: Mission and Vision Statement**

1. Commitments to operate within Shari'ah principles/ideals
2. Commitments to provide returns within Shari'ah principles/ideals
3. Commitments to engage in investment activities that comply with Shari'ah principles

Dimension 2: BOD and Top Management

1. Names and Positions of board members and top management
2. Photos of board members and top management
3. Profile of board members and top management as indicators of their knowledge of and competence in banking and the Shari'ah



- | | |
|--|---|
| 4. Commitments to engage in financing activities that comply with Shari'ah principles | 4. Balanced board |
| 5. Commitments to fulfill contractual relationships with various stakeholders via contract (' <i>uqūd</i>) statements | 5. No role duality |
| 6. Current and future directions in serving the needs of Muslim communities | 6. Having an audit committee |
| 7. Statements of appreciation to stakeholders | 7. Limited multiple directorships and shareholdings |

Dimension 3: Products and Services

1. Details of investment activities
2. If new products have been introduced, whether they have been approved by the SSB (ex-ante) as well as an explanation of the basis of the Shari'ah concept legitimizing the new product
3. Any involvement in non-permissible activities

Dimension 5: Commitment toward Employee

1. Employees' welfare
2. Training and development (especially in Shari'ah awareness), amount spent on training, provision of special training or recruitment schemes
3. Equal opportunity
4. Reward to Employees

Dimension 7: Commitment toward Customers

1. Having a female branch
2. Creating job opportunities
3. Supporting organizations that benefit society and participating in government social activities
4. Sponsoring Islamic educational and social events

Dimension 4: Zakat, Charity, & Benevolent Funds

1. Which party is liable for zakat
2. If the bank is liable, whether zakat has been paid, the sources of zakat funds, the uses of the zakat funds, any balance of zakat not distributed and the reason for it, and the SSB's attestation that they have been properly computed and that the sources and uses of the funds are legitimate based on God's rules
3. The amount and the sources and uses of charity funds, separate from the zakat funds
4. The amount and the sources and uses of benevolent funds
5. The bank's policies in providing such funds and how non-repayment of such funds will be dealt with

Dimension 6: Commitment toward Debtors

1. Debt policy and type of debt
2. Amount of debts written off

Dimension 8: Shari'ah Supervisory Board

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

Source: R. Haniffa and M. Hudaib (2007). "Exploring the ethical identity of Islamic banks via communication in annual reports." *Journal of Business Ethics*, 76, 97-116.



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