How do We Measure Corporate Social Responsibility of Islamic Banks through their Business Processes and Oriented Outcomes?

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ABSTRACT

There are some academic efforts that have tried to measure corporate social responsibility (CSR) in Islamic banks (IBs) practices. But there is very lack in measuring the CSR of IBs through their operations not through their oriented outcomes. This article has suggested Musharakah and equity as new items to fill the important gap in measuring field of IBs' CSR. In this work, the Musharakah is social and economic tool in IB finance and it is for the customers. Whilst the equity is a type of investments in IBs, in which the bank is as shareholder in other business organizations. It is coming from the deeper understanding of Shari'ah principles (Maqasid Shariah) in Islamic business world. With both cases (Musharakah with customers or equity with investors) IBs will share other in loss and profit and they are more far from Riba (interest rate) as in conditional banks. Not enough that IBs are undergo for Islamic law (Fiqhi) to reach the best level of CSR but they should have investments and financing that based on broad utility for the society. That is not mean that oriented-outcome side is not important of the IB’s CSR.

Keywords: Corporate Social Responsibility, Islamic Banks, Musharakah, Islamic Law

JEL Classifications: M00

1. INTRODUCTION

Many of academic and thinkers have several criticisms in Islamic banking (IB) practices especially the social and economic impacts on the society. The Islamic financial principles proscribe riba (interest rates), gharar (ambiguity), maisir (gambling) and some other financial products like intoxicants and pork (Rosly, 2010). These rules differentiate IB practices from conventional banking practices. Jaufeerally (2011) added two more obligations to IBs. The first is the rule of profit and loss sharing (PLS) and the second is real asset-backed financing. In addition, Khan and Bhatti (2008) stated that the principles of Islamic finance are based on participation in an actual economy and social justice. IBs’ values are not only reflected in their banking transactions but they can be observed through their impacts on society and the macro economy (Dusuki, 2008c). Business processes in IBs can never be separated from the ethical considerations of society (Usmani, 2002). This relates the IBs’ practices to the reach of social performance. The considerations of the IBs for the society can be measured through the implementations of the corporate social responsibility (CSR).

2. PRIOR STUDIES OF CSR’S MEASURING IN IB

Various studies indicate that CSR measurement for IBs are essentially developed based on Maqasid Shariah basis, which is classified into four broad zones. The first is how processes of the business have affected the safety of the Islamic community. The
second is how IBs help Muslims accomplish their religious duties. The third is compliance of the processes of the IBs with Islamic values, in particular dealing justly with different parties. Fourth is how the CSR doings help to educate the Islamic community. While the literature usually provides evidence that Islam worries the concept of CSR, there is still a lack of research concerning how CSR is measured for IBs from new perspectives through of IBs. This study investigated eighteen studies of this kind were performed from 2005 to 2013 in which they reported different findings and provided varies recommendations. In addition, most of those studies tended to give equal weights of all measurements except Mohammed et al. (2008) whilst all of them do not build any dimension on business process to explore the real CSR. Dimensions that related to business process may be specified from business nature of IBs and Maqasid Shari’ah concept of IB and finance. Table 1 shows a summary of all 18 selective studies on IB in CSR.

3. NEW VIEW OF CSR MEASURING IN IBs

There has been remarkable progress in IBs’ CSR measurement both at conceptual and operational levels. What is still lacking, however, is a measurement system that separates process-based and outcome-oriented CSR measures. The next section attempt to contribute toward developing the index of CSR practices through to explain segregation of CSR dimensions in two parts.

This research will advocate segregation of CSR dimensions employing the notion of process and outcome. The rationale for such division can be deduced from Islamic narrow view (Fiqh) and wide view (Maqasid Shari’ah) categorization of unlawful acts. Al-Misri (1997), in his book (Tumaat al-Salik), states that unlawful doings are of two-types: One is originally unlawful in itself, that mean the sacred law forbids it from the outset; the other type is unlawful because of an extrinsic reason. A doing originally lawful can become unlawful if an unacceptable extrinsic circumstance becomes linked with it. It means that any doing is a lawful act when it and its circumstances are lawful. This understanding eliminates the pushy notion of ‘ends justifying the means’ that prevails in the modern competitive business world. By connecting means to the process and the accomplished action to the outcome, it is possible to gain the critical significance of the trustworthiness of the process for the validity of outcome in the Islamic structure of good deeds. To enable the appreciation of this process-output separation with unequal weights for IB CSR measurements, this research offers explanations based on two parts; social activities and sharing (e.g., charity) and environment on the first side of outcomes while human resources, investment, and R and D on the process side as the second part.

3.1. Elective Dimensions of CSR Measuring Based the New View

3.1.1. Charity as good example of social activities and sharing

IB stands on opposite of the interest; an opposite of interest is charity. From a sociological viewpoint, charity raises brotherhood and interest eliminates or weakens the spirit of brotherhood. Charity is the most universal element in CSR performance in both west and Islam worlds. From the Islamic perspective, however, the health of the highly encouraged act of charity is conditional. “O you who believe! Spend of the good things which you have (legally) earned …. and do not aim at that which is bad to spend from it …” (Surah al-Baqarah. p. 267). Even if given out of legitimate earnings, charity may be unsuccessful. “O you who believe! Do not render in vain your charity by reminders of your generosity or by injury, like him who sends his wealth to be seen of men …” (Surah al-Baqarah. p. 264). Yusuf Ali in his note to this verse holds that “to “Rob Peter to pay Paul” is not suitable in Islam. Islam will have nothing to do with tainted property. Its economic code requires that every gain should be honest and honorable.” The principal importance of the process can be easily documented from the two Hadiths quoted below which underline the importance of how earnings are earned.

Ibn Mas’ud narrated that the messenger of Allah (peace be upon him) said: “The feet of the son of Adam shall not move from before his lord on the day of Judgment, until he is asked about five things: About his life and what he did with it, about his youth and what he wore it out in, about his wealth and how he earned it and spent it upon, and what he did with what he knew” (Tirmidhi and Ibn Hibban).

The messenger of Allah (peace be upon him) mentioned (the case) of a man who, having journeyed far, is dishevelled and dusty, and who spreads out his hands to the sky saying, “O Lord! O Lord!” while his food is haram (unlawful), his drink is haram, his clothing is haram, and he has been nourished with haram, so how can (his supplication) be answered (Sahih Muslim)?

The essences of the above discussion is that for the charity or any activities for society to be valid and acceptable, the process of making of which charity is given and the process of generous charity should be pure and decent.

3.1.2. Environment is the second elective dimension

According to Dusuki and Dar (2005), comes from Shari’ah’s guidelines to interweave Islamic financial businesses (IBs) with genuine concern for ethically and socially responsible events, while at the same time elimination participation in illegal activities that are harmful to social and environmental well-being. All authors, except Mohammed et al., 2008, who wrote about CSR in IBs (Table 1) agreed that IBs must do not invest in any projects that may harm the environment.

3.1.3. HR as one of the business process dimensions

Employee rights and satisfaction can be taken from the Qur’anic verses.

“O you who believe! Eat not up your property among yourself unjustly; but let there be among you trade by mutual consent…..” (Surah al-Nisa’. p. 29).

“Woe to al-Mutaffifin (those who give less in measure and weight [decrease the rights of others]). Those who, when they have to receive by measure from men, demand full measure, and when they have to give by measure or weight to men, give less than due” (Surah al-Mutaaffifin. p. 1-3).
Table 1: Selected studies with measures of CSR in IBs

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<tr>
<td>Dusuki and Dar (2005)</td>
<td>1500 respondents of 2 full-fledged IBs</td>
<td>Adopting 4 conventional dimensions of CSR practice by making Islamic perspectives for everyone</td>
<td>Stakeholders apply equal importance to the CSR factors when making a judgement about patronising IBs</td>
<td>Regression</td>
<td>Stakeholders’ perceptions of CSR</td>
<td>CSR factors are evidenced as one of the important criteria in IB’s stakeholders banking selection decisions</td>
<td>Malaysia</td>
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<td>Sairally (2005)</td>
<td>250 respondents</td>
<td>Learning from the experiences of socially responsible investment funds</td>
<td>Social commitment emphasised by the Islamic economics literature is being neglected within the practise of Islamic finance</td>
<td>Content analysis</td>
<td>Adopting Wood’s (1991) model of CSR measurement as a basis of assessing the CSR of IFIs</td>
<td>Almost half of the respondents adopt a “defensive” approach to CSR</td>
<td>19 countries</td>
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<td>Maali et al. (2006)</td>
<td>29 IBs</td>
<td>Develop a benchmark set of social disclosures appropriate to IBs</td>
<td>The concepts of accountability, social justice, and ownership</td>
<td>Content analysis</td>
<td>The actual social disclosures contained in the annual reports</td>
<td>Social issues are not of major concern for most IBs</td>
<td>16 countries</td>
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<td>Haniffa and Hudaib (2007)</td>
<td>7 IBs</td>
<td>Developed a research instrument based on their understanding of the Islam as well as the extant Islamic and CSR literature to reflect the ideal ethical Identity</td>
<td>IBs are considered as having ethical identity because the foundation of their business philosophy is closely tied to religion</td>
<td>Content analysis</td>
<td>Measured discrepancy existing between the communicated and the ideal ethical identity EII</td>
<td>Many IBs put little effort into communicating their values in a consistent manner</td>
<td>Arabian Gulf region (6 countries)</td>
</tr>
<tr>
<td>Mohammed et al. (2008)</td>
<td>6 IBs</td>
<td>Use the present conventional measures and developing other performance measures</td>
<td>IBs should have high indicators of Maqasid al-Shariah perspective</td>
<td>Content analysis</td>
<td>Quantify the Maqasid into measurable IB performance indicators</td>
<td>No single bank is able to realize high performance in all performance ratios</td>
<td>5 countries</td>
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<td>Hassan and Harahap (2010)</td>
<td>7 IBs</td>
<td>Explore any discrepancy that exists between the CSR disclosure index and CSR activities in IBs</td>
<td>The concepts of accountability, social justice, and ownership</td>
<td>Content analysis</td>
<td>Develop (CSR) disclosure index based on the Islamic business ethics framework</td>
<td>IBs put little effort into disclosing their CSR activities</td>
<td>7 countries</td>
</tr>
<tr>
<td>Aribi and Gao (2010)</td>
<td>21 IBs and 21 conventional banks</td>
<td>Examine the influence of Islam on CSR disclosure in IBs</td>
<td>Islamic business should have accountability to God and fulfilment of social objectives</td>
<td>Content analysis</td>
<td>Actual difference of CSR between IBs and non-IBs</td>
<td>Significant differences in the level and the extent of the disclosure between them</td>
<td>Arabian Gulf region (6 countries)</td>
</tr>
<tr>
<td>Abdul Rahman (2010)</td>
<td>1 IB</td>
<td>Attempts to look at the issue of how far does BIMB disclose and apply Islamic values in reporting its CSR</td>
<td>Legitimacy theory. Ownership, accountability and social justice concepts. Islamic concept (Tauhid) Unity of ALLAH</td>
<td>Content analysis</td>
<td>Measure CSR’s disclosure by using adopted checklist for 14 years</td>
<td>Show that IBs prefers to disclose themes associated with employees, product, and service contributions and community involvement</td>
<td>Malaysia</td>
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<tr>
<td>Farook et al. (2011)</td>
<td>47 IBs</td>
<td>Develop and test a theoretical model of the determinants of IBs‘ social disclosures</td>
<td>Political economy, legitimacy and stakeholder theories, as well as agency theory</td>
<td>Regression</td>
<td>Applying the principles of systems-oriented theories</td>
<td>Level of social and political freedom and the proportion of investment account deposits to total assets are significant determinants of IBs’ CSR disclosure. CSR program should pay more attention to the importance of social capital in society.</td>
<td>14 countries</td>
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<td>Yusuf and Bahari (2011)</td>
<td>Interview 4 experts in IBs</td>
<td>The CSR practices in IBs should be based on responsibility Khalilifah and Maslahah</td>
<td>Islamic CSR in IBs should alleviate poverty</td>
<td>Content analysis</td>
<td>Examine the criteria and Islamic instrument of CSR toward the creation of sustainable economic development. Explore level CSR concept, sustainable compliancy in IBs through asking their customers.</td>
<td>In fact, IBs are still more driven to commercial orientation making it less possible to being socially responsible for the cause of seeking Gods pleasure. It can be fairly assumed that the practices of the IBs under study do conform to the Islamic ethical norm in business based on the perception of executives working in the banks concerned. Poor social disclosure practices.</td>
<td>Indonesia</td>
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<tr>
<td>Nor and Asutay (2011)</td>
<td>800 respondents</td>
<td>Evaluating the customers’ perceptions and the expectations of CSR, sustainable compliancy and performance</td>
<td>To link the idea of CSR with sustainable development of IBs in the competitive market</td>
<td>Statistical instrument SPSS</td>
<td></td>
<td>In fact, IBs are still more driven to commercial orientation making it less possible to being socially responsible for the cause of seeking Gods pleasure. It can be fairly assumed that the practices of the IBs under study do conform to the Islamic ethical norm in business based on the perception of executives working in the banks concerned. Poor social disclosure practices.</td>
<td>Malaysia</td>
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<tr>
<td>Musa (2011)</td>
<td>1500 respondents</td>
<td>To explore the relationship between the Islamic business ethical norms and IBs practices</td>
<td>General ethics, behaviour of employees, treatment of employees and code of ethics</td>
<td>Statistical instrument SPSS</td>
<td>How do the current practices in Malaysian IFIs mirror the Islamic ethical norms in business?</td>
<td>In fact, IBs are still more driven to commercial orientation making it less possible to being socially responsible for the cause of seeking Gods pleasure. It can be fairly assumed that the practices of the IBs under study do conform to the Islamic ethical norm in business based on the perception of executives working in the banks concerned. Poor social disclosure practices.</td>
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<td>Zubairu et al. (2012)</td>
<td>4 IBs</td>
<td>IBs are expected to portray a high level of CSR in their social reporting practices</td>
<td>Accountability and justice to Allah (SWT) and society</td>
<td>Content analysis</td>
<td>Examining the social reporting practices of IBs in Saudi Arabia</td>
<td>There is little difference between CSR practices of the Islamic and conventional banking. The results revealed an important lack in information disclosed regarding CSR.</td>
<td>Saudi Arabia</td>
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<tr>
<td>Abbasi et al., (2012)</td>
<td>100 respondents</td>
<td>Compare the CSR practices in Islamic and conventional banking</td>
<td>There is no significant relationship between CSR practices and IB</td>
<td>Content analysis</td>
<td>CSR practices are mostly related with the Islamic terms like social justice and accountability</td>
<td>There is little difference between CSR practices of the Islamic and conventional banking. The results revealed an important lack in information disclosed regarding CSR.</td>
<td>Pakistan</td>
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<td>El Mousaid and Boutti (2012)</td>
<td>8 IBs</td>
<td>Analyse the relationship between performance indices (ROA) and (ROE) with the CSR disclosure</td>
<td>There is (no) linear relation between ROA and CSRDI</td>
<td>Content analysis</td>
<td>Assess the relationship between CSRDI and IBs performance as measured with ROA and ROE</td>
<td>There is little difference between CSR practices of the Islamic and conventional banking. The results revealed an important lack in information disclosed regarding CSR.</td>
<td>GCC countries</td>
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<td>Samina (2012)</td>
<td>6 IBs</td>
<td>Analysis relationship between CSR expenditure and IBs’ deposit collection, investment made and profitability.</td>
<td>There is (no) correlation between CSR spending and IBs’ deposit collection, investment made and profitability.</td>
<td>Correlation analysis</td>
<td>The CSR of financial institutions can be divided into two groups as mandatory and recommended.</td>
<td>Strong positive correlation between the amount CSR expenditure and the sample IBs’ deposit and investment amount and the profit IBs’ commitments to basic Islamic rules fall far behind the average.</td>
<td>Bangladesh</td>
</tr>
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<td>Rashid et al. (2013)</td>
<td>16 IBs</td>
<td>Investigate customer-centric CSR in IBs</td>
<td>Incomplete link between managerial motivation and actual involvement of IBs with CSR activities</td>
<td>Content analysis</td>
<td>Two layers of CSR involvement in IBs. The commitment toward Allah (SWT) and the commitment toward others.</td>
<td>8 countries</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>Kamla and Rammal (2013)</td>
<td>19 IBs</td>
<td>Fills a gap in both social accounting and Islamic accounting literatures with its emphasis on social justice and poverty eradication.</td>
<td>Critical theory, social accounting and Islamic accounting.</td>
<td>Content analysis</td>
<td>Existence of gap between the rhetorical religious and ethical claims of IBs.</td>
<td>Reported disclosures are lack of detailed information regarding schemes on poverty eradication or enhancing social justice.</td>
<td>11 countries</td>
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CSR: Corporate social responsibility, EII: Ethical identity index, GCC: Gulf cooperation council, ROA: Return on assets, ROE: Return on equity, IBs: Islamic banks

Trade means exchange; giving and receiving also implies exchange. Employers and employees are exchange parties of an economic and social relationship. The above verses, by implication, make it obligatory for both parties to performance in the exchange relationships in a fair and equitable style. Since the organisation (the employer) generally holds control over employees, the implications of the verses are construed more to highlight the employer’s responsibility to preserve the rights of employees.

On the operative side, according to Usmani (2002), being “Islamic” is not sufficient to design the processes and transactions based on Islamic principles. It is also necessary that the system of IBs and its staff mirror Islamic features, quite distinguished from conventional management. People working in any organisation are now its most critical resource. The amount of criticality of this resource is probably very high in the IB scheme where employees need to understand modern conventional banking and IB and finance. In fact, the excellence serves of IBs utterly depend on the intellectual, mental, and spiritual development of its employees. If it happens that this development is cooperated for costs savings and at the same time financial help to students is offered in the formula of scholarships, then the question of justice of the process for the validity of the outcome becomes similarly relevant. It is because cost savings is a process of producing a surplus or income, and offering scholarship is a kind of charity, an outcome (income)-based activity. Thus, the action (i.e., offering scholarship) can be considered a violation of the well-known maximum “charity begins at home,” which is consistent with Islamic philosophy. The equality of the process is a worry for the validity of an action or an outcome.

3.1.4. Investment as one of the business process dimensions
Febianto (2012) states that bigger difficulties arise from the nature of specific risks and because of the profits and losses sharing idea of Islamic financing and investment (Mudarabah and Musharabah), IBs face greater complexity in recognizing and treatment risks compared with conventional banks. According to Yusof et al. (2010), it is well identified that, in conventional markets, there is a difference between the real economy and the financial industry (including the banking sector) in which debt-based investing is safe and money flows without any conversion in reality. Originally, IB was a scheme of immense importance for the awareness of the objectives of Islamic economics. One of these purposes is derived from the Qur’anic instruction “wealth must not circulate between the rich ones among you” (Surah al-Hashr: 7). Mohammad and Shahwan (2013) examine the synchronization of the goals of Islamic economics and the objectives of IBs in the light of Maqasid Shariah. Their study ensures on deficiency of IB processes in addressing Islamic economic goals in a holistic manner. This deficiency is largely attributable to the investment role of IBs as Hannan plainly acknowledges:

Most of the IBs operate on Bai-Murabaha, Bai-Muazzal, Bai-Salam, Istitina hire purchase/leasing mode of investment (i.e., IBs always prefer to run on a mark-up/guaranteed profit basis having Shariah coverage). For this reason, sometimes the conventional economists and general people failed to understand the real difference between IB and conventional banking.

Investment is the key characteristic that sorts IB immediately and conspicuously distinct from conventional banking. Mudarabah and Musharabah are the best modes of investment that can
bring supportable qualitative changes in financial and money markets. Since IBs are not going into these modes, the process of guaranteeing a viable income through reliance upon mark-up based investments naturally creates the banks subject to the criticism that they mostly aim at profit and profitability aims rather than the objective saturated with higher social content (Mohammad and Shahwan, 2013). Even if IBs pay Zakat, spend money on charitable activities, and make other social gifts based on income from mark-up based investments, they will not be able to stop the criticism. Accepting this fact means recognizing that the purity of the process of earning is an earlier and more significant question for the earning-based actions to be recognized as sufficiently good.

More specific, investment in IBs has a massive impact on society and many critics have called on IBs to redirect their investment in line with societal welfares. There are many experts and authors who have printed about preferences of types of investments that have a positive impact on the society and economy as well. Equity-based financing, like Musharakah and Mudarabah, represents the idea core of Islamic financing. In Musharakah, IBs share financing and management with their customers and share the profits built on pre-agreed upon ratios. Losses, if any, are shared based on their primary contribution in the business. In Mudarabah, on the other hand, the capital owner (investors) entrusts their capital with the Mudarib who acts as an entrepreneur, and who is generally selected based on his/her expertise. According to Yusof et al. (2010), the authors believe that IBs and financial institutions can mirror the objective of Islam in the whole economy. Table 2 has some authors who theorized that there is a positive relationship between the kind of investment and a society’s welfare. Nihar and Subramanyam (2011) concluded that the opening of gates for IBs in a way would ensure responsible contribution (encourages partnerships of business persons with the bank) of the people in investment activity as the concept of IBs is based on equity sharing in various businesses with a profit or loss agreement which would in turn positively power on economic development.

Empowerment of communities in IBs comes from equity investment, especially Musharakah investment with poor families and small businesses. For further explanation, Asutay (2007) considered that Musharakah and Mudarabah are equity finance, whilst Murabahah is famous for debt-finance in IBs. Although the concept of Islamic economics prefers equity financing toward value-added in the economic system, the direction toward debt financing is rather contrary. Equity finance brings economic development and social welfare. Farook et al. (2011); Kamal et al. (2010) stated that equity finance is in line with goals of Islamic finance (MS), specifically justice, health, economic results, and social equality. Using debt as an investment tool has failed and is one of the reasons for the global financial crisis. Therefore, Ismail (2010) emphasised that re-examining the style of the investment and redirecting it to equity financing instead presents a better position with debt financing. According to Abdul Rahman (2010), Islamic microfinance should include both credit finance (debt) and equity financing. Also, Ahmed (2010) concluded that equity and PLS in IBs is still small and debt-finance modes are always bigger. Under this situation, IBs cannot play a significant role in supporting the stability and sustainability of health in the international financial system.

To be more specific, Musharakah investment has significant and direct impacts on social lives. Aggarwal and Yousef (2000) found that the shifting in IBs to make profits by sharing their investments would create jobs for new generations. In the reality of the business world, Yunus (2007) observed that financing of a small business has the ability to change the lifestyle and behavioural impact of millions of poor people around the world. He argued that IBs in developing countries have chances to share with small businesses, such as farmers and villagers, to translate into better rural communities and reduce poverty. However, Ahmed (2010); Shahinpoor (2009) advise that to fulfill justice in Islam, the financier and the adventurers/businessmen must share in profits and losses if they happen. For this purpose in Islam, it is known that one of the basic principles of finance is “no risk, no gain.” Yet, greater importance put on equity does not necessarily mean that debt modes should be removed altogether.

Musharakah is the best mode in the Islamic investment of IBs. It is worth mentioning that, according to Siddiqi (2006), modes of finance that depend on sharing are favoured in the Islamic literature on IB and finance because the sharing principle enhances justice in society. Unlike the reality, Chazi and Syed (2010) advise that Islamic financing is built on the premise that a bank should not be lending its own money, but should instead be sharing risks with their partners. As opposed to a less risky position of a lender, IBs approach their investment activities from a partnership perspective.
3.1.5. R and D as one of the business process dimensions

R and D is often considered equivalent with advanced corporate that is on the cutting edge of a new economy to innovate new products or advance old ones. In this research, as Mohammed et al. (2008) mentioned, it is very important towards future invention development. High expenses on R and D indicate that the IBs build their strategy and products on a systematic basis and benefits from scientific offerings, renewing interest of the future ambitions of the community.

4. CONCLUSION AND RECOMMENDATIONS

The many authors believe that IBs can mirror the objective of Islam in the whole economy. Investments of IBs have a huge impact on society and many criticize have called on IBs to redirect their investing in line with societal welfares. So this article has been supported on the importance review of kind of investment and financing in IB and trying to increase ratio of Musharakah and Equity in IBs’ balance sheets to reach their CSR. This article has been in the suitable index has the important items under every dimension of CSR in IBs. As well as, the equal weights of all dimensions in measuring of CSR in IBs while every dimension has different impacts on the society so this article recommend to create index that meet that by using appropriate weights of the dimensions. Now, the need into collection of items is good step to meet that target above in the future.

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