

Mohammad A. Alfaraj

Mejbel Th. Al-saidi

*The Public Authority for Applied Education and Training,  
Kuwait*

## **Corporate Social Responsibility (CSR) Disclosure of Islamic and Conventional Banks in Kuwait**

### **Abstract**

This study examines the corporate social responsibility (CSR) disclosure practices in Islamic and conventional banks.

A content analysis was conducted on secondary data to compare the quality and quantity of CSR disclosure among banks listed on Boursa Kuwait.

Data for this study were drawn from the annual reports of ten banks (five Islamic and five conventional banks) for 2015. CSR information was classified into four categories: human resources, products and services, community involvement, and environmental issues.

Findings from the descriptive results show that conventional banks provide a higher quality and a greater quantity of CSR information than Islamic banks do regarding human resources and products and service CSR information, whereas Islamic banks deliver a higher quality and a greater quantity of CSR information related to community involvement and environmental issues. Despite that, the statistical results reveal that the differences in CSR disclosure between both bank types are not significant.

The study provides insights and adds to the literature regarding the quality and quantity of CSR disclosure of banks in a developing country by focusing on the banking sector, which is an important sector in Kuwait's economy. And finally, the study is valuable for regulators to improve the quality and quantity of CSR information disclosed by all sectors.

The study focuses only on the CSR disclosure of a limited sample of Kuwait banks in 2015. Also, the research was limited to annual reports; however, there are other sources of CSR information. Third, only one year of the banks' annual reports was used.

**Keywords:** Corporate Social Responsibility (CSR) Disclosure, Content Analysis, Annual Report, Developing Countries, Islamic and Conventional Banks.

**JEL classification:** M14, M48

## Introduction

Over time, corporate social responsibility (CSR) disclosure has attracted the attention of many organisations around the world (KPMG, 2015) in both developing and developed countries (Khan *et al.*, 2013). This growth reflects the increasing community demand for more information about business activities that involve the welfare of society as well as the increasing number of those investors who are willing to invest in companies that engage in CSR activities. By disclosing CSR information, managers can prove that their corporation, as a social entity, is fulfilling its moral and ethical responsibilities. This obligation is also incumbent upon the managers who are working in Islamic financial institutions, for the fact that Islamic and conventional financial institutions have different concepts, yet they still have the same humanitarian underpinning.

Since the 1980s, research interest in CSR disclosure has intensified (Gray *et al.*, 1996; Ness and Mirza, 1991; Ullmann, 1985). The main reason for this is the fundamental change in business that has occurred with the advent of globalisation; business should not only focus on creating value for shareholders, but also embrace its newer and more comprehensive mission to create value for all stakeholders, that is employees, customers, suppliers, and the community as a whole (Freeman and Moutchnik, 2013; Freeman, 1984). This requires an even higher level of disclosure because, as Gray *et al.* (1995) argue, traditional financial accounting and reporting frameworks do not deliver a picture of business activities that is sufficiently detailed to satisfy stakeholders' expectations regarding transparency. This assertion is supported by Freeman (1984), who argues that a corporation has responsibilities to all its stakeholders, not just its shareholders. Likewise, Gray *et al.* (1996) agree that increased transparency is needed to hold organisations accountable even further to the communities they serve.

In the case of Kuwait, after an intensive search, the researchers found quite few studies that examined CSR disclosure and disclosure in general, such as (Al-Saidi, 2020; Hewaidy, 2016; Al-Ajmi *et al.*, 2015; Al-Shammari, 2008). However, none of these studies examined the CSR disclosure in Islamic and conventional banks, which could provide a number of contributions to the CSR accounting literature. First, despite Kuwait being a developing country, it faces concerns different than those faced by other developing countries, such as poverty and hunger. Second, Kuwait is a Muslim country, where Islam as a religion plays a significant role in shaping the moral values of the predominantly Muslim population. However, not all developing countries have a majority Muslim population. These two facts could

make the Kuwaiti context somewhat different than that of any other developing countries, providing a good opportunity to contribute to and fill the gap in the existing CSR literature.

The results of this study are useful for (1) explaining the influence of Islamic culture on CSR and its disclosure, (2) developing a better understanding of CSR disclosure practices in Kuwait, and (3) providing a snapshot of CSR practices for governmental regulators, company managers, and researchers. The study is structured as follows. Section 2 presents the literature review. Section 3 describes CSR practices in Kuwait. Section 4 provides the current study's methodology. Section 5 presents the analysis and findings. And finally, section 6 discusses the findings and concludes with a discussion of the limitations of the study and directions for future research.

## **Literature Review**

### ***Background of CSR and CSR Disclosure***

The practice of CSR began in the 1930s; since then, various definitions, measurements, and theoretical frameworks have been developed. General reviews of CSR have also been performed (Wang *et al.*, 2016; Aguinis and Glavas, 2012; Egri and Ralston, 2008; Carroll, 1999), summarising the theories resulted from the engagement in CSR (Lee, 2008; Secchi, 2007; Garriga and Mele, 2004), searching for a definition (Carroll and Shabana, 2010; Dahlsrud, 2008; Waddock, 2004), and finding a way to measure it (Wood, 2010; Peloza, 2009). CSR is becoming an increasingly important topic among organisations in both developed and developing countries (Jamali and Karam, 2018; Kolk, 2016; KPMG, 2015; Visser, 2008).

The literature has identified different synonyms for CSR. Some studies refer to it as being a corporate citizen (e.g., Carroll, 1979; Mason, 1960); others are calling it corporate social performance (e.g., Swanson, 1995; Wood, 1991). Elkington (1998) is calling it the triple bottom line (TBL) or 3Ps, that is people, planet, and profit. Among several of the definitions of CSR that have been put forth, the European Commission's definition is the most influential (2001), which defines CSR as "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*". Dahlsrud (2008) reviewed most of the CSR definitions between 1980 and 2003 and identified 37 different definitions for CSR. He classified them

into five main dimensions: environmental, social, economic, stakeholder, and voluntary.

A similar approach was taken for CSR disclosure, which has attracted considerable research interest since the 1980s (Gray *et al.*, 1996; Ness and Mirza, 1991; Ullmann, 1985) in both developed and developing countries (Bhatia and Makkar, 2019; Ehsan *et al.*, 2018; Ali *et al.*, 2017). According to Gray *et al.* (1996), CSR reporting is defined as: "*The process of communicating the social and environmental effects of organisations' economic actions, to particular interest groups within society, and to society at large. Today, most companies are willing to provide extra voluntary disclosure about their CSR activities, in response to public pressure.*"

The most comprehensive and more preferable definition for this study is the one that was coined by Blowfield and Murray (2014). They argue that *companies' CSR activities should "go beyond legal compliance, and with which are not determined by economic calculations"* (p. 21). Different theories have examined the reasons behind a company's CSR disclosure, such as agencies, political economy theories (including stakeholder theory, legitimacy theory, and institutional theory), and accountability (Deegan and Blomquist, 2006; Deegan, 2002; Williams and Pei, 1999; Gray *et al.*, 1995). Despite the number of theories discussing CSR disclosure, no single theory is broadly accepted and explains what motivates companies to disclose CSR information voluntarily (Van der Laan, 2009; Gray *et al.*, 1995).

### ***Islam, CSR, and CSR Disclosure***

Islam as a religion can be considered a particular type of corporate culture; Islam as such is not just a religion but rather a philosophy that guides all aspects of a Muslim's life, including business practices. Some Islamic scholars, such as Taman (2011), believe that CSR is an obligation for every Muslim. CSR ideals are based on and inseparable from the moral and ethical judgments of Sharia (Dusuki, 2008; Dusuki and Dar, 2005) that decree that business should be conducted in a socially responsible way (Tinker, 2004). In view of this, managers of Islamic institutions have traditionally perceived CSR disclosure as an obligation (Hossain *et al.*, 2015). According to Aribi and Gao (2010), this means that businesses in the Islamic world have objectives and ethics quite different from their Western counterparts. This assertion is supported by the findings of several scholars, such as (Haniffa and Hudaib, 2007; Katsioloudes and Brodtkorb, 2007; and Rice,

1999) who all agree on the existence of a strong link between Islam and CSR practices in Muslim countries as the main objective of Islamic institutions is to balance the material and spiritual needs of society.

From an early comparative study between Islam and Western CSR concepts, Zinkin (2007) found a similarity between the five pillars of Islam and the ten principles of the United Global Compact. This finding was supported by the results of Khurshid *et al.* (2014) and Williams and Zinkin (2010). More conservatively, Turker (2016) and Kirat (2015) described an overlap between the Islamic concept of CSR and the dominant Western CSR paradigm. Others were even more cautious in their findings. For example, Alamer *et al.* (2015) argue that although CSR in Islamic institutions has been monitored and measured since 2005, there is still a need for further research to determine the strength of the relationship between Islamic values and the social performance of such institutions. This call for further study was echoed by Farook *et al.* (2011) and Siwar and Hossain (2009), who claimed that despite the growth of Islamic financial institutions (in terms of size and complexity), more research in Islamic and non-Islamic (conventional) companies needs to be done to define CSR in the Islamic context (Tasnia *et al.*, 2021).

According to the values and beliefs of Islam, it can be argued that Islamic institutions should not be solely profit-driven entities; they may generate profit, but only in ways that are socially responsible. As such institutions are bound to act from this perspective of social accountability, their voluntary CSR disclosure in annual reports should include a balance of both social and financial information. In other words, these institutions should consider not only the interests of shareholders, but also those of all stakeholders (Azid *et al.*, 2007). Thus, the argument that Islamic institutions, like their conventional counterparts, are solely profit-driven would seem to be invalid in view of the former's strong commitment to social justice and human welfare (Zubairu *et al.*, 2011) and their belief that they are accountable to God for their actions (Farook *et al.*, 2011). It could be expected that such institutions, in compliance with Sharia, would be setting an example for conventional institutions by fully disclosing their CSR activities to all stakeholders (Issalih *et al.*, 2015; Haji and Ghazali, 2013; Lewis, 2001; Baydoun and Willett, 2000).

Initially, the differences between Islamic and conventional financial institutions should be discussed in fine detail to understand how a definition of CSR and its practice could be influenced by Islam. CSR disclosure by Islamic institutions is expected to be high by compliance with Sharia principles and rules (Haniffa and

Hudaib, 2007; Baydoun and Willett, 1995). However, it is found to be very low (Haniffa and Hudaib, 2007; Maali *et al.*, 2006). According to Zubairu *et al.* (2011), the difference between Islamic and conventional banks in CSR disclosure should be duly noted in their annual report, as Islamic banks should provide additional CSR information because they are based on Sharia law. Jusoh *et al.* (2014) conclude that a comprehensive Islamic CSR framework should be used to analyse Islamic banks, as it could help to determine CSR themes, rather than using a conventional CSR framework. On the other hand, Aracil (2019) suggests that Islamic banks' sustainable strategies need to be developed to be more like conventional banks.

The difference between CSR concepts from an Islamic perspective and a Western perspective should be explained. Research has identified two main approaches. The first approach is accountability: Islamic CSR is perceived as a commitment of the business towards Allah and the community, where managers are accountable and have a commitment to their stakeholders. The second approach is social justice, i.e., communicating equally with all stakeholders (Rahman and Bukair, 2013; Maali *et al.*, 2006). Maali *et al.* (2006) suggest that businesses within the Islamic framework should disclose their activities for three main reasons: (1) to show how they are complying with Sharia principles and rules, (2) to clarify their influence on the welfare of society, and (3) to enable Muslims to fulfil their religious obligations more easily. Thus, Islamic financial institutions should offer full and truthful disclosure of their activities to stakeholders (Hassan and Harahap, 2010; Farook and Lanis, 2007; Lewis, 2006). Consequently, they need to carry out CSR to various stakeholders to ensure fairness and maximise their welfare (Muwazir *et al.*, 2006). Haniffa and Hudaib (2002) believe that full disclosure in an institution's annual reports would support Muslim stakeholders in making not only the economic decisions, but also the religious ones. Moreover, it would assist the institution's managers in fulfilling their accountability to their God and society.

There are relatively few comparative studies in the literature discussing the differences in CSR disclosure between Islamic and conventional financial institutions (Tasnia *et al.*, 2021). Prior studies find that the former disclose more information associated with religious subjects, such as information about the Sharia Supervisory Board (SSB), zakat, and interest-free loans (Durrani, 2016; Ali and Rahman, 2015; Hanif, 2014; Abbasi *et al.*, 2012; Aribi and Gao, 2010; Khan and Karim, 2010). Thus, this gap should be addressed with further study.

Khan and Karim (2010) use a conceptual approach. They argue that CSR for Islamic institutions should be driven by Islamic values, such as fairness, integrity,

equality, and morality. The first empirical study, comparing Islamic and conventional financial institutions regarding CSR disclosure, is conducted by Aribi and Gao (2010), who compared the level of CSR disclosure of 21 Islamic Financial Institutions (IFIs) and 21 Conventional Financial Institutions (CFIs) in the Gulf Cooperation Council (GCC) region. A content analysis approach is used for seven categories of CSR information, namely employees, community, philanthropy, products and services, customers, Sharia law, and an “other” category. They find out a different amount of CSR disclosure among the two types of institutions. IFIs disclose more CSR information regarding employees and philanthropy, whereas CFIs disclose more CSR information about community and customers. For the products and services category, both institutions have the same level of information. The researchers suggest that the increased CSR information from IFIs is due to pressure from (1) the Sharia Supervisory Board Report (SSBR) and (2) the Accounting and Auditing Organisation for Islamic Financial Institutions.

From the same region, using a similar approach, a study by Chintaman (2014) examines the pattern and preference of CSR practices by four conventional banks compared with three Islamic banks. Three dimensions regarding CSR-namely modes of CSR activities, CSR collaborative agencies and CSR beneficiaries-are examined. For the mode of CSR activities, Islamic banks tend to provide direct support for needy people through zakat or charity, whereas conventional banks tend to engage in programs and undertake projects to fulfil their social responsibility. The study also finds out that conventional banks have more contact with international agencies, such as the United Nations, than Islamic banks. And finally, for the beneficiaries of CSR activities, the study reveals that both banks place the same importance on education and health issues. The researcher emphasises the importance of Islamic tenets when providing CSR activities and suggests that Islamic banks should collaborate with international agencies to improve the quality and welfare of humanity worldwide.

In Bangladesh, Ali and Rahman (2015) use a content analysis approach to compare the CSR disclosure of five Islamic banks with five conventional banks. They use the Central Banks CSR guideline, which divides CSR activities into six main areas. The study reveals that both types of banks have similar CSR activities; however, conventional banks spend much more money on CSR activities than Islamic banks do. The researchers suggest that Islamic banks should spend more to meet people’s expectations.

In a study conducted in Pakistan, Durrani (2016) compares the level of CSR disclosure among three Islamic banks with three conventional banks using a content analysis approach based on the assessment of annual reports from 2011 to 2014. Eleven dimensions for CSR activities are assigned. The study finds out that both banks mostly disclose similar information; however, surprisingly, he finds out that conventional banks invest more in CSR practices than Islamic banks do. Durrani (2016) notes that conventional banks are invested in more CSR practices than Islamic banks are due to their greater experience in the market (age) and massive size. He suggests that Islamic financial institutions should follow Islamic ethical principles by providing a broader framework for CSR and motivating them to pursue it. However, Tasnia *et al.* (2021) argue that any studies discussing voluntary CSR disclosure in Islamic banks should develop the frameworks of the used Islamic principles.

### ***CSR in Kuwait***

Kuwait is a small, rich, Muslim Arab country that depends primarily on exporting oil and gas. The Kuwait Stock Exchange (KSE) was founded in 1962. In October 2016, Boursa Kuwait was founded as a private entity by the Capital Markets Authority (CMA) to take over and manage the KSE and progressively transition its operations while delivering on three main fronts: transparency, efficiency, and accessibility. In 2016, there were 189 companies listed on Kuwait Boursa, divided into 15 sectors (boursakuwait.com.kw). In Kuwait, the banking sector is highly competitive, with 45% of the sector comprised of five Islamic banks and 55% of five other conventional banks (Nazim and Kasbati, 2016).

The advent of the Indirect Foreign Investment Law of 2000 and privatisation program of 2010 opens up Kuwait's economy and moves it towards a global market where it is important to satisfy all stakeholders of the economy in a more sustainable way. Therefore, business institutions in Kuwait are expected to satisfy not only economic responsibilities, but also social and environmental responsibilities. By practising CSR, businesses are becoming socio-economic entities willing to solve the country's social problems.

Despite Kuwait being a small, rich oil country, it still suffers from social problems. Kuwait has a different agenda than other poor developing countries; these countries suffer from poverty and the lack of healthcare and education systems, such as Pakistan and Bangladesh. Since 1962, the Kuwaiti Constitution has guaranteed suitable jobs for Kuwaiti citizens and free education and

healthcare (Articles 41, 13, and 15). Nevertheless, this does not mean there are no social problems in Kuwait. Over the past decade, Kuwait and other GCC countries have faced the challenge of a massive number of new graduates looking for jobs every year (Forstenlechner and Rutledge, 2010). Therefore, in 2000, the Kuwaiti government issued Law No. 19 concerning the support and encouragement of national labour to work for the private sector. As such, each private company listed on Boursa Kuwait should maintain a percentage of employees who are Kuwaiti nationals. This is known as the Kuwaitisation strategy.

In 2013, the CMA issued Resolution No. 25 concerning corporate governance for listed companies on Boursa Kuwait. According to the resolution, Rule No. 11 was issued with two general principles concerning a company's CSR:

- Principle 1/11 states that “the company should set out the mechanisms that assure a balanced realisation of both the company's and society's objectives”.
- Principle 2/11 states that “the company should set out programs and mechanisms that help highlighting the company's efforts in the field of social work”.

The CMA does not release a framework for conducting such CSR activities, although it does provide examples, such as providing work opportunities, encouraging national labour, supporting small business projects, protecting the environment, and conducting voluntary charity initiatives. Therefore, each listed company has the right to develop and implement its own frameworks to strike a balance between its economic target and society's interests. Furthermore, the CMA encourages companies to (1) implement a disclosure plan that covers their CSR objectives, (2) raise awareness of CSR among their employees, and (3) offer awareness programs for society concerning their CSR. To date, listed individual companies still have the right to develop and implement their own strategies for CSR reporting, provided that these strategies(1) ensure a balance between realising economic goals and improving the welfare of society and (2) acknowledge the importance of the annual report for communicating with their stakeholders. Furthermore, as economic, political, and social factors are unique to each country and region, research in Kuwait is appropriate (Khan *et al.*, 2013; Adams, 2002).

Voluntary disclosure for listed companies in Kuwait has been found to be low in general (Al-Shammari, 2008) and for CSR information in particular (Al-Saidi, 2020). Despite this finding, CSR has been practiced by most of the listed companies (Hewaidy, 2016). The National Bank of Kuwait began issuing a community report in 2008 to set an example for conventional banks. A similar approach has been followed by Kuwaiti Islamic banks, namely the Kuwait Finance House. Banks in

Kuwait have been practising CSR activities for a long time, primarily to enhance their reputation and public image. Therefore, it is beneficial to see the difference between the CSR practices of Islamic and conventional banks. From this, our central research question (RQ) emerges: How are Islamic and conventional banks different in terms of CSR disclosure? This research question includes two hypotheses that need to be examined:

*H1. Islamic banks provide a higher quality of CSR disclosure than conventional banks.*

*H2. Islamic banks provide a greater quantity of CSR disclosure information than conventional banks.*

## **Methodology**

To achieve the main purpose of the study, annual reports of five Islamic banks and five conventional banks listed on Boursa Kuwait at the end of 2015 were used. A full copy of the annual reports for the year ending on 31 December 2015 from the banks' websites were downloaded. Annual reports were utilised to collect data for four main reasons: (1) a company's annual report is the most important and most credible instrument for the company to disclose its issues to its stakeholders (Gray *et al.*, 1995; Epstein and Freedman, 1994); (2) companies put a large amount of effort into responding and communicating with their stakeholders through their annual reports (Healy and Palepu, 2001; Preston *et al.*, 1996); (3) the annual report is the only statutory formal communication medium between companies and their stakeholders (Wilmshurst and Frost, 2000); and (4) companies' annual reports are now easy to access online.

Beattie *et al.* (2004) classify the research methods used in previous studies into two methods: subject analysis ratings and semi-objective studies. Most of these studies use semi-objective methods, including content analysis, disclosure index, linguistic analysis, and readability. The content analysis approach is frequently employed to examine the quality and quantity of CSR disclosure (Aureli, 2017; Vourvachis and Woodward, 2015; Unerman, 2000; Milne and Adler, 1999).

First, to qualify and quantify the voluntarily disclosed corporate social information, banks' annual reports are used as the unit of analysis in this study. Several prior studies have categorised CSR information into different categories. The categories and items of CSR in this study are based mainly on Branco and Rodrigues's (2006, 2008) studies with other prior studies (Haniffa and Cooke, 2005; Gray *et al.*, 1995). In their study of CSR communication in Portuguese

banks, Branco and Rodrigues (2006) categorise areas that cover CSR information in banks' annual reports into four categories: human resources, products and services, community involvement, and environmental issues. This classification has been applied by several scholars, such as (Schroder, 2021; Zaid *et al.*, 2020; Menassa and Dagher, 2019; Chakroun *et al.*, 2017; Kilic, 2016; Jizi *et al.*, 2014; Hinson *et al.*, 2010; and Menassa, 2010).

According to Vourvachis and Woodward (2015), there are two main types of content analysis approaches: index and volumetric. The former is applied as a benchmark for the quality of CSR information while the latter is used to measure the quantity of CSR information. Regarding index content analysis, 34 items of CSR information are identified and divided into four categories: human resources (16), products and services (8), community involvement, (5) and environmental issues (5). A dichotomous coding technique is then applied to analyse the existence or absence of items on banks' websites. Hence, a score of "1" is assigned if a CSR item is disclosed and "0" if it is not. It is assumed that the 34 items represent the minimum items of CSR information that the high-quality bank should disclose (see Appendix A). For the volumetric content analysis, different measurements are used in CSR disclosure literature to measure the quantity of CSR information, such as number of words, number of sentences, and number of pages. Obviously, it is difficult to identify reliable determinants of CSR disclosure practices, whatever measurement is used, because each one has its own limitations (Unerman, 2000; Milne and Adler, 1999). In this study, the number of words written under the four CSR categories in banks' annual reports is counted to measure the quantity of banks' CSR information. This approach was previously employed by several scholars, such as (Menassa and Dagher, 2019; Aribi and Gao, 2010; Deegan and Gordon, 1996; and Zeghal and Ahmed, 1990).

There is no unique approach to measure CSR information, and each available approach has its limitations; however, using these two content analysis approaches can improve the credibility and validity of the study (Leitoniene and Sapkauskienė, 2015). Using well-accepted checklists, such as those developed by Branco and Rodrigues (2006, 2008), Hackston and Milne (1996), and Gray *et al.* (1995), would enhance the reliability of the content analysis. Furthermore, to improve the research validity and reliability, the two authors with a background in CSR disclosure are involved in analysing the content of banks' annual reports. For the quality of CSR disclosure, the first author explains to the second one how the CSR items are identified and categorised from banks' annual reports. The second

author then randomly checks the first author's coding using the code checklist (the 34 CSR items). Instead of the quantity of CSR disclosure, the first author counts the words from each category while a random sample of banks' annual reports selected by the second author verifies the outcomes of the first author's work using a PDF reader software program. At the end, any discrepancies found between the two authors are discussed and resolved. To analyse the data, SPSS statistics software and PDF reader software are used to compare differences between the quality and quantity of disclosures for the two types of banks. Because of the small number of samples and observations, a non-parametric test is used to account for differences in the quality and quantity of CSR disclosures between Islamic and conventional banks. Specifically, the test shows the actual significant value of the test statistics table, Mann-Whitney U statistic, and the asymptotic significance (2-tailed) *P*-value at 0.05.

## **Results and Discussion**

### ***Quality of CSR Disclosure***

Table 1 displays that the total quality of CSR disclosure of the Islamic and conventional banks differs. The descriptive statistics related to this table (mean rank of disclosures) indicate that conventional banks provide a better quality of CSR disclosure than Islamic banks do (6.5 for conventional banks versus 4.5 for Islamic banks). Table 1 also indicates that in the human resources and products and services aspects conventional banks provide a higher quality of CSR information than Islamic banks do. The mean rank of the quality of CSR disclosures for the human resources aspect for conventional banks is 7.10, which is higher than the 3.90 of Islamic banks. Likewise, the disclosure of the products and services aspect in conventional banks records a higher mean rank than that of Islamic banks: 5.70 and 5.30, respectively.

In terms of the community involvement and environmental issues aspects, Islamic banks have better quality disclosure than conventional banks do. The mean rank for the quality of CSR information for community involvement is 5.80 for Islamic banks, compared to only 5.20 for conventional banks. Furthermore, the mean rank of the quality of environmental issues of Islamic banks is 5.60, which is higher than conventional banks' 5.40. Despite some differences in the quality of CSR information disclosed by the two types of banks, the descriptive results (a statistical result of a Mann-Whitney test; Table 2) reveal no significant

difference between Islamic banks and conventional banks regarding the quality of CSR disclosure. Therefore, *H1* is rejected.

**Table 1**  
**Islamic and Conventional Banks' Mean Ranks of CSR Disclosure Quality**

All Categories	Islamic or Conventional	N	Mean rank	Sum of ranks
1. Human Resources	Conventional	5	7.1	35.5
	Islamic	5	3.9	19.5
2. Products and Services	Conventional	5	5.7	28.5
	Islamic	5	5.3	26.5
3. Community	Conventional	5	5.2	26.0
	Islamic	5	5.8	29.0
4. Environmental	Conventional	5	5.4	27.0
	Islamic	5	5.6	28.0
Total Scale	Conventional	5	6.5	32.5
	Islamic	5	4.5	22.5

**Table 2**  
**Comparison of the Quality of CSR Disclosure between Islamic and Conventional Banks**

All Categories	Mann-Whitney U	Significance
1. Human resources	4.5	0.092
2. Products and services	11.5	0.830
3. Community	11.0	0.735
4. Environmental	12.0	0.881
Total scale	7.5	0.287

### *Quantity of CSR Disclosure*

Table 3 indicates similar results for the quality of CSR disclosure between the two types of banks: conventional banks reveal a greater amount of CSR information than Islamic banks do (6.20 versus 4.80, respectively). Table 3 indicates that, in the human resources and products and services aspects, conventional banks have a greater mean rank for community involvement and environmental issues. For the human resources and products and services aspects, the mean rank of conventional banks is 5.60, which is higher than the mean rank of Islamic banks at only 5.40. However, the quantity disclosure mean rank of the community involvement aspect for Islamic banks is 6.50, which is higher than conventional banks' 4.50. Likewise, the quality disclosure of CSR in the

environmental issues of Islamic banks have a mean rank of 6.50, which is higher than conventional banks' 4.50. Despite the differences found in the descriptive results, the statistical results indicate no significant differences between Islamic banks and conventional banks regarding the quantity of CSR information (Table 4). Therefore,  $H_2$  is rejected.

**Table 3**  
**Islamic and Conventional Banks' Mean Ranks of CSR Disclosure Quantity**

All Categories	Islamic or Conventional	N	Mean Rank	Sum of Ranks
1. Human Resources	Conventional	5	5.6	28.0
	Islamic	5	5.4	27.0
2. Products and Services	Conventional	5	5.6	28.0
	Islamic	5	5.4	27.0
3. Community	Conventional	5	4.8	24.0
	Islamic	5	6.2	31.0
4. Environmental	Conventional	5	4.5	22.5
	Islamic	5	6.5	32.5
Total Scale	Conventional	5	6.2	31.0
	Islamic	5	4.8	24.0

**Table 4**  
**Comparison of the Quantity of CSR Disclosure between Islamic and Conventional Banks**

All Categories	Mann-Whitney U	Significance
1. Human Resources	12.0	0.917
2. Products and Services	12.0	0.917
3. Community	9.0	0.465
4. Environmental	7.5	0.136
Total Scale	9.0	0.465

The statistical calculations reveal no significant differences in quality or quantity of CSR disclosure in all aspects (human resources, products and services, community involvement, and environmental issues) between the two types of banks. This finding is in line with the results of Zainal *et al.* (2013), who also found no significant difference in the overall quality and quantity of CSR information disclosed between Islamic and conventional banks. Overall, these findings are comparable to those of previous research. They reveal that Islamic banks disclose different CSR information than those of conventional banks, but the difference between them is not significant (Nobanee and Ellili, 2016; Ali and Rahman, 2015;

Abbasi *et al.*, 2012; Sobhani *et al.*, 2012; Aribi and Gao, 2010). Abbasi *et al.* (2012) and Aribi and Gao (2010) find out that the only difference between the two types of banks is that Islamic banks disclose more information related to religious themes, such as SSBRs, zakat and charity donations, and interest-free loans. Chintaman (2014) reports similar findings and suggests that Islamic Shariah law plays a critical role in shaping the CSR practices of Islamic banks.

The similarity of CSR disclosure between the two types of banks in Kuwait can be due to three reasons. First, both banks are subject to the same authorities and supervision; therefore, they are expected to produce the same CSR activities. Second, because of government support, banks in Kuwait are highly profitable and so are more likely to display their CSR activities to the community. Finally, there is no previously corporate governance code in Kuwait, and rules are historically silent about CSR activities, so that listed firms, including banks, are not obliged to participate in CSR activities. However, the situation has changed because the Kuwaiti government and regulators have started enforcing the disclosure of CSR activities in annual reports for all listed firms, including banks. Nevertheless, both the Kuwaiti government and regulators still need to pay more attention to CSR activities and put great pressure on all listed firms, including banks, to disclose more details about social responsibilities, internal CSR policies, public procurements and subsidies, and environmental protections.

Furthermore, consistent with the previously stated reasons, it might be argued that both types of banks in Kuwait are facing institutional pressures (coercive, normative, and mimetic) of the environment in which they operate (DiMaggio and Powell, 1983). Each country has unique environmental factors (social, political, and economic) that influence CSR practices (Khan *et al.*, 2013; Scott, 2008). Banks in Kuwait (both Islamic and conventional) are influenced by institutional pressures to practice CSR disclosure (Ali and Rizwan, 2013; Amran and Devi, 2007). These institutional pressures can be coercive (government, employees, customers, investors, or media), normative (based on such CSR frameworks and network, NGOs, CSR standard-setting institutions, and academic institutions), and mimetic (multinational companies and competitors) for practising CSR disclosure (Fernando and Lawrence, 2014). More in-depth research needs to be conducted to explore this issue.

## Conclusion

This study compares the quality and quantity of CSR disclosure in the annual reports of five Islamic banks and five conventional banks in Kuwait. By using two content analysis approaches—a disclosure index and the number of words related to CSR information—an insignificant difference is discovered in the quality and quantity of CSR information disclosed between Islamic and conventional banks. The few differences in CSR information disclosed between these two types of banks could be explained by Islamic religion-related ethical aspects (community involvement and environmental contributions). Conventional banks disclose more CSR information related to profitable aspects (human resources and products and services). One reason for banks to engage in CSR disclosure is to be recognised as good corporate citizens while ensuring transparency by communicating their CSR activities. Such motives are part of the drive for legitimate status in society and to build a reputation (Branco and Rodrigues, 2008; Kim, 2014). Furthermore, banks are expected to alter their behaviour according to societal expectations (Reverte, 2009).

This research has some limitations. First, it focuses only on the CSR disclosure of a limited sample of Kuwait banks in 2015 (when there were no corporate governance rules, which started in 2017 in Kuwait). Second, the research is limited to annual reports; however, there are other sources of CSR information. Third, only one year of the banks' annual reports is used. In addition, a content analysis cannot provide a full understanding of such CSR information. Finally, because of the small sample size, nonparametric tests (Mann-Whitney U) provide low statistical power that may lead to high risk of committing a type II error. In other words, the chance of detecting a significant difference between two groups when one exists can be very little. Future studies should address these limitations.

Principally, from an Islamic economic point of view, Islamic banks should issue more CSR information to guarantee to their stakeholders that they are operating within Islamic beliefs and laws and are working to pursue the interests of all stakeholders and earn their trust, rather than maximising their shareholders' welfare. Thus, Islamic banks should display how they are operating differently from conventional banks, which mostly function for profitable reasons. The implications of this study suggest that the findings may be important for the government, regulators, and company managers. First, the government needs to turn its attention to the importance of CSR disclosure to create an economic climate of confidence in the country. Second, regulators should establish a number

of functions that ensure transparency to attract more investments and enhance investors' confidence. And finally, company managers should encourage the practice of CSR disclosure to meet the expectations of different stakeholders.

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## Appendix (A)

### Categories and Index Items for the Quality of CSR Information:

CSR Themes	CSR Items
Human Resources	<ol style="list-style-type: none"> <li>1. Number of employees</li> <li>2. Geographical distributions of employees</li> <li>3. Employees' rights and duties</li> <li>4. Categories of employees by gender</li> <li>5. Categories of employees by function</li> <li>6. Employees' development/training programs</li> <li>7. Amount spent on training</li> <li>8. Nature of training</li> <li>9. Employees' health and safety (workplace environment)</li> <li>10. Employee s' welfare (transportation, housing, health...)</li> <li>11. Employee s' job satisfaction</li> <li>12. Employee s' share ownership scheme</li> <li>13. Women in the workplace (equal opportunity as men, racism)</li> <li>14. Pension scheme/end of service</li> <li>15. Creating jobs</li> <li>16. Percentage of Kuwaiti employees</li> </ol>
Products/Services	<ol style="list-style-type: none"> <li>1. Company's product quality and safety (e.g., ISO)</li> <li>2. Company's meeting customers' needs</li> <li>3. Improvement of products/services</li> <li>4. Company's latest innovation of product/service</li> <li>5. Customer satisfaction/compliance</li> <li>6. Discussion of major types of products/services</li> <li>7. Customer awards</li> <li>8. Networking</li> </ol>
Community	<ol style="list-style-type: none"> <li>1. Donation of cash or products/services</li> <li>2. Sponsoring health and educational activities</li> <li>3. Social and cultural activity sponsorship</li> <li>4. Supporting NGOs</li> <li>5. Encouraging employee voluntary activities</li> </ol>
Environment	<ol style="list-style-type: none"> <li>1. Company's policy towards the environment</li> <li>2. Company's programmes to protect the environment (recycling)</li> <li>3. Improving the surrounding environment (plantation)</li> <li>4. Supporting environmental campaigns</li> <li>5. Funding environmental groups</li> </ol>

## دراسة مقارنة بين الإفصاح الاجتماعي والبيئي للبنوك الإسلامية والبنوك التقليدية في دولة الكويت

مجبل ظاهر السعيد

محمد عبدالخالق الفرج

الهيئة العامة للتعليم التطبيقي والتدريب، الكويت

تهدف الدراسة إلى اختبار كمية ونوعية البيانات الخاصة في المسؤولية الاجتماعية والبيئية التي تمارسها البنوك الإسلامية والتقليدية.

تحليل المحتوى هو المنهجية المستخدمة للوصول إلى هدف هذه الدراسة من خلال دراسة كمية ونوعية الإفصاح الاجتماعي والبيئي لقطاع البنوك في الكويت.

استخدمت التقارير السنوية لجميع البنوك المدرجة في بورصة الكويت للأوراق المالية في نهاية عام 2015. وقد قسمت تلك البنوك إلى مجموعتين: الأولى تضم خمسة بنوك إسلامية، والثانية تضم خمسة بنوك تقليدية.

قد يبدو في البداية أن البنوك التقليدية تفصح عن بيانات بكمية أكبر ونوعية أفضل من تلك البنوك الإسلامية، فيما يتعلق بالإفصاح عن معلومات خاصة في الموارد البشرية، وكذلك المنتجات والخدمات المقدمة. ولكن فيما يتعلق بكمية ونوعية المعلومات الخاصة بالمشاركة المجتمعية والقضايا البيئية، فإن البنوك الإسلامية هي الأفضل. وتبين إحصائياً أنه لا يوجد اختلاف جوهري في كمية ونوعية الإفصاح الاجتماعي والبيئي بين البنوك المحلية (الإسلامية والتقليدية) في دولة الكويت.

أضافت النتائج إلى الأدبيات الخاصة بدراسة كمية وكيفية الإفصاح عن البيانات الخاصة بالمسؤولية الاجتماعية والبيئية من خلال المقارنة بين البنوك الإسلامية والتقليدية في إحدى الدول النامية. إضافة إلى ذلك، توصلت النتائج والتوصيات إلى أن البنوك بشكل عام - سواء كانت إسلامية أم تقليدية - لا بد لها أن تكون محل المسؤولية حتى تلبي توقعات أصحاب المصلحة. وبذلك يكون انخراطها في الإفصاح الاجتماعي والبيئي بمثابة وسيلة لإثبات مدى تحملها لمثل هذه المسؤولية تجاه أصحاب المصلحة.

على الرغم من أهمية النتائج فإنه من الصعب شمولية تلك النتائج؛ ويرجع السبب في ذلك إلى أن البحث العلمي قد تم في بلد معين، وكذلك تحت ظل قطاع محدد، وأن البيانات تخص عاماً واحداً فقط؛ وبذلك يصعب شمولية النتائج.

**Mohammad A. Alfaraj** is currently an assistant professor at College of Business Studies, PAAET. He was granted a master's degree from University of Birmingham (UK) in 2009 and a Ph.D. from University of Tasmania in Australia in 2020. He is very interested in topics related to Corporate Social Responsibility (CSR) disclosure/reporting and assurance.  
(ma.alfaraj@paaet.edu.kw)

**Mejbel Th. Al-Saidi** is a Head of Department of Accounting and a professor of Accounting at College of Business Studies, PAAET. He earned his master's degree from USA in 2000 and his Ph.D. from UK in 2010. His research interests focus on corporate governance mechanisms and firm performance, corporate governance disclosure, CSR, accounting conservatism, and capital structure.  
(al-saidimtm@hotmai.com)