

CORPORATE SOCIAL RESPONSIBILITY (CSR) PRACTICES OF ISLAMIC BANKS IN JORDAN A CASE STUDY ON JORDAN ISLAMIC BANK

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Abstract: *Nowadays Corporate Social Responsibility (CSR) is a common concept in the world, and it is considered as a part of the culture of any organisation. Many banks in Jordan realise the importance of adopting CSR which helps in community building, sustainable development and increases productivity by presenting distinctive programs that support small and medium enterprises, and also it contributes to solving the problems of unemployment and poverty. In line with modernity, CSR is being seen as the source of new competition edge for the banking sectors specially the Islamic banks of Jordan. Practicing CSR is not only to improve community relations but also as a source of significance that Islamic banks can benefit from in Jordan. The purpose of this study is to provide deep understanding of the practices of CSR of Islamic banks in Jordan. The study has taken Jordan Islamic Bank as a case study to shed light on the contribution of the bank and its role in implementing CSR in several sectors. This study has found that the amount of contribution by Jordan Islamic banks to CSR activities is significant in proportion to their profit. The information disclosure has helped stakeholders to get an in-depth insight. Provide social contribution in these sectors and continue with renewable energy and water consumption programs. Furthermore, increased attention to sponsorship of scientific conferences and educational institutions are strongly recommended due to their positive impacts on the contribution of employees and other parties to the costs of employees' study. Also, encouragement for employees to participate in social activities and voluntary work are essential, similarly to continue funding in the health and education sectors. Training may provide help for the bank to raise their academic qualifications; in addition, it is a new added value for the bank, this is why the Jordan Islamic bank pays increasingly more attention to social and environmental issues.*

Keywords: *Corporate social responsibility; Banks; Islamic Banks.*

JEL classification: *G21; G29; M14.*

1. Introduction

In the last decades the Islamic banks have witnessed rapid expansion of Islamic banking services inside and outside the Arab countries. The financial products that are offered by Islamic banks must not infringe or contravene with the Sharia, and the law of human behavior. Islamic values and edicts upon which banks give the work a significant role in social issues. Consequently, the age of banks and length of implementations of Islamic banking in the respective countries does also matter (Zulfiqar et al, 2014).

The Islamic Banks business practices are based on a system of values and rules which control its trajectory, determine its milestones, and regulate its policies in order

to achieve its goals. This system is represented, in its most essential form, by a network of applied precepts in Sharia'.

To achieve the concept of community sustainability that meets the needs of the community and supports the national economy by building partnerships with official government institutions and the civil society organizations to provide products characterized by social responsibility and contribute to the preservation of the environment and culture. In addition to the contributions and participation in initiatives and programs that serve the community as a whole to achieve the overall vision in the field of sustainability, which its impact positively reflects on everyone. There is a pressing need for the study of social responsibility in the Jordanian Islamic banks (Association of bank in Jordan, 2017).

The banks affirm that its role is not limited to its existence as a business institution, which strives to realize the interests of its shareholders, for it is also a joint investment institution which strives to achieve the interests of its investors, just as it is a social institution that strives to recognize and meet societal needs as much as possible. All this stands side by side with the existence of the bank as a national institution, which endeavours to actively support national socio-economic development. (Central Bank of Jordan, 2017)

The Jordan Islamic bank to amass national savings, and channels those savings, directly into social and economic activities and programs, which are capable of producing goods and services of real benefit to peoples' lives. Likewise, the bank assumes to provide those services and business transactions which life demands, without handling goods and services which might harm the public or the national economy. (Social Responsibility Report, 2015)

The bank's commitment to Sharia' Law requires its activities to aim not only for the fulfilment of material needs, but also for the practical embodiment of Islamic values in reality, and for the achievement of society's comprehensive interests, by means of attaining a balance between the interests and advantages of all those bearing a relation to the bank, including shareholders, employees, investors, financiers, and beneficiaries of the funding and investments undertaken by the bank, and of the services which it provides; a process which confers benefit on society and the national economy on the whole.

Activities, policies, and goals are conducive to improving wealth and income distribution between members of society, and moving towards the achievement of a type of justice among them. Just as they are conducive, on the economic level, to guaranteeing a more efficient use of economic resources, and higher productive capacity of available national capital, which helps, in turn, to increase national production, and to increase exports, and to furnish new sources of foreign currency, just as it contributes to the expansion of job opportunities, in service of the developmental and social and economic goals outlined above. Social Responsibility Report, (2015) the programs and initiatives, thus making social responsibility an integral part of the strategy of the bank that reflects on its reputations and operations. Banks in Jordan are seeking to achieve through the practice of social responsibility a number of things such as:

The formation of a marketing interface which reflects societal role and another point is that it would support and care for community service which might attract customers. (Qandah, 2012)

International Organization for Standardization (2010) issued (ISO) standard ISO 26000 which is related to corporate social responsibility, in order to help them

contribute to sustainable development. This standard has identified seven areas of social responsibility: (ISO, 2010)

1. Governance. 2. Human Resources. 3. Workers. 4. Environment. 5. Operations. 6. Customers. 7. Community.

The Dutch Economic and Social Council has considered that the company's contribution to the welfare of society includes achieving value in three areas, namely: (a) the economic dimension, (b) the social dimension, (c) the environmental dimension, and it must integrate the social responsibility in the mission, vision and philosophy of the company and its culture. (Elasary, 2011)

2. Literature Review

The definition of Islamic bank is a bank that is governed by the Islamic law, which is called the Shari'ah. This commitment according to the Islamic law is expressed only in modes of financing and its contractual relations with suppliers of funds Basah and Yusuf, (2013) and it meets with Mannan, (1982) that the Islamic bank is a financial institution, that's applies statutes, rules and procedures and commitment to the principles of Islamic Shari'a and prohibit the receiving and paying of interest (riba) on any of its operations.

It can be distinguished that Islamic banks are conventional by foundation, management and products. (Lewis and Algaoud 2001) In Islamic banking, the banks are disallowed to offer a business in term of goods or services with an interest rate which considered as forbidden (Aḥmad, 2007).

In the final decades of the last century Islamic banks has spread rapidly, that is more than 200 Islamic banks and financial institutions operating worldwide with over \$200 billion in assets. (Wilson 2002).

Jordan is one of the most developed Muslim countries. In Jordan the Islamic banking was introduced in 1978 with the name of Jordan Islamic Bank of Finance and Investment (JIBFI). Beside the JIBFI there were two other banks; Jordanian Islamic banking industry has strong growth patterns as all the three banks efficiently perform with increased product innovation capacity (Ajlouni & Omairi, 2013). The central bank of Jordan has taken many steps to initiate the parallel system of banking that can address the issues of interest and "Hlalal" that means not forbidden transactions. (Zulfiqar et al, 2014)

Corporate Social Responsibility (CSR) has been defined as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Holmes and Watts (2000) mentioned that this is consistent with the definition of the European Union which states the "concept whereby companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2001).

Hunati and Hasan (2008) study showed that there is a recognition of the concept of social responsibility through the administrations of Islamic banks in Jordan, which was different from the application of social responsibility level of accountability from one area to another. Banks social responsibility applied accounting on clients at a high level and the average level for the community and the workers' service, but application at a low level in the field of environmental protection.

UNIDO (2013) defines CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders

Milton Friedman Stated that the only social responsibility of the corporation is to increase profits. But his ideas are not accepted by society or in the business science world itself (Friedman, 1970).

Given the social and developmental aspects of CSR, by the late 1990s and early 2000s, the CSR discourse had disseminated into the international development literature (Natufe, 2001; Walker, 1998); thus Moin (2008) stated that there is a difference between voluntary practices and moral obligations.

CSR affects the financial performance of the firms. Financial performance means measuring and analyzing the financial objectives of the firms to see whether they are accomplished or not. (Kotler et al., 2005)

S.I. Nimsith et al, (2016) found that there is a statistically significant relationship between CSR and financial performance of banks in Sri Lanka, and moreover there are positive impact of corporate social responsibility and financial performance licensed banks

García-Sánchez and García-Meca (2017) shown in their study if the banks have followed the CSR practices that would augment the profits quality. And the differences in "earnings quality" in another words it is express the amount of earnings attributable to higher sales or lower costs rather than artificial profits created by accounting anomalies such as inflation of inventory, that are driven by CSR engagement are affected by levels of investor protection and bank regulation for financial institutions. The findings indicated that a bank's commitment to CSR practices enhances earnings persistence as well as cash flow predictability and more specifically socially responsible banks have higher earnings quality in a stricter regulatory environment.

Qandah (2015) stated the benefits to disclose social responsibility and issue a report around it. Those benefits are: Increasing the understanding of risks and opportunities, influencing the policies and action plans and the strategic management in the long term. In addition to that, it affirms the link between the financial and non-financial performance. Furthermore, the streamline operations, reduces the costs and improves the efficiency, and also it measures and evaluates the performance of sustainability. Moreover, it mitigates environmental and social impacts and governance negatively. What's more, it improves the reputation and increases the loyalty for the company.

3. Data and Methodology

Secondary data were used for the study. The data were collected from the social annual reports of Jordan Islamic Bank (JIB) that has been published on the website of the bank. This study is shed light on the role of Jordan Islamic bank and it also examines and analyses the CSR initiatives and how to get advertising for the CSR actions and how to improve it.

4. Social Role of the Jordan Islamic Bank

The JIB has continued to assume its social responsibilities, consolidate the Islamic values in the normal banking transactions and positively interact with the activities of

social nature. Below are some examples of the Bank's activities in this field during 2015:

4.1. Conferences and Seminars

Throughout 2015, the Bank had a continuous participation in conferences and seminars that aimed at disseminating and developing the business of Islamic banks

4.2. Scientific Research and Professional Training

The Bank continued its activities in scientific research and training. The total expenditures on such activities in 2015 reached around (338.000) JD distributed as follows Table 1:

Table 1: The total expenditures JIB for social activities 2012-2015

Description	2015 JD/Thousand	2014 JD/Thousand	2013 JD/Thousand	2012 JD/Thousand
Direct expenditures of the Bank Training Academy	4.200	4050	3500	3000
Contribution to the costs of employees' study and training	184.897	153512	88323	72900
Participation in the expenses of the Banking Studies Institute affiliated to the CBJ	7.982	5370	3500	1500
Sponsorship of scientific conferences and educational institutions	141.213	120750	10667	9000
Total	338.292	283682	105899	86400

Source: Create by author based on JIB reports.

It is clear from the above table that the Jordanian Islamic Bank has spent about (814273) Jordanian Dinars (JD) on social activities during the years 2012-2015, the expenses of the bank training academy in 2012 amounted to (3000) JD, while these expenses increased over the years to reach 4200 during the year 2015.

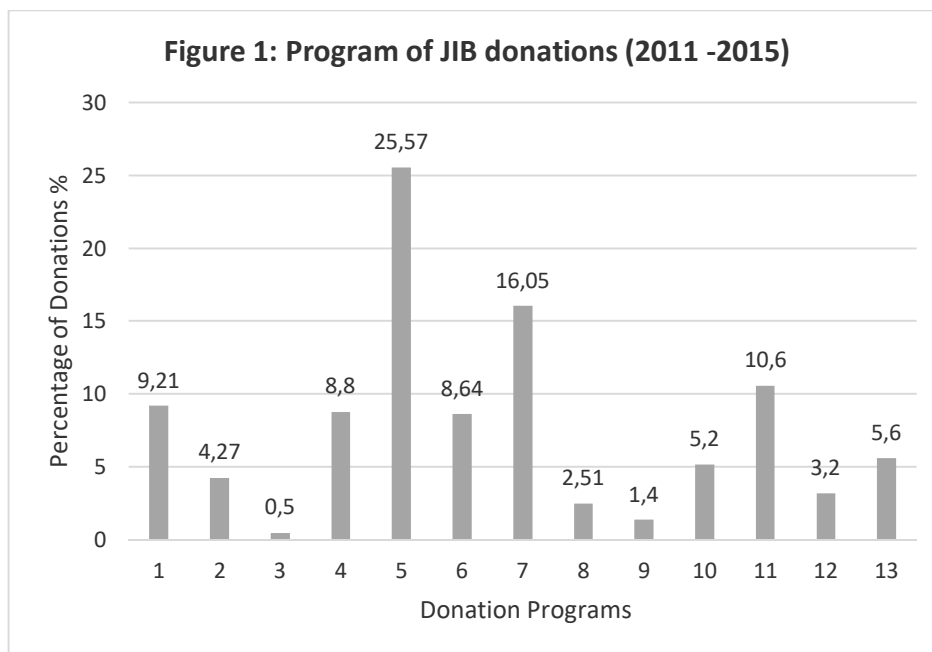
We note that during the year 2015 was invested in the costs of employees' study and training amount (184807) JD while the year 2012 (27900) JD, which indicates an increase in spending over the years.

It is clear that there is an increase in support of conferences in 2014, where total expenses increased to JD (120750) compared to the previous two years, while 2015 remained at the forefront by JD (141213)

4.3 Donations

The Bank continued to support many social and cultural events and provide donations for different relevant activities. Those events include the Jordanian Hashemite Fund for Human Development (JHFHD), Al Aman Fund for the Future of

Orphans, Jordan Hashemite Charity Organization (JHCO), King Abdullah II Fund for Development (KAFD), Martyr Ma'ath Al Kasasbeh Fund, Societal Financial Culture Dissemination Project, Jordan Armed Forces – Borders Guard, and the competitions organized by the Ministry of Awqaf and Islamic Holy Places, Associations of Holy Quran Memorization and collective wedding parties organized by Al-Afaf Charity Association, in addition to other social activities organized in Jordan. The total donations provided by the Bank during 2011-2015 for such events and activities reached around JD (994160), distributed as follows in Figure 1 and Table 2:



Source: Create by author based on JIB reports.

Table 2: Accumulative donations for JIB (2011-2015)

#	Description of Donation Programs	Number of assistant	(JD/Thousand)
1	Jordanian Hashemite Fund for Human Development (JHFHD)	1	91,585
2	Al Aman Fund for the Future of Orphans	1	42,500
3	Jordan Hashemite Charity Organization (JHCO)	1	5,000
4	Associations and competition of Holy Quran Memorization	7	80,300
5	Charity Associations and Organizations and Zakah committees	101	254,250
6	Scientific Conferences and educational and cultural programs	12	85,925
7	Mosque Commissions	46	159,595
8	King Abdullah II Fund for Development (KAFD)	1	25,000

#	Description of Donation Programs	Number of assistant	(JD/Thousand)
9	Martyr Ma'ath Al Kasasbeh Fund	1	14,005
10	Societal Financial Culture Dissemination Project	1	51,700
11	Jordan Armed Forces – Borders Guard	1	100,000
12	Princess Alia foundation	1	34000
13	Other Groups	1	50300
Total		173	994160

Source: Create by author based on JIB reports.

4.4 Al Qard Al Hasan “The Good Loan”

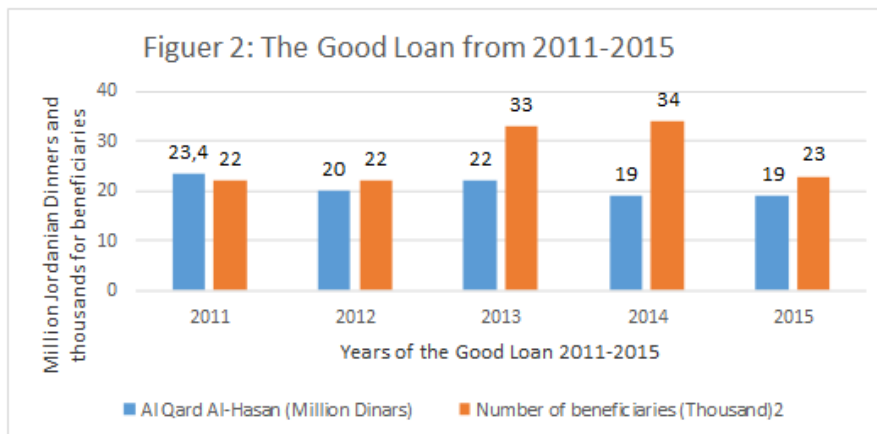
The Bank continued to receive deposits in “Al-Qard Al Hasan” from those wishing to lend such deposits through the Bank as good loans. At the end of 2015, the balance of this account reached around JD (1,300,000).

The Bank also continued to provide “Al Qard Al Hasan” for justified social purposes, such as education, medical treatment and marriage. The loans provided by the Bank in 2015, from the fund and the money allocated for this purpose, reached around JD (19,300,000) benefiting nearly (23,000) citizens, compared to JD (19,400,000) in 2014 benefiting nearly (34,000) citizens.

It is worth mentioning that the Bank has been granting such loans since its incorporation, where the granted loans totalled JD (236.000.000) till the end of 2015, benefiting nearly (406.000) citizens.

In addition to that, some loans were granted for youth who were about to get married in cooperation with Al Afaf Charity Association. The total of such loans in 2015 reached about JD (144.000) benefiting (206) young people compared to about JD (138.000) benefiting (198) young people in 2014.

Some of these loans were granted to teachers through the agreement signed with the Jordanian Teachers Syndicate in 2015 where the total of such loans reached about JD (1,500.000) benefiting (2,266) teachers, against JD (1,100,000) in 2014 benefiting (1,622) as follows in figure 2.



Source: Create by author based on JIB reports.

4.5 Funding Professionals and Craftsmen:

The Bank was keen from the beginning to fund the projects and requirements of professionals and craftsmen by a method which is called Murabaha. In 1994, the Bank developed an ad hoc program to finance this category by the method of Diminishing Musharaka al Muntahia Bittamleek which provides for repaying the financing from the revenues generated by the project. To pay more attention to these projects, the Bank increased the capital of its subsidiary Al Samaha Funding and Investment Company to JD (8.000.000) and amended its memorandum and articles of association to include funding projects and small craftsmen in 2013.

4.6 Mutual Insurance Fund:

The Bank continued to sponsor the Mutual Insurance Fund for the Bank debtors which was created in 1994.

Through this fund, participants share in indemnifying the damage that may be inflicted on any of them to repay all or some of his/her debt to the Bank in case of death, permanent disability, or permanent insolvency. In addition, this Fund is considered risk exposure mitigation as of 2014 after the approval of the Central Bank of Jordan. Throughout 2015, the number of indemnified cases reached (169), and the compensations paid in this year amounted to nearly JD (871.000). Since the Fund establishment until the end of 2015, the total compensation cases reached (2,024) cases, and the amount of compensations paid reached around JD (7.000.000). At the end of 2015, the Fund's balance amounted to around JD (64,200,000), with about (138.000) participants and a total balance of indebtedness of around JD (982.000.000) against the Fund's balance of around JD (53,600,000), and a total balance of indebtedness of around JD (861.000.000) in 2014.

It is worth mentioning that the bank has expanded the umbrella of the insured people as of 1/3/ 2015, to include all people with indebtedness of JD (100.000) or less instead of JD (75.000). The Bank expanded the umbrella of the insured people to be JD (50.000) and less instead of JD (40.000) and less while earlier it was JD (25.000) and less.

4.7 Interaction with the Local Community

The Bank participated with the Public Security Directorate / Central Traffic Directorate in its Ramadan Campaign and during Eid Al Fitr by supporting the printing of some guiding and awareness leaflets to the drivers and distributing them all over the Kingdom to increase awareness and provide guidance and important information to minimize traffic accidents and jams. In addition to the distribution of some water and dates to the drivers at the traffic lights at the time of calling for Maghrib (Sunset) Prayer. The Bank is a major and active participator in different activities and events performed by the public security directorate/central traffic directorate that aim at disseminating awareness to minimize traffic accidents.

The bank provided the Hajj and Umrah department at the Ministry of Awqaf and Islamic affairs and holly places with laptops and PCs, modern printers, and office furniture to facilitate the department's performance of transactions and services rendered to the pilgrims.

In addition, there is a partnership between the Bank, the Eye Bank and the Friends Society of Jordan Eye Bank for the Prevention of Blindness. This partnership is crowned on a yearly basis with an honouring lunch ceremony of the cornea donators,

supporters, and volunteers and the distribution of acknowledgment certificates to them for the six consecutive years.

The Bank, in cooperation with the Public Security Radio Station, distributed some in-kind aids such as heaters and blankets to the needy families and the families who were affected by the blizzard.

The Bank continued to launch blood donation campaigns in many governorates in cooperation with "Blood Bank Directorate" to donate blood where the Bank's employees of all administrative levels donated blood. Some of the Bank's clients participated in the campaign. In addition, a workshop was held on the first aids in cooperation with the Retired Military Cooperative Organization with the participation of many employees.

The Bank also issued the family card, which is designated to those who are convicted in executive cases at the Sharia Executive courts where holders of these cards can get cash from the card balance through the ATMs or the sale points

4.8 Energy and Environment

The Bank continued providing alternate energy in its headquarters by utilizing the electric power generation using the solar cells, taking advantage of space on the roofs of branches for the installation of those cells, which reduces the electricity consumption and decreases the high electric loads in the Kingdom. Table 3 Thus, contributing to the national economy and the environment protection. It is worth mentioning that this project began with three branches as first stage. It is currently applied in (18) branches.

The Bank operated renewed energy system units for Al Rawdah District Mosque in Amman and for other units for two schools in remote areas to meet their need of electricity. The Bank previously did this for a school in a remote area, too.

Table 3: Contribution JIB in energy (2012-2015)

Year	Energy JIB Support			
	Petrol JD/Millions	Electricity JD/Millions	Others JD/Millions	renewed energy JD/Thousand
2012	70	570	6	-
2013	70	775	6	-
2014	70	105	6	48600
2015	77	458	6	53000

Source: Create by author based on JIB reports.

5. Conclusion

The results of this paper suggest several conclusions and avenues for future research. In essence, information disclosure has helped stakeholders to get an in-depth insight into the role and image of the social responsibility of the Jordan Islamic Bank. Corporate social responsibility has been an obstacle in the measurement of the concept. The present study recommends that the contribution of the fund for Bank Training Academy should be improved; moreover, participation is required in the expenses of the Banking Studies Institute affiliated to the CBJ. Furthermore, increased attention to sponsorship of scientific conferences and educational institutions are strongly recommended due to their positive impacts on the contribution of employees and other parties to the costs of employees' study.

Training may provide help for the bank to raise their academic qualifications; in addition, it is a new added value for the bank. It may be more fruitful to increase the development of an ad hoc program to finance craftsmen from the revenues generated by the project. However, there is a need to expand the umbrella of the insured to get a better understanding of the role of the social responsibility of Islamic banks. CSR practices face several difficulties with measuring while the use of disclosure reports will create an added value to the stakeholders' expectations, provide social contribution in these sectors and continue with renewable energy and water consumption programs. Also, encouragement for employees to participate in social activities and voluntary work are essential, similarly to continue funding in the health and education sectors. Social responsibility is no longer sufficient, this is why the Jordan Islamic bank pays increasingly more attention to social and environmental issues.

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