



**CORPORATE SOCIAL RESPONSIBILITY AND
CUSTOMER SATISFACTION: THE CASE OF ISLAMIC
BANKS IN PALESTINE**

BY

NAEL Y. M. SAYED AHMED

**A dissertation submitted in fulfillment of the requirement for
the degree of Doctor of Philosophy (Accounting)**

**Kulliyyah of Economics and Management Sciences
International Islamic University Malaysia**

July 2019

ABSTRACT

Islamic banks play a major role in solving many financial and social problems. Corporate Social Responsibility (CSR) has become a very important concept that is practiced by Islamic banks worldwide to show better corporate image. The current study focuses on the CSR disclosures of Islamic banks operating in Palestine, and customers' perception with CSR practices of these banks. The study has three main objectives. Firstly, it aims to measure the quality of Corporate Social Responsibility Disclosure (CSRD) of Islamic banks in Palestine within 2008-2013. Secondly, to measure the level of customers' perception of CSR practices of Islamic banks in Palestine. And finally, to explain the differences between Palestinian Islamic banks' CSRD and the customers' perception of CSR practices. The data was based on secondary data (using annual reports of Islamic banks during 2008-2013) and primary data (i.e. questionnaires and interviews). The study used mixed methodology. Content analysis was used to measure the quality and trend of CSRD, while questionnaires were used to measure customers perception, and finally interviews were conducted to further enhance the discussion of the results from the analysis. The study found that overall; CSRD improved between 2008 and 2013. This was true for five out of the seven dimensions of CSRD (i.e. Environment, Corporate Governance, Stakeholders engagement, research and development, and Products and services). The results also revealed that customers were moderately satisfied (3.97) with CSR practices of Islamic banks in Palestine. The demographics of questionnaire respondents showed mixed results. Age, years of experience, level of education, bank type, and customer income had no differences, whereas gender and bank name affected customer' perception on CSR practices in the area of products and services. The findings also showed that Islamic banks and customers have to work together to promote awareness about CSR in general, and that Islamic banks need to promote *Shari'ah* compliance and charity among stakeholders in order to gain an edge over competitors within the financial sector. The findings also showed that mandatory CSRD did not significantly improve during 2008-2013, whereas it significantly improved for voluntary CSRD. The current study suggested increasing CSRD, which are more relevant to customers, such as products and services, research and development, and corporate governance. The study also encouraged future research in Palestine using larger data sources in order to gain a comprehensive view of the topic, as the industry is young and small compared to similar industries in other countries.

ملخص البحث

تلعب البنوك الاسلامية دورا اساسيا في علاج الكثير من المشاكل المالية والاجتماعية على المستوى العالمي. وتظهر اهمية تطبيق مبدأ المسؤولية الاجتماعية للشركات والبنوك وذلك للمساهمة في علاج هذه المشاكل وكذلك تحسين صورتها داخل المجتمع. حيث ركزت الدراسة الحالية على قياس مستوى الافصاح الاجتماعي للبنوك الاسلامية العاملة في فلسطين، وقياس رضا الزبائن عن الانشطة الاجتماعية التي تقوم بها البنوك في المجتمع المحلي. وهدفت الدراسة الى تحقيق ثلاثة اهداف رئيسية. الهدف الاول قياس مستوى الافصاح الاجتماعي للبنوك العاملة في فلسطين خلال السنوات ٢٠٠٨-٢٠١٣. الهدف الثاني قياس توجهات الزبائن حول أنشطة المسؤولية الاجتماعية التي تقوم بها البنوك الاسلامية في المجتمع الفلسطيني. واخيرا، الهدف الثالث معرفة اهم اسباب الفروقات بين الافصاحات الاجتماعية وتوجهات الزبائن عن الانشطة الاجتماعية للبنوك الاسلامية. ولقد تم جمع البيانات الثانوية باستخدام القوائم المالية للبنوك الاسلامية العاملة في فلسطين للاعوام ٢٠٠٨-٢٠١٣. فيما تم جمع البيانات الاولية من خلال الاستبانة التي تم توزيعها على الزبائن والمقابلات مع الموظفين العاملين في البنوك الاسلامية. ولقد تم استخدام تحليل المحتوي للقوائم المالية وتوزيع الاستبانات على الزبائن، بالاضافة الى عمل المقابلات للوصول الى فهم ادق للمعلومات الكمية التي تم الحصول عليها. وقد وجدت الدراسة ان مستوى الافصاح الاجتماعي للبنوك الاسلامية قد تحسن خلال الفترة ٢٠٠٨-٢٠١٣، حيث ان خمسة من السبع مجالات المتعلقة بالافصاح الاجتماعي شهدت تحسنا ذو دلالة احصائية (وهي البيئة والحوكمة والعلاقة مع اصحاب المصالح والبحث والتطوير، والسلع والخدمات). واطهرت النتائج ايضا رضا الزبائن بدرجة متوسطة عن الانشطة الاجتماعية المختلفة للبنوك الاسلامية، وان كلا من المتغيرات الديموغرافية باستثناء الجنس واسم البنك لم يؤثر على ارائهم حول المسؤولية الاجتماعية، فيما كانت النتائج متضاربة فيما يتعلق بالمتغيرات الديموغرافية الاخرى. واطهرت النتائج انه على البنوك الاسلامية والزبائن العمل سويا من اجل رفع مستوى المعرفة بالمسؤولية الاجتماعية واهميتها في المجتمع الفلسطيني، وان على البنوك الاسلامية التركيز على توضيح المبادئ الشرعية والانشطة الخيرية التي تعمل من خلالها وذلك لزيادة قدرتها على المنافسة والتفوق على البنوك الاخرى. وقد اوصت الدراسة بضرورة زيادة الافصاحات الاجتماعية ذات الاهمية للزبائن (ومن اهمها السلع والخدمات والبحث والتطوير والحوكمة). كما شجعت الدراسة الحالية على عمل دراسات مستقبلية في فلسطين باستخدام مصادر بيانات اضافية وبالرجوع الى عينات اكبر، وذلك من اجل الوصول الى فهم اوضح للمسؤولية الاجتماعية بشكل عام. وذلك نظرا لحدثة هذا القطاع وصغر حجمه مقارنة بالدول الاخرى.

APPROVAL PAGE

The thesis of Student's Name has been approved by the following:

Noraini Mohd Ariffin
Supervisor

Maliah Sulaiman
Co-Supervisor

Nazli Anum Mohd Ghazali
Internal Examiner

Hafiz Ab. Rashid
Internal Examiner

Mustafa Mohamed Zain
External Examiner

Ku Nur Izah Ku Ismail
External Examiner

Imad Fahri Taha Alshaikhli
Chairman

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at International Islamic University Malaysia or other institutions.

Nael Y. M. Sayed Ahmed

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

DECLARATION OF COPYRIGHT AND AFFIRMATION OF FAIR USE OF UNPUBLISHED RESEARCH

Copyright © Nael Y. M. Sayed Ahmed 2019 by International Islamic University Malaysia. All rights reserved.

CORPORATE SOCIAL RESPONSIBILITY AND CUSTOMER SATISFACTION: THE CASE OF ISLAMIC BANKS IN PALESTINE

I hereby affirm that the International Islamic University Malaysia (IIUM) holds all rights in the copyright of this Work and henceforth any reproduction or use in any form or by means whatsoever is prohibited without the written consent of IIUM. No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Nael Y. M. Sayed Ahmed.

.....
Signature

.....
Date

ACKNOWLEDGEMENTS

Firstly, it is my utmost pleasure to dedicate this work to my dear parents, my *Eva*, my children, and family, who granted me the gift of their unwavering belief in my ability to accomplish this goal. Thank you all for your love, support, and patience.

I would like to thank myself for believing in me. Although the journey was long, it was fruitful and full of experience. Determination is nothing without hard work and dedication. I kept faith in *Allah* all the time, and never gave up on me. The road is still long, and many happy days are still to come, so just keep faith and smile.

I wish to express my appreciations and thanks to those who provided their time, effort, and support for this project. To the members of my thesis committee. Thank you for sticking with me.

Finally, special thanks to all my supervisors and lecturers who contributed to this work. Your support, encouragement, and leadership made this possible for me to accomplish. Thank you for being there for me.

TABLE OF CONTENTS

Abstract	ii
Abstract in Arabic	iii
Approval Page.....	iv
Declaration	v
Copyright Page.....	vi
Acknowledgements.....	vii
List of Tables	xi
List of Figures	xv
List of Abbreviations	xvi
CHAPTER ONE: INTRODUCTION	17
1.1 Background of the Research	17
1.2 Statement of the Problem.....	21
1.3 Motivations of the Research	22
1.4 Research Objectives	23
1.5 Research Questions	24
1.6 Overview of the Research Methodology	24
1.7 Significance of the Research.....	26
1.8 Structure of the Thesis	28
CHAPTER TWO: CORPORATE SOCIAL RESPONSIBILITY & CUSTOMER PERCEPTION	30
2.1 Introduction.....	30
2.2 Corporate Social Responsibility (CSR)	31
2.2.1 Defining CSR	31
2.2.2 Principles of CSR	33
2.3 Customer Perception	35
2.3.1 Defining Customer Perception	35
2.3.2 Determinants of Customer Perception	36
2.4 CSR of Islamic Banks	40
2.4.1 CSR in Islam	40
2.5 Literature of CSR for Islamic Banks.....	44
2.6 Customer Perception with Islamic Banks	58
2.7 Discussing the Gaps in the Current Literature	61
2.8 Chapter Summary	64
CHAPTER THREE: ISLAMIC BANKING IN PALESTINE	65
3.1 Introduction.....	65
3.2 Islamic Banking Industry in Palestine	65
3.2.1 Advantages and Disadvantages of Dealing with Islamic Banks ...	67
3.2.2 Problems Facing Islamic Banks in Palestine.....	69
3.2.3 Reasons for Dealing with Islamic Banks in Palestine and Their Problems.....	70
3.3 Regulations of Islamic Banks CSR in Palestine	72

3.3.1	Palestine Monetary Authority (PMA)	72
3.3.2	Association of Banks in Palestine (ABP).....	74
3.3.3	Palestine Securities Exchange (PEX).....	75
3.3.4	Basel II for Banks.....	76
3.3.5	Corporate Governance Code of Conduct	76
3.3.6	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI):	77
3.3.7	ISO 26000 for CSR	77
3.3.8	The Global Reporting Initiative (GRI).....	78
3.4	Products and Services Offered by Islamic Banks in Palestine	79
3.5	Chapter Summary	80

CHAPTER FOUR: THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT 82

4.1	Introduction.....	82
4.2	Theoretical Framework.....	82
4.2.1	Stakeholder Theory	82
4.2.2	Legitimacy Theory	85
4.2.3	Accountability Theory.....	88
4.3	Developing Research Hypothesis	92
4.3.1	Developing Hypothesis on Quality of CSRD for Islamic Banks in Palestine	92
4.3.2	Developing the Hypothesis on Customer Perception with CSR Practices in Palestine.....	101
4.4	Chapter Summary	102

CHAPTER FIVE: RESEARCH METHODOLOGY 103

5.1	Introduction.....	103
5.2	Research Design.....	103
5.2.1	Mixed Methods.....	104
5.3	Sample Sources and Data.....	106
5.3.1	Developing CSRD Index.....	108
5.3.2	Content Analysis	110
5.3.3	Questionnaire Design, Sampling, and Pilot Study	111
5.3.4	Interview Design, and Sampling.....	118
5.4	Methods of Data Analysis.....	120
5.4.1	Quantitative	120
5.4.2	Qualitative	123
5.5	Chapter Summary	127

CHAPTER SIX: ANALYSIS AND FINDINGS (I) 128

6.1	Introduction.....	128
6.2	Content Analysis.....	128
6.2.1	Reliability Test	128
6.2.2	Quality of Disclosure Results and Discussion	129
6.3	Questionnaire Analysis	154
6.3.1	Reliability Test	154
6.3.2	Validity Test.....	155
6.3.3	Questionnaire Survey	157

6.3.4	Respondents' Background	158
6.3.5	Customers' Years of Experience:	163
6.3.6	Hypothesis Testing	171
6.4	Overall Comparison between CSRD and CSR Practices	189
6.5	Chapter Summary	191
CHAPTER SEVEN: ANALYSIS AND FINDINGS (II)		193
7.1	Introduction	193
7.2	Demographics of Interviewees.....	194
7.3	Discussing Respondents' Answers	197
7.3.1	Palestine Islamic Bank (PIB)	197
7.3.2	Charity Transactions.....	198
7.3.3	Arab Islamic Bank (AIB)	209
7.3.4	Charity Transactions.....	210
7.3.5	Palestine National Bank (PNB).....	219
7.3.6	Charity Transactions.....	220
7.4	Chapter Summary	231
CHAPTER EIGHT: CONCLUSION, LIMITATIONS, AND SUGGESTIONS FOR FUTURE RESEARCH		236
8.1	Introduction	236
8.2	Summary of the Main Results.....	237
8.3	Comparison between Content Analysis and Questionnaire Analysis Results.....	239
8.4	Reasons FOR the Differences between Content Analysis and Questionnaire Results	240
8.5	Overall Results and Implications:	241
8.6	Limitations and Suggestions for Future Research:	244
REFERENCES.....		247
APPENDIX I: QUESTIONNAIRE FORMS IN ENGLISH		263
APPENDIX II: QUESTIONNAIRE FORMS IN ARABIC		269
APPENDIX III: INTERVIEW FORMS IN ENGLISH.....		275
APPENDIX IV: INTERVIEW FORMS IN ARABIC		278
APPENDIX V: CSRD INDEX		281
APPENDIX VI: RESULTS FOR MANDATORY AND VOLUNTARY ANALYSIS OF CSRD		285
APPENDIX VII: RESULTS OF ANALYSIS FOR INDIVIDUAL BANKS.....		287

LIST OF TABLES

<u>Table No.</u>		<u>Page No.</u>
2.1	Determinants of customers' perception of Islamic banks	37
2.2	Summary of literature on CSR of Islamic banks	56
2.3	Summary of literature on customer perception about Islamic banks	61
3.1	CSR expenses of Islamic banks between (2008 to 2015)	66
3.2	Some indicators of Islamic banks performance in Palestine	71
3.3	Different contracts provided by Islamic banks	80
4.1	Theories and approaches that support each hypothesis	102
5.1	Framework summary for the research methodology	106
5.2	Customer base and sample size for Islamic banks in Palestine	112
5.3	Cronbach's Alpha test	115
5.4	Pearson correlation test of validity	116
5.5	Factor analysis by principal component test of validity	117
5.6	Number of employees at each Islamic bank and sample	118
5.7	Scoring system for CSRD	121
5.8	A summary of literature supporting the analysis of research variables	125
6.1	Reliability test for disclosure index	129
6.2	Descriptive statistics for overall CSRD	130
6.3	Mean per dimension within 2008-2013 for all banks	133
6.4	Mean and ranking of charity transactions disclosures	134
6.5	Mean and ranking of environmental disclosures	137
6.6	Mean and ranking of Shari'ah compliance disclosures	139

6.7	Mean and ranking of corporate governance disclosures	140
6.8	Mean and ranking of stakeholders' engagement disclosures	141
6.9	Mean and ranking of research and development disclosures	143
6.10	Mean and ranking of products and services disclosures	144
6.11	Wilcoxon test for overall CSRD using 88 indicators	145
6.12	Wilcoxon signed rank test for Charity transaction for 10 indicators	147
6.13	Wilcoxon signed rank test for environment using 7 indicators	148
6.14	Wilcoxon signed rank test for Shari'ah compliance dimension using 10 indicators	149
6.15	Wilcoxon signed rank test for corporate governance using 18 indicators	150
6.16	Wilcoxon signed rank test for stakeholder engagement using 16 indicators	151
6.17	Wilcoxon signed rank test for research and development using 9 indicators	152
6.18	Wilcoxon signed rank test for the products and services using 18 indicators	153
6.19	Summary of hypothesis testing results	154
6.20	Reliability test for the questionnaire	154
6.21	Pearson Correlation test	155
6.22	Factor analysis by principal component results	156
6.23	Distributed, received, and used questionnaires	158
6.24	Frequencies and percentages of the personal and demographic variables of the sample	158
6.25	The independent samples T-test of differences in customers' perception of Islamic banks CSR practices in Palestine due to Gender	160
6.26	ANOVA test for customers' age effect on customers' perception with Islamic banks CSR practices	161
6.27	ANOVA test results for differences in customers' perception due to years of experience	163
6.28	ANOVA test for the differences in customers' perception due to their level of education	164

6.29	Means, standard deviation and t test results for differences in customers' perception due to bank type	166
6.30	ANOVA test results for the customers' level of income effect on perception with CSR practices	167
6.31	ANOVA test results for the customers' banks' name effect on perception with CSR practices	169
6.32	Tukey Multiple comparison analysis	170
6.33	Summary of customers' demographics effect on their perception with CSR practices of Islamic banks in Palestine	171
6.34	Percentages, means, and standard deviation for charity transactions	172
6.35	T test for customer perception of Charity transactions for Islamic banks in Palestine	173
6.36	percentages, means, and standard deviation for Environment	174
6.37	T test for customer perception of Environment for Islamic banks in Palestine	175
6.38	percentages, means, and standard deviation for Shari'ah compliance	176
6.39	T test for customer perception with Shari'ah Compliance for Islamic banks in Palestine	177
6.40	percentages, means, and standard deviation for Corporate Governance	178
6.41	T test for customer perception of Corporate Governance for Islamic banks in Palestine	180
6.42	Percentages, means, and standard deviation for Stakeholder Engagement	181
6.43	T test for customer perception with Stakeholders engagement for Islamic banks in Palestine	183
6.44	Percentages, means, and standard deviation for Research and Development	184
6.45	T test for customer perception with Research and Development for Islamic banks in Palestine	185
6.46	Percentages, means, and standard deviation for Products and Services	186
6.47	T test for customer perception with Products and services for Islamic banks in Palestine	188

6.48	Summary of customers' perception of Islamic banks' CSR practices in Palestine	189
6.49	Summary of results of CSRD test and CSR practices of Islamic banks	189
6.50	Means of CSRD content analysis and CSR practices from customers' questionnaire analysis	190
7.1	Interviewees Demographic Data	194
7.2	The percentages of CSRD and questionnaire results for each bank	197
7.3	Results of content analysis and questionnaire analysis for PIB	197
7.4	Results of content analysis and questionnaire analysis for AIB	209
7.5	Results of content analysis and questionnaire analysis for PNB	220

LIST OF FIGURES

<u>Figure No.</u>		<u>Page No.</u>
4.1	Theoretical framework of the study	92
5.1	Research steps	126

LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ABP	Association of Banks in Palestine
AIB	Arab Islamic Bank
ATM	Automated Teller Machine
BIMB	Bank Islam Malaysia Berhad
BOD	Board Of Directors
CCG	Code of Corporate Governance
CFI	Conventional Financial Institutions
CG	Corporate Governance
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure
DEA	Data Envelopment Analysis
EBIT	Earnings Before Interest and Tax
GCC	Gulf Cooperation Council
GRI	Global Reporting Initiative
IFI	Islamic Financial Institutions
IIUM	International Islamic University Malaysia
ISO	International Organization for Standardization
PBUH	Peace Be Upon Him (Prophet Mohammed)
PEX	Palestine Securities Exchange
PIB	Palestine Islamic Bank
PMA	Palestine Monetary Authority
PNB	Palestine National Bank
R&D	Research and Development
SSB	Shari'ah Supervisory Board

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE RESEARCH

Many studies have tried to explain a 'socially responsible organization', while others are more content to move the application of Corporate Social Responsibility (CSR) into different industries, such as Islamic Financial Institutions (IFI's). These studies have focused on disclosure levels, the marketing perspective of developing a social image, and the standards governing the area of CSR disclosure in general. There is also work being done on the existence of a linkage between CSR practices and stakeholders' attitudes towards dealing with different organizations (Lodhi et al., 2012; Stewart et al., 2011). As a result of the above, CSR practices and stakeholders' perceptions are increasingly being discussed, as customers and professionals are considered the major stakeholders in the services industry.

This study focuses on measuring the quality of Corporate Social Responsibility Disclosures (CSR D) and customers' perception of CSR practices, and the reasons for the differences between these. The current study used a mixed methodology based on gathering both qualitative and quantitative data. There are 3 main aspects to the study: the desirable CSR D, the desired CSR, and the actual CSR D. The study firstly develops an index for CSR D, which is currently partially mandatory in Palestine (for example, on *Zakat*), the index developed constitute the desirable CSR D. It then measures the actual level of disclosure during the six years (2008-2013). This constitutes the actual CSR D. It goes on to ask customers about their perception of the CSR practices of Islamic banks. This constitutes the desired CSR as perception of

customers on CSR practices may point to what customers actually would like banks to practise and subsequently disclose. Finally, it asks professionals at Islamic banks to explain the reasons for any differences that might exist between the desirable CSRD and the actual CSRD at their bank, as well as any differences that exist between the actual CSRD and the desired practices of CSR of these banks, and how these affect customers' perceptions.¹.

In order to understand the objectives of Islamic banks, Muslims have to realize that Islamic banks were established based on the objectives of *Shari'ah*. Imam Ghazali said, (as stated by Zubairu et al., 2011):

“The objective of the Shari'ah is to promote the well-being of all mankind, which lies in safeguarding their faith (din), their human self (nafs), their intellect (aql), their posterity (nasl) and their wealth (mal). Whatever ensures the safety of these five serves public interest and is desirable”.

Thus, Islamic banks (as quoted by Zubairu et al., 2011) have to advocate social well-being by helping individuals develop themselves, and protect and enhance their wealth (Lodhi et al., 2012; Stewert et al., 2011).

Maali et al. (2006) defined Islamic banks as ‘banks that follow Islamic Shari'ah in their business transactions’. Al-Kabisi, (2005) described Islamic banks as those ‘Islamic organizations that interact in different businesses to build society and benefit individuals based on Islamic principles’. The first Islamic bank (Mit Ghamr Local Savings Bank) was established in Egypt in 1963, followed by the development of similar banks in other Islamic countries, such as the Kingdom of Saudi Arabia, United Arab Emirates, Sudan, Jordan, and others (Venardos, 2005). The fast

¹ What ought to be desired is (desirable), and what is actually desired (the desired), and what is actual CSR practice (Kasim et al., 2009)

expansion of Islamic banks all over the world gave rise to the need to study this phenomenon from multiple perspectives (Hassan et al., 2011; Gao & Aribi, 2010).

Islamic banks have witnessed great expansion throughout the world. However, recent research highlights the fact that Islamic banks might not be fulfilling their social role in accordance with the *Shari'ah*, as they disclose less CSR information than was expected (Hassan et al., 2011; Gao & Aribi, 2010; Harahap & Hassan, 2010; Haniffa & Hudaib, 2007).

Although much research has been done in this area (Alamer et al., 2015, Belkacem and Ladraa, 2015; Hadi et al., 2012; Al-Qadi, 2012; Lodhi et al., 2012; Stewert et al., 2011; Zubairu et al., 2011; Hassan et al., 2011; Harahap & Hassan, 2010; Gao & Aribi, 2010; Abd Rahman et al., 2010; Haron et al., 2009; Siwar & Hossian, 2008; Haniffa & Hudaib, 2007; Lanis & Farook, 2007; Maali, et al., 2006), it is still quite unclear how it can all be incorporated into a body of knowledge that could help impose these criteria for Islamic banks' disclosures. The literature also suggests that it is impossible to have the same criteria imposed on all Islamic banks everywhere in the world, as there are still differences in culture, attitudes, and even expectations of Islamic banks, along with differences in what they offer to a community (Gao & Aribi, 2010; Haron et al., 2009).

This research asks professionals working in Islamic banks their opinion. While CSR focuses on presenting all practices relating to the social role played by an organization within a certain community through annual reports and other publications (Hadi et al., 2012; Haron et al., 2009; Haniffa & Hudaib, 2007), customer perception focuses on the attitudes of customers towards different CSR practices and products and services offered by the banks (Dent et al., 2011; Waemusor, 2010). Customers' attitude may be positive or negative; this is based on the level of reward (satisfaction)

they receive from consuming a certain product or service (financial satisfaction, emotional satisfaction, and overall social welfare) (Khattak et al., 2010; Amin & Isa, 2008). As a result of gaining the emotional satisfaction of being *Shari'ah* compliant and a good Muslim, customers express satisfaction with Islamic banks (Hadi et al., 2012).

The current study focuses on three areas which have not been adequately addressed in previous studies. Firstly, previous research in the area of CSR disclosure has lacks recognition of the need to incorporate some services' perspective and the social role of the bank within the CSRD indices developed in Palestine thus far. Secondly, insufficient attention has been given to customers' evaluation of the degree to which Islamic banks comply with *Shari'ah* in terms of the actual impact of the services they provide (Bukhari & Awan, 2011), which is one of the main determinants for customer satisfaction within the financial industry. Thirdly, previous research has established the differences between Islamic and conventional banks but not the differences between Islamic banks themselves. In examining these inadequately researched areas, this current study uses mixed methodology rather than either questionnaires or content analysis. It investigates how demographics of customers affect their opinions about different areas of CSR. Findings from this investigation may help Islamic banks' top management focus on relevant and pertinent social practices of the other customer groups. Finally, the study specifically focus on Palestine, as research here is limited and the Islamic finance industry is relatively young (just over 20 years). It is hoped that the results will assist in expanding the Islamic financial sector in Palestine and improving the social role of Islamic banks.

1.2 STATEMENT OF THE PROBLEM

Many studies have investigated the quality of CSRD for Islamic banks worldwide. Most of these studies reported fluctuating disclosure performance of banks under different categories, including *Shari'ah* compliance, environment, and Corporate Governance (AlQadi, 2012; Zubairu et al, 2011; Haniffa & Hudaib, 2007). This is somewhat surprising, as many regulating bodies are working to advance CSR governance in this area in different parts of the world (Belkacem & Ladraa, 2015; Lanis & Farook, 2007; Dusuki & Abdullah, 2006). This lack of consistency in disclosure practices is particularly worrying, as Islamic banks are experiencing consistent growth and are regarded as one of the main pillars of economic development in many Muslim and non-Muslim countries (Lanis & Farook, 2007). It also raises the question of whether CSRD for Islamic Financial Institutions (IFIs) in general, and Islamic banks in particular, should remain partially voluntary or be fully regulated (Zubairu et al., 2011; Hasan et al., 2010).

The problem that is receiving the most attention in the academic field is the fact that although CSRD is improving, the Islamic banking sector still neglects the role of customers in directing their CSR practices (Khattak et al., 2010). The studies have focused primarily on the role of customers and professionals as they participate and interact consistently within the services industry, and are considered the main pillars for the financial sector in general, and the banking sector in particular (AlQadi, 2012; Bukhari & Awan, 2011; Dent et. al, 2011).

Consequently, this study focuses on both Corporate Social Responsibility Disclosure (CSRD) of Islamic banks in Palestine, and customers' perception of their CSR practices. The CSR for Islamic banks comprises two important and interrelated parts: (1) CSRD and (2) the CSR practices which are partially or fully reflected in the

CSR. More importantly, Professionals are able to help explain the reasons for the differences that exist between these banks desirable and the actual CSR. They will also enhance our understanding on CSR and customer satisfaction with CSR practices of these banks. This will assist top management of Islamic banks to realize the importance of reporting such practices, and how it correlates with their customers' willingness to deal with them, as they become motivated by religion and *Shari'ah* compliance (Bukhari & Awan, 2011; Nejad et al., 2011, Alam & Hisham, 2011).

This approach is based on the works of Maali et al. (2006) and Haniffa and Hudaib, (2007), who pioneered the understanding of CSR while managing to measure its level in different Islamic banks. Their work was also unique, as it revealed the differences between Islamic banks in their reporting of social events, which was not addressed in previous works on this topic. This is important, as it had the potential to help these banks gain a competitive advantage over other banks, including conventional banks (Lee & Shakir Ullah, 2011). The problem is investigated thoroughly within the Palestinian context as Palestine still lacks studies that address the issue in the Islamic banking sector of the country, as explained in the contributions of the study later.

1.3 MOTIVATIONS OF THE RESEARCH

Firstly, many research work emphasize the need to standardize CSR for Islamic banks (Belkacem and Ladraa, 2015; Zubairu et al., 2011; Haniffa & Hudaib, 2007; Maali et al., 2006). Maali et al. (2006) started the work on such standardization through constructing an index of disclosure for Islamic banks. However, the work did not account for the customers' perception of CSR practices. It also did not consider the role that Islamic banks play in society in assisting to pave the way for customers to

increase their wealth and achieve the important objective of to *Shari'ah* for safe-keep the wealth (*Mal*) (Zubairu et al., 2011).

Secondly, the study highlights the need for extensive research in the area of customer perception of Islamic banks' social practices and the determinants of customer behaviour towards these institutions (Khattak et al., 2010; Amin & Isa, 2008). One area of focus is the relationship between CSR practices and customer satisfaction with the banks' services from the social rather than the financial perspective. Although customers seek banking services for different purposes, they still seek the same services but on the concrete basis of being *Shari'ah* compliant (Bukhary et al., 2011; Khattak et al., 2010, Waemusor, 2010; Amin & Isa, 2008). Also, the differences that exist among customers and how these affect their satisfaction with CSR practices have not been examined in Palestine.

Lastly, the literature on Islamic banks in Palestine stresses the need for detailed scientific research of this sector to promote its operations and customer understanding of its services. The study stresses the fact that differences do exist between what is being socially disclosed and what is being socially practised by Islamic banks. This is explained and justified by the professionals working at senior positions in these banks (Al-Shananeer, 2008; Ayub, 2007; Meqdad & Halas, 2005). More importantly, the study focuses on the extent Islamic banks in Palestine are socially responsible.

1.4 RESEARCH OBJECTIVES

This study investigates CSRD of Islamic banks and customer perception of Islamic banks' CSR practices. It uses literature to establish a measure for the CSRD of Islamic banks, to examine the levels of customers' perception associated with these CSR

practices, and, finally, to examine the reason behind differences between content analysis results and results of questionnaires on CSR practices of Islamic banks. The overall objectives of this study are:

- i. To measure the quality of CSRD of Islamic banks in Palestine within 2008-2013,
- ii. To measure the level of customers perception of Islamic banks' CSR practices in Palestine,
- iii. To explain the differences between Palestinian Islamic banks' CSRD and the customers' perception of CSR practices.

1.5 RESEARCH QUESTIONS

Based on the objectives of this study, the following questions are investigated:

- i. What is the quality of CSRD for Islamic banks within between 2008-2013 in Palestine?
- ii. What is the customers' perception of the Islamic banks CSR practices in Palestine?
- iii. What are the main reasons for the differences between CSRD and customers perception of CSR practices of Islamic banks in Palestine?

1.6 OVERVIEW OF THE RESEARCH METHODOLOGY

The current research uses a mixed-methods design via the collection and analysis of primary and secondary data. Secondary data is collected through development of a CSRD index and conducting content analysis for the annual reports of the three Palestinian Islamic banks within 2008-2013, while the primary data is collected by using a questionnaire distributed to 150 customers of the same three banks. The