

EXAMINE THE IMPACT OF SHARIA COMPLIANCE ON ISLAMIC CORPORATE SOCIAL RESPONSIBILITY ADOPTION IN PAKISTANI ISLAMIC BANKS: MODERATING ROLE OF COMMUNITY EXPECTATIONS

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ABSTRACT

The current study examines the impact of sharia compliance on Islamic corporate social responsibility adoption and further analyzes the moderating effect of community expectation on the linkage between sharia compliance and Islamic corporate social responsibility adoption. The researcher gathered data through Islamic bank employees working in the Sahiwal district, Punjab, Pakistan. Three hundred seventy-five complete responses were collected and analyzed using the partial least square structural equation modeling technique through SmartPLS Software 4.0. The findings revealed the significant relation between sharia compliance and Islamic corporate social responsibility adoption, and community expectations positively moderate the relationship between sharia compliance and Islamic corporate social responsibility adoption in Pakistani Islamic banks. The current study provides numerous guidelines for scholars and policymakers to understand the importance of community expectations to adopt Islamic corporate social responsibility in Islamic banks successfully.

Keywords: Sharia compliance, Islamic corporate social responsibility, community pressure, Islamic banking sector, developing economy, Pakistan.

1.0 INTRODUCTION

The corporate social responsibility (CSR) phenomenon is gaining momentum as organizations consider the betterment of stakeholders vital for sustainability (Budi, 2021). Companies are not concerned only with attaining financial growth. They also must support society. The companies follow the norms and values of countries where their operations are in process. It helps them to improve the CSR activities for the stakeholders. The banking sector plays a vital role in the economy of any country. Banks are involved in any person's daily life directly or indirectly. Traditional banking is prevailing for decades in the world; however, Islamic banking is gaining popularity in Muslim majority countries where clients are willing to invest in banks that comprise interest-free financial products and follow Islamic principles according to Sharia (Gunardi et al., 2021).

CSR and Islamic values are not different. Social responsibility embeds in Islamic principles. The Sharia guided the ways to contribute to society by helping them and guiding the right path. CSR activities improve the company's image, and people build trust in the organization and help the company to get a competitive advantage and attain sustainability (Bukhari et al., 2020). The philosophy of CSR is hidden in Islamic ideology. Islam also preaches that a person is responsible for his actions towards a human being or any other thing and accountable for his deeds. CSR also guides the management to fulfill their responsibility toward the betterment of society, and if companies disclose the facts to stakeholders, they are accountable for this action. CSR activities enhance consumer loyalty and satisfaction, improving financial performance (Krisnawati, 2019).

Muslim consumers are increasing, and demand Islamic corporate social responsibility (ICSR) performed by the organizations. The organizations are adopting ICSR to attract Muslim consumers

(Siswanti et al., 2021). The CSR literature mostly shows the studies conducted in western countries, while studies examining the Islamic corporate social responsibility in the different corporate sector is scarce (Azam et al., 2019). There is also a gap in studies exploring CSR in developing economies. CSR in developing economies like Pakistan is still in the infancy stage and needs further in-depth analysis. Muslim consumers want Sharia-compliant CSR activities that are examined in the present study (Zafar & Sulaiman, 2020).

Research questions are proposed as follows based on the literature cited above:

RQ1: Does the sharia compliance influence adoption of Islamic CSR in Pakistani Islamic banks?

RQ2: Does community expectations moderate the relationship between sharia compliance and Islamic corporate social responsibility adoption in Pakistani Islamic banks?

2.0 LITERATURE REVIEW

2.1 Islamic corporate social responsibility (ICSR)

The Islamic corporate social responsibility (ICSR) represents the moral obligations of a business following the Islamic principles to contribute to society and be responsible and accountable for its actions, whether the financial consequences are good or bad. Islam is a complete guideline to the human from daily life to business. Islamic principles guide organizations to consider profit maximization and serve a better society. The organizations following the ICSR target market comprise of Muslim community who demand services based on Islamic teachings. The Holy Quran and Sunnah are the sources to develop the guidelines for any business considering social welfare as the primary concern (Alsaadi et al., 2017).

The Islamic code of conduct permits organizations to promote good deeds and avoid negative actions harmful to society. Traditional CSR emphasizes the corporate sector's good deeds and positive moral obligation (Ridwan & Mayapada, 2022). Accountability and responsibility are the main pillars of ICSR adoption. Organizations should consider themselves accountable to the public and responsible for their actions that are helpful to society. ICSR is better suited for Islamic organizations, and the companies operating in Islamic countries as Muslims, are their target market. They consider the organization more suitable that follows the ICSR (Sidik & Reskino, 2016).

2.2: Islam banking in Pakistan

In Pakistan, Islamic banking is emerging rapidly, and five Islamic banks are operating fully-fledged, while other conventional banks also establish standalone Islamic branches. The number of Islamic branches is increasing rapidly due to consumer demand. The State bank of Pakistan is also promoting Islamic banking (Hussain et al., 2020). Pakistan's Islamic banking industry does not fall in top ranking regards to disclosure of CSR activities. Islamic banks are still lacking in CSR activities that need to be strengthened. Islamic banks can implement green banking to preserve natural resources harmonized with Islamic teachings. Still, many banks are just implementing traditional green, paperless banking, which does not fulfill the ICSR criteria.

Muslims firmly believe in religion, give charity to disasters and needy people, and expect the same from the organization. Charity and contribution to better humanity are the ideology of ICSR. Consumers of Islamic banking demand shariah compliance in each banking operation and service. Islamic banks are following the shariah but in the true spirit that needs to be investigated. Shariah compliance is a strong determinant of ICSR adoption in Islamic banks. The philosophy of shariah is the principal guideline for Islamic banks to adopt ICSR. In a developing country like Pakistan, an absence of research on ICSR adoption in Islamic banks requires further examination.

2.3 Sharia compliances and Islamic corporate social responsibility adoption

Shariah is "the Islamic law governing religious rituals and aspects of day-to-day life in Islam." The shariah ensures the organization operates following the guidelines suggested by Islam and no "Haram" activity is being performed. The ICSR adoption also depends on Shariah compliance by Pakistan's Islamic banks. Mere conversion of name from a traditional bank to an Islamic bank is not enough. The policymakers of Islamic banks embed Islamic values in the standard operating procedures (Majeed & Zainab, 2018). The following hypothesis can be derived:

H1: Sharia compliance is positively related to Islamic corporate social responsibility adoption.

2.4 Moderating the role of community expectations

Stakeholder pressure and community expectations are compelling traditional banks operating in Muslim countries to establish Islamic branches. Islamic banks perform CSR activities but do not disclose the

information to the community. The ICSR adoption is still under maturity, and Islamic banks mainly focus on profit maximization and customer services rather than following the Islamic principles per community demand (Budi, 2021). Financial growth is the ultimate goal of every organization, but ICSR should be aligned with the organization's core values and meet the community's expectations (Bhattacharyya, 2019). The above literature posited the following hypothesis:

H2: Community expectations moderate the relationship between sharia compliance and Islamic corporate social responsibility adoption.

2.5 Theoretical Framework

As shown in the theoretical framework in figure 1, there are three variables: sharia compliance as an independent variable, Islamic CSR adoption as a dependent variable, and community expectations as a moderating variable.

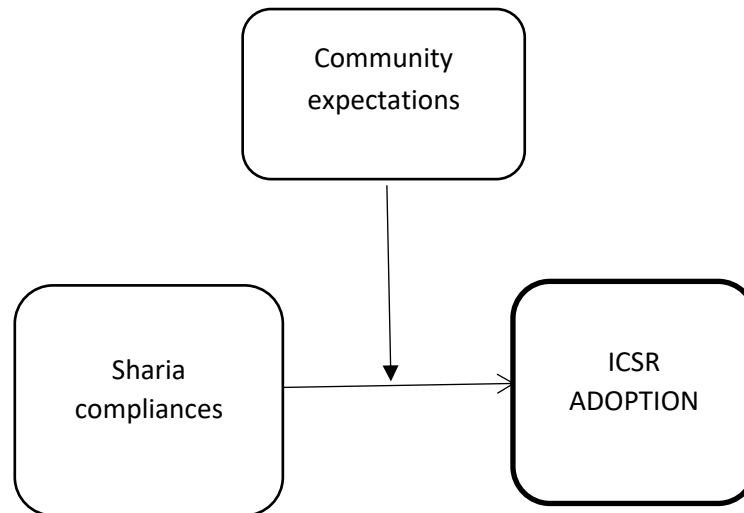


Figure 1: Theoretical Framework

3.0 RESEARCH METHODOLOGY

3.1 Population and Sampling

The researcher collected data from employees working in Islamic banks in the Sahiwal district, Punjab province of Pakistan. Punjab was chosen due to being the most populous province of Punjab, and predominantly Islamic bank branches are located in Punjab. A survey technique was used to gather information from employees of Islamic banks using a closed-ended questionnaire. Information was gathered through the use of a structured questionnaire in quantitative research. The survey was created using a set of carefully chosen scales, evaluated in the most recent literature, and tailored to the present study. The participants are also made aware that (1) participation is voluntary, (2) survey responses are kept private, and (3) their responses are exclusively utilized for academic study. Simple random sampling was used. The sample size was determined using the G*POWER software with parameters of 0.15 for effect size, 0.05 for error Type I, and 80% power. The total sample size was 400, where 375 were found complete while 25 were incomplete responses excluded from the study.

3.2 Operationalization of constructs

The items that were utilized to measure the constructs in the current study were taken from earlier works of literature. A 7-point Likert scale was deployed to gauge all items. The operationalization table mentioned below shows empirical research was conducted. The data was gathered utilizing a structured questionnaire and a quantitative research approach

Table 1: Constructs operationalization

Variable	Items	AVE	CR	Reference
Sharia compliance	4	0.619	0.907	Park (2015)
ICSR adoption	6	0.505	0.929	Ahmad (2015)

Community expectation	4	0.717	0.910	Park (2015)
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3.3 Data Analysis Tools

Partial least squares structural equation modeling was the data analysis technique used. (PLS-SEM). The statistical evaluation of the hypotheses was done using the Smarts 4.0 software. Since data normalization is not required for PLS-SEM, the bootstrapping approach was used in the current investigation to evaluate the hypotheses (Hair et al., 2010, 2014, 2017; Sarstedt et al., 2017).

4.0 RESULTS AND FINDINGS

4.1 Respondent Profile

According to the demographic study, male participants respond more often than female individuals. Female participants accounted for 20 percent of the total, while male participants accounted for 80 percent. The education variable revealed that 34.66 percent of the respondents had completed their education. The respondents' ages revealed that the majority, 46.66 percent, are between the ages of 20 and 30. The majority of people have been using Islamic banking last 2-3 years, as shown in Table 2.

Table 2: Demographic profile of respondents

Demographic variables	Frequency	Percentage
Gender		
Male	300	80%
Female	75	20%
Education		
Intermediate	75	20%
Graduation	100	26.66%
Master	70	18.66%
Others	130	34.66%
Age		
20-30 years	175	46.66%
31-40 years	165	44%
41 years and Above	35	9.3%
Experience		
1-2 years	100	26.66%
2-3 years	150	40%
3 years and above	125	33.33%

4.2 Assessment of measurement model

The current study have 14 items to analyze the constructs that form the outer model. Constructs are described as latent variables. As shown in Figure 2, Confirmatory Composite Analysis (CAA) was calculated using Smart PLS software and partial least structural equation modeling.

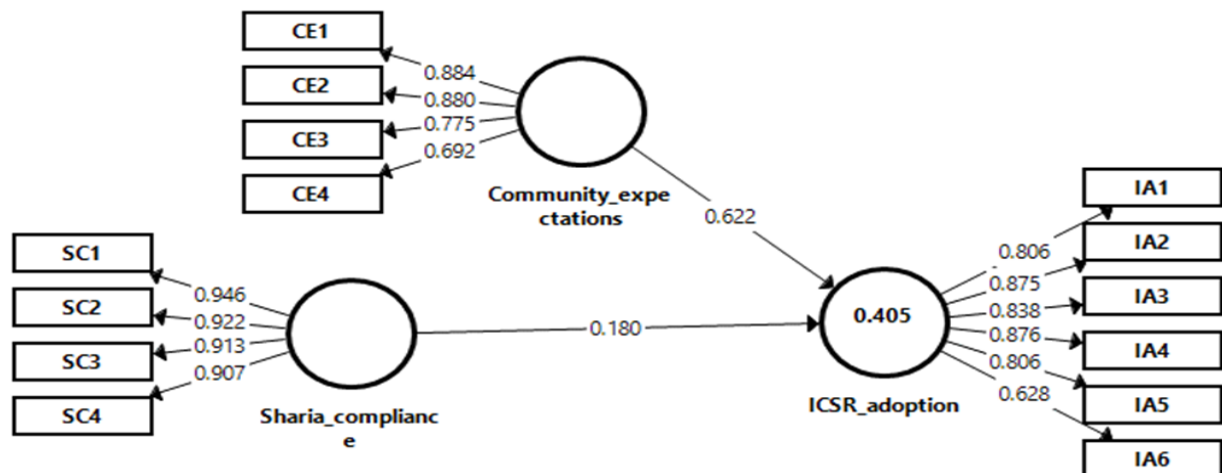


Figure 2: Measurement Model

4.2.1 Internal consistency, reliability, and convergent validity

Table 3 shows the measuring model's outcomes in Smart PLS utilizing the PLS algorithm Composite reliability (CR) value of all constructs larger than 0.70. Internal reliability was represented by item loadings greater than 0.40 (Hair et al., 2017). In addition, each construct's AVE average variance extract value is more significant than 0.5, showing all constructs are reliable and valid.

Table 3: Reliability and validity of constructs

Construct	Items	Loading	CR	AVE
Committee expectation	CE1	0.884	0.884	0.659
	CE2	0.880		
	CE3	0.775		
	CE4	0.692		
ICSR adoption	IA1	0.806	0.918	0.655
	IA2	0.875		
	IA3	0.838		
	IA4	0.876		
	IA5	0.806		
	IA6	0.628		
Sharia compliance	SC1	0.946	0.958	0.850
	SC1	0.922		
	SC1	0.913		
	SC1	0.907		

4.2.2 Discriminant validity

Fornell and Larcker's (1981) criterion is applied in this study to look at discriminant validity. Fornell and Larcker (1981) anticipated that the diagonal value of the AVE must be more than the correlation values of the alternative rows and columns. Table 4 demonstrates that each construct's diagonal values are higher than alternatives that depict the model has discriminant validity.

Table 4: Fornell and Larcker Criterion

Constructs	CE	IA	SC
Community expectations (CE)	0.811		
ICSR_adoption	0.613	0.809	
Sharia compliance(SC)	-0.052	0.148	0.922

4.3 Structural Model Assessment

After determining the reliability and validity of the constructs with the measurement model, the next step is to bootstrap the construct with Smart PLS (Hair et al., 2017). The structural or internal model emphasizes the relevance of construct-to-construct connections.

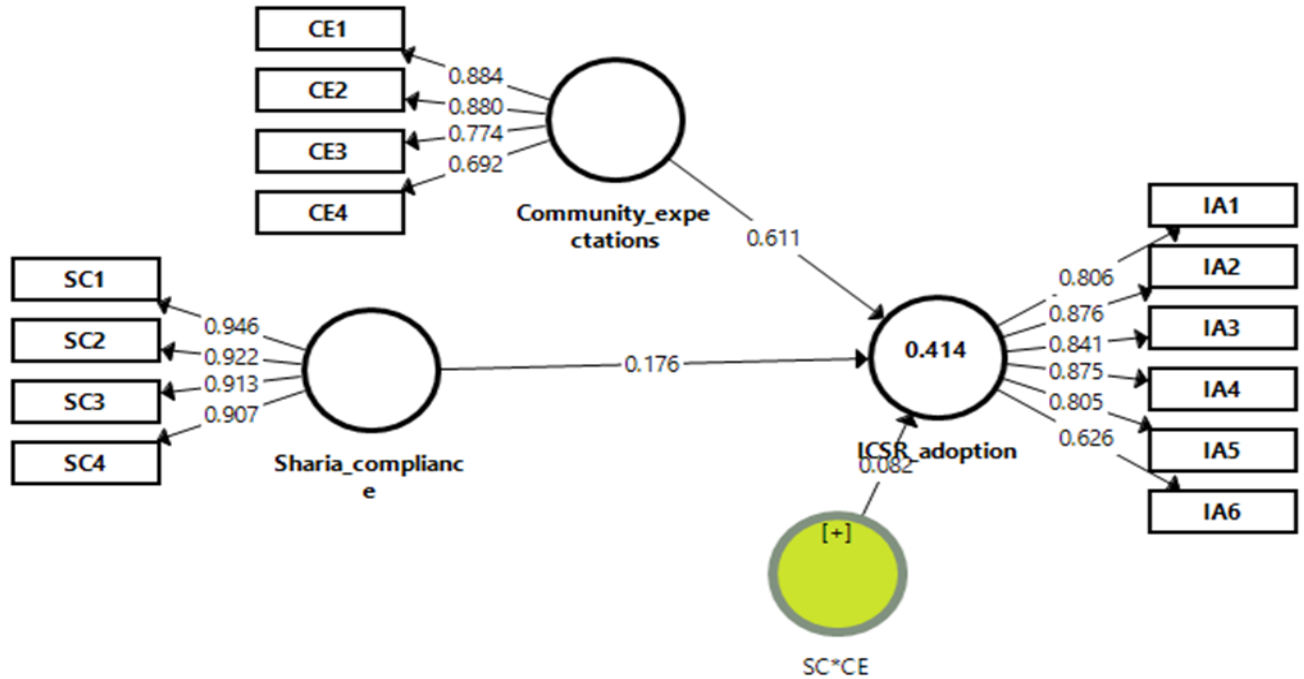


Figure 3: Structural Model

4.3.1 Direct Hypotheses Testing

The direct hypothesis was analyzed using the bootstrapping method, and regression results show that the direct hypothesis between shariah compliance and Islamic corporate social responsibility adoption is supported, as shown in Table 5 p-value less than 0.05.

Table 5: Direct Hypotheses Testing

Hypothesis	Relationship	Std. Beta	Std. Error	T value	P Values	Decision
H1	SC-> IA	0.176	0.040	4.379	0.000	Supported

4.3.2 Moderation Analysis

Moderation has been analyzed through the product indicator approach. Table 6 supports the moderation hypothesis where community expectation moderates the relationship between shariah compliance and Islamic corporate social responsibility adoption where the T-value is higher than 1.645 and P-value less than 0.05, as shown in Table 6.

Table 6: Moderation analysis

Hypothesis	Relationship	Std. Beta	Std. Error	T value	P Values	Moderation
H2	SC*CE->IA	0.82	0.44	1.871	0.031	Supported

5.0 DISCUSSION AND CONCLUSION

The study's objective is to examine the influence of shariah compliance on Islamic corporate social responsibility adoption in Pakistani Islamic banks. Further, examine the moderating impact of community expectation on the relationship between shariah compliance and Islamic corporate social responsibility adoption in Pakistani Islamic banks. The study's findings are harmonized with past literature results and provide insights into the determinants of Islamic corporate social responsibility. Managers in Islamic banks follow the importance of Shariah compliance and develop their products per the Shariah board guidelines. The state bank of Pakistan also gives immense powers to the shariah board, making it necessary for banks to follow shariah guidelines.

Similarly, community expectations also significantly improve the adoption of Islamic corporate social responsibility in Pakistani Islamic banks. Consumers demand banking procedures embedded with Islamic values. Islamic banks are increasing, and intense market competition is emerging that compels banks to adopt ICSR to get a competitive advantage and sustainability. The community expects banks to contribute significantly to society by considering social issues. However, banks are just implementing CSR activities to follow SBP guidelines; they are not following proper sharia guidelines. The community expects good deeds from Islamic banks to create awareness among stakeholders about ICSR activities. Still, this plan is not much focused on by Islamic banks, and they are following their bank guidelines.

5.1 Managerial implications

The current study provides numerous guidelines for scholars and policy makers responsible for implementing ICSR in Islamic Banks. They should emphasize Shariah compliance in the adoption of ICSR in the organization. A proper policy should be formulated that is mandatory for Islamic banks to follow. The State bank of Pakistan can play its regulatory authority and compel Islamic banks to adopt ICSR in actual letter and spirit, following the guidelines of shariah. The community expectation moderating impact is also considered a vital determinant to strengthen the adoption of ICSR in Islamic banks in developing economy contexts where consumers have high expectations from Islamic Banks. The ICSR is still considered a voluntary adoption by banks that should be made compulsory by government officials for the betterment of society.

5.3 Limitations and future predictions

The present study has certain limitations that can proceed for future research. The current study focused on developing countries where developed countries can also focus in the future. The outcome in the present study is the adoption of ICSR, where other constructs, such as financial outcomes, can be considered in the future. The moderating role of community expectation is investigated in the present study, while the mediating effect can be examined in the future. The other limitation is that only Islamic banks in Pakistan are surveyed. Other Muslim countries like Malaysia can be included in the future, providing more generalizability of the current research framework.

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