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# The Determinants of social and environmental disclosure by Islamic banks in Tanzania and Kenya

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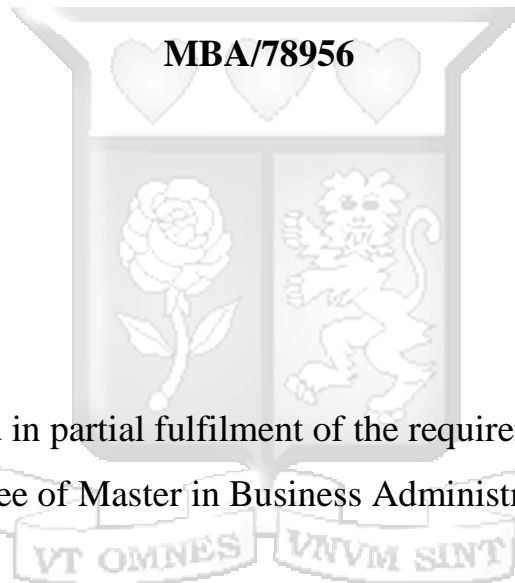
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**THE DETERMINANTS OF SOCIAL AND ENVIRONMENTAL  
DISCLOSURE BY ISLAMIC BANKS IN TANZANIA AND KENYA**

**MUSSA ISSA DIGHESH**



Dissertation submitted in partial fulfilment of the requirements for the award of  
Degree of Master in Business Administration

**STRATHMORE BUSINESS SCHOOL**

**NAIROBI, KENYA**

**OCTOBER, 2017**

## DECLARATION

I declare that this work has not been previously submitted and approved of a degree by this or any other university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself:

Signature: ..... Date: .....

Mussa Issa Dighesh (MBA/78956)



This dissertation has been submitted for examination with my approval as university supervisor.

Signature: ..... Date: .....

Dr. David Mathuva

Strathmore Business School

Strathmore University

## **ABSTRACT**

This study sought to establish the determinants of Social and Environmental Disclosure (SED) by Islamic banks in both Kenya and Tanzania. The study also sought managerial perspectives on SED by Islamic banks in the sample. To achieve this objective, the study sought data from audited annual reports of 10 banks offering pure Islamic products and services and conventional banking products and services with some Islamic offering in them. The annual reports covered the period over the period 2014-2016. The study utilized descriptive analysis, alongside correlation and regression approaches to fulfil the objective of the study. Both the empirical findings from annual reports and respondents revealed that Type 1 Islamic banks engage in higher SED compared to Type 2 Islamic banks. According to the findings, Islamic banks in Kenya engage in higher SED than those in Tanzania. The results revealed that commonly disclosure SED aspects included community involvement, human resources, products and services with environmental conservation raking lowest. In additional to that the sampled banks paid attention to Islamic-related disclosures, especially those relating to compliance with Shariah Law. The results showed that SED by Islamic banks are significantly associated with the country in question, leverage, bank profitability as measured by ROE and the type of bank. Managerial perspectives on SED by Islamic banks revealed that most SEDs revolve around products and services and environmental conservation with minimal focus on employee welfare, an outcome which is slightly inconsistent with the results reported from the banks' annual reports. The study adds onto the sparse studies conducted on SED by businesses conducting Islamic banking. The findings from the study calls for increased awareness on the need to improve the level (and quality) of SEDs by Islamic banks within the East Africa region to promote greater transparency and accountability in the banking sector, which has often been seen as a catalyst for economic development and growth. Future studies can consider expanding the scope of the study by studying an extended coverage of Islamic banks in the wider East African or African region.

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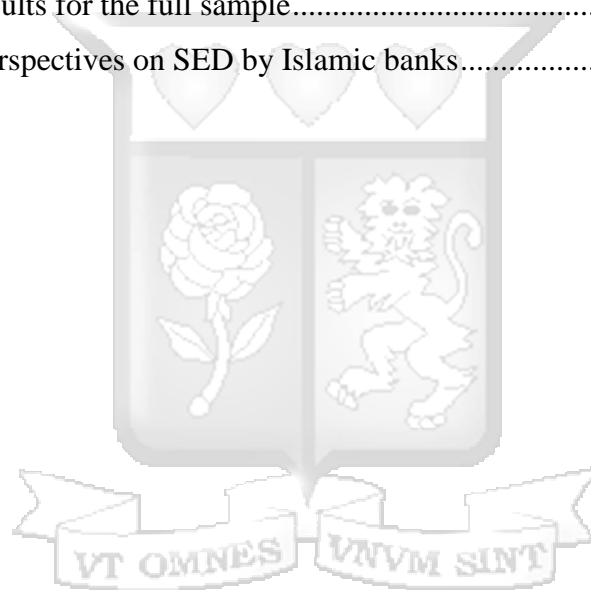
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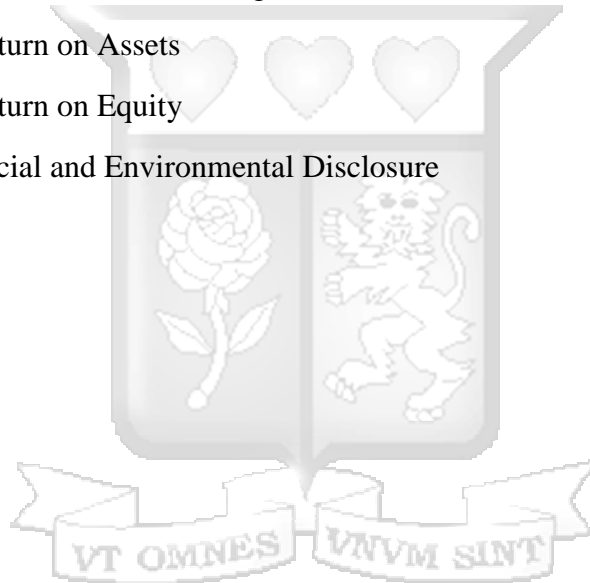
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## LIST OF ABBREVIATIONS

<b>AAOIFI</b>	Accounting and Auditing Organization for Islamic Financial Institutions
<b>CBK</b>	Central Bank of Kenya
<b>CBT</b>	Central Bank of Tanzania
<b>CRSD</b>	Corporate Reporting and Social Disclosure
<b>CSR</b>	Corporate Social Responsibility
<b>FP</b>	Financial Performance
<b>IAH</b>	Investment Account Holder
<b>NGO</b>	Non-Governmental Organization
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SED</b>	Social and Environmental Disclosure



## DEFINITION OF TERMS

***Social and environmental disclosure (SER):*** refers to the provision of both financial and non-financial qualitative and quantitative information relating to an organization's interaction with its physical and social environment (Mallin, 2014). According to stakeholder theory, SER is a mechanism to manage those stakeholders who control critical resources of the firm. SER indicators are developed to identify and code disclosures related to environmental management, health and safety, employment diversity and community involvement (Tinker, 2014).

***AAOIFI:*** Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is a Bahrain based not-for-profit organization that was established to maintain and promote Shariah standards for Islamic financial institutions, participants and the overall industry (Usmani, 2012). The Commission also organizes a number of professional development programs (especially the Islamic legal accountant program and the observer program and forensic auditor) in their effort to upgrade the human resources working in the industry and the development of governance structures controls the institutions.

***Cross – section controls:*** also known as potential omitted variable is included in the model because it is confounding the main relationship a researcher is interested in and it is suspected to be related to both the independent variable and the dependent variable (Geegan, 2012).

***Riba:*** unjustified increment in borrowing or lending money, paid in kind or in money above the amount of loan, as a condition imposed by the lender or voluntary by the borrower (Sharani, 2014).

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

This study sought to establish the current levels of compliance with the guidelines provides in AAOIFI on social and environmental disclosure (SED) by Islamic banks in Kenya and Tanzania, as well as to determine the drivers for such disclosures. Additionally, the study sought to obtain managerial perspectives on SED by Islamic banks in Kenya and Tanzania. According to Guthrie and Mathews (1995), corporate SED refers to the provision of both financial and non-financial qualitative and quantitative information relating to an organization's interaction with its physical and social environment. SED aims to communicate social and environmental effects of an organizations activities to a wide range of stakeholders (Gray et al., 1988; Patten, 1990; Friedman and Miles, 2001; Deegan and Blomquist, 2006; Maali et al, 2006; Aribi and Gao, 2010; Mallin et al., 2014; Mathuva and Kiweu, 2016). Over the last 15 decades, there has been increased research on SED across various organizations with focus on listed companies, commercial banks and other large organizations (Friedman and Miles, 2001; Branco and Rodrigues, 2006; Deegan and Blomquist, 2006; Maali et al., 2006; Bebbington et al., 2008; Aribi and Gao, 2010; Islam, 2010; Menassa, 2010; Mallin et al., 2014; Mathuva and Kiweu, 2016).

However, few studies have focused on SED in Islamic banks, which are unique in their product offering and objectives. Mallin et al. (2014) observe that, instead of interest-based deposit or lending found in conventional banking, Islamic banking is based on the principle of profit and loss sharing. Due to the religious identity of Islamic banks (or conventional banks offering some

Islamic products), they are expected to be responsive to the different needs of stakeholders, while adhering to the principles set out in the Koran. It is on this backdrop that the present study focuses on Islamic banks in Kenya and Tanzania. The choice of the two countries in the East African region is to allow for an examination of any country-specific determinants of SED by Islamic banks. This would be useful in informing the design of SED policy at national level.

The rest of the chapter proceeds as follows. Firstly, the chapter describes the context of Islamic banking and social engagement in general, and Islamic banking in Kenya and Tanzania in particular. Followed by problem statement, research objectives, research questions and highlights the potential utility of the study.

### **1.1.1 Islamic Banking and Social Engagement**

According to Mallin et al. (2014), Islamic banking has been growing since its inception in the mid-1970s. The value of assets held by Islamic banks has grown from negligible amounts in the 1970s to about US\$ 2 trillion at the end of 2014 (Hussain et al., 2015). Three principles govern Islamic banking and finance: equity, participation and ownership (Hussain et al., 2015). These principles prohibit the predetermined payments (*riba*) and engaging in excessive uncertainty (*gharar*). Socially, the principle of equity and wealth distribution also calls for assistance to the less fortunate in the society through charging *zakat*. Regarding the social role, Islamic banks are expected to promote the economic and social welfare of their stakeholders and fulfil the demands of corporate social responsibility (CSR) including disclosure (Mallin et al., 2014). Through this, the Islamic bank is able to attain legitimacy for its existence as argued by Farook (2008).

To encourage the disclosure of their social engagement, international regulatory authorities such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have

issued accounting, auditing and Shariah standards for reporting by Islamic banks. Specifically, AAOIFI's standard no. 7 on Governance Standards for Islamic banks defines CSR as those activities carried out by an Islamic financial institution to fulfil religious, economic, legal, ethical and discretionary responsibilities. It is expected that Islamic banks should report on aspects relating to their business activities which would be different from those of conventional banks. Similarly, Islamic banks adhere to the best practice of corporate governance however their difference with the non-sharia compliant is that, Islamic banking system have one extra layer of supervision called Sharia Supervisory Board (Archer, 2014). Rather than charging interest, Islamic banks use different forms of financial instruments both in mobilizing funds for their operations and in providing finance for their clients that comply with the principles and rules of sharia (Archer & Karim, 2014).

### **1.1.2 Islamic Banking in Kenya and Tanzania**

Islamic banking started in the later 1970s with a handful of banks dealing in negligible amounts of Islamic bank transactions. The amounts transacted have since increased with Islamic banks recording over \$2 trillion in total assets at the end of 2014. There has been a remarkable increase in Islamic banking globally in terms of the market share compared to that of conventional banks. For instance, in Malaysia, Islamic banks control 5% of the market in terms of total savings, in Saudi Arabia, Islamic banks control 12% and in Kuwait, they control 30% of the market. It is projected that in eight to ten years, Islamic banks will control about 40% to 50% of the market globally (Sheikh, 2009).

In Kenya, Barclays bank introduced the *la-riba* (interest free accounts) in 2006. This was a conventional bank which introduced the Islamic banking product in the market. This was followed

by Kenya Commercial Bank in 2007 which introduced a similar product in the market. To date, seven banks: - Kenya Commercial Bank, Barclays bank, Gulf African bank, Chase bank, National Bank of Kenya, First Community Bank and Standard chartered Bank offer Islamic banking products in Kenya, with two being fully-fledged Islamic banks. In Tanzania, Islamic banking was introduced in 2008 by a Kenya Commercial bank. Since then, Islamic banking has grown in Tanzania given the high population of Muslims in Tanzania (Sasikala et al., 2014).

### **1.3 Problem Statement**

Many organizations use narrative reporting to communicate with their stakeholders. This narrative reporting involves the disclosure of financial and non-financial information. The disclosure is necessary because, according to legitimacy theory, a firm owes a duty or has a social contract to the society. According to Karagiorgos (2013), social disclosures provide an organization the opportunity to communicate information mainly to financial stakeholders such as stock analysts, capital markets and institutional investors and therefore get evaluated on its financial measures. The non-disclosure of information may lead to decreased confidence in the organization thereby leading to increased costs of capital.

Islamic banks are also exposed to the costs of non-disclosure of both financial and non-financial information. Furthermore, there is increased societal expectation for Islamic banks to disclose information owing to the unique features of the Islamic banking model. Islamic banks must conform to the Sharia law which dictates what activities they should engage in (Hussainey and El-Halaby, 2016). Indeed, Kamla and Rammal (2013) indicate that Islamic banks' social disclosures

should emphasize their religious character although the banks do not provide information in this regard.

Prior studies on Islamic banking disclosure have highlighted the type of SEDs Islamic banks provide (Maali et al., 2006; Aribi and Gao, 2010), with little research on what determines the extent of SED by Islamic banks. Moreover, by not seeking managerial perspectives on SED, these studies have only been able to provide a limited perspective on SED as experienced by Islamic banks in the two East African countries.

## **1.4 Research Objective**

### **1.4.1 General Research Objective**

The main objective of this study was to identify the determinants of social and environmental disclosure by Islamic banks in Tanzania and Kenya.

### **1.4.2 Specific Research Objectives**

The study sought to address the following specific objectives:

1. Establish whether there are any differences in the degree of SED between pure Islamic banks and conventional banks offering Islamic products and services.
2. Establish the determinants of SED by Islamic banks in Kenya and Tanzania.
3. Obtain managerial perceptions on the level of SED by Islamic banks in Kenya and Tanzania.

## **1.5 Research Questions**

This study sought to answer the following research questions.

1. What is difference in the level of SED between pure Islamic banks and conventional banks offering Islamic products and services?
2. What are the determinants of SED by Islamic banks in Kenya and Tanzania?
3. What are the managerial perspectives on the level of SED disclosure by Islamic banks in Kenya and Tanzania?

## **1.6 Scope of the Study**

The study covered ten Islamic banks in Kenya and Tanzania over a three year period (2014-2016). The study targeted both pure Islamic banks and conventional banks offering some Islamic banking products. Managerial views on SED by the Islamic banks were also sought.

## **1.7 Significance of the Study**

The findings in this study are expected to be of benefit to the following stakeholders.

### **1.7.1 Regulators and Policy Makers**

The findings of the study can be utilized by regulators and policy makers in the banking sector in terms of developing an optimal reporting policy with regard to SED by Islamic banks.

### **1.7.2 Commercial Banks Offering Islamic Products**

The study is useful to banks in establishing if through disclosure banks would have a competitive advantage over the others by fully disclosing social responsibilities. In addition, this helps those responsible for external communication to consider how important social responsibility disclosure is.

### 1.7.3 Researchers and Academicians

Social reporting is increasingly becoming popular in the corporate world and therefore explored by many researchers. The research findings provide a new dimension, which is the Islamic context and therefore contribute to the literature on the relationship between social disclosure and firm's financial performance specifically in the East African region.



# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents the relevant literature on SED generally and in the Islamic banking context. The review of literature is presented in two ways: both the theoretical review and empirical review. A summary of both literature is provided and the research gap highlighted. Next, a conceptual representation of the variables identified in literature that are of relevance to the present study is provided and discussed.

### **2.2 Theoretical Framework**

Studies on social and environmental disclosure have advanced a number of theories to explain why organizations engage in varying levels of disclosure. With regard to SED, prior studies have advanced decision usefulness theories such as decision usefulness theory, economic theories and social and political theories (Gray et al., 2001). The decision usefulness theory focus on the usefulness of information provided by organizations in informing their decisions (Gray et al., 2001). Guidara et al (2015) find a positive link between SED and financial performance. Economic theory argues that the release of SED helps reduce the information asymmetry between shareholders and the management. This leads to the classical agency theory (O'Donovan, 2002). Social and political theories are pegged on legitimacy and institutional theories which attempt to explain SED by organizations (Deegan and Blomquist, 2006; Islam and Deegan, 2008). Since the current study focuses on SED and the determinants thereof, the study will utilize the legitimacy and institutional theories to explain the engagement in SED by Islamic banks.

### 2.2.1 Legitimacy Theory

Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995). The theory, deals with how organisational structures as a whole have gained acceptance from society at large. Within this tradition, legitimacy and institutionalization are virtually synonymous. Both phenomena empower organizations primarily by making them seem natural and meaningful (Suchman, 1995). Organizations themselves play a large role in society and have responsibilities assigned to them based on their status in society. As such, they “...exist only to the extent that the particular society considers that they are legitimate” (Deegan, 2002). Accordingly, organizational legitimacy is defined as a status, which exists when an entity’s value system is congruent with the value system of the larger social system of which an entity is a part. When a disparity, actual or potential exists between the two value systems there is a threat to the entity’s legitimacy.

Organizations continually seek to ensure that they operate within the bounds and norms of their respective societies (Deegan, 2002). In this context, CSR is defined broadly as “including the concern for the impact of all of the corporation's activities on the total welfare of society” (Bowman & Haire, 1975). The concept of social responsibility in Islam likewise emerges from the ‘social contract’ that necessarily has to do with the congruency of the value system of the organization to the larger value system of an Islamic society. In Islam, organizations are similarly, if not more so, accountable to society as well as to individuals. As Lewis (2001) elaborates, the implications for business enterprises is that “both managers and providers of capital, are accountable for their

actions both inside and outside their firms; accountability in this context means accountability to the community” to establish socio-economic justice within their own capacity.

A number of commandments in the Qur’an and the tradition of the Prophet Muhammad stipulate what must be done in order to establish socio-economic justice and therefore be socially responsible. Some examples of these are the obligatory payment out of income and wealth (Zakat), philanthropic trusts (waqf), alms and charity (sadaqah). Others include interest free loans (qard-hasan) (Ghayad, 2013).

The forbiddance of *riba* also stems out of principles of socio-economic justice in Islam in that the objective is to disallow any unjust distribution of wealth through forced or undeserved loss to one party or unearned gain to the other party (fixed interest). Against that background, it is reasonable to conclude that Islamic business values and norms are consistent in general with the definition of CSR (Razak, 2015).

### **2.2.2 Institutional Theory**

Institutional theory is viewed as the attempt by organizations to embrace structures and practices that are meant to legitimatise their activities (Carpenter and Feroz, 2001). This is due pressures such as coercion by regulation. ElKelish and Hassan (2015) argue that management is compelled to comply with regulatory pressures especially when disclosures are regulated. However, in the case of SED, the largely voluntary nature of the disclosures may be explained by other institutional forces other than regulation. For instance, organizations may be compelled to engage in SED as a result of the desire to be at par with their counterparts in the industry. This is due to mimetic institutional forces where organizations are compelled to imitate their counterparts who have

embraced SED (Dong and Xu, 2016). Dong and Xu (2016) observe that the engagement in SED is one of the ways of responding to a changed institutional setting. In this study, Institutional theory is used to explain the tendency by Islamic banks to adopt SED practices. Institutional theory adopts a sociological perspective to explain organizational structures and behaviour. It draws attention to the social and cultural factors that influence organizational decision-making (Scott, 2014), and in particular how rationalized meanings or myths are adopted by organizations (Meyer & Rowan, 1977). These myths become taken for granted and so are followed in a rule-like fashion when making decisions. They become the institutionalized logic that guides organizational behaviour. Firms develop a rationalized logic that uses environmental, social and governance factors in SED. These social criteria become the technical means for SED.

## **2.3 Empirical Review on the Determinants of SED**

### **2.3.1 Bank-specific variables**

Social disclosure serves as a communication channel between the company and community, disclosing the social responsibility initiatives undertaken, both internal and external (Williams, 2013). Korpik (2014) defined social disclosure as an instrument of dialogue and relationship between the company and society, including factors of an internal, ethical and discretionary nature, which are voluntary actions.

*Number of branches:* The number of bank branches is a potentially important explanatory variable in relation to the extent of disclosure. Most researchers find a close relationship between these two variables, both in developing and developed countries (Desai, 2013; Kahl & Belkaoui, 2011; Cooke 2014; and Hossain, 2014). A study conducted by Hossain (2015) found a positive

relationship between the number of bank branches and the extent of social reporting disclosure. A number of reasons have been advanced in the literature in an attempt to justify this relationship on a priori grounds.

For example, Singhvi and Desai (2013) offered three justifications for the variations in the extent of financial disclosure in firms of different sizes. Firstly, the cost of accumulating certain information is greater for the banks with few branches than for banks with many branches. Secondly, larger banks have a greater need for disclosure because their securities are typically distributed via a more diverse network of exchanges, and thirdly, management of a smaller bank is likely to believe more strongly than the management of a larger banks that the full disclosure of information could endanger its competitive position.

There are suggestions that the number of bank branches have relationship with level of social responsibility activities and disclosure, the reasons are: larger banks are more likely to be scrutinized by both general public and socially sensitive special interest groups (Ayadi 2014). Makinnon and Dalimunthe (2014) posits that bigger firms usually attract more analysis followings than smaller ones consequently, may be subjected to greater demand by analysts for private information. Brammer and Pavelin (2015) asserted that banks with many branches receive more attention from the public as these firms are more likely to be diversified across geographical and product market, therefore, these firms might have larger and more diverse stakeholders groups.

Branco and Rodrigue (2012) suggests that because banks with many branches are more visible to the public than smaller banks, they are more open to searchlight from stakeholder groups and more vulnerable to adverse reactions. Hackston and Milne (2013) opine that larger banks undertake more activities, makes a greater impact on society, and have more shareholder who might be

concerned with social programs undertaken by the bank. Using total assets or total revenue, some prior studies that examined the association between the social reporting disclosure and bank branches finds a significant and positive association (Adams, 2013). However Keelia and Kuntz (2014) did not confirm that such association exist.

*Equity to assets ratio:* Equity to asset ratio is used to assess a company's financial leverage (Lang, 2014). The asset side measures all the resources holding economic value that can be converted to cash. These could include, but are not limited to, real estate, equipment, inventory, raw materials, and cash. Equity, on the other hand, is the difference between the value of a company's assets and all of its liabilities (Mangel, 2013). In a sense, the equity-to-asset ratio is just a simplified way to look at a balance sheet and to distil it down to answer one question: What percentage of a company's assets do investors own?

A study conducted by Nidya (2013) showed that equity to asset ratio has negative influence and not significantly toward Return on Asset which is one of profitability indicator. According to Marston (2013), it is due to the high degree of trust from investors that potentially support firm's performance, because through the higher capital, it opens opportunity for a firm to gain more profit. Deloof (2013) posit that fixed financial asset has positive correlation towards profitability. This is also support by Utama (2014) who explained that fixed financial asset and profitability has positive correlation.

This indicates that through enhancement of fixed financial asset components in firm's total assets, thus firm's profitability will raise consistently. Research by Sayekti and Wondabio (2013) shows that social disclosure has negative correlation with earning response coefficient that is one of indicator on firm's value. This indicates that investors appreciate social disclosures which

are disclosed by banks in annual report, while making a decision for investing. This is also supported by Rustiarini (2013) who posit that social disclosure gives positive correlation toward firm's value.

**Leverage:** Leverage refers to the use of debt to acquire additional assets. It is also known as trading on equity (Karpik, 2013). In accounting, debt/equity hypothesis forecasts that the higher the firm's debt/equity ratio, the more likely managers use an accounting method that increases income. This means that managers will choose accounting policies that shift reported profits from future periods to current period (Watts, 2013). It is argued that when a firm is making a large use of debt, a monitoring problem arises between stakeholders and creditors (Setyorini, 2012).

Consequently, the involved firm may solve this drawback by increasing the level of voluntary disclosure (Setyorini, 2012). Finance theory suggests that agency cost of debt are higher for firms with large proportion of debt capital structure and demand for information increases as the firm debt increases. According to Sengupta (2014) higher quality disclosure may be associated with higher leverage.

Belkaoui and Karpik (2013) averred that the decision to express social information will follow an expenditure for lower income disclosure. In accordance with agency theory a company with a high level of leverage would lessen social responsibility disclosure made in order not to be the spotlight of the debt holder.

Most results have indicated that SED is pushing business in a positive way, whilst other studies found a negative or mixed relation, but the growing demands for the most banks' stakeholders require more exploration of voluntary social activities and in order to improve financial performance, the nature of disclosure level is necessary. Brammer and Millington (2016) found

that banks with high and low social disclosure levels will have higher financial performance, but those with poor social disclosure does best in the short run. Rettab (2013) argue that when the profitability is high, a firm is more likely to possess the economic ability to disclose financial information; because profitability is a healthy indicator encourages management to disclose more items in its financial reports.

*Return on equity:* Return on Equity measures the return earned on the common stockholders' investment in the firm (Gitman, 2014). The higher the return the better of are the owners. ROE is the most important ratio in financial analysis. According to Pandey (2015) earning of a satisfactory return is the most desirable objective of a business and the ratio of the net profit to owner's equity reflects the extent to which this objective has been accomplished. This ratio is of great importance to present as well as future shareholders and to management whose core duty is maximizing owners' wealth (Samaha, 2014). Without profits, a firm could not attract outside capital and more so even investors (Ahmed, 2014). According to Javad (2012) convincing firms' shareholders with a high rate of return on equity will motivate management to disclose more information of SRD to assure that the firm's financial flexibility and profitability are sound.

*Bank size:* Bank size is variable that is widely used to describe the social reporting disclosure in the annual report (Fitriasari, 2012). Sales/turnover, market capitalization, number of employees, total assets have been used as proxies for size. Previous research finding note that there is a significant relationship between size and the level of environmental disclosure (Amiruddin, 2014). According to Stavropoulos (2013) the cost of accumulating and generating certain information is greater for small firms than large firms. Small banks may not be able to afford such costs from

their resource base while larger banks might have sufficient resources to afford the cost of producing information for the users of annual report (Craven, 2012).

Gray (2014) posit that, the agency cost is higher for large firms because shareholders are widespread and in that way, disclosing more information reduce the potential agency cost. Large banks have market based incentives to disclose more information voluntarily to protect the firm values as nondisclosure may be misinterpreted (Ponnu, 2015). Signalling theory, agency theory, and cost-benefit analysis indicate that there is a positive influence of the size of the firm on social reporting disclosure (Craven & Marston, 2013). Voluntary disclosure helps banks to reduce agency problems as larger firms tend to have higher agency cost arising from asymmetric information (Alsaeed, 2014). Therefore, larger banks are expected to have more social disclosure for the goal of reducing agency costs, gain public support and attract investors.

### **2.3.2 Other variables**

*Country:* The nature of country in the banking sector can be described as ‘private counter party supervision’ (Greenspan, 2013). There are a number of potential benefits from enhancing market discipline in a country’s banking sector. Firstly, by punishing excessive risk-taking by banks, increased market discipline in a country may reduce moral hazard incentives. Secondly, market discipline may improve the efficiency of banks by pressurising some of the relatively inefficient banks to become more efficient or to exit the industry (Berger, 2014).

Hossain (2012) asserted that markets give signals about the credit standings of financial firms, which, combined with inside information gained by supervisory procedures, can increase the efficacy of the overall supervisory process. Wallace (2013) averred that, market discipline in a

country might be able to supplement traditional supervisory assessments to distinguish ‘good’ banks from ‘bad’ ones and therefore, lower the overall social costs of bank supervision.

Countries that have made significant efforts to promote the role of market forces in regulating banks, it is expected that banks are committed to provide more information in the annual reports (Cordella & Yeyati 2013). Rozik (2011) posit that banks that disclose more information choose lower default risk in equilibrium. Rozik argued that a bank that discloses its risk profile exposes itself to market discipline and will, therefore, be penalised by investors for choosing higher risk.

*Cross listing status:* Cross listing is when a firm lists its equity shares on one or more foreign stock exchange in addition to domestic exchange (Deegan, 2013). Social disclosures are higher for listed banks than non-listed banks (Diga, 2012). Besides, domestic banks disclose more information than foreign banks. According to Sinclair (2013), when the component of social disclosure related to strategy, vision & mission and governance is considered, listed banks disclose more information than non-listed banks while on the other hand, disclosure of foreign banks is less than domestic banks.

Gordon (2016) averred that cross listing on a prestigious foreign stock exchange may boost visibility, improve corporate governance and firm transparency. Coffee (2014) explains the motifs of cross-listings in a range from emerging markets to mature and developed capital markets, appreciating the functions of mature and developed capital markets in improving the quality of accounting information, the effectiveness and efficiency of corporate governance, and the mechanisms for protecting investors. In mature and developed capital markets, the cross-listed firms from pre-mature or developing markets are bonded to their well-established counterparts

because of the sophisticated systems for supervising securities, and the stringent regulations on information disclosure (Coffee).

Cross listings can reduce market-segmentation problems, enhance firm visibility and lessen informational asymmetries (Pattern, 2014), lower the cost of capital and improve liquidity (Dahawy, 2012), strengthen investor protection, and improve the capacity of controlling shareholders to transfer ownership (Aly, 2013). A report by World Bank (2013) shows that foreign firms cross listing on U.S. exchanges have enjoyed significant valuation gains vis-à-vis those without such a listing. Greater competition from overseas financial centers also raises the possibility that foreign firms could also attain these valuation benefits by cross listing in other prominent destinations (Freedman, 2013).

*Bank type:* Bank type could be pure Islamic bank or a mix of Islamic and a conventional bank. In Islam, social justice plays a vital role in developing a society. In Islamic business point of view, everyone is accountable in front of GOD about his responsibility towards humanity (Haniffa & Cooke, 2011). Islam is based on all aspects of life. It is not only concerned with individuals but also give guidelines for social disclosures and business matters (Tinker, 2014). In accordance with Islamic rules, dealings of a firm cannot contradict societal and moral values (Usmani, 2012). Islamic banks are confident and optimistic for implementation of social disclosures (Sharani & Yunus, 2014). Islamic banks working in social and political liberties can easily reveal financial disclosures (William, 2011). If Islamic bank depends on financial help from public, it will be answerable to society for social disclosure practices (Newson and Deegan, 2012). Islamic banks are more answerable for social disclosure irrespective of local principles because they are answerable to Islamic society (Maali, 2014).

### **2.3.3 Control variables**

*Firm-years:* Old firms are more likely to know the details of business as they are familiar with the working environment and community where they operate (Epstein, 2014). They have the experience of belonging to the surrounding environment and expected to act as a good citizen in the community by disclosing more social information (Javad, 2013). In addition, old firms realize more than others the value of high social disclosure toward attracting investors and building corporate image (Craig, 2013). The extent of a firm's social disclosure may be influenced by its age, i.e. stage of development and growth (Owusu, 2015 & Akhtaruddin, 2013).

Owusu pointed out three factors that may contribute to this phenomenon. Firstly, younger firms may suffer competition, secondly, the cost and the ease of gathering, processing, and disseminating the required information may be a contributory factor, and finally, younger firms may lack a track record on which to rely for public disclosure. Kakani (2014) asserted that newer and smaller firms, as a result, take to the market in spite of disadvantages like their lack of capital, brand name and reputation with older firms. However, it is not possible to reach a conclusion that long-established banks can disclose more information or be more compliant than newly-established banks (Deegan, 2014).

## **2.5 Summary of the Literature**

In this study, both legitimacy and institutional theories are used to explain why Islamic banks may engage in SED. In line with prior literature, Islamic banks may engage in SED due to the need to legitimise their activities in the society, especially given the fact that there are societal expectations related to their activities. The emergence of AAOIFI for Islamic banks means that the societal demands are even higher and Islamic banks may have to imitate their established conventional

banks in their SED practices. This means that there could be institutional mimetic forces that compel the Islamic banks to provide higher level of SED. It has been argued that SED can be driven by bank-specific among other determinants. This study examines the potential determinants of SED by examining bank-specific, and other variables, to establish what explains the level of SED by Islamic banks in both Kenya and Tanzania.

## **2.6 Research Gap**

In reviewing the literature available, it is worth noting that little research has been conducted into the relationship between corporate social disclosure and financial performance of the Islamic bank in Kenya and Tanzania. There is insufficient evidence to clearly show how social disclosure based on sharia law has an effect on the financial performance. To the best of the researchers' knowledge there has been no evidence of research specifically conducted to explore the relationship between CSED and financial performance in Kenya and Tanzania that incorporate Islamic perspective. Thus, it is anticipated that the lessons learned from the study will allow a better understanding of, as well as inform and contribute to the knowledge and practice of social disclosure in Islamic banking institutions.

## **2.7 Conceptual framework**

The dependent variable for the study was SED which was the main variable of interest. SED is a construct that was hypothesized to be influenced by independent variables such as bank-specific characteristics among other control variables. The study also included firm-year and cross-section controls to factor in the differences that exist among the banks in the study. These variables are presented in Figure 2.1.

Independent variables

Dependent variable

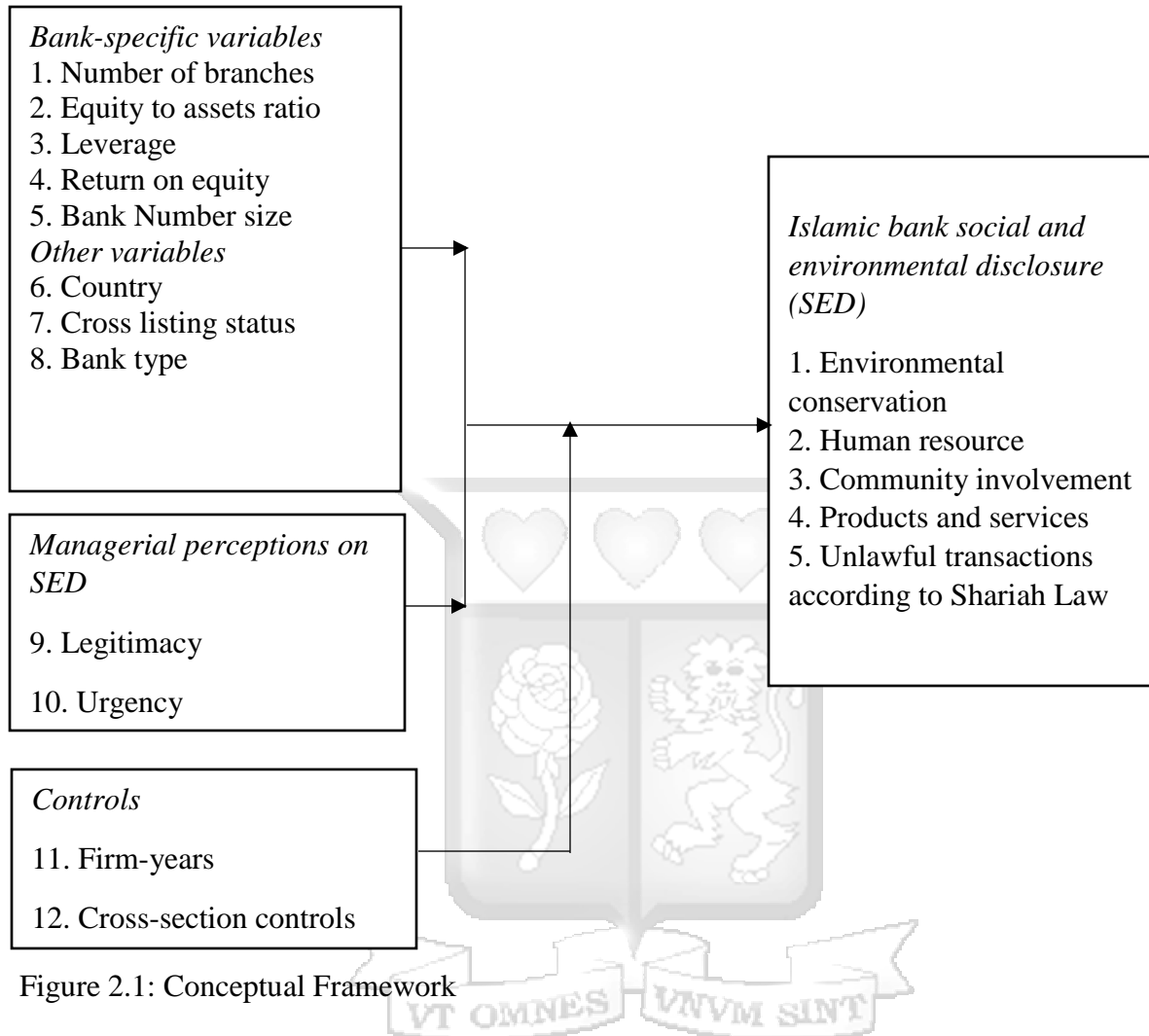


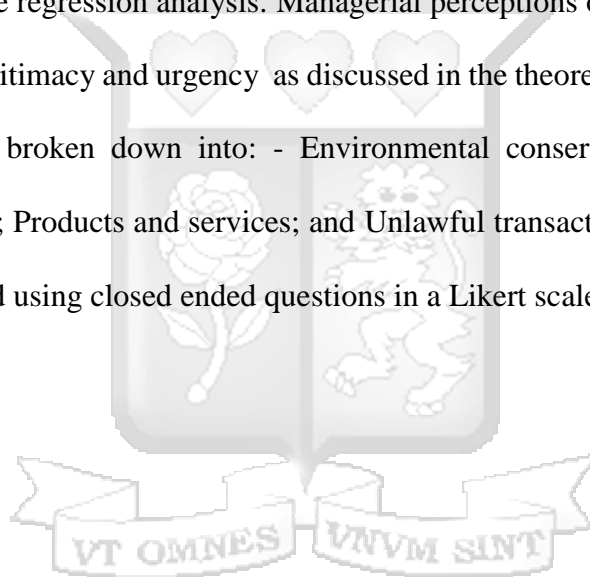
Figure 2.1: Conceptual Framework

### 2.7.1 Operationalization of the Variables in the Conceptual Framework

The dependent variable, SED will be established using a disclosure index containing 24 items as contained in Appendix III. An SED score was calculated for each Islamic bank over the three year period and used in the analyses. Bank specific characteristics such as number of branches, the equity to assets ratio, leverage, return on equity (ROE) and bank size were utilized in line with prior studies on social disclosure (Desai, 2013; Mangel, 2013; Karpik, 2013; Gitman, 2014;

Fitriasari, 2012; Greenspan, 2013; Haniffa & Cooke, 2011; Javad, 2013). Due to the nature of the study, other variables such as the country where the Islamic bank is domiciled, cross-listing status and bank type were included. Control variables such as firm years and cross-section controls were utilized to control for the heterogeneity in the Islamic banks in the study. The heterogeneity could be due to the differences in the management and performance of the banks.

The Independent variable which is Bank-specific variables was broken down into: - Number of branches; Equity to assets ratio; Leverage; Return on equity; and Bank Number size which were analysed through multiple regression analysis. Managerial perceptions on SED was broken down into two parameters: - legitimacy and urgency as discussed in the theoretical framework while the dependent variable was broken down into: - Environmental conservation; Human resource; Community involvement; Products and services; and Unlawful transactions according to Shariah Law which were captured using closed ended questions in a Likert scale in the questionnaire.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter has various sections addressed showing the methodology applied to undertake this particular study with the goal of answering the key specific objectives of the study. The first section presents the research design. Next, the population and sample is discussed. Data collection techniques and analysis are presented in the next section. The empirical model used in the analyses is also presented. Finally, the reliability of the data used and ethical issued in conducting the research are discussed.

#### **3.2 Research Design**

The study adopted a descriptive research design incorporating panel data for the ten banks over the period 2014 to 2016. This yielded 30 observations. Owing to the small sample involved, managerial perspectives were also sought on the phenomenon under examination.

#### **3.3 Population and Sampling**

The study targeted a census of all Islamic banks in Kenya and Tanzania. According to Central Bank of Kenya, (CBK, 2016), Kenya banking sector had seven (7) banks offering Islamic banking (fully fledged sharia banks plus conventional banks with Islamic products) as of 2016. In the same period, Tanzania had 5 banks offering Islamic banking (Central bank of Tanzania (CBT, 2016)). Owing to the availability of financial statements over the period under study, the final sample comprised of 10 Islamic banks distributed as follows.

Table 3.1 Sample representation

	Number of Islamic banks		Total
	Kenya	Tanzania	
Number of Islamic banks	7	3	10
Number of observations	21	9	30

The number of observations in this case was arrived at by looking at the appearances of the study parameters in the annual reports of the sampled banks.

### 3.4 Data Collection Methods

Secondary data, which was the main data for the analyses, were collected from the banks' audited annual reports for each of the three years under consideration. Banks are required to prepare annual financial statements (CBK, 2015; CBT, 2015). To corroborate the findings from the secondary data, primary data were also collected from five managers charged with reporting in each bank. This was aimed at establishing if the responses on the items covered in the questionnaire had internal validity.

### 3.5 Data Analysis

The data analyses were performed using a mixed methods approach. Secondary data were subjected to descriptive, correlation as well as regression analyses. The SED scores were obtained using content analysis. Content analysis was used in the study consistent with other similar studies (Branco and Rodrigues, 2014). Content analysis is a study technique used to determine the

presence of certain words or concepts within text (Sweeney and Coughlan, 2013). The scoring process entailed an assignment of a score of 1 if a certain item is disclosed as per the SED index and 0 awarded if the item is not disclosed. To determine the SED score, the following formula was applied:

$$SED_{it} = \frac{\sum_{t=1}^n ActualScore}{\sum_{t=1}^n MaximumScore}$$

To establish whether the level of SED is statistically significant between pure Islamic banks and conventional banks offering some Islamic products and services, sample significance tests were performed. These included the use of t-value and Mann-Whitney U tests to check if the SED scores for pure Islamic banks were different from the conventional banks. To establish the determinants of SED by Islamic banks in Kenya and Tanzania, correlation as well as regression approaches were utilized. Regression analysis is a statistical process for estimating the relationships among variables (Branco, 2013). This method has been developed considerably. The regression model used was as follows.

$$SED_{it} = \beta_0 + \beta_1 BRANCHES_{it} + \beta_2 COUNTRY_{it} + \beta_3 CROSSLIST_{it} + \beta_4 EA_{it} + \beta_5 LEV_{it} + \beta_6 ROE_{it} + \beta_7 SIZE_{it} + \beta_8 TYPE_t + \rho_t + \varphi_t + \varepsilon_i$$

Where: SED is the social and environmental disclosure score of bank  $i$  in time  $t$ , BRANCHES were the number of branches the bank has, COUNTRY was the country in which the Islamic bank was headquartered, CROSSLIST is a variable capturing whether the bank is cross-listed or not, EA is the equity to assets ratio, LEV is the leverage ratio, calculated as total liabilities to total assets, ROE is the return on equity, calculated as net profit after tax divided by total equity, SIZE

is a measure of bank size calculated as the natural logarithm of bank's total assets, TYPE is a binary variable capturing whether the bank is type 1 Islamic bank or type 2 Islamic bank. The other three variables ( $\rho$ ,  $\varphi$  and  $\varepsilon$ ) in the model capture the firm-year, cross-sectional and the error term.

### 3.6 Reliability and Validity

To ensure that the scores obtained using the SED index were reliable, the coding process was done in two stages. The first stage was done by an assistant who was trained on how to code using the SED index. The second stage entailed a verification of the scores by the author on the coding done during the first stage. Next, the SED scores were calculated for each aspect of SED and for the overall SED and are reported in Table 3.2. According to Table 3.2, the overall Cronbach's Alpha coefficient is 0.785 which is considered reliable.

Table 3.2: Cronbach's Alpha Test Results for the SED

SED aspect	Average inter-item covariance	Number of items in the scale	Scale reliability coefficient:
Environmental conservation	0.060	4	0.610
Human resources	0.028	6	0.510
Community	0.053	5	0.608
Products and services	0.050	4	0.569
Unlawful transactions	0.046	5	0.708
<i>Overall SED</i>	<i>0.025</i>	<i>24</i>	<i>0.785</i>

The Cronbach's Alpha for the questionnaire was 0.801 which was also considered reliable for further analysis. All respondents to the questionnaire were promised anonymity and confidentiality when analyzing the results.



## CHAPTER FOUR

### PRESENTATION OF RESEARCH FINDINGS

#### 4.1 Introduction

This chapter presents the research findings of the study which sought to establish the determinants of SED by Islamic banks in Kenya and Tanzania. The findings are presented in two parts. The first part presents the findings from data gathered from the annual reports of the banks in the study. The second part presents the findings from self-administered questionnaires issued to the 10 banks in the sample. Finally, the findings from both sources are summarized towards the end of the chapter.

#### 4.2 Respondents Demographics

Table 4.1 reports the demographic characteristics of the respondents. The demographic characteristics show that 70% of the respondents were from Type 1 Islamic banks while 30% were from Type 2 Islamic banks. This is consistent and reflective of the empirical data analysed in the previous sections. The findings show that most of the respondents were male (55%) and were aged between 30-39 years (50%). According to the findings, majority of the respondents were degree holders (52.5%). This implies that senior positions relating to corporate reporting by Islamic banks in Kenya and Tanzania are dominated by men with bank employees occupying these positions being relatively older with more years of experience. Out of the 50 questionnaires distributed, 42 were returned. However, 2 questionnaires had missing data and were thus omitted from the final analyses. This resulted to a response rate of 80% which was considered sufficient for analyses.

Managerial perspectives on the determinants of SED were sought from managers in the 10 banks in the sample. This section reports the findings from the self-administered questionnaires issued to senior managers in the 10 banks. Five questionnaires were issued to senior managers involved in reporting in each bank in the sample.

Table 4.1: Demographic characteristics of the respondents

Characteristic	Category	Frequency	Percentage (%)
Type of bank	Type 1	28	70
	Type 2	12	30
Gender	Female	18	45
	Male	22	55
Age	20-29 years	13	32
	30-39 years	20	50
	40-49 years	5	12.5
	Over 50 years	2	5
Education	Certificate	2	5
	Diploma	4	10
	Degree	21	52
	Master	12	30
	PhD	1	2.5

#### 4.3 Sample Characteristics

All the targeted 10 banks providing Islamic banking products over the period 2014 – 2016 were included in the analyses. The 10 banks were categorized into two: those banks providing normal banking products and services including Islamic products (Type 1) and those banks providing solely Islamic banking products and services (Type 2). Only three (30%) of the 10 banks were classified as Type 2. This means that the remaining 70% offered a conglomerate of traditional banking products alongside Islamic banking products. Overall, the sample comprised of seven

banks in Kenya offering Islamic products and services and three banks in Tanzania offering Islamic products and services.

According to the findings in Table 4.2, the average (median) overall SED for Type 1 Islamic banks was 52.1% (50.0%) while the average (median) overall SED for Type 2 Islamic banks was 37.1% (35.4%), and the differences in the average overall SED for the two types of banks is significant at the 1% level of significance as depicted by both two-sample t-tests and Mann Whitney U tests. This implies that conglomerate Islamic banks provide relatively higher SEDs compared to pure Islamic banks. This may be explained by the fact that most pure Islamic banks have limited operations which focus on Islamic products and services. Therefore, they mainly serve their Islamic clientele who are fewer compared to the conglomerate banks who have larger clientele.

Table 4.2 shows that the four categories of SED for Type 1 Islamic banks are higher than Type 2 Islamic banks with the exception of the fifth SED item on unlawful transactions according to Shariah Law. With regard to the fifth category on unlawful transactions according to Shariah Law, Type 1 banks have an average (median) disclosure of 34.3% (20.0%) while Type 2 banks have an average (median) disclosure of 46.7% (40.0%), and this is significant at the 1% level of significance for both t-test and Mann Whitney U test. This finding is expected, since pure Islamic banks are expected to be devoted to engage in activities in accordance with Shariah Law, and anything that is unlawful according to Shariah Law must be disclosed in accordance with AAOIFI guidelines.

Table 4.2: Comparison of SED for Type 1 and Type 2 Islamic banks

SED item	Environmental conservation	Human resource	Community involvement	Products and services	Unlawful transactions according to Shariah Law	Overall
Number of items of disclosure	4 items	6 items	5 items	4 items	5 items	24 items
<i>Average disclosure scores</i>						
<i>Type 1 Islamic banks</i>						
Mean	0.452	0.571	0.667	0.571	0.343	0.521
Median	0.500	0.500	0.600	0.750	0.200	0.500
St. Dev.	0.332	0.261	0.222	0.308	0.220	0.137
<i>Type 2 Islamic banks</i>						
Mean	0.167	0.481	0.200	0.361	0.467	0.371
Median	0.250	0.500	0.200	0.500	0.400	0.354
St. Dev.	0.125	0.176	0.000	0.220	0.316	0.134
<i>Sample significance tests</i>						
t-value	-3.420	-1.100	2.000	-2.110	3.432	2.870
Significance	0.002	0.284	0.000	0.047	0.008	0.010
Mann Whitney U	90.000	117.500	45.000	99.000	164.000	367.500
Significance	0.021	0.320	0.002	0.062	0.005	0.012

Table 4.3 presents summary SED results for the 10 banks over the period 2014-2016 under each category of SED. The results reveal an average overall SED score of 47.1%. According to the results, disclosures relating to community involvement rank first (average score = 52.7%) followed by disclosures on human resources (average score = 54.4%), products and services (50.8%), unlawful transactions according to Shariah Law (average score = 38.0%) and finally environmental conservation (average score = 36.7%). The findings illustrate the importance given to community involvement, human resources and products and services by the 10 banks in the sample. Since the sampled banks offer some form of Islamic products and services, this means that they have to be seen to be compliant with the Shariah Law as a means of legitimizing their organization, and therefore, exhibit some level of compliance to the Law.

Table 4.3: Summary SED across the 10 banks over the period 2014-2016

SED category	Description of disclosure item	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	Bank G	Bank H	Bank I	Bank J	Count (N)	Overall score
Environmental conservation (4 items)	Existence of a quality environmental policy	0.333	0.000	0.000	0.000	0.667	0.000	0.000	0.000	0.667	0.667	7	0.233
	Environmental management policy	0.333	0.000	0.000	0.000	0.667	0.000	0.000	0.000	1.000	0.333	7	0.233
	Lending and investment policies	0.667	1.000	0.000	1.000	1.000	0.000	1.000	0.000	1.000	0.667	19	0.633
	Conservation of energy and natural resources	0.667	0.000	0.000	1.000	0.000	1.000	0.000	0.000	0.333	0.667	11	0.367
	<i>Average</i>	<i>0.500</i>	<i>0.250</i>	<i>0.000</i>	<i>0.500</i>	<i>0.583</i>	<i>0.250</i>	<i>0.250</i>	<i>0.000</i>	<i>0.750</i>	<i>0.583</i>	<i>44</i>	<i>0.367</i>
Human resource (6 items)	Information on employee morale	0.667	0.000	1.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	23	0.767
	Training and development	1.000	1.000	0.667	0.667	0.667	1.000	1.000	1.000	0.333	1.000	25	0.833
	Provision of brief employee profiles	1.000	0.667	0.667	0.667	0.333	0.667	0.667	1.000	0.667	1.000	22	0.733
	Employee incentive schemes - ESOPS	0.000	0.000	0.000	0.000	0.333	0.000	1.000	0.000	0.667	0.000	6	0.200
	The policy on the working environment, health and safety	1.000	0.333	0.000	0.000	0.667	0.333	0.667	0.667	0.667	0.667	15	0.500
	Information relating to employee industrial relations	0.667	0.000	0.000	0.000	0.000	0.000	0.333	0.000	0.333	1.000	7	0.233
	<i>Average</i>	<i>0.722</i>	<i>0.333</i>	<i>0.389</i>	<i>0.222</i>	<i>0.500</i>	<i>0.500</i>	<i>0.778</i>	<i>0.611</i>	<i>0.611</i>	<i>0.778</i>	<i>98</i>	<i>0.544</i>
Community involvement (5 items)	Support for public health, charity, donations	1.000	0.000	1.000	1.000	0.667	1.000	0.000	0.000	0.667	1.000	19	0.633
	Support to NGO through donations	0.333	0.000	0.000	0.000	1.000	0.000	0.000	0.000	1.000	1.000	10	0.333
	Support for cultural events or activities	0.000	0.000	1.000	0.000	0.667	0.000	1.000	0.000	1.000	0.667	13	0.433
	Support for education (skills for life)	1.000	0.000	0.000	0.000	1.000	0.000	0.000	0.000	1.000	1.000	12	0.400
	Support for sports and related events	1.000	1.000	1.000	1.000	1.000	0.000	1.000	1.000	0.667	0.667	25	0.833
		<i>Average</i>	<i>0.667</i>	<i>0.200</i>	<i>0.600</i>	<i>0.400</i>	<i>0.867</i>	<i>0.200</i>	<i>0.400</i>	<i>0.200</i>	<i>0.867</i>	<i>0.867</i>	<i>79</i>
Products and services (4 items)	Product quality - clear information about the products	1.000	0.667	0.667	1.000	0.000	0.667	0.667	0.667	0.333	1.000	20	0.667
	Customer relations	1.000	0.667	1.000	1.000	0.000	1.000	1.000	0.667	0.333	0.667	22	0.733
	Service for the disabled, aged and difficult to reach customers	1.000	0.000	0.000	1.000	0.667	0.000	1.000	0.000	0.667	0.667	15	0.500

SED category	Description of disclosure item	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	Bank G	Bank H	Bank I	Bank J	Count (N)	Overall score
	Policy in dealing with insolvent clients	0.333	0.000	0.000	0.333	0.000	0.000	0.000	0.000	0.000	0.667	4	0.133
	<i>Average</i>	<i>0.833</i>	<i>0.333</i>	<i>0.417</i>	<i>0.833</i>	<i>0.167</i>	<i>0.417</i>	<i>0.667</i>	<i>0.333</i>	<i>0.333</i>	<i>0.750</i>	<i>61</i>	<i>0.508</i>
Unlawful transactions according to Shariah Law (5 items)	Reference to Sharia	0.333	1.000	1.000	0.333	0.667	1.000	0.000	1.000	0.667	0.000	18	0.600
	Reasons for undertaking Unlawful transactions as per Shariah law	0.333	0.000	0.000	0.000	0.333	0.333	0.000	0.333	0.333	0.000	5	0.167
	Sharia Board's view about the necessity of the transaction	0.000	0.000	0.000	0.000	0.333	0.333	0.000	0.333	0.333	0.000	4	0.133
	Amount of revenue or expenses from "haram" transactions	1.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	27	0.900
	How the bank disposed, or intends to dispose, of such	0.000	0.000	0.000	0.000	0.000	0.333	0.000	0.333	0.333	0.000	3	0.100
	<i>Average</i>	<i>0.333</i>	<i>0.200</i>	<i>0.400</i>	<i>0.267</i>	<i>0.467</i>	<i>0.600</i>	<i>0.200</i>	<i>0.600</i>	<i>0.533</i>	<i>0.200</i>	<i>57</i>	<i>0.380</i>
<i>Total (24 items)</i>	<i>Overall score</i>	<i>0.611</i>	<i>0.264</i>	<i>0.375</i>	<i>0.417</i>	<i>0.528</i>	<i>0.403</i>	<i>0.472</i>	<i>0.375</i>	<i>0.625</i>	<i>0.639</i>	<i>339</i>	<i>0.471</i>

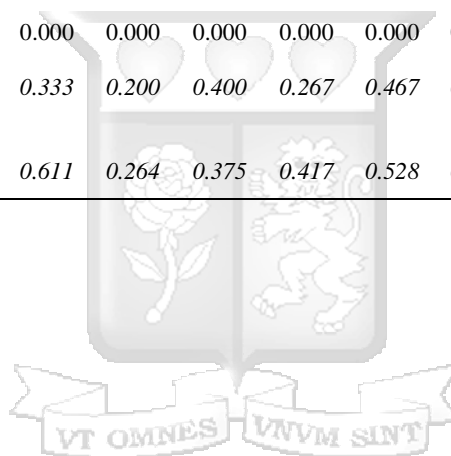


Table 4.4 reports the comparative findings for SED for Islamic banks headquartered in Kenya and Tanzania over the period 2014-2016. According to the findings, Islamic banks in Kenya provide a relatively higher SED (average = 52.2%) compared to Islamic banks in Tanzania (average 35.2%). Similarly, the top five banks with the highest SED scores were head quartered in Kenya. According to the findings, Islamic banks in Kenya provide higher average SED with regard to four out of the five SED categories. The findings show that Islamic banks in Tanzania provide relatively higher average SED with regard to products and services (52.8%) compared to those in Kenya (50.0%). Overall, the findings illustrate a higher provision of social and environmental information by Islamic banks in Kenya compared to Tanzania. This could be attributed to the higher concentration of most of the sampled banks in Kenya (70%) compared to Tanzania (30%).

Table 4.4: Comparative SED scores for Islamic banks in Kenya and Tanzania.

<i>Panel A: Kenyan Banks (N = 21 observations)</i>						
SED category	Environmental conservation (4 items)	Human resource (6 items)	Community involvement (5 items)	Products and services (4 items)	Unlawful transactions according to Shariah Law (5 items)	Overall score
Average	0.417	0.643	0.581	0.500	0.419	0.522
Median	0.500	0.611	0.667	0.417	0.467	0.528
St. Dev.	0.259	0.119	0.310	0.250	0.175	0.108
<i>Panel B: Tanzanian Banks (N = 9 observations)</i>						
SED category						
Average	0.250	0.315	0.400	0.528	0.289	0.352
Median	0.250	0.333	0.400	0.417	0.267	0.375
St. Dev.	0.250	0.085	0.200	0.268	0.102	0.079

#### 4.4 Descriptive Statistics

Table 4.5 presents the descriptive statistics for the full sample over the period 2014-2016. As established in the previous section, the findings show an average (median) SED score of 47.1% (45.8%) which is relatively normally distributed as shown by the Skewness and Kurtosis coefficients of 0.103 and 2.176. The Jarque-Bera statistic for SED (not reported) was 0.902 with a significance of 0.637, providing a further confirmation that the SED variable was relatively normally distributed. According to the findings, the minimum SED is 16.7% while the maximum SED is 75.0% implying that the Islamic banks in the sample engage in some form of SED, albeit the huge range in SED.

The descriptive statistics show that a typical bank in the sample had 57 branches with most of the banks headquartered in Kenya (70%). According to the descriptive statistics, 10% of the banks were cross listed within the East African region. The average (median) equity to assets ratio for the sampled banks was 37.2% (16.1%). This implies that the sampled banks are largely funded by customer deposits and other liabilities which account for 62.8%. The findings show that banks in the sample utilize relatively low debt financing which is at an average of 4.5%. The ROE for the banks in the sample is quite high at 6.379. Type 1 Islamic banks accounted for 70% of the sample while type 2 Islamic banks account for 30% of the sample. Finally, the descriptive statistics show that on average, the sampled banks in the sample had USD 0.874 million in total assets.

Table 4.5: Descriptive statistics for the full sample

Variable	Abbreviation	N	Mean	Median	St. Dev.	Min.	Max.	Skew.	Kurt.
<i>Dependent variable</i>									
Social and environmental disclosure	<i>SED</i>	30	0.471	0.458	0.152	0.167	0.750	0.103	2.176
<i>Independent variable</i>									
Branches	<i>BRANCHES</i>	30	57.267	17.000	67.345	3.000	225.000	1.228	3.184
Country	<i>COUNTRY</i>	30	0.700	1.000	0.466	0.000	1.000	-0.873	1.762
Cross listing status	<i>CROSSLIST</i>	30	0.100	0.000	0.305	0.000	1.000	2.667	8.111
Equity Assets	<i>EA</i>	30	0.372	0.161	0.398	0.001	1.010	0.835	1.799
Leverage	<i>LEV</i>	30	0.045	0.002	0.091	0.000	0.332	2.312	7.040
ROE	<i>ROE</i>	30	6.379	0.125	14.724	-9.385	57.920	2.214	7.253
Type 1 Islamic banks	<i>TYPE_1</i>	30	0.700	1.000	0.466	0.000	1.000	-0.873	1.762
Type 2 Islamic banks	<i>TYPE_2</i>	30	0.300	0.000	0.466	0.000	1.000	0.920	-1.242
Size	<i>SIZE</i>	30	0.874	0.114	1.568	0.023	5.418	1.944	5.535

#### 4.5 Correlation Matrix

Table 4.6 presents the Spearman's correlation coefficients. Spearman's coefficients are appropriate for the data because it contains both continuous and binary variables. The results show that *SED* is significant and positively correlated with *BRANCHES*, *COUNTRY*, *LEV*, *ROE* and *TYPE\_1* banks at the 5% level of significance. This finding provides prima-facie evidence of a positive association between *SED* and the number of bank branches, the country in which the bank is headquartered, the debt level, profitability as measured by *ROE* and those Islamic banks offering partially Islamic products and services alongside their conventional banking activities. The coefficients reveal a negative albeit insignificant coefficient between *SED* and the *EA* ratio. The highest correlation coefficient is 0.739, which is between *LEV* and *BRANCHES*, and this is below

0.8, the threshold provided by Hair et al. (2013). This suggests that multicollinearity was not a serious problem among the variables in the study.

Table 4.6: Spearman's correlation coefficients

Variable	<i>SED</i>	<i>BRANCHES</i>	<i>COUNTRY</i>	<i>CROSSLIST</i>	<i>EA</i>	<i>LEV</i>	<i>ROE</i>	<i>TYPE_1</i>
<i>BRANCHES</i>	0.736*							
<i>p-value</i>	0.000							
<i>COUNTRY</i>	0.515*	0.690*						
<i>p-value</i>	0.004	0.000						
<i>CROSSLIST</i>	0.290	0.520*	0.218					
<i>p-value</i>	0.120	0.003	0.247					
<i>EA</i>	-0.122	-0.131	-0.097	-0.096				
<i>p-value</i>	0.520	0.489	0.611	0.613				
<i>LEV</i>	0.560*	0.739*	0.606*	0.391*	0.192			
<i>p-value</i>	0.001	0.000	0.000	0.033	0.309			
<i>ROE</i>	0.611*	0.648*	0.542*	0.212	-0.363	0.388*		
<i>p-value</i>	0.000	0.000	0.002	0.261	0.049	0.034		
<i>TYPE_1</i>	0.553*	0.496*	0.048	0.218	-0.004	0.346	0.534*	
<i>p-value</i>	0.002	0.005	0.803	0.247	0.982	0.061	0.002	
<i>SIZE</i>	0.312	0.444*	0.643*	0.520*	-0.633*	0.234	0.404*	-0.113
<i>p-value</i>	0.093	0.014	0.000	0.003	0.000	0.213	0.027	0.551

\*Significant at the 5% level. The variable, *TYPE\_2* was dropped to avoid the dummy variable trap.

#### 4.6 Regression Results

Table 4.7 reports the regression results on the determinants of *SED* for the full sample of banks over the period 2014-2016. The regression model utilized is panel two-stage least squares with cross-section standard errors. The two-stage least squares approach adopted controls for potential endogeneity like: - measurement error, autoregression with autocorrelated errors and omitted variables among others which may exist between *SED* and the independent variables in the study.

The results are split into two: the first model reports the results when the variable *TYPE\_1* is

included (Model 1) while the second model presents the results when the variable *TYPE\_2* is included (Model 2). This is allow a comparison of any changes in the significance of the coefficients on the determinants of SED while controlling for pure Islamic banks (Type 2) and conventional banks offering some Islamic bank products and services (Type 1).

According to the results, the coefficient on the number of branches (*BRANCHES*) is negative and only significant in Model 1 at the 10% level. This implies that the negative association between *SED* and *BRANCHES* is slightly significant when the variable *TYPE\_1* is introduced in the regression model and this significance diminishes when the variable *TYPE\_2* is included in the regression model. As a result, the finding of a negative association between *SED* and *BRANCHES* is not conclusive. Next, the results in Model 1 reveal a positive and significant association between *SED* and the variable, *COUNTRY* at the 5% level of significance (coefficient = 0.148, t-value = 2.545,  $p = 0.020$ ). This finding is consistent with the results reported under Model 2. This implies that the difference in *SED* between Islamic banks in Kenya and similar banks in Tanzania is 0.148. This means that Islamic banks in Kenya have *SED* which is more than that of Tanzanian banks by 0.148. This finding is consistent with the results reported in Section 4.2 where it was reported that Kenyan banks exhibit relatively higher *SED* than banks in Tanzania.

According to the regression results, cross-listed banks (*CROSSLIST*) have higher *SED* than non-cross listed banks by 0.609 when *TYPE\_1* banks are considered ( $p$ -value = 0.069). However, the significance of the coefficient on *CROSSLIST* diminishes when *TYPE\_2* banks are considered, and as a result, the finding is inconclusive. Next, the results in Model 1 reveal a positive and significant association between *SED* and *LEV* at the 10% level of significance (coefficient = 0.603, t-value =

1.881). The significance of the positive coefficient on *LEV* improves in Model 2 to 5% level (t-value = 2.485). This implies that Islamic banks that have obtained more debt financing engage in higher *SED*, and this applies to both Type 1 and type 2 Islamic banks. The findings illustrate the more profitable banks as measured by the *ROE* engage in higher *SED* (Model 1: coefficient = 0.006, t-value = 2.559, p = 0.019; Model 2: coefficient = 0.006, t-value = 2.838, p = 0.011). This implies that better performing Islamic banks provide more *SED*, and this is consistent for both Type 1 and Type 2 Islamic banks.

The findings in Model 1 reveal that conventional banks offering some Islamic products and services (*TYPE\_1*) engage in higher *SED* than pure Islamic banks by 0.145 and this is significant at the 1% level (coefficient = 0.145, t-value = 5.287). Similarly, the findings in Model 2 show that pure Islamic banks (*TYPE\_2*) engage in lower *SED* than conventional Islamic banks by 0.145, and this is significant at the 1% level (coefficient = -0.145, t-value = -2.794). This finding is consistent with the earlier finding in Section 4.3 where Type 1 Islamic banks engaged in higher *SEDs* than Type 2 Islamic banks. This means that where an Islamic bank provides Islamic products and services alongside conventional banking products, it is likely to provide more social and environmental information to cater for the wider clientele which it serves. This is to meet the needs of the various stakeholders of the bank, who are more diverse and heterogeneous compared to the stakeholders of purely Islamic banks.

Finally, the model specification tests reveal that the models utilized had goodness of fit as indicated by the adjusted R-squared of 74% for both Models 1 and 2. This means that 74% of the variation in *SED* could be explained by the variables included in the model, with 26% of the variation

accounting for the omitted variables. In both modes, the firm-year and cross-sectional controls were included to cater for the heterogeneity across the 10 banks as well as the variability in SED over the period 2014-2016. The analysis of variance for the overall model produced an F-statistic of 9.273 for both models which was significant at the 1% level. This means that the models utilized and the results thereof could be relied upon. Finally, the Durbin Watson statistic for both models was 2.472 and this implied that there was minimal autocorrelation among the residuals.

Table 4.7: Regression results for the full sample

Model type Variable	<i>Dependent variable = social and environmental disclosure (SED)</i>							
	Model 1				Model 2			
	Coefficient t	Std. Error	t- Statistic	Prob.	Coefficient	Std. Error	t- Statistic	Prob.
Intercept	0.182***	0.013	14.104	0.000	0.327***	0.045	7.201	0.000
<i>BRANCHES</i>	-0.001*	0.001	-1.859	0.079	-0.001	0.001	-1.393	0.180
<i>COUNTRY</i>	0.148**	0.058	2.545	0.020	0.148**	0.061	2.430	0.025
<i>CROSSLIST</i>	0.609*	0.316	1.929	0.069	0.609	0.376	1.617	0.122
<i>EA</i>	-0.032	0.043	-0.751	0.462	-0.032	0.056	-0.575	0.572
<i>LEV</i>	0.603*	0.321	1.881	0.075	0.603**	0.243	2.485	0.022
<i>ROE</i>	0.006**	0.002	2.559	0.019	0.006***	0.002	2.838	0.011
<i>SIZE</i>	-0.072	0.058	-1.243	0.229	-0.072	0.059	-1.210	0.241
<i>TYPE_1</i>	0.145***	0.028	5.287	0.000				
<i>TYPE_2</i>					-0.145***	0.052	-2.794	0.012
Firm-year controls	Yes***				Yes***			
Cross-section controls	Yes***				Yes**			
R-squared	0.830				0.830			
Adjusted R-squared	0.740				0.740			
S.E. of regression	0.077				0.077			
F-statistic	9.273***				9.273***			
Prob. (F-statistic)	0.000				0.000			
Durbin-Watson stat	2.472				2.472			
Observations	30				30			

\*\*\*, \*\* and \* denote significance at the 1%, 5% and 10% levels, respectively.

Table 4.8 reports the findings on managerial perspectives on SED by Islamic banks. The abbreviations used in the table denote the following: SD - “strongly disagree”, D - “disagree”, U - “undecided”, A - “agree” and SA - “strongly agree”. According to the findings, majority of the respondents were of the view that Islamic banks provide SEDs around products and services (mean = 3.525) and environmental conservation (mean = 3.500). However, most of the respondents were of the view that the transparency of bank procedures in recruitment (mean = 2.925), employee development and training (mean = 3.000) and support for the community with regard to education does not guarantee good prospects for the bank as anticipated.

Table 4.8: Managerial perspectives on SED by Islamic banks

Statement	SD	D	U	A	SA	St. Dev.	Mean
The bank provides information regarding its environmental conservation activities which illustrate its commitment to the environment	10%	18%	8%	43%	23%	1.301	3.500
<i>Number of responses</i>	4	7	3	17	9		
The disclosure of information on bank products and services has created trust by the bank customers and this has attracted more depositors	8%	20%	5%	48%	20%	1.240	3.525
<i>Number of responses</i>	3	8	2	19	8		
The bank commits a significant proportion of its resources to developing and retaining its workforce	28%	20%	3%	28%	23%	1.585	3.000
<i>Number of responses</i>	11	8	1	11	9		
The transparency of the bank on recruitment procedures has created a good image for the bank which has translated to new customers and high revenues	30%	15%	5%	33%	18%	1.559	2.925
<i>Number of responses</i>	12	6	2	13	7		
The bank provides disclosures on any unlawful transactions according to Shariah Law to promote the confidence of the Islamic clientele on the compliance of its products and services	18%	15%	8%	33%	28%	1.480	3.375
<i>Number of responses</i>	7	6	3	13	11		
Community involvement disclosure has enhanced penetration and uptake of the bank's products and	18%	23%	10%	35%	15%	1.411	3.100

Statement	SD	D	U	A	SA	St. Dev.	Mean
services which has increased the number of bank depositors.							
<i>Number of responses</i>	7	9	4	14	6		
The bank provides competitive pay package to its employees which has enhanced the bank's competitiveness and financial performance	15%	28%	5%	30%	23%	1.448	3.175
<i>Number of responses</i>	6	11	2	12	9		
Information on environmental policies and bank's concern for the environment has created strong relationship between customers and the bank hence growth of market share	23%	15%	3%	35%	25%	1.548	3.250
<i>Number of responses</i>	9	6	1	14	10		
Information on support for education and funding scholarship programs by the bank has opened financial doors from international donor funders	28%	23%	3%	30%	18%	1.519	3.000
<i>Number of responses</i>	11	9	1	12	7		

When asked which social aspects the banks provided, the respondents indicated that environmental disclosures, unlawful transactions according to Shariah law and community involvement were the main SED aspects provided. Finally, the respondents indicated that the banks did not provide much disclosures regarding employees.

#### 4.7 Summary of the Chapter

This chapter contains the findings of the study seeking to address the three objectives outlined in the study. Both the empirical findings from annual reports and respondents revealed that Type 1 Islamic banks engage in higher SED compared to Type 2 Islamic banks. According to the findings, Islamic banks in Kenya engage in higher SED than those in Tanzania. The findings established that commonly disclosure SED aspects included community involvement, human resources, products and services with environmental conservation raking lowest. The findings showed that the sampled banks pay importance to Islamic-related disclosures, especially those relating to compliance with Shariah Law. The results showed that SED by Islamic banks are significantly associated with the country in question, leverage, bank profitability as measured by ROE and the

type of bank. Managerial perspectives on SED by Islamic banks revealed that most SEDs revolve around products and services and environmental conservation with minimal focus on employee welfare, a finding which is slightly inconsistent with the results reported from the banks' annual reports.



## CHAPTER FIVE

### DISCUSSION, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a discussion of the findings reported in Chapter Four. Next, the chapter provides a conclusion of the findings and offers recommendations for policy and practice. The chapter highlights the contribution to knowledge and highlights the limitations of the study as well as areas of further research.

#### 5.2 Discussion of the Findings

The general objective of the study was to establish the determinants of SED by Islamic banks in both Kenya and Tanzania. To achieve this objective, the study sought data from audited annual reports of 10 banks offering pure Islamic products and services and conventional banking products and services with some Islamic offering in them. The study also sought managerial perspectives on SED by Islamic banks in the sample. The study utilized descriptive analysis, alongside correlation and regression approaches to address three specific objectives which are discussed as follows.

##### **5.2.1 To establish whether the level of SED is statistically significant between pure Islamic banks and conventional banks**

The study sought to establish whether the level of SED is statistically significant between pure Islamic banks (Type 2 banks) and conventional banks offering Islamic products and services (Type 2 banks). To fulfil this objective, descriptive analyses were performed comparing SED between Type 1 and Type 2 Islamic banks. Sample significance tests (two-sample t-tests and Mann Whitney

U test) were also utilized to address the objectives. The study found that the four categories of SED for Type 1 Islamic banks were significantly different and relatively higher than Type 2 Islamic banks with the exception of the fifth SED item on unlawful transactions according to Shariah Law. This finding was consistent with Aribi and Gao (2010) who found significant differences between the level and the extent of disclosure between Islamic financial institutions and conventional financial institutions. However, the study found the disclosure on unlawful transactions according to Shariah Law, Type 2 banks had a relatively higher average disclosure than Type 1 Islamic banks. This finding concurs with Aribi and Gao (2010) who established that the disclosure made by Islamic financial institutions of information regarding compliance with Shariah was higher (such as Shariah's supervisory board disclosures, the "Zakah" and charity donations and free interest loans). The findings also concur with Maali et al. (2006) who found a considerable variation in the voluntary reporting across Islamic banks. Maali et al. also found that the extent of social disclosure by Islamic banks falls short of the social disclosure benchmark.

### **5.2.2 To find out the determinants of SED by Islamic banks in Kenya and Tanzania**

The second objective of the study was to establish the determinants of SED by Islamic banks in Kenya. To address this objective, correlation and multivariate two-stage least squares regression analyses were performed alongside inferential tests to establish the significance of the potential determinants of SED by Islamic banks in the sample. The regression results revealed that the country where the Islamic bank is headquartered, leverage, and the ROE were significant and positively associated with SED. These findings are consistent with prior studies which have established a positive association between SED and parent country (Greenspan, 2013), leverage (Karpik, 2013) and bank profitability (Ahmed, 2014; Javad, 2012). The findings also revealed that

Type 1 Islamic banks provide relatively higher SEDs than Type 2 Islamic banks, further confirming the proposition held by Aribi and Gai (2010). This implies that conventional banks providing some Islamic banks continue to provide more SED than purely Islamic banks since they are exposed to wider array of stakeholders with competing expectations. As a result, the banks respond by engaging in higher SED in an effort to meet the stakeholder needs. Furthermore, in addition to the Central Bank regulations, these banks are subject to Islamic Shariah Law which they must comply with. As a result, they end up providing higher SEDs relative to purely Islamic banks.

### **5.2.3 To obtain managerial perceptions on the level of SED by Islamic Banks**

The third objective of the study was to obtain managerial perspectives on SED by Islamic banks in Kenya and Tanzania. The findings revealed that majority of the respondents were of the view that Islamic banks provide SEDs around products and services and environmental conservation. However, a number of respondents were of the view that the transparency of bank procedures in recruitment, employee development and training and support for the community did not guarantee good prospects for the Islamic bank. The respondents also indicated that the banks did not provide much disclosures regarding employees. These findings are consistent with prior studies that have established that Islamic banks show concern for the environment (Haniffa and Cooke, 2011) and community in general (Usmani, 2012). The results reveal that the managerial perspectives with regard to SED are slightly different from what the Islamic banks report in the audited annual reports, questioning the extent of involvement of the senior managers in the annual reporting exercise.

### **5.3 Conclusion**

The study concludes that the extent of SED by Islamic banks varies between Type 1 and Type 2 Islamic banks in that Type 1 banks engage in higher SED than Type 2 banks. Further, the level of SED by Islamic banks in Kenya is relatively higher than Islamic banks in Tanzania. This finding illustrates that the level of SED varies across nations, as manifested by the Islamic banks in this study. Further, the specific types of SED disclosed by Type 1 and Type 2 Islamic banks are slightly different with Type 2 Islamic banks engaging in higher disclosures relating to compliance with Shariah Law. The study established that SEDs are largely by country-specific factors, leverage and bank profitability.

### **5.4 Contribution to Knowledge**

This study adds onto the sparse studies conducted on SED by businesses conducting Islamic banking (Anuar et al., 2004; Yahya et al., 2005; Maali et al., 2006; Haniffa and Hudaib, 2007; Aribi and Gao, 2010). The study adds onto the existing studies by examining firstly, the determinants of SED by Islamic banks. Secondly, the study contributes to the growing strand of literature examining whether pure Islamic banks and conventional banks offering some Islamic products have differential engagement in SED. The study provides empirical evidence, albeit the small sample size of banks examined, in support of the differential engagement in SED by pure Islamic banks and conventional banks offering some Islamic banking. Finally, the study attempts to perform a comparative analysis on SED by Islamic banks in two developing countries within the East African region which has experienced a number of recent developments in the past aimed at enhancing regional integration among its constituent nations.

## **5.5 Recommendations**

Based on the findings of the study, the following recommendations are suggested.

### **5.5.1 Recommendations to Policy**

The study established that the overall average SED by Islamic banks in Kenya and Tanzania is approximately 50%. This implies that policy reforms are necessary to help improve the level of SED by Islamic banks as the push for increased disclosure on sustainability and environment intensifies. The study also established that Type 1 Islamic banks engage in higher SED compared to Type 2 Islamic banks. To bring consistency in the banking sector, it is necessary for policy makers and regulators to ensure that purely Islamic banks provide more SEDs as conventional banks do. Finally, the study found that Islamic banks in Kenya provide more SEDs compared to Islamic banks in Tanzania. This calls for more awareness on the need to improve the level (and quality) of SEDs by Islamic banks within the East Africa region to promote greater transparency and accountability in the banking sector, which has often been seen as a catalyst for economic development and growth.

### **5.5.2 Recommendations to Practice**

The study examined an important aspect in corporate reporting: SED. Given the growing calls for the adoption of alternative reporting frameworks, the study provides empirical evidence of the status of SED by Islamic banks in Kenya and Tanzania. The relatively average level of SED by Islamic banks in the two developing countries implies that the professional accounting bodies and the Islamic banks themselves need to establish ways of improving disclosure so as to build public confidence and attract more deposits and capital. As a result, professional accountancy bodies need

to develop guidelines with regard to SED incorporating expected Islamic-related disclosures so as to improve the level of SED by Islamic banks.

### **5.5.3 Recommendations for Further Research**

Based on the findings from the study, further studies can consider expanding the scope study by studying an extended coverage of Islamic banks in the wider East African or African region. An extension of the period covered to a period longer than three years can also be considered. Further research can also focus on conducting detailed interviews with the management of the Islamic banks to obtain more views regarding the process of gathering social and environmental information for inclusion in the annual report together with what motivates the extent of information provided in the annual reports.

### **5.6 Limitations of the Study**

This study was not without limitations. First, the coding exercise suffered from coder bias since the index used was subjective in nature. This was however addressed by ensuring that the items in the SED index were adopted from previous studies and that the coders were adequately trained prior to coding. Secondly, the study focuses on Islamic banks in two developed countries and this may limit the extrapolation of the findings to other developed nations. Finally, the study analysed a relatively small dataset, and this limits the generalizability of the findings. This was occasioned by the small number of Islamic banks in both countries. However, an attempt was made to also obtain manager views on SEDs from the few banks in the sample.

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## APPENDICES

### Appendix I Letter of Introduction

30 June 2017

#### TO WHOM IT MAY CONCERN

Dear sir/madam

This is to confirm that the undersigned MUSSA ISSA DIGHESH (REG. No.: MBA/78956) is an MBA student at Strathmore Business School and is currently collecting data for his research titled “An Examination of the Determinants of Social and Environmental Disclosure by Islamic Banks in Tanzania and Kenya”.

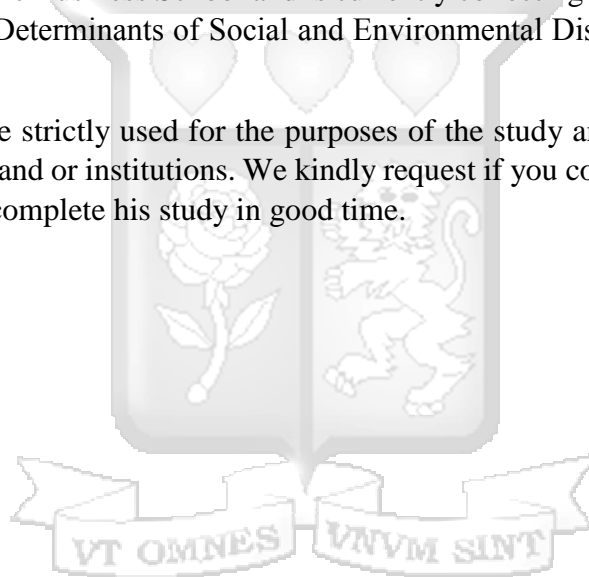
The data collected will be strictly used for the purposes of the study and will not be revealed to unauthorized individuals and or institutions. We kindly request if you could grant the study access to the data is requires to complete his study in good time.

Yours sincerely

Elud Njogu

Ag. Programme Director

MBA programme



## Appendix II Research Questionnaire

Dear participant:

This questionnaire is administered on Islamic banks as the target population of the research on Contribution of Social Reporting Disclosure on Financial Performance by Islamic Banks in Tanzania and Kenya. The information to be given in this questionnaire will be confidential and purely for academic purposes. The Questionnaire aims to establish the contribution of social reporting disclosure on financial performance of Islamic Banks in Kenya and Tanzania.

### SECTION A: RESPONDENTS DEMOGRAPHICS

*(Fill in the blank spaces and tick once in the below given choices of all questions)*

1. Name *(optional)*:
2. Please indicate your age bracket:  
20-29 years    
30-39 years    
40-49 years    
Above 50 years
3. Please indicate your gender: Male  Female
4. Please indicate your education level  
Master  Certificate   
Bachelor's degree  Others (specify).....  
Diploma
5. Indicate the type of your bank *(tick once below)*  
(a) Pure Islamic bank   
(b) Both Islamic and conventional bank

### SECTION B: SOCIAL REPORTING DISCLOSURE

In this section please tick the most appropriate response for each of the statements in the table below.

*(Use a scale of 1-5: 5- Strongly agree; 4-Agree; 3-Neutral; 2- disagree; 1- strongly disagree)*

6. What is your level of agreement/disagreement with the following statements that relate to the social reporting disclosure of your bank?

*(Use a scale of 1-5: 5- Strongly agree; 4-Agree; 3-Neutral; 2- Disagree; 1- Strongly disagree)*

	1	2	3	4	5
Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The bank provides information regarding its environmental conservation activities which illustrate its commitment to the environment					
The disclosure of information on bank products and services has created trust by the bank customers and this has attracted more depositors					
The bank commits a significant proportion of its resources to developing and retaining its workforce					
The transparency of the bank on recruitment procedures has created a good image for the bank which has translated to new customers and high revenues					
The bank provides disclosures on any unlawful transactions according to Shariah Law to promote the confidence of the Islamic clientele on the compliance of its products and services					
Community involvement disclosure has enhanced penetration and uptake of the bank's products and services which has increased the number of bank depositors.					
The bank provides competitive pay package to its employees which has enhanced the bank's competitiveness and financial performance					
Information on environmental policies and bank's concern for the environment has created strong relationship between customers and the bank hence growth of market share					
Information on support for education and funding scholarship programs by the bank has opened financial doors from international donor funders					

7. Which social disclosure aspects are not commonly disclosed by the bank?

.....  
 .....

8. Why does the bank not disclose information on certain social disclosure aspects?

.....  
 .....

**THANK YOU SO MUCH FOR YOUR TIME**

### Appendix III SED Index Utilised

	SRD category	SN	Description of disclosure item
A	Environmental conservation	1	Existence of a quality environmental policy
		2	Environmental management policy
		3	Lending and investment policies
		4	Conservation of energy and natural resources
B	Human resource	5	Information on employee morale
		6	Training and development
		7	Provision of brief employee profiles
		8	Employee incentive schemes - ESOPS
		9	The policy on the working environment, health and safety
		10	Information relating to employee industrial relations
C	Community involvement	11	Support for public health, charity, donations
		12	Support to NGO through donations
		13	Support for cultural events or activities
		14	Support for education (skills for life)
		15	Support for sports and related events
D	Products and services	16	Product quality - clear information about the products
		17	Customer relations
		18	Service for the disabled, aged and difficult to reach customers
		19	Policy in dealing with insolvent clients
E	Unlawful transactions according to Shariah Law	20	Reference to Sharia
		21	Reasons for undertaking Unlawful transactions as per Shariah law
		22	Sharia Board's view about the necessity of the transaction
		23	Amount of revenue or expenses from "haram" transactions
		24	How the bank disposed, or intends to dispose, of such transactions

#### Appendix IV List of Islamic Banks in the Sample

SN	Bank	Type	Year	SED	Country	Total assets (US\$)
1	KCB	Type 1	2016	0.750	Kenya	4,900,732.320
		Type 1	2015	0.667	Kenya	5,418,389.845
		Type 1	2014	0.417	Kenya	4,760,566.252
2	Amana	Type 2	2016	0.333	Tanzania	85,977.520
		Type 2	2015	0.292	Tanzania	75,400.476
		Type 2	2014	0.167	Tanzania	53,050.951
3	PBZ	Type 1	2016	0.417	Tanzania	224.248
		Type 1	2015	0.417	Tanzania	208.774
		Type 1	2014	0.292	Tanzania	171.167
4	NBC	Type 1	2016	0.500	Tanzania	756.694
		Type 1	2015	0.417	Tanzania	758.125
		Type 1	2014	0.333	Tanzania	451.488
5	Barclays	Type 1	2016	0.667	Kenya	10,689.544
		Type 1	2015	0.417	Kenya	2,338.612
		Type 1	2014	0.500	Kenya	2,192.631
6	Gulf African	Type 2	2016	0.542	Kenya	263,653.049
		Type 2	2015	0.375	Kenya	239,939.631
		Type 2	2014	0.292	Kenya	191,746.233
7	Chase	Type 1	2016	0.542	Kenya	1,054,896.233
		Type 1	2015	0.500	Kenya	1,059,792.466
		Type 1	2014	0.375	Kenya	1,039,926.883
8	FCB	Type 2	2016	0.500	Kenya	143,958.689
		Type 2	2015	0.375	Kenya	141,404.184
		Type 2	2014	0.250	Kenya	148,330.350
9	NBK	Type 1	2016	0.583	Kenya	1,112.466
		Type 1	2015	0.583	Kenya	1,212.194
		Type 1	2014	0.708	Kenya	1,195.068
10	Standard Chartered	Type 1	2016	0.667	Kenya	2,174,384.437
		Type 1	2015	0.542	Kenya	2,271,509.194
		Type 1	2014	0.708	Kenya	2,160,153.631

Source: Central Banks of Kenya and Tanzania (2016)