

**IBN HALDUN UNIVERSITY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF ECONOMICS**

MASTER THESIS

**CHARACTERISTICS OF THE SHARIAH SUPERVISORY
BOARD AND CSR DISCLOSURE: THE CASE OF SELECTED
ISLAMIC BANKS IN THE GCC AND MALAYSIA**

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**THESIS SUPERVISOR
ASSIST. PROF. OMAR KACHKAR**

ISTANBUL, 2020

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AND MALAYSIA**

**by
SULEMAN HUSSEINI**

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fulfilment of the requirements for the degree of Master of Arts in
Economics**

**THESIS SUPERVISOR
ASSIST. PROF. OMAR KACHKAR**

ISTANBUL, 2020

APPROVAL PAGE

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Arts in Economics.

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ACADEMIC HONESTY ATTESTATION

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

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ÖZ

ŞERİAT DENETLEME KURULU'NUN ÖZELLİKLERİ VE KSS İFŞASI: KİK VE MALEZYA'DA SEÇİLMİŞ İSLAMİ BANKALARININ DURUMU

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Bu çalışma, Körfez İşbirliği Konseyi (KİK) ülkeleri ve Malezya'da seçilen 30 tam teşekküllü İslami bankanın, 2018 yılı için Şeriat Denetim Kurulu'nun (SSB) özelliklerinin Kurumsal Sosyal Sorumluluk (KSS) ifşa seviyesi üzerindeki etkilerini ampirik olarak incelemektedir. İslami bankalar, şüphesiz yıllar içinde çok başarılı olduklarını kanıtladılar, ancak ortaya çıktıkları İslami ekonomik ideallere ulaşım ulaşımadıkları sorusu cevaplanmayı bekliyor. Bu çalışmada, SSB özelliklerinin İB'lerin KSS performansında oynadığı rolü araştırıyoruz. KSS ifşa, KSS performansı için bir vekil olarak kullanılır. Daha önceki çalışmalarda, Yönetim Kurulu büyüklüğü, üyelerinin şeriat geçmişi, şeriatla doktora yeterliliği, yönetim kurulunun uluslararasılığı ve mesleki yeterlilik gibi SSB özelliklerinin İslami bankalar (IBs) tarafından KSS ifşası düzeyindeki etkilerini inceledik. Çoklu regresyon analizi kullanarak, KSS ifşasının; daha büyük SSB boyutundan, şeriat / fıkhıta doktora yeterliliğine sahip daha fazla akademisyenden ve SSB üyelerinin artan şeriat bilgisinden, olumlu ve anlamlı bir şekilde etkilendiğini bulduk. KİK ve Malezya arasında yapılan çift yönlü ANOVA karşılaştırması, iki bölge arasındaki KSS ifşa seviyelerinde anlamlı bir fark bulamadı. Ancak, KİK ülkeleri arasında yapılan aynı karşılaştırma, KSS ifşasında bölgesel farklılıkların varlığını doğrulamıştır. KSS'nin tanımlayıcı analizi, ifşa seviyelerinin; genel olarak orta (%55) olduğunu ve gönüllü ifşalar söz konusu olduğunda kritik derecede düşük olduğunu göstermektedir.

Anahtar Kelimeler: KSS, AAOIFI, Şeriat denetleme kurulu

ABSTRACT

CHARACTERISTICS OF THE SHARIAH SUPERVISORY BOARD AND CSR DISCLOSURE: THE CASE OF SELECTED ISLAMIC BANKS IN THE GCC AND MALAYSIA

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This study empirically examines the effects of the characteristics of the Shariah supervisory board (SSB) on the level of Corporate Social Responsibility (CSR) disclosure by a total of 30 selected full-fledged Islamic banks in the Gulf Co-operation Council (GCC) countries and Malaysia for the year 2018. Islamic banks have, without a doubt proven to be very successful over the years, yet the question as to whether they have been able to achieve the Islamic economic ideals based on which they emerged remains to be answered. In this study, we investigate the role that the SSB characteristics play in the CSR performance of IBs. CSR disclosure is used as a proxy for CSR performance. Building on previous studies, we examined the effects that SSB characteristics such as the board size, the shariah background of its members, doctoral qualification in Shariah, the internationality of the board, and professional qualification has on the level of CSR disclosure by Islamic banks (IBs). Using multiple regression analysis, we found CSR disclosure to be positively and significantly influenced by larger SSB size, higher numbers of scholars with a doctoral qualification in Shariah/fiqh, and increased shariah knowledge of SSB members. A pair-wise ANOVA comparison between the GCC and Malaysia found no significant difference in the CSR disclosure levels between the two regions. However, the same comparison made between the GCC countries confirmed the presence of intra-regional differences

in CSR disclosure. The descriptive analysis of CSR shows disclosure levels to be moderate (55%) in general, and critically low when it comes to voluntary disclosures.

Keywords: CSR, AAOIFI, Shariah supervisory board



DEDICATION

I dedicate this work to my family, most especially to my parents, Hussein Zubairu and Zahratu Abdul Hamid; to whom I am highly indebted for whatever I have achieved in my life. A special feeling of gratitude to my guardians; Mr. Michael Anim Ameyaw and Mrs. Amanda Anim Ameyaw for their unconditional support, and being there for me at the times when I needed them most in my life.



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First and foremost, I thank Allah for granting me this opportunity and making it possible for me to undertake this assignment. Thereafter, I would like to express my deep gratitude to my thesis supervisor, Assist. Prof. Dr. Omar Kachkar for his guidance, interventions, and advice throughout the period of my study. Beyond supervising and providing very useful feedbacks he would go the extra mile to help me secure most of the data that I would need for my study.

The nature of the study meant that several hands were required for the success of the project. Many friends and colleagues played very important roles with varying degrees in the process. I convey my very special thanks to Mustapher Faque, without whom the task of data collection would have been near impossible. Furthermore, I would like to thank Zulkarnain Muhammed and Farah Finn for their very useful comments and constructive criticisms.

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LIST OF SYMBOLS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BOD	Board of Directors
CSR	Corporate Social Responsibility
FAS	Financial Accounting Standards
GCC	Gulf Cooperation Countries
GeTS	General to Specific approach
IFSB	Islamic financial services board
IB	Islamic Bank
IFI	Islamic Financial Institutions
SC	Shariah Committee
SSB	Shariah Supervisory Board
UAE	United Arab Emirates
UK	United Kingdom
VBI	Value-Based Intermediary
VIF	Variable Inflation Factor

CHAPTER I

INTRODUCTION

Since its inception in the early 1970s, modern Islamic finance has seen a meteoric and unabated rise in its assets and as well as its share in the global financial sector. As of the year 2019, the Islamic financial sector had over \$2.44 trillion in assets and a compound growth rate of 7% since 2013, and a year-on-year growth rate of 12%, with Islamic banks (IBs) holding a whopping 71% of that (IFSB, 2020). At the heart of Islamic finance are the Islamic banks, which like their conventional counterparts, play a very crucial role in wealth distribution in society. The potential that banks have in contributing to the development of society cannot be overstated, given that they are the most significant financial intermediaries within the financial sector, controlling about \$124 trillion in assets as of the year 2018 (Reuters, 2018). In fact, Chambers & Day (2009) go to the extent of describing the banking sector as the ‘heart of society.’ As financial intermediaries, the main role of banks (including shariah-compliant ones) in society is to act as a venue where those with a surplus of money meet those who need it (Ali Aribi & Arun, 2015). Being entrusted with the responsibility of deciding who gets money for their investment and who does not, and at what cost, comes with overreaching consequences, that involve banks making not only financial but moral decisions also. Given the nature of their work and the sheer volume of assets they control, the banking sector can go a long way in affecting a positive change in society if they take the right steps to act responsibly towards the society in which they operate.

There is no doubt that Islamic banks have experienced outstanding growth over the past 45 years, as evidenced by the sheer amount of assets they control within a relatively very short period. However, the only doubt is whether or not they have been successful in implementing their ideals - which was to provide a more equitable and just platform where capital is channeled from savers to borrowers in conformance with the Shariah (Zaman, 2019). Islamic economic ideals such as equity, justice, the payment of Zakah, charity, the prohibition of usury, and the principle of profit/loss sharing, form the core of Islamic finance (Abdul-Rahman, Abdul Latif, Muda, &

Abdullah, 2014; Ali Aribi & Arun, 2015; Maali, Casson, & Napier, 2006; Uppal & Mangla, 2014; Zaman, 2019). As such, it is paramount for any financial institution that calls itself Islamic to strictly adhere to these principles. That is why the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – the main governance standard-setting body for Islamic Financial Institutions (IFIs) puts special emphasis on these principles in its CSR prescriptions for Islamic Financial Institutions while disregarding trending issues such as the environment – since the actions of banks primarily affect individual's economic wellbeing, while playing a very limited direct role in environmental degradation, as compared to other industries such as the manufacturing industry.

The Accounting and Auditing Organization for Islamic Financial Institutions (2015) defines CSR as: “*all activities carried out by an Islamic financial institution to fulfill its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions.*” Per this definition, every act of an Islamic financial institution that is carried out to fulfill any of its responsibilities is considered under CSR – so long as it is done in compliance with the Shariah. The AAOIFI defines CSR as such because social responsibility is inherent in Islam (R. Haniffa & Hudaib, 2007). Therefore, by just conducting their daily activities per the Shariah, Islamic banks are bound to be beneficial to society. In the conventional system, for example, regardless of whether or not an investor makes a profit or loss on his investment, at the end of the day he/she is obliged to pay the money he borrowed from the bank in full in addition to a predetermined interest. This one-sided type of relationship places a huge burden on side of investors, who have to cough up every capital they borrowed plus the interest on such capital with the false presumption that all business ventures always make profits. Islam abolishes interest on loans and replaces it with a profit/loss sharing relationship between borrowers and lenders. For an entrepreneur, this means that he/she does not have to pay his/her lenders the money which he has not earned provided there is no breach of contract or carelessness on his/her behalf. Abolishing interest means that the only way traditional lenders can expect a return on their money is by taking a similar risk as taken by the entrepreneur by investing in the real market and enjoying the profits if there is any, and bearing losses if otherwise.

Another example of CSR activity that is inherent in Islam is the payment of Zakat (an annual religious tax), which is due upon every Muslim – so long as his/her wealth is above a certain minimum. The payment of Zakat helps in poverty alleviation through two main means as mentioned by Allah in the glorious Qur'an. The first being through a donation to those who are most desperately in need in the society (the poor, the needy, the slave, those in debt, and the stranded traveler) while the second is through creating employment for those who collect it (Surah At-Taubah:60). Islamic banks are legal persons. Thus, they are also obliged to pay Zakat on their wealth towards the service of the poor and the needy in society. Acting within the boundaries of the Shariah for an IFI means fulfilling all their religious and social obligations, such as not charging interest, paying the poor-due, and working for the interest of society at large, as opposed to prioritizing their corporate interests at the expense of society (Ali Aribi & Arun, 2015; Zaman, 2019).

One of the unique characteristics of Islamic banks, which sets it apart from their conventional counterparts, is the presence of the Shariah supervisory board (SSB) as part of their corporate governance systems. Depending on the country's system of corporate governance for its Islamic banking sector, the SSB can either be in the form of a centralized body (as is the case for Iran, Malaysia, and Sudan), *laissez-fair* (as is the case for most countries in the GCC, Germany, the UK, and France), or hybridized (as is the case for countries like Pakistan and the UAE) (Noordin & Kassim, 2019). The primary purpose of the SSB is to serve as an advisory and supervisory body to Islamic banks. The SSB plays its role as an advisory body by advising and providing guidance to IBs with regards to matters on the permissible and impermissible in their affairs in the light of the Shariah. After advising the board of directors (BODs) on shariah matters, it becomes the obligation of the BOD to ensure that it implements whatever directions that were given to them by the SSB. What is remaining, after fulfilling their advisory duties towards the IB, is that of supervision. As guardians of the Shariah in the IB, the SSB must ensure that the IB acts responsibly towards society to reflect their 'Islamic' identity, and must also ensure that the IB discloses all its activities which are of interest to their stakeholders (Nugraheni, 2018). The SSB supervises the IB through studying samples of its annual transactions to check if the IB has complied with the SSB's directives and the Shariah in general. Because of their crucial role as the main guardians of the Shariah in IBs, it has become imperative to

investigate the characteristics that enable the members of the Shariah supervisory board/committee to execute their duties as is expected of them (Nugraheni, 2018).

This study empirically examines the effects of the characteristics of the Shariah supervisory board (SSB) on Corporate Social Responsibility (CSR) disclosure by 30 selected full-fledged Islamic banks in the Gulf Co-operation Council (GCC) countries and Malaysia for the year 2018. CSR disclosure is used in this study as a proxy for CSR performance based on the presupposition that banks will disclose only that which is favorable to them while refraining from disclosing that which is damaging to their identity. The CSR disclosure criteria/items have been constructed based solely on the guidelines provided by the AAOIFI in its governance standard no. 7, which is dedicated purposely for corporate social responsibility disclosure in Islamic financial institutions. The data for the CSR items is obtained from the annual financial, corporate, and CSR reports of the sampled Islamic banks using content analysis. On the other hand, the data on the SSB characteristics are obtained from the annual reports, autobiographies, Islamic Markets website, Bloomberg, Universities' websites, social media accounts, and other online resources that may contain such information. The SSB characteristics considered under this study are; the SSB size, Background in Shariah/fiqh, PhD qualification in Shariah/fiqh, Professional qualification, Number of SSB meetings, and the Internationality of the SSB.

This study aims to investigate the extent to which the characteristics of the SSB affect CSR disclosure by Islamic banks, and as well as to provide answers to questions such as whether or not compliance with AAOIFI CSR disclosure requirements differ within and across regions. Furthermore, if at all compliance with CSR disclosure requirements are increasing compared to similar studies in the past.

1.1 Problem Discussion

The link between SSB characteristics and CSR disclosure has been a subject of minimal research. To date, very little has been written about the effects of the SSB composition on CSR disclosure, amongst the very few studies are the notable works of Nugraheni (2018), Noordin & Kassim (2019), and Ismail & Latiff (2019). To the best of the author's knowledge, no previous study on this subject has adopted purely the AAOIFI reporting standard number 7, which is dedicated to CSR disclosure by IFIs. Most of the studies in this area adopt the CSR disclosure index proposed by Maali

(2006), while others have combined the AAOIFI standard No. 7 with other researchers' proposed CSR indices based primarily on Shariah principles (Ali Aribi & Arun, 2015; Maali et al., 2006; Mallin et al., 2014; Platonova et al., 2018). This, in the author's opinion, is highly insufficient since those sources have very limited authority to impose their recommendations on IFIs, while the AAOIFI is the only internationally recognized standard-setting body that has the legal and moral authority to produce and enforce legally binding provisions for CSR amongst several countries. Given the reasons above, this study aims to utilize solely the standard provided by AAOIFI in its 2015 publication named 'Accounting, Auditing and Governance Standards' as a guide to measuring CSR disclosure compliance by IBs.

The purpose of this study is to investigate how much of the disclosure of CSR is influenced by the characteristics of the Shariah Supervisory Board. Previous studies on this subject have looked into the effects of SSB characteristics such as the SSB size, Directorship, Education qualification, Shariah qualification, SSB meeting, Reputation of SSB members, and Cross-membership on the level of CSR disclosure in Islamic banks. Given that SSB size has been the common denominator in the literature since the optimal number of SSB members is still a highly contentious topic with no consensus reached yet, this study will also look to investigate the relationship between it and CSR disclosure. Other issues that are investigated in this study are that of the relationship between the background in Shariah/fiqh, PhD Qualification in Shariah/Fiqh, Professional qualification, and the Internationality of the SSB and the level of CSR disclosure.

This study is unique in the sense that it is based strictly on the guidelines provided by the AAOIFI, which is the only organization of its kind that has the moral and legal influence to impose its will on IFIs in countries that have officially adopted its standards. Moreover, this study also takes into consideration a crucial determinant of CSR disclosure (PhD qualification in Shariah), a multi-dimensional approach, measuring both the area of education and level of education at the same time, whereas previous studies have only been concerned with measuring the two separately. Another unique thing about this study is that we also look at differences in CSR disclosure within and between the two representative regions considered under this study – namely; the GCC and South-East Asia. This is important as these two regions follow different standard-setting bodies; whereas IBs in the GCC mainly follow the Bahraini-

based AAOIFI, on the other hand, IBs in Malaysia follow the central bank of Malaysia (Bank Negara Malayan). Therefore, it will be of interest to know if the standard-setting body that IBs in a country/regions follow plays any role in the CSR disclosure levels of the IBs in that country/region, or if IBs following one standard-setting body have an edge in CSR disclosure over IBs that follow another.

The remaining of this paper is organized as follows: Chapter II is the literature review section, where we discuss relevant theories on corporate governance and CSR disclosure and provide a literature review of CSR and SSB composition. Chapter III comprises the research design of this paper, the population, and the data. Chapter IV is the “Findings and Discussions” section. In this section, we conduct pre-OLS regression tests and describe our findings from the analysis. Finally, In the “Conclusions and Recommendations” section, we summarize our findings and provide some practical recommendations to policymakers and standard-setting bodies.

1.2 Research objectives

The main objectives of this study are to;

1. Explore the relationship between the characteristics of the SSB and CSR disclosure in selected IBs
2. To check if differences in CSR disclosure exists between the GCC as a region and Malaysia, and within countries of the same region (GCC)
3. Investigate the overall performance of selected IBs in CSR disclosure.

1.3 Research questions

The following research questions are developed from the discussion above;

- 1) Do the characteristics of the SSB affect CSR disclosure by Islamic banks in the GCC and Malaysia?
- 2) Do intra-regional and interregional differences in IBs’ compliance with AAOIFI CSR disclosure exist?
- 3) Has the increased adoption of AAOIFI standards by IBs positively impacted their compliance with CSR reporting requirements?

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Framework

Due to its broad nature, corporate governance defies any universally agreed definition (Abdullah & Valentine, 2009). However, it can be simply defined as a set of structures, processes, and procedures for directing and regulating the relationship between stakeholders of a firm (Abdullah & Valentine, 2009; Alam Choudhury & Nurul Alam, 2013; Mcconnell et al., 2011). Hassan (2009) gives a narrower definition of corporate governance as “a formal system of accountability of senior management to the shareholders.”

Before the twenty-first century, the issue of corporate governance was treated as a backburner discourse. It assumed significance at the beginning of the twenty-first century owing to the meltdown suffered by many major corporations around the world. The failure and the subsequent bankruptcy of most of the firms were attributable primarily to managerial negligence, gross misconduct, and fraud – which resulted in the massive loss of wealth by shareholders (Mcconnell, Mckee, & Xu, 2011). After navigating the worst huddles of the financial crisis, shareholders began asking questions about who is controlling their funds and who is to be held responsible for the loss of their wealth. Such questions strengthened the call for more robust corporate governance, with the primary aim of aligning as closely as possible, the interests of corporations, individuals, and society (Abdullah & Valentine, 2009; Alam Choudhury & Nurul Alam, 2013).

The agency theory is the first fundamental theory to emerge in the literature of corporate governance in the late twentieth century (Abdullah & Valentine, 2009; Caldwell, Hayes, Bernal, & Karri, 2008; Fauziah & Alhaji, 2012; Mcconnell et al., 2011; Woodman, 2017). The theory suggests that the owners of firms hire professional managers (agents) to act on their behalf in managing the day-to-day activities of the

firm. Agency theory is often portrayed as a principal-agent relationship, where each of the parties is actively seeking to maximize his/her utility (Abdullah & Valentine, 2009; Woodman, 2017). In a decision-making environment where each party is self-interested, there is always room for a decision-maker (the agent in this case) to make decisions that might not necessarily be in the best interest of the firm. Agents are often viewed in this theory as individualistic, self-interested individuals. However, this type of relationship is contrary to the spirit of brotherhood and cooperation that Islam seeks to promote. Thus, the oldest theory in corporate governance summarily fails to explain the relationship between stakeholders in an Islamic firm.

Agency theory introduced significant momentum in organizational research to the extent that within a very brief period, two other theories which stand as two of the three closest corporate governance theories that explain the relationship between stakeholders in an Islamic firm namely, the stewardship theory and the stakeholder theory, emerged from it –. Stewardship theory tries to explain what happens when the roles of the principal and agent are not separated but are instead integrated to form an organization. The notion of individualistic, self-interested parties is not stressed in this theory. On the contrary, managers in this theory work for the betterment of the firm for which they are working. Their utilities are in line with that of the firm. Thus, the agent's utility is maximized whenever that of the firm is maximized (Abdullah & Valentine, 2009). In this theory, there is no space for conflict of interest. Abdullah & Valentine (2009) and Turnbull (2019) contend that the stewardship theory model can have a likeness to countries such as Japan, whereby a worker in Japan takes the work as if it was his own and works with due diligence. In fact, this is exactly what was meant by the prophet (PBUH) when he said: "None of you will believe until you love for your brother what you love for yourself" (Buhari & Muslim). The second of the three corporate governance theories that help explain how Islamic corporations function is the stakeholder theory. This theory stresses organizational accountability above and beyond financial or economic performance (Chedrawi & Osta, 2017; Frias-Aceituno, Rodriguez-Ariza, & Garcia-Sanchez, 2013). It emphasizes the need for corporations to meet the multiple expectations of the various stakeholders instead of just the interests of their shareholders (Freeman, 2010).

Legitimacy theory is the third of the three theories on corporate governance, which is most close to justifying the reasons why firms engage in social activities. This theory

is built on the notion that corporations function based on some presupposed social contract between them and society (Frynas & Yamahaki, 2019). Societal approval is stressed as the driving force behind the sustainability of firms under this theory. This means that firms have to work incessantly to achieve a balance between their goals and that of society (Deegan, 2002; Dowling & Pfeffer, 1975). The most important intangible asset that Islamic banks possess is their reputation, and their greatest risk turns out to be that of reputational risk (Azrak, Saiti, & Engku Ali, 2016; Ginena, 2014). The very concept of Islamic banking is based on the fundamental economic principles of Islam. Islamic banking is a market niche that targets a customer base of a specific religious affiliation who are averse to the predominant banking service due to their religious beliefs. Therefore, IBs have to constantly seek the approval of their customer base by acting within the boundaries of the Shariah, which carries with it its own intrinsic CSR dimension. Thus, we can conclude that IBs engage in CSR activities (by acting per the Shariah) to gain legitimacy from their stakeholders to ensure their sustainability – which is in line with what the legitimacy theory suggests.

In light of the theories described in section 2.1 and the ideal characteristics of Islamic banks, which we do talk about throughout this chapter, we can deduce that stewardship theory, stakeholder theory, and legitimacy theory are the closest to describing the relationship between the various stakeholders of IBs.

2.2 Islamic Corporate Governance

Unlike the Western European and Anglo-Saxon models of corporate governance, Islamic corporate governance combines various Shariah-based beliefs and practices to achieve the goal of the firm, while simultaneously upholding the duty of social welfare (HASAN, 2009). The main difference between Islamic corporate governance and its Western counterpart stems from their respective ontological backgrounds (Alam Choudhury & Nurul Alam, 2013). The Western models of corporate governance are based on the ontology of rational choice and rationalism. This makes it extremely unlikely for firms to achieve both individual and social goals as firms find it challenging striking a balance between the fundamental principles upon which they operate (competition, profit maximization, efficiency) and the corporation's social responsibilities (Alam Choudhury & Nurul Alam, 2013; Elms & Westermann-Behaylo, 2012). On the other hand, Islamic corporate governance is rooted in the basic

principles of Shariah, which demands the absolute fulfillment of contracts and unqualified transparency and accountability from contracting parties. (Zahid & Khan, 2019).

The main difference between Islamic banks and conventional banks in the physical structure of their respective corporate governance is the presence of the Shariah supervisory board (SSB) in the former and the absence of it in the latter. The primary purpose of the SSB is to ensure that IBs conduct their activities per the principles of Shariah. The SSB serves as an extra layer of monitoring and control on the already existing board of directors who serve a similar purpose. This type of governance in Islamic banks is often termed as the “multi-layered” governance system (Zahid & Khan, 2019). A multi-layered system of governance whereby the SSB serves as a form of a “Supra-Authority” exposes the operations of IBs to more scrutiny, often leading to better accountability and better corporate governance as a result (Choudhury & Hoque, 2006; Zahid & Khan, 2019).

2.3 Compliance in Islam

Vinnicombe (2010) defines compliance as “the degree to which Islamic financial institutions comply with the multitude of issues in the financial accounting standards (FASs) issued by the AAOIFI.” Perhaps the most compelling evidence for compliance in Islam is found in the Prophet’s (PBUH) statement in the following *Hadith*; “Muslims are bound by the conditions they make” (Al Muslimuun ‘Alaa Shuriitihim). It is evident from this *Hadith* that it is incumbent upon every Muslim to uphold the conditions that he/she willingly agrees to- so long as the conditions are in line with the Shariah. In the context of IBs, this Hadith means that, after agreeing to conduct themselves in a certain way, Islamic banks are obliged to fulfill their obligations by complying with the provisions of the agreement.

Islam, as a religion, guides not only the spiritual affairs of Muslims but also their social, economic, and political affairs. In short, Islam is a complete life guide for those who choose to adhere to the religion. In Islam, it is impossible to make a distinction between the moral objectives of society, which is one of the essential aims of Shariah and business dealings (El-Halaby & Hussainey, 2015). Everything from the personal and interpersonal relationship to relations at the state level is guided by a set of principles derived from the Quran, Sunnah (prophetic traditions), Ijma (Consensus of

scholars), and Qiyas (Analogy) (Zaman, 2019). It is so because spiritual is primary in Islam, while the material is always subordinate to the spiritual (Zaman, 2019). Due to this very reason, Islamic banks, by default, must conduct their businesses while bearing in mind that unto Allah is the ultimate accountability at the end of the day. With regards to accountability, Allah (SWT) says this in the glorious Qur'an; "So whoever does an atom's weight of good will see it, and whoever does an atom's weight of evil will see it." (Al-Quran,99:7-8).

2.4 Accountability in the Islamic Context

Unlike their conventional counterparts which are only accountable to their stakeholders, i.e., the shareholders, customers, senior management executive, employees, community, and the government, Islamic banks, in addition to the stakeholders mentioned above, are also religiously accountable to the Muslim 'Ummah' at large, and most importantly to Allah the almighty (Nugraheni & Khasanah, 2019). Due to this multi-layered accountability, Islamic banks are obliged to abide by some principles which might not necessarily lead to profit maximization or add any material value to the banks' assets in hindsight. For instance, Islamic banks are not allowed to charge interest on loans not because there is a specific financial regulation restricting them from doing so, but because it contravenes the prohibition of the most crucial principle in business dealings in Islam (Vinnicombe, 2010). As such, even though charging interest on the money lent to borrowers seem to be the conventional wisdom in the traditional financial system, Islamic banks, and for that matter, all Islamic financial institutions are strictly forbidden from doing so. Another example of acts that do not necessarily contribute to profit maximization of firms but must be practiced by IFIs is that of the payment of *Zakah* (Vinnicombe, 2010).

Depending on the system of corporate governance in the country of operation of the Islamic Bank, some jurisdictions require Islamic banks to pay *Zakah* (the obligatory tax imposed by Allah on a Muslim's assets once it reaches a certain pre-determined minimum threshold) either on behalf of their clients or on behalf of the bank itself as a legal entity/person (The Accounting and Auditing Organization for Islamic Financial Institutions, 2015). The payment of *Zakah* at least on the surface does not come with any tangible benefit to the bank; if at all, it causes a reduction in the bank's total assets. However, Islamic banks still have to pay it because it is a divine regulation; thus,

abiding by it is mandatory (Lukman, Ashok, & Ismail, 2014; Vinnicombe, 2010). Similar acts which are peculiar to only Islamic banks and not to their conventional counterparts include the giving of *Sadaqat* (voluntary charity) and *Qard Hasan* (benevolent loan / interest-free loan). Islamic banks are also required to have a Shariah supervisory board or a Shariah committee to validate their transactions and to ensure that all the bank's activities are in line with the Shariah, contrary to their conventional counterparts, which have no such obligation (Musibah & Alfattani, 2014; Noordin & Kassim, 2019; Rahma & Bukair, 2013; Vinnicombe, 2010). All the above-mentioned extra miles that Islamic banks have to go to maintain their 'Islamic' identity are the same reasons that warrant inquiries into their doings.

It is an obligation on every Muslim to play an active role in contributing to the development of the Ummah (Vinnicombe, 2010). Islamic banks are no exception to this, as they are legal entities that are managed by real persons. Thus, even though IBs are naturally expected to conduct their activities responsibly, it is also the right of every Muslim, as a member of the Muslim 'Ummah' to hold them accountable for their social practices, just as other stakeholders do have the right to hold them to account. Banks and other corporations demonstrate accountability by publishing their activities in annual reports to show stakeholders that they can be trusted to do justice to their commitments (R. Haniffa & Hudaib, 2007). Accountability among IBs involves the disclosure of compliance or otherwise non-compliance to the disclosure requirements as set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in their annual financial and corporate reports (The Accounting and Auditing Organization for Islamic Financial Institutions, 2015).

At the shareholders' level, Islamic banks have to ensure that they have fulfilled their obligations towards the owners of the bank by operating profitably to ensure the continuity of their operations. Islamic banks are also accountable to the legal authorities in their locality; hence, according to the jurisdiction in which they are, Islamic banks are obliged to abide by the rules and regulations set by the legal authorities in such localities when conducting their businesses so long as abiding by those regulations do not breach any Shariah principle.

2.5 CSR and Disclosure by IBs

Corporate social responsibility (CSR) is defined by Elms & Westermann-Behaylo (2012) as the notion that corporations have obligations towards other groups in the society other than those they have towards their stockholders, and beyond what is required by law. The concept of CSR, as we know it today, can be traced back to the 1950s, where the earliest construct of modern CSR began to develop (Carroll, 1999). Since the 1950s, CSR has undergone several significant changes both in the act and how it is reported.

Richard Watts and Lord Holme defined CSR as; “*the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large*” (Holme & Watts, 2000). In 2010, the Accounting and Auditing Board for Islamic Financial Institutions issued a new standard called standard No. 7. In this standard, the AAOIFI defines corporate social responsibility for Islamic Financial institutions (IFIs) as: “*all activities carried out by an Islamic financial institution to fulfill its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions*” (The Accounting and Auditing Organization for Islamic Financial Institutions, 2015).

The definitions provided by Elms & Westermann-Behaylo (2012) and Chedrawi & Osta (2017), albeit classical, are too general, and leave too much room for interpretations of CSR by different corporations. On the other hand, AAOIFI’s definition of CSR is very specific, and leaves little, if any room for different interpretations. It simply implies that whatever action an IFI takes in order to complete any of its goals while abiding by the Shariah goes under the umbrella of CSR. The economic boundaries placed by the shariah are clear and concise, thus it does not require much effort to know whether or not an IFI is acting within the boundaries of the Shariah. While this definition of CSR may seem very simple, it is the fact that in the Islamic religion, faith is connected to one’s actions and that ethics and Islam are inseparable, which makes this definition very simple, and yet highly practical. Thus, the definition of CSR given by the AAOIFI will be the theme of our discussion in this study.

Several studies have been conducted on disclosure by Islamic banks with strikingly familiar results on the overall level of disclosure by IBs (Al-Sulaiti, Ousama, & Hamammi, 2018; El-Halaby & Hussainey, 2015, 2016; Mohammed, Fahmi, & Ahmad, 2015; Nugraheni & Khasanah, 2019; Srairi, 2019; Vinnicombe, 2010). All these studies found disclosure levels to be either severely low or at least lower than expected in several critical areas. For example, Vinnicombe (2010) checked the compliance of Islamic banks in Bahrain and found compliance to be very high concerning the governance standard relating to the in-house supervisory boards of Islamic banks, and reporting the Islamic *Murabahah* contract. In contrast, compliance with the AAOIFI's requirements regarding *Zakah* (religious tax) and the *Mudaraba* contract was found to be relatively very low. Another study that found disturbingly low levels of disclosure is that of (El-Halaby & Hussainey, 2015). The study found the level of compliance with AAOIFI standard number 7 (the corporate social responsibility standard) to be a mere 27% among banks that have widely already adopted the AAOIFI reporting standards. On the other hand, this same study found that, on average, the sampled banks tend to have high levels of compliance when it comes to compliance with governance standard No. 1 and accounting standard No. 1.

2.6 CSR in the light of Islam and the Conventional System

Applying the definition of CSR given by the AAOIFI in the context of Islamic banks means that actions, such as the payment of *Zakah* and the formation of the Shariah Committee by Islamic banks, which come purely as a result of the Islamic banks' desire to fulfill its religious obligations come under corporate social responsibility. Moreover, according to this definition, the various financial instruments that are used by Islamic banks to fulfill their financial responsibilities, such as *Murabahah*, *Musharakah*, and *Mudharabah*, fall under the category of corporate social responsibility. Thus, by merely going about their daily businesses, Islamic banks are considered to be engaging in corporate social responsibility-so long as their activities conform with the Shariah. Values such as honesty, transparency, socio-economic measure, justice, equity, and human well-being are considered as the core of corporate social responsibility in the Islamic religion (Agarwal, 2014).

Islamic banks are charged with extra responsibility with regards to being socially responsible due to their claim of being "Islamic," and the ethical identity that this claim

carries with it (Ali Aribi & Arun, 2015; R. Haniffa & Hudaib, 2007; Maali et al., 2006). Islamic banks, by claiming to be “Islamic” are automatically bound to be socially responsible whether or not there is a regulation requiring them to be so because social responsibility is inherent in the name itself (Ali Aribi & Arun, 2015). The Muslim ‘Ummah’ (nation) expects Islamic banks to deliver on their promises with regards to their claim of being ‘an Islamic institution’ (which carries with it the impression of a socially responsible institution). These high expectations can be seen to be deeply rooted in the Islamic tradition of the *Waqf* (Islamic religious endowment) system, where such endowments served as charity organizations in the service of the poor and the needy before the inception of modern Islamic banks. The vast majority of Muslims until today hold this perception; thus, placing very high expectations on Islamic banks to act responsibly (Maali et al., 2006).

The general objective of Islamic Financial Institutions (IFIs) is to contribute to the development of the economy and the society as a whole through profit/loss-sharing by providing services to the community within the boundaries of Shariah (Ali Aribi & Arun, 2015). Acting within the limits of Shariah on its own naturally pushes IFIs to be socially responsible. For instance, the mere abolishing of interest among IFIs is considered an enormous social service (Ali Aribi & Arun, 2015). However, several recent studies have shown that Islamic banks have not been successful in putting the profit/loss sharing principle of Islamic banks into practice (Dar & Presley, 2000). Other studies have also shown the underwhelming social disclosure of Islamic banks (Mallin, Farag, & Ow-Yong, 2014). Studies such as these have unsurprisingly led to several theories as to why Islamic banks show below-par performance contrary to what is ideally expected of them.

Platonova, Asutay, Dixon, & Mohammad (2018) Suggest that Islamic banks are less inclined to disclose their socially responsible acts as it may amount to showing off ones’ good deeds to the public (which is discouraged by Islam). Thus, this is why Islamic banks tend not to be keen on disclosing their socially responsible activities. However, this cannot in any way be a justifiable excuse any longer for not disclosing CSR practices, since the AAOIFI has since the year 2010 published a list of both mandatory and voluntary CSR disclosures for all Islamic financial institutions. The mandatory part is to be abided by all Islamic banks regardless of their size, assets, profits, the type of corporate governance in the country of operation, or any other

external or internal factors. On the other hand, the voluntary part of the AAOIFI CSR disclosure is for banks that possess the means to carry out such activities as recommended in the disclosure requirements (The Accounting and Auditing Organization for Islamic Financial Institutions, 2015).

Maali et al., (2006) On the other hand, argue that Islamic banks tend to shy away from disclosing Islamically unlawful or highly controversial practices (such as charging for late repayment of loans and the way they deal with defaulters), which might be damaging to their 'Islamic' identity. And not disclosing such activities take a toll on their level of disclosure. Belal (2000) and Maali et al. (2006) point to the fact that most Islamic banks operate in less developed countries, where the focus of Islamic banks and their clients are supposedly on much more 'pressing issues' and suggest that perhaps due to this reason, Islamic banks on average pay less attention to social issues, especially the ones about the environment

Corporate social responsibility differs across industries just as corporate activities differ from industry to industry. Corporations that operate in environmentally sensitive areas, for example, will want to dedicate much of their CSR report to addressing environmental issues. In comparison, labor-intensive corporations that have less to do with the environment will focus their CSR report on labor reform-related issues. Financial service providers, including banks, deal mainly with wealth redistribution-related issues. For this reason, their CSR report ought to concentrate more on how banks are managing to create a more equitable and financially inclusive society. With this in mind, the AAOIFI provided their standard No. 7, addressing mainly the issues related to the equitable and just redistribution of wealth as opposed to delving into unrelated issues like the 'environment.'

Corporate Social Responsibility, in the case of conventional banks, is widely regarded as an external voluntary act that is often pursued when the institution perceives that there are at least some long-term benefits in doing so (Chambers & Day, 2009). Unsurprisingly, some prominent modern-day scholars in the field of economics openly oppose and critique the notion of social responsibility on the part of banks. Of these, is Milton Freidman, who claims that it is not the responsibility of a corporation to take care of society. He further argues that the sole social responsibility of a business is to make as much money as it can for its shareholders while conforming with the rules of

the game. In a New York Times article, while proposing ‘guiding principle for business ethics,’ he is quoted as saying;

“... there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays in the rules of the game, which is to say, engages in open and free competition, without deception or fraud” (Milton Friedman, New York Times Magazine, September 13, 1970).

In this sense, banks and other corporations are not only discouraged from being socially responsible but are also encouraged to use ways and means which might even seem unethical to achieve their aim of profit maximization - so long as its legality can be justified. He goes further to argue that businesses contributing to the welfare of society amount to the “inappropriate use of corporate funds in a free market society.” It is important to stress, however, that Milton Friedman and the likes of him are not against corporations engaging in socially responsible acts as long as doing so will result in an increase in profits for the corporation.

Unfortunately, this also happens to be the implicit attitude amongst most of the proponents of corporate social responsibility, as evident from the type of arguments that they often present in their case in support of CSR. To justify their claims when pushing for corporations to be socially responsible, proponents of CSR usually try to link a firm’s socially responsible practices to its economic interests, such as financial performance (Burke & Logsdon, 1996; Platonova et al., 2018; Shen, Wu, Chen, & Fang, 2016). Although this may seem a very reasonable way of convincing the top management of firms to engage in CSR, this approach can also be self-destructive, since it tends to provide a legitimate justification for the senior management of firms not to participate in socially responsible practices so long as they do not perceive its economic benefits (Visser, 2014).

Whereas Islam does not prohibit individuals and businesses from considering their economic interests in their decision making, it explicitly forbids the pursuit of one’s economic gains at the expense of the public good (Zaman, 2019). In Islam, profit by itself is not a goal. Instead, it is a means for a firm to fulfill its obligations towards the society while at the same time ensuring its continuity by using some of the profits to compensate its workers and the owners so that they will be able to cater to their needs

and that of their families. Profits are also a means for a firm to make further investments in its facilities and its human resources (Zaman, 2019).

2.7 Board Characteristics and CSR (in conventional)

The board is one of the most important corporate governance mechanisms due to their responsibility as the ones who ensure the implementation of firms' policies (Frias-Aceituno et al., 2013). The board is responsible for ensuring that decisions are implemented by the managers, and are also responsible for defining the overall direction of the firm. The board also has to make sure that the firm complies with all legal obligations in the jurisdiction under which the firm operates. Their role as policy implementers becomes even more crucial when it comes to corporate social responsibility since regulators mostly leave such activities to the discretion of firms (Frias-Aceituno et al., 2013). There is in-depth literature on board diversity and corporate social responsibility disclosure and performance. Several of these studies have shown the characteristics of the board of directors to have a strong correlation with both CSR disclosure and performance. Board characteristics, such as the board size, gender, education level, internationality, board independence, CEO duality, education background, academic experience, frequency of meetings, and expertise have all been shown to have varying degrees of influence over the CRS performance of various firms from different industries (Hafsi & Turgut, 2013; R. M. Haniffa & Cooke, 2005; Harjoto, Laksmana, & Lee, 2015; Jizi, Salama, Dixon, & Stratling, 2014; Katmon, Mohamad, Norwani, & Farooque, 2019; Kent & Stewart, 2008; Prado-Lorenzo & Garcia-Sanchez, 2010; WEBB, 2004; Zhuang, Chang, & Lee, 2018). Board's academic experience has also been shown to have a positive influence on a firm's CSR performance (Zhuang et al., 2018).

Kent & Stewart (2008) examined the effect of quality corporate governance of CSR and found that the number of board meetings had a positive effect on CSR. Several other studies have shown that a more gender-diverse board results in higher levels of CSR activities by corporations (Dienes & Velte, 2016; Hafsi & Turgut, 2013; WEBB, 2004). Katmon et al. (2019) studied the annual reports of 200 listed firms on bursa Malaysia and found board education level to be positively related to quality CSR. Frias-Aceituno et al. (2013) measured corporate social reporting among over 560 companies from multiple countries and found that their BOD size was significantly

and positively related to corporate social responsibility disclosure. Other country-specific studies with regards to the effect of board size on CSR such as that of Jizi et al. (2014) and WEBB (2004) found that socially responsible firms in the US are associated with larger board size.

Board size is used in this study as a control variable since it is one of the characteristics of the board that has had very wide coverage in the studies of the effects of the board of directors on corporate social responsibility, and has been shown by several studies to have positive influence corporate governance in general, and CSR in specific (Frias-Aceituno et al., 2013; Jizi et al., 2014; WEBB, 2004).

2.8 Shariah Supervisory Board (SSB) Characteristics and CSR

The presence of the Shariah committee or Shariah Supervisory board (SSB) is one of the main differences between the corporate governance systems of Islamic and conventional banks. The SSB is an independent body that is present as part of the components of corporate governance in Islamic financial institutions (IFIs). In addition to the traditional audit committee and external auditors, the SSBs in IBs double as an audit committee and external auditor (Rahma & Bukair, 2015), subjecting IBs to further scrutiny, thus, making IBs arguably the most scrutinized sector in the global financial industry.

The SSB is a unique mechanism that requires close-to-specific characteristics of members compared to the BOD, which has a much higher potential to be highly diverse. For example, there is no gender diversity in the SSBs of IBs in the GCC. Another example is the limited diversity with regards to the educational level and background of SSB members. On average, almost 80% of the members of SSBs in the GCC and Malaysia have a doctoral qualification, while most of the members have Shariah/fiqh as their educational background. This is due to the restriction imposed by the type of work the SSB does, which requires specialization in the Islamic sciences with very little room to accommodate specializations in other fields. Even though diversity in the SSB is minimal, there is overwhelming evidence from previous studies that suggest a very strong relationship between SSB diversity, CSR, and other indicators.

Studies such as that of Ibrahim, Yahya, & Abdalla (2015), Mallin et al. (2014), and Nugraheni (2018) have all found SSB size to positively and significantly influence CSR performance and disclosure. While AlAbbad, Hassan, & Saba (2019), Nomran, Haron, & Hassan (2017), and Saeed & Saeed (2018) have found a positive association between SSB size and banks' performance and efficiency. Moreover, Amalina Wan Abdullah, Percy, & Stewart (2013) argue that an SSB composed of members with professional qualifications in fields such as economics, finance, and law is more likely to perform better at CSR disclosure. In his study, AlAbbad et al. (2019) studied the effect of internationality in the SSB among 25 IBs from Malaysia and Indonesia on compliance. They found that SSBs with foreign board members are more competent at monitoring the bank's Shariah compliance. Finally, on the SSB's educational background, Noordin & Kassim (2019) found that SSBs with strong knowledge in Shariah is positively associated with proper supervision and disclosure of Shariah-related matters

As the name 'Shariah supervisory board' signifies, the one most important background required on the SSB is that of Shariah. The central bank of Malaysia requires that the majority of the SSB members have a background in Shariah, which it specifies as having at least a four-year degree in Shariah. However, fiqh, which can be loosely translated as 'Islamic jurisprudence' has been added to the category of Shariah in this study, since it deals with the practical application aspect of Shariah (Thalib, 2018). As such, the author deems fiqh as vital as Shariah and holds them in equal regard in this particular case. Therefore, scholars with qualifications in fiqh or Shariah are all classified under the umbrella of Shariah/fiqh background.

The relationship between the SSB's PhD qualification in Shariah/fiqh and CSR is something that, to the best of the author's knowledge, remains to be explored in the literature. Nugraheni, (2018) suggested that future studies take into consideration the effect of the SSB's doctoral qualification in a specific field on social performance by Islamic banks, after finding out that PhD qualification in general, of the SSB members, does not significantly influence the social performance of IBs. Thus, this study aims to bridge this gap in the literature by directing our focus to investigate the impact of the doctoral qualification of the SSB on CSR disclosure.

The financial performance of IBs have been found to positively influence their CSR (Ibrahim et al., 2015; Mallin et al., 2014). At the same time, the size of the BOD has

also been shown to positively influence CSR (Frias-Aceituno et al., 2013; Jizi et al., 2014; WEBB, 2004). Moreover, AlAbbad et al. (2019) found that there are better corporate governance practices in larger Islamic banks and that the effects of SSB characteristics on IBs' financial performance are more apparent in larger banks. Thus, in addition to our Shariah background, PhD qualification in Shariah, SSB size, PhD Qualification, Professional qualification, and Internationality of the SSB, this study adds three more variables (return on Assets, Bank size, and BOD size), as control variables to investigate the effects of our independent variables on CSR disclosure.

2.9 Independent Variables

The independent variables considered under this study are the size of the Shariah Supervisory board, the proportion of scholars on an IB's SSB board with Ph.D. qualification, the internationality of the SSB, the proportion of scholars on the SSB with a qualification in either Islamic jurisprudence or shariah, the proportion of scholars on an IB's SSB with a professional qualification, the proportion of scholars on an IB's SSB with a PhD in Shariah or Islamic studies. The control variables on the other hand are the bank's size, the financial performance of banks, and the number of board of directors (BODs) on an IB's board.

Table 1.1 provides a summarized literature review of the variables considered under this study. The Table depicts the author(s) of the study, the sample, and the main findings of the study. It is evident from Table 1.1 that, all the nine variables chosen for this study have been shown by previous studies to have some effects on CSR performance, except for the variable 'PhD Shariah' – a variable that to date has not studied at all in relation with CSR disclosure or performance.

Table 2.1 Literature on Independ Variables

Variable	Author(s)	Main findings	Country/SS
SSB size	(Nugraheni, 2018) (AlAbbad et al., 2019) (Nomran et al., 2017) (Saeed & Saeed, 2018) (Alman, 2012) (Noordin & Kassim, 2019) (Ibrahim et al., 2015) (Mallin et al., 2014)	The results show that SSB size positively and significantly affects the social performance of IBs SSB size positively and significantly affects a bank's return on Assets The size of IBs significantly affects their performance. The study found a positive association between SSB size and the efficiency of selected Islamic banks in Asia Increasing SSB size positively affects IBs' loan portfolio risk-taking The study found that larger SSB size positively affects IBs disclosure concerning shariah matters The size of IBs' SSB has the potential to influence social disclosure of IBs in their annual report The study found a positive and highly significant association between SSB size and CSR disclosure	Indonesia (34) 70 banks in 18 countries 15 Malaysian IBs 30 IBs listed on Asian stock market 82 IBs across 13 countries 16 IBs in Malaysia All IBs Sudan 90 IBs from 13 countries
Ph.D. qualification	(Nugraheni, 2018)	Positive, Not significant	Indonesia (34)
Internationality	(AlAbbad et al., 2019)	SSBs with foreign board members are more competent at monitoring bank's shariah compliance	25 IBs from Malaysia and Indonesia
Qualification in Sharia/Fiqh	(Ramly & Nordin, 2018) (Noordin & Kassim, 2019)	SSBs consisting of members with expertise in Shariah is likely to cause a reduction in credit risk Boards with strong knowledge in shariah is positively associated with proper supervision and disclosure of shariah-related matters	16 IBs in Malaysia 16 IBs in Malaysia
Professional Qualification	(Amalina Wan Abdullah et al., 2013)	An SSB composed of members with professional qualification in fields such as economics, finance, and law is more likely to perform better at CSR disclosure	19 IBs from Malaysia
CONTROL VARIABLES			
Bank Size	(AlAbbad et al., 2019)	The study found that there are better corporate governance practices in larger Islamic banks and that the effects of SSB characteristics on IBs' financial performance are more apparent in larger banks	25 IBs from Malaysia and Indonesia
Financial Performance	(Ibrahim et al., 2015) (Mallin et al., 2014)	IBs profitability has the potential to influence social disclosure in IBs' annual reports CSR in IBs was found to be determined by banks' financial performance	Based on review of literature 90 IBs from 13 countries
BOD Size	(Frias-Aceituno et al., 2013) (Jizi et al., 2014) (WEBB, 2004)	Their study found that Board size was significant and positively related to corporate social responsibility disclosure The study found that Board size has a positive association with CSR disclosure Socially responsible firms are associated with larger board size	568 companies from multiple countries 98 banks in from the USA 394 firms from the USA

2.10 Hypotheses

Based on the research questions and objectives, the following hypotheses are of relevance.

H1: SSB size has a positive relationship with CSR disclosure levels

H2: Background in Shariah has a positive relationship with CSR disclosure levels

H3: Internationality of the SSB will positively influence CSR disclosure

H4: PhD. qualification in Shariah/fiqh has a positive relationship with CSR disclosure levels of IBs

H5: Professional qualification of the SSB has a positive relationship with CSR disclosure

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

This study employed a mixed-method in the collection of data and data analysis. We adopted content analysis in collecting the data for our dependent variable. On the other hand, we used multiple regression to investigate the relationship between CSR disclosure and our independent variables at the analysis stage.

We used Cohen's kappa statistic to measure the level of agreement between the two raters to ensure that subjectivity related biases are limited, in order to improve the level of reliability of the content analysis. At the data analysis stage, we first conduct diagnostic tests to make sure our data meet the assumptions of OLS before we run our regressions. We used ANOVA to check for interregional and intra-regional differences in CSR reporting by IBs. Finally, we run the OLS regression of our base model and then reduced the model gradually until we achieved our parsimonious model.

3.2 Sample and Data

The population considered under this study is Islamic banks in Malaysia and the GCC region. This is because Malaysia and the GCC are considered to be the most developed countries in the world in terms of Islamic finance, and as such are most likely to provide us with the most accurate results of how Islamic banks operate in a close-to-ideal situation. In fact, a 2018 Thompson Reuters report showed that all but one (Qatar) of the GCC countries made it in the top 10 most developed Islamic finance markets (Reuters, 2018), while Malaysia occupied the number one position. A 2019 report by statista.com showed that the combined share of Malaysia and the GCC countries in the global Islamic banking asset stands close to 55%. Furthermore, Malaysia, and the GCC as a region, are chosen because, unlike the other countries, Malaysia and countries in the GCC have very similar and favorable legal systems. It is believed that Islamic banks outperform their conventional counterparts in hybrid and Shariah-based legal systems, but underperform them in more 'secular' political systems due to regulatory

constraints, poor public perception, and the lack of/inadequate infrastructure (Bitar, Hassan, & Walker, 2017). Despite holding the largest share of the global Islamic banking assets, Iran was excluded from this study because the SSB in the country was completely centralized in the sense that the IBs do not have internal SSBs. Like Iran, Malaysia and the UAE also have centralized SSBs, however, they do as well have internal SSBs at the bank level.

The two main standard-setting bodies in Islamic finance are the accounting and auditing board for Islamic financial institutions (AAOIFI) and the Islamic financial services board (IFSB). The two organizations have recently signed a Memorandum of Understanding (MoU) in the year 2018 to smoothen international cooperation between them in yet another effort to homogenize their standards (ifsb, 2018). However, the AAOIFI is chosen as the reference for the CSR disclosure items in this study because of its leadership role and vast influence in the global Islamic finance arena (Nugraheni & Khasanah, 2019), and also because its standards are the most widely adopted among Islamic financial institutions in the world. Three (Bahrain, Oman, and Qatar) out of the six countries in the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) have made it mandatory for IFIs in their jurisdictions to comply with AAOIFI standards, and the remaining countries are heavily linked to the organization; as most of the Islamic banks in those countries comply with the AAOIFI standards voluntarily; due to the massive effort by the AAOIFI to unify the Islamic financial standards across the globe through its cooperation initiatives with the major players in Islamic finance such as Saudi Arabia, the UAE, Malaysia, Indonesia, Turkey, Pakistan, and Kuwait (Reuters, 2018). Moreover, the AAOIFI and the central bank of Malaysia (Bank Negara Malayan) have recently decided to collaborate also on the issue of corporate social responsibility in a new set of guidelines issued by the central bank of Malaysia called the value-based intermediation (VBI) (Reuters, 2018). These sets of guidelines are aimed at strengthening the role and impact of IBs in Malaysia on the CSR front. As of October 2018, nine of the participating banks in Malaysia had signed up for this new initiative to put Malaysia's name on the forefront amongst the top-performing countries when it comes to CSR.

The source of data on the banks is from only secondary sources which consist of annual financial, corporate, and CSR reports of 30 full-fledged Islamic banks in Bahrain, Kuwait, Malaysia, Qatar, Saudi Arabia, and the UAE. Selective sampling was

employed in the sampling of the banks based on the availability of data on both the SSB members and the banks. There are a total of 30 full-fledged Islamic banks in this study, with Bahrain having the highest number (9), followed by Malaysia (7), then the United Arab Emirates (UAE) (6), and then Kuwait (4), and lastly Saudi Arabia, and Qatar (2 each). Oman was omitted from this study because, even though data on its two full-fledged Islamic banks' SSB scholars was available, none of the banks had their separate English versions of their annual reports available on their respective websites and the same reason applies to the omission of Safa Islamic bank from this study.

As a rule of thumb in content analysis, when a substantial number of documents of a sample are missing, then the content analysis of such a sample must be abandoned' (Stemler, 2001). As a result of the reasons mentioned above, the content analysis of the following banks; Al Safa Islamic Banking, Al Rajhi Banking & Investment Corp Kuwait, Meethaq Islamic Banking, and Muzn Islamic Banking have been excluded from this study. The distribution of the sampled banks for each country is presented in table 3.1.

Table 3.1 List of Islamic Banks and their Country of Operation

Country	Islamic Banks
Bahrain	<ol style="list-style-type: none">1. Ahli United Bank Alhilal Islamic Banking Services2. Al Salam Bank3. Albaraka Banking Group4. Bank ABC Islamic5. Gulf Finance House6. Ibdar Bank BSCC7. International Investment Bank BSCC8. Ithmar Bank9. Khaleeji Commercial Bank BSC
Kuwait	<ol style="list-style-type: none">1. Kuwait Finance House2. Warba Bank Kuwait3. Boubyan Bank4. Ahli United Bank
Malaysia	<ol style="list-style-type: none">1. Bank Islam Malaysia Berhad2. Bank Muamalat Malaysia Berhad3. Kuwait finance house Malaysia4. Alrajhi bank Malaysia5. Bank Rakyat6. Agro bank7. MBSB Bank
Qatar	<ol style="list-style-type: none">1. Qatar Islamic Bank- Qatar2. Qatar First Bank LLC
Saudi Arabia	<ol style="list-style-type: none">1. Al Rajhi Banking & Investment Corporation- Saudi Arabia2. Alawwal Bank
The UAE	<ol style="list-style-type: none">1. Dubai Islamic Bank2. Abu Dhabi Islamic Bank3. Emirates Islamic Bank4. Noor Islamic Bank5. Al Hilal Bank6. Sharja Islamic bank

The data on the Shariah scholars for the sampled banks in this study is fetched from the annual reports, autobiographies, Islamic Markets website, Bloomberg, universities' websites, social media accounts, and other online resources that contained such information. Moreover, the data for the CSR score is obtained solely from the annual financial, corporate, and CSR reports of the 30 selected Islamic banks in the GCC and Malaysia, using content analysis. The CSR items, on the other hand, are compiled solely from AAOIFI standard No. 7, using the "dichotomous" approach. There are a total of 36 disclosure items in the AAOIFI CSR disclosure requirements. Twenty-four of which are mandatory and must be disclosed by IBs regardless of their size, assets, age, and geographical location. The remaining 12 items are voluntary and

are to be disclosed by IBs and other IFIs that are capable of undertaking them. However, there were only 34 distinct items, since there were two separate cases where some items under certain dimensions were found to be duplicated. Some of the items appeared more than once in this standard under different dimensions, while others appeared to refer to disclosure items already mentioned in other dimensions. For instance, 'The conditions under which the IFI will defer collection of debt from insolvent clients' is an item that can be found in the dimension titled 'Disclosure of policy for dealing with clients' and this same item can also be found in the dimension titled 'Disclosure of policy for Qard Hasan' written as the 'Provisions of the policy/scheme including conditions for those unable to repay the loan.'

3.3 Dependent Variable (CSR disclosure)

The dependent variable in this study is the CSR disclosure by banks. The author uses content analysis to extract CSR data from the annual, corporate, and CSR reports of 30 full-fledged Islamic banks in the Gulf Cooperation Council and Malaysia.

3.3.1 Reliability of Content Analysis

Content analysis is defined by Krippendorff (2004) as "the systematic reading of a body of texts, images, and symbolic matter, not necessarily from an author's or user's perspective." It is the study of information that has already been recorded, as opposed to primary data. Content analysis presents an enormous challenge not only to researchers but also to readers; in that, it is subject to the subjective judgment of the researcher. The subjective nature of content analysis can render doubtful the reliability of studies that employ this method in retrieving data. Several measures have been proposed in the literature of content analysis to preserve the integrity of studies involving content analysis by ensuring the reliability of the method used in collecting data.

One of the most used methods to ensure the minimization of problems stemming from subjectivity due to judgments by singular authors is the use of Cohen's kappa statistic to measure the level of agreement between two observers who study the same content (Cohen, 1960). The purpose of this test is to increase the reliability of a study by ensuring that the results of a study are based on the perspective of multiple individuals,

by including a second researcher in the data collection stage and checking on the degree of agreeability between them.

To this end, Cohen's Kappa is used in this study to measure the level agreement between two observers, both of whom have a background in finance and economics. Traditionally, the kappa test has been used to measure the level of agreement between two independent coders at the initial stages of content analysis. After a reasonable level of agreement has been reached, the researchers can then go ahead with the content analysis of the remaining data. In this study, the author adopts the same procedure and applies slight modifications to it to suit the purpose of this research. In this study we used Cohen's kappa test to check if there is a significant difference in the judgment of the two raters, and also to ensure the uniform application of the chosen methodology to guarantee consistency in the study.

The first observer is the author of this study, while the second observer is a research fellow in the field of financial economics. The second observer was trained on the subject and was further made to familiarize himself with the content of this study until he was deemed to have met reliability requirements, as suggested by (Stemler, 2001). Whereas the first observer had two years of experience in the field under study before the beginning of the research. A random sample of 3 banks from different countries, representing 10% of the total sample was selected to improve the chances of encountering different ways of reporting by banks. Then, both researchers assigned scores to each of the 3 selected banks. The results are as shown in Appendix A. Afterward, the total number of items agreed on by the raters was computed as the total number of times both raters agreed to award a score of 0 or 1 for the same items. The total number of disclosure items in this study is 36, thus for 3 banks, the accumulated number of items would be the product of 36 and 3, which is 108 items. Conversely, the total number of items disagreed on by both raters is computed as the total number of times where the scoring of an item of a rater does not match that of the other for the same item. Thereafter, kappa can be calculated as:

$$Kappa, \quad k = \frac{P^A - P^C}{1 - P^C}$$

Where:

P^A represents the proportion of items on which the raters agree on, and

P^C is the proportion of items for which agreement on them is expected to happen by chance.

For the sake of convenience, this study used a computer software to calculate the kappa statistic from the following website: <https://idostatistics.com/cohen-kappa-free-calculator/#risultati>.

The value of kappa is less than or equal to 1 ($k \leq 1$). A value of 1 infers perfect agreement between both observers. In contrast, values less than 1 infer less than perfect agreement, and a value of zero shows perfect disagreement, except that which was expected to happen randomly. The value of kappa may be negative if both observers agree to include and exclude items less often than it would be expected just by chance (Stemler, 2001).

3.3.2 Interpretation of Kappa Statistic

Landis & Koch (1977) have suggested the following benchmark to interpret the value of kappa, whereby there is ‘slight agreement’ between the two observers when the kappa statistic is close to zero, whereas a kappa value close to 1 means that there is ‘almost perfect agreement’ between both observers

Table 3.2 Interpretation of k, kappa statistic

Kappa statistic	Strength of agreement
0.01 – 0.20	slight agreement
0.21 – 0.40	fair agreement
0.41 – 0.60	moderate agreement
0.61 – 0.80	substantial agreement
0.81 – 1.00	almost perfect or perfect agreement

3.3.3 Results for Cohen’s Kappa and its Implications

The results of the raters are shown in Appendix A. the results can be summarized as follows:

Both raters agreed to include 54 items

Both raters agreed to exclude 51 items

There was 1 item that only the first rater wanted to include, but not the second.

There were two items that only the second-rater wanted to include, but not the first.

Inputting the figures above into the computer software shows a 97 percentage of agreement between the two raters, and a kappa statistic, k of 0.94. The kappa statistic obtained above, according to Landis & Koch's (1977) interpretation, indicates an almost perfect agreement between the raters.

This very high level of agreement was attained mainly because the type of language used in reporting the standard under consideration by the banks is almost uniform, and minimal variations in reporting existed even across countries. Also, credit can be given to the AAOIFI for its part in trying to unify reporting standards across all IFIs, and further encouraging the explicit disclosure of such items, which made it easier for both raters to spot the disclosure items. The very high level of agreement between the raters meant that both raters could then go ahead with the collection of the remaining data from the banks' annual reports using content analysis.

3.3.4 Method of Choice in the Calculation of the CSR Disclosure Levels

This study acknowledges that two approaches are usually used in measuring compliance with the International Financial reporting standards (IFRS) mandatory requirements. These approaches are the "dichotomous" and the 'Partial Compliance (PC) unweighted approach' (Tsalavoutas & Smith, 2010). Under the usual unweighted approach, disclosed items are added together, regardless of the number of items available in their dimensions, and the total is divided by the total items applicable for each bank. This means all items required to be disclosed are given equal weights. This method, therefore, awards more weight to dimensions that require more items to be disclosed. Whereas under the PC unweighted method, the CSR disclosure score is calculated by adding disclosed items under each CSR dimension separately and dividing it by the total of the applicable items. The results obtained for all dimensions are added together and divided by the total number of dimensions available to obtain the CSR score. As such, all dimensions are assigned equal weights regardless of the number of items present in the sub-dimension. This approach of measuring compliance allows a researcher to be able to identify non-compliance clusters of particular dimensions, such as *Zakat*, *Charity*, and *Qard Hasan*. The PC unweighted method is especially useful when the compliance items involved are mandatory. In contrast, the

dichotomous method is more likely to provide an insightful result when the disclosure items under study are voluntary (Tsalavoutas & Smith, 2010).

Under both approaches, disclosing an item is assigned with a score of 1, and the non-disclosure of an item is assigned with a score of 0. This method of scoring is what is termed in the literature as the unweighted method (Tsalavoutas & Dionysiou, 2014; Tsalavoutas & Smith, 2010). This method of measuring compliance is useful as it deals with the problem of subjectivity faced in the weighted approach (Tsalavoutas & Smith, 2010), whereby items are assigned weights based on a researcher's view (as to which item is of more importance than the other) or based on the views of a survey conducted by the researcher. A look into the literature on voluntary disclosure indices sheds more light on the issue of weighting. As even though there remains a general agreement in the literature that weighting items according to their importance may provide more insightful results, however, problems arising from the assigning of weights and the arbitrary ways in which this is conducted have posed some practical difficulties in implementing this method (Barrett, 1976). The use of the unweighted scoring method in measuring compliance helps researchers circumvent the potential scoring bias mentioned above. While most of the studies use the dichotomous method, others like (Buzby & Falk, 1978; Inchausti, 1997; Maali et al., 2006) adopted a slightly modified version of the dichotomous method by allocating 'clearly' disclosed items a score of 1, 'ambiguously' disclosed items a score of 0.5 and undisclosed items a score of 0.

To the best of the author's knowledge, none of the previous studies on CSR disclosure in Islamic banks has ever used the Partial Compliances (PC) method before. This information does not come across as something astonishing, considering the vast difference between the number of items required to be disclosed under the various dimensions of the CSR disclosure requirements. The number of items to be disclosed under each dimension is believed to be reflective of its relative importance to fulfilling the objectives of Shariah. In other words, dimensions with larger items to be disclosed indicate the seriousness of that specific dimension compared to dimensions with smaller items. Thus, assigning the same weights to all dimensions will create a form of distortion and will misrepresent the reality on the ground, especially in the case where significant differences in items' size exist. For example, AAOIFI CSR dimensions such as the 'Disclosure of policy for dealing with clients' and the 'disclosure of earnings and expenditure prohibited by Shariah' have 9 and 7 disclosure

items respectively, compared to other CSR dimensions such as the ‘disclosure of policy for Waqf management’ and the ‘disclosure of policy for screening clients’ have two disclosure items each. To put both methods into perspective, let assume that the four dimensions mentioned above make up the full disclosure requirements. Again, let us assume further that an IB with the name Bank XYZ disclosed four items out of the nine required items of the ‘disclosure of policy for dealing with clients,’ six out of seven items of the ‘disclosure of earnings and expenditure prohibited by Shariah’, and none on both the ‘disclosure of policy for Waqf management’ and the ‘disclosure of policy for screening clients.’ Here is how each of the two methods will calculate the CSR score of the bank; the CSR score as calculated using the “dichotomous” approach would be:

$CSR = \left(\frac{4+6+0+0}{9+7+2+2} \right) = 0.50$. Thus, using the dichotomous approach, the disclosure level of bank XYZ is 50%.

Whereas on the other hand, using the PC unweighted approach, CSR disclosure level of bank XYZ would be:

$CSR = \left(\frac{(4/9+6/7+0/2+0/2)}{4} \right) = 0.33$. Which translates into a 33% disclosure level by bank XYZ.

From the above example, we notice a very significant difference of about 17% between the two methods, even though the number of disclosed items are the same for both. What the “dichotomous” approach does is, it will ensure that justice is done to all dimensions by assigning each sub-dimension an equal weight, regardless of which dimension it may belong to. Even though this study recognizes that some disclosure items are of more importance than others in the light of the Shariah, and as such assigning different weights to different disclosure items based on their relative importance according to the ‘*Maqasid*’ of Shariah is more likely to paint a better picture of the disclosure levels of IBs, and as such is more desirable, the author avoids delving into that since it is above the scope of this study and also due to the lack of precedence in the literature. Moreover, using the PC unweighted approach will not solve the problems related to the “dichotomous” approach either, and is more likely to cause even more significant distortions in the relative importance of items. In fact, Tsalavoutas & Smith (2010) have shown that the two methods can provide

significantly different results. Therefore, given all the reasons provided above, the “dichotomous” approach is deemed sufficient in this particular study, and the author will opt against using the PC unweighted approach.

3.4 Independent Variables

This part talks about the method of measurement of all the independent variables in this study, including the control variables. Firstly, both the SSB size and the BOD size are simply measured by the number of members on the SSB and the board, respectively. ‘Shariah background’ is the proportion of scholars who have at least a four-year diploma in sharia or fiqh, as suggested by Bank Negara Malaysia (Noordin & Kassim, 2019). Scholars with only an MA or PhD in the above-mentioned fields are also considered under this category. ‘PhD in Shariah’ is measured by the proportion of scholars who have a PhD in Shariah/fiqh to the total number of scholars on the board. While ‘PhD qualification’ is measured as the proportion of scholars with a doctoral qualification to the total number of scholars on the SSB. Professional qualification is a dummy variable that takes the value of 1 when there is at least one scholar on the SSB who has a background in either of the following fields; economics, Islamic economics, finance, Islamic banking and finance, law, and banking and finance, and zero if otherwise. ‘Internationality’ is a dummy variable that takes the value of 1 if the SSB of a bank has at least two scholars who do not have the same country of origin, and takes the value of zero if all the scholars on the Shariah board have the same country of origin. ‘Financial performance’ is measured in this study using the banks’ return on assets, which is calculated as the ratio of net profit of a bank to its total assets. Lastly, the total assets of the banks are measured in 2018 USD.

Table 3.3 Construct of Independent Variables

Variable name	Description
<i>Dependent Variables</i>	
SSB size (SSBsize)	The number of scholars on the Shariah supervisory/advisory board
Shariah qualification (Shariah)	the proportion of scholars who have at least a four-year diploma in sharia or fiqh
Doctoral qualification in Shariah (PhDShariah)	the proportion of scholars who have a PhD in Shariah/fiqh to the total number of scholars on the board
Doctoral qualification (PhD)	the proportion of scholars with a PhD. qualification to the total number of scholars on the SSB

Table 3.3 (continued)

Professional qualification (Profquali)	1 = at least one member of the SSB has a qualification in the following areas: economics, Islamic economics, finance, Islamic banking and finance, law, and banking and finance and = 0 if otherwise
Internationality (Inter)	1 = at least two of the SSB members are from different countries and = 0 if all SSB members are from the same country
<i>Control variables</i>	
Financial performance (ROA)	Return on assets of an IB in the year 2018
Bank's size (lnTA)	Natural logarithm of the total assets of an IB in the year 2018
Board of directors (BOD)	The total number of the members of an IB's board of directors

3.5 Empirical Section

In order to empirically investigate the relationship between CSR and FP in Islamic banks, the following OLS regressions are used:

$$CSR_i = \alpha_i + \beta_1 SSB.Size_i + \beta_2 Shariah_i + \beta_3 PhD_i + \beta_4 PhDshariah_i + \beta_5 ProfQuali_i + \beta_6 Inter_i + \beta_7 FP_i + \beta_8 BOD.Size_i + \beta_9 lnTA_i + \varepsilon$$

Where:

CSR_i is the corporate social responsibility disclosure of bank i , $SSB.Size_i$ is the number of scholars on the Shariah supervisory board of bank i , $Shariah_i$ is the proportion of SSB scholars with a background in Shariah in bank i , PhD_i is the proportion of SSB members with a PhD qualification in bank i , $PhDshariah_i$ is the proportion of SSB scholars with PhD qualification in Shariah/fiqh, $ProfQuali_i$ is a dummy variable that takes the value of 1 for SSBs with at least one scholar with a background in either finance, accounting, law, economics, or Islamic banking and finance, and zero if otherwise. $Inter_i$ is dummy variable that takes the value of 1 if the SSB of bank i has at least two scholars who do not have the same country of origin, and takes the value of zero if all the members have the same nationality. FP_i is the financial performance of bank i (in this study, it is the return on asset (ROA) of a bank). $B.Size$ is the board size of bank i . $lnTA_i$ is the natural logarithm of the total Assets of bank i measured in USD, and ε is the error term.

CHAPTER IV

FINDINGS AND DISCUSSIONS

4.1 Diagnostic Tests

4.1.1 Test for Heteroskedasticity and Normality

We conducted a white's test and Breusch-Pagan to check whether the heteroskedasticity was present in our data set. The p-value of white's test and Breusch-Pagan test are 0.4404 and 0.276676 respectively, both of which are significantly greater than 0.05 for us to reject the null hypothesis that heteroskedasticity is not present at a 5% significance level. Thus, we fail to reject the null hypothesis that the variance of the residuals is homogeneous.

We also conducted a normality test where the p-value was 0.23; thus, we fail to reject the null hypothesis that the error is normally distributed. Therefore, this test confirms that the errors are normally distributed.

4.1.2 Multicollinearity Test

Multicollinearity is a situation whereby two or more independent variables of a regression have a 'strong' correlation, in which case the estimates for the regression model cannot be accurately predicted. The variance inflator factor (vif) is one of the most common ways in econometrics of checking if any of the independent variables are dependent on each other. As a rule of thumb, when a variable's vif is greater than 10, oftentimes, there is room for concern, which will warrant further investigations into that variable. $1/VIF$ is what is known as 'tolerance.' It is used by researchers to measure the degree of collinearity. Tolerance values of less than 0.1 indicate the possibility of collinearity. From table 4.1, we can see that the VIF values of all the variables are significantly below ten, and also tolerance values are well above 0.1. This shows the absence of multicollinearity in the variables used in this study.

Table 4.1 Variance Inflation Factor

Variable	VIF	1/VIF
PhDShariah	4.75	0.210578
Shariah	3.74	0.267252
Profquali	3.39	0.295390
SSBsize	3.35	0.298316
lnTA	2.93	0.340732
PhD	1.79	0.558425
ROA	1.25	0.802052
BOD	1.14	0.875354
Inter	1.09	0.914549
Mean	2.60	

4.2 Descriptive Analysis of the Variables

Table 4.2 provides a descriptive statistic of all the 10 variables used in this study. The interpretation of table 4.2 is as follows:

The overall average level of CSR disclosure of all the 30 banks was approximately 55%, which is consistent with the 54% findings of Reuters (2018), even though the sample space and the disclosure indices used in the two studies are not the same. This implies that IBs on average comply with the disclosure directives of AAOIFI. The average number of scholars on the SSB is approximately 4. We can also infer from table 4.2 that SSB members on average have a very rich background in Shariah. We can also infer from the Table that most scholars on the SSB of IBs in Malaysia have a doctoral qualification. An average ROA of 2% implies that IBs in the GCC and Malaysia, on average operated profitably in the year 2018.

Table 4.2 Summary Statistic

Variable	Obs	Mean	Std. Dev.	Min	Max
CSR	30	54.991	15.053	25	77.778
SSBsize	30	4.267	1.363	3	8
Shariah	30	76.7	21.176	33	100
PhDShariah	30	55.3	28.328	0	100
PhD	30	82.167	17.143	33	100
Profquali	30	.7	.466	0	1
Inter	30	.5	.509	0	1
BOD	30	8.667	2.171	4	13
lnTA	30	22.833	1.54	18.095	25.301
ROA	30	1.947	2.979	-6.53	12.6

The mean of the proportion of SSB members on the SSB with PhD in Shariah is 55%. Some bank(s) did not have a single member with a PhD qualification in Shariah. Meanwhile, for others, all their SSB members had a PhD qualification in Shariah. On average, 82% of the SSB members of the 30 sampled banks had a PhD qualification, indicating that the overwhelming majority of scholars on the SSB had attained the highest level of education. This also makes the SSB one of the areas with the highest density of PhD holders in the world. 70% of the IBs had at least a scholar with a qualification in the following: Finance, economics, accounting, law, and Islamic economics and finance. Exactly half (15) of the total sampled IBs had at least 2 scholars from different countries on their Shariah supervisory boards. This is mainly due to Malaysian, Saudi, and Kuwaiti IBs which have very little international diversity on their SSBs. There was on average 9 members on the board of the sampled IBs, ranging from boards with 4 members to boards with 13 members. On average, return on assets, which is used in this study as a proxy for the profitability of IBs was approximately 2%, while the least profitable and the most profitable IBs ranged from -6.53% to 12.6%.

Table 4.3 Correlation Matrix

Variables	(CSR)	(SSBsize)	(Shariah)	(PhDShariah)	(PhD)	(Profquali)	(Inter)	(BOD)	(lnTA)	(ROA)
CSR	1.000									
SSBsize	0.092	1.000								
Shariah	0.460	0.224	1.000							
PhDShariah	0.409	-0.384	0.607	1.000						
PhD	-0.072	-0.176	-0.007	0.280	1.000					
Profquali	-0.120	0.347	-0.317	-0.688	-0.464	1.000				
Inter	0.000	-0.100	-0.139	0.051	0.109	-0.073	1.000			
BOD	0.372	-0.167	-0.045	0.239	0.132	-0.170	0.094	1.000		
lnTA	-0.058	0.306	-0.137	-0.068	0.499	-0.359	0.128	0.053	1.000	
ROA	0.030	-0.086	0.159	-0.007	-0.244	-0.012	-0.200	-0.101	-0.172	1.000

Notice that the correlation between PhDShariah and Shariah, both of which are independent variables, is very high (at 0.6066). This raises a red flag, that is, the possibility of multicollinearity between the two independent variables. In case we detect any anomaly in our regression analysis, we may revisit this issue and try and drop one of the two variables to see how much of a change that will bring to our regression analysis.

4.3 ANOVA

4.3.1 Checking for Inter-Regional Differences in CSR Disclosure

Table 4.4 is the summary statistics of CSR disclosure by regions. The first column represents the two regions under this study. 1 represents countries in the GCC, while 2 represents Malaysia, which is assumed to be the representative of the south-east Asian Islamic financial market in its near-perfect form. The average disclosure levels of IBs in Malaysia is 52%, while that of the GCC combined is 56%. Bartlett's test for equal variances shows a p-value of 0.56, meaning the variances of the two groups are indeed equal. This result also supports the rationale behind choosing Malaysia and the GCC for this study.

Table 4.4 Summary Statistic of CSR

Region	Mean	Std. Dev.	Freq.
1	55.90	15.84	23
2	51.99	12.70	7
Total	54.99	15.05	30

Table 4.5 Analysis of Variance

Source	SS	df	MS	F	Prob > F
Between groups	82.2753936	1	82.2753936	0.36	0.5561
Within groups	6489.31994	28	231.761426		
Total	6571.59533	29	226.606735		

Bartlett's test for equal variances: $\chi^2(1) = 0.4002$ $\text{Prob} > \chi^2 = 0.527$

The p-value of the F-statistic in Table 4.5 shows that there are no significant differences between the two regions when it comes to CSR disclosure levels. This result proves that following different standard-setting bodies does not significantly affect the CSR disclosure of levels of IBs from different regions. The results of this test provide an answer to the first part of the second research question of this study. Thus, we conclude that there are no inter-regional differences among IBs in CSR disclosure.

4.3.2 Checking for Intra-Regional Differences in CSR Disclosure

Table 4.6 provides summary statistics of CSR disclosure of the five GCC countries in this study. The first column represents the countries, listed in alphabetical order,

starting with Bahrain and ending with the United Arab Emirates. From Table 4.6, we can see that on average, IBs in Qatar have the highest (72%) level of CSR, while the UAE scored the lowest (42%) among the countries in the GCC. Saudi Arabia, on the other hand, scored 54%, which is just about the average of the region, while Kuwait, which took the second place, scored had a score of 63%, falling short of about 10% to Qatar which took the first place. IBs in Saudi Arabia and the UAE are notorious for not disclosing their CSR activities (Reuters, 2018), and this study only confirms it.

Table 4.7 shows the analysis of variance both between and within the groups. The p-value of Bartlett's test for equal variances is 0.747, meaning there are no differences between the variances of the countries involved, which once again confirms or proves the assumption of homogeneity of the variances. An F-statistic of 2.44, and a p-value of 0.0843, indicates that there are significant differences in CSR disclosure levels between countries in the GCC at a 10% level of significance. However, we cannot say the same in the case of a 95% confidence interval. Nonetheless, since the p-value is lower than 0.1, we can still safely say that intra-regional differences in CSR disclosure levels exist. This result shows that there is significant difference in CSR reporting even between IBs in countries with very similar legal systems and following the same standard-setting body as their guide. This result provides the answer to the second part of the second research question of this study.

Table 4.6 ANOVA Summary Statistics for GCC

Countries	Mean	Std. Dev	Freq.	Rank
Bahrain	58.9469	12.336	9	3
Kuwait	62.5000	19.576	4	2
Qatar	72.2222	7.856	2	1
Saudi Arabia	54.1667	21.606	2	4
United Arab Emirates	42.0833	11.700	6	5
Total	54.9043	15.843257	23	

Analysis of variance

Table 4.7. ANOVA for GCC

Source	SS	df	MS	F	Prob > F
Between groups	1942.03314	4	485.508285	2.44	0.0843
Within groups	3580.16062	18	198.897812		
Total	5522.19376	22	251.008807		

Bartlett's test for equal variances: $\chi^2(4) = 1.9385$ Prob> $\chi^2 = 0.747$

4.3.3 Pair-Wise ANOVA Comparison of GCC Countries

Table 4.8 shows the t-statistics and p-values of the differences between countries in the GCC. We can see from Table 4.8 that all the p-values are higher than 0.1; thus, we conclude that there is no significant difference in CSR disclosure between countries when compared one-on-one, even though collectively, that is not the case, as we have seen from the results of Table 4.7.

Table 4.8 Pair-Wise ANOVA Comparison of GCC Countries

Row Mean- Col Mean	1	2	3	4
2	3.55309 1.000			
3	13.2753 1.000	9.72222 1.000		
4	-4.78025 1.000	-8.33333 1.000	-18.0556 1.000	
5	-16.8636 0.358	-20.4167 0.377	-30.1389 0.175	-12.0833 1.000

Another interesting observation from Table 4.8 is the values of the t-statistic and p-value between countries 5 and 3. The p-value is very close to 0.1 in their case, revealing that there is a very huge, yet insignificant difference between the two countries. Those countries are indeed the UAE and Qatar, and their average respective CSR scores are

42 and 72. Thus, it is not a surprise to see their p-value close to being significant given that the difference between their respective CSR scores is about 30%.

4.4 Model Selection

The ordinary least square (OLS) regression in Table 4.9 shows only one variable (BOD) to be significant. Already, we have pointed out a possible anomaly in Table 4.3 (the correlation matrix above), which shows a very high correlation between two independent variables. However, this does not come across as a surprise at all, as a closer look at the two variables involved will reveal the reason behind this strong correlation. That is because the variable ‘Shariah’ is like a superset of the variable ‘PhDShariah’; in the sense that all scholars with a PhD. qualification in Shariah/fiqh, regardless of their field of study at the bachelors or master’s level, were automatically qualified to be added to the category of scholars with a background in Shariah, in addition to being in a category of their own called ‘PhDShariah.’ In comparison, the variable ‘Shariah’ is simply the addition of those scholars mentioned above and others who had their bachelor’s and or masters in Shariah/fiqh but without a PhD. qualification in the same field.

Table 4.9 OLS Regression of Model 1

CSR	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
SSBsize	.479	3.432	0.14	.89	-6.681 7.639	
Shariah	.25	.233	1.07	.297	-.237 .737	
PhDShariah	.199	.197	1.01	.324	-.211 .609	
PhD	-.147	.199	-0.74	.469	-.563 .269	
Profquali	9.009	10.086	0.89	.382	-12.031 30.048	
Inter	.556	5.254	0.11	.917	-10.403 11.515	
BOD	2.538	1.258	2.02	.057	-.087 5.162	*
lnTA	1.631	2.842	0.57	.572	-4.296 7.559	
ROA	.058	.958	0.06	.952	-1.94 2.056	
Constant	-31.028	64.787	-0.48	.637	-166.171 104.115	
Mean dependent var		54.991	SD dependent var		15.053	
R-squared		0.424	Number of obs		30.000	
F-test		1.635	Prob > F		0.172	
Akaike crit. (AIC)		250.275	Bayesian crit. (BIC)		264.287	

*** $p < .01$, ** $p < .05$, * $p < .1$

Even though looking at the empirical results warrant that we begin our elimination procedure by getting rid of the most insignificant variables first, the problem discussed above provides a more compelling argument for us to eliminate either of the two 'problematic' variables – Shariah or PhdShariah. By so doing, we are expected to be provided with a much-improved regression result.

A second regression model is run using Stata, as shown in Table14, excluding PhdShariah in the independent variables, since it is the lesser in significance between the two variables. The results show a significant increase in the coefficient of Shariah - about two folds of what was observed in the previous regression. However, there are still many insignificant variables in the model, with a closer look at the p-value (F), showing that the model as a whole is also insignificant.

Moreover, most of the variables, which have been found in other studies to have significant effect on CSR performance/disclosure are insignificant in our context. This can be as a result of the samples being from a different context, thus, there might other variables which have not been covered in this study that affect CSR disclosure in our very context. Moreover, the value of the R-squared is 0.39, indicating that approximately 39% of the variations in CSR disclosure by the sampled IBs is explained by the 8 variables we covered in our study. This, even though might seem small, is by far one of the highest numbers you will see in similar studies that have adopted similar variables. That is because, there might be tens or hundreds of variables that could potentially affect the CSR disclosure levels of the selected IBs and we have only covered about 8 of the potentially hundreds of variables.

Table 4.10 OLS Regression of Model 2

CSR	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
SSBsize	-.992	3.11	-0.32	.753	-7.46 5.476	
Shariah	.408	.173	2.36	.028	.049 .768	**
PhD	-.137	.199	-0.69	.501	-.551 .278	
Profquali	4.722	9.156	0.52	.611	-14.319 23.763	
Inter	1.012	5.237	0.19	.849	-9.879 11.903	
BOD	2.873	1.214	2.37	.028	.347 5.398	**
lnTA	1.437	2.836	0.51	.618	-4.462 7.336	
ROA	-.162	.933	-0.17	.864	-2.103 1.778	
Constant	-22.083	64.213	-0.34	.734	-155.621 111.454	
Mean dependent var		54.991	SD dependent var		15.053	
R-squared		0.394	Number of obs		30.000	
F-test		1.709	Prob > F		0.155	
Akaike crit. (AIC)		249.770	Bayesian crit. (BIC)		262.381	

*** $p < .01$, ** $p < .05$, * $p < .1$

This regression model shows a negative relationship between CSR disclosure and SSB size, which is a very controversial suggestion indeed, as it goes against the vast majority of the literature, which overwhelmingly suggests otherwise. As a result, a new regression model is run, but this time around, we substitute Shariah for PhDShariah, and we call this new regression Model 3.

Table 4.11 provides the regression analysis of model 3, which is a copy of model 1, excluding the variable 'Shariah.' We can observe from the Table that PhD. qualification in Shariah positively and significantly influences CSR disclosure, and so does the size of the BOD. Another interesting observation about this model is that both SSB size and ROA, although insignificant, have a positive relationship with CSR disclosure, which is consistent with the literature. Overall, this model provides a better premise to build on to reach the best model for this study. The p-value (F) of the regression is still larger than desired. There are also several other independent variables with excessively large p-values, which indicate that there are insignificant variables in our regression. Henceforth, a human-guided, general to specific (GeTS) approach using backward elimination of the most insignificant independent variables is employed in order to cleanse the regression of variables that play an insignificant

part in the explanation of the variation in CSR disclosure. In this approach, more importance is given to theory than to empirics. Therefore, results that do not agree with theories in the literature are not given precedence over results that agree with theory - if both are significant and the tie-breaker is in favor of the former.

Table 4.11 OLS Regression of Model 3

CSR	Coef.	St.Err.	t-value	p-value	[95% Conf Interval]	Sig
SSBsize	3.053	2.456	1.24	.228	-2.055 8.161	
PhDShariah	.34	.146	2.33	.03	.036 .644	**
PhD	-.13	.199	-0.65	.521	-.545 .285	
Profquali	7.438	10.013	0.74	.466	-13.386 28.261	
Inter	.091	5.254	0.02	.986	-10.834 11.017	
BOD	2.272	1.237	1.84	.081	-.302 4.845	*
lnTA	.507	2.649	0.19	.85	-5.002 6.016	
ROA	.337	.925	0.36	.719	-1.586 2.26	
Constant	-3.312	59.586	-0.06	.956	-127.228 120.604	
Mean dependent var		54.991	SD dependent var			15.053
R-squared		0.391	Number of obs			30.000
F-test		1.684	Prob > F			0.161
Akaike crit. (AIC)		249.945	Bayesian crit. (BIC)			262.556

Table 4.12 shows the results of the sequential backward elimination of the most insignificant independent variables with their standard errors in parenthesis. Below each model is its adjusted R-squared and Schwarz criterion for easy comparison between the models. So far, after running eight models, one after the other, we can make the following inferences from Table 4.12:

- Models 5 and six appear to be the candidate models if we are to build further on them.
- Model 5 has 3 significant variables, all of which are also significant in the literature
- Model 6 has 2 significant variables, both of which have also been proven significant in previous studies.

- d. The difference between the Schwarz criterion of models 6 and 7 (which are the same models, except that Shariah and PhDShariah have been interchanged) is negligible. However, model 6 provides more sensible results.
- e. The combination of PhDShariah and Shariah in the same model will always render both variables insignificant, and excluding any one of them will render the other significant regardless of the situation of the other variables. This observation is especially evident from models 1 and 8
- f. Apart from BOD, all the remaining control variables are insignificant (from models 6 and 7)

Table 4.12 is shown here to demonstrate how the sequential elimination of insignificant variables gradually improves one's model. The best way to reach the most accurate model is the step-wise elimination method. However, the whole process is a very tedious one and will require one to run numerous models in order to reach the parsimonious model. It requires one to run $(2^k - 1)$ models, where k is the number of explained variables. In our case, that will be 128 models! The less cumbersome alternative is the human-guided general-to-specific approach, which we have adopted in our study. By using Gretl's 'omit' command and choosing 'sequential elimination of variables using two-sided p-values,' one can easily find out which model is best for them, given their variables.

With the arguments discussed at the beginning of section 4.4 in mind, two separate regressions are run, with the first regression having all the variables while the second regression entailed all the variables except for the variable 'Shariah,' for reasons already discussed at the beginning of this section. The results of this regression analysis are shown in Tables 17 and 18.

Table 4.12 Tabulated Summary of Sampled Models

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
SSBsize	0.479 (3.432)	-0.992 (3.110)	3.053 (2.456)	3.046 (2.370)	3.494 (2.246)	4.174* (2.065)	0.758 (2.005)	2.245 (2.968)
Shariah	0.250 (0.233)	0.408** (0.173)					0.326** (0.123)	0.201 (0.221)
PhDShariah	0.199 (0.197)		0.340** (0.146)	0.340** (0.143)	0.326** (0.139)	0.246** (0.0957)		0.117 (0.171)
PhD	-0.147 (0.199)	-0.137 (0.199)	-0.130 (0.199)	-0.130 (0.195)				
Profquali	9.009 (10.09)	4.722 (9.156)	7.438 (10.01)	7.447 (9.768)	7.728 (9.642)			
Inter	0.556 (5.254)	1.012 (5.237)	0.0911 (5.254)					
BOD	2.538* (1.258)	2.873** (1.214)	2.272* (1.237)	2.273* (1.208)	2.284* (1.193)	2.355* (1.181)	2.815** (1.153)	2.586** (1.212)
lnTA	1.631 (2.842)	1.437 (2.836)	0.507 (2.649)	0.514 (2.560)	-0.276 (2.245)	-1.436 (1.704)	-0.368 (1.725)	-0.792 (1.851)
ROA	0.0581 (0.958)	-0.162 (0.933)	0.337 (0.925)	0.334 (0.888)	0.466 (0.856)	0.375 (0.842)	-0.0159 (0.846)	0.138 (0.885)
Constant	-31.03 (64.79)	-22.08 (64.21)	-3.312 (59.59)	-3.392 (58.04)	2.217 (56.74)	35.23 (38.74)	10.80 (40.68)	18.95 (42.82)
Observations	30	30	30	30	30	30	30	30
Adjusted R-squared	0.1645	0.16368	0.15879	0.197021	0.216268	0.227944	0.239404	0.222231
Schwarz criterion	264.287	262.380	262.555	259.1549	256.359	253.7847	253.3361	256.1303

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

4.5 Selecting the Parsimonious model

4.5.1 Selecting the Best Model Using Gretl's Omit Command for The Full Model

Table 4.13 shows the variables which were sequentially eliminated and their p-values. The elimination of insignificant variables started with ROA, which had a p-value of 0.952, and ended with Profquali, which had a p-value of 0.501. Afterwards, a test is conducted on the variables to check their combined significance. The p-value of the joint test for the eliminated variables is 0.9527. Thus, we fail to reject the null hypothesis that the regression parameters are zero for the eliminated variables.

Table 4.13. Sequential Elimination Using Two-Sided Alpha = 0.10

Eliminated variable	p-value
ROA	0.952
Inter	0.921
SSBsize	0.895
PhD	0.388
lnTA	0.557
PhDShariah	0.409
Profquali	0.501

4.5.2 Omit Test on Model 1:

Null hypothesis: the regression parameters are zero for the variables

SSBsize, PhD., Profquali, Inter, lnTA, ROA, PhDShariah

Test statistic: $F(7, 20) = 0.284058$, p-value 0.952731

Omitting variables improved 3 of 3 information criteria.

Table 4.14 shows the final product of our regression after executing the omit command on Gretl using our full model.

Table 4.14 GeTS Approach Using the Full Model

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	5.26884	12.9178	0.4079	0.6866	
Shariah	0.339829	0.108996	3.118	0.0043	***
BOD	2.72965	1.06321	2.567	0.0161	**
R-squared	0.366544	Adjusted R-squared	0.319621		
F(2, 27)	7.811656	P-value(F)	0.002105		
Log-likelihood	-116.5594	Akaike criterion	239.1188		
Schwarz criterion	243.3224	Hannan-Quinn	240.4636		

All but two variables were eliminated in this trial. Thus, the proposed best model based on the full model is:

$CSR_i = \alpha_i + \beta_2 Shariah_i + \beta_3 BOD_i$, which translates into

$CSR_i = 5.26884 + 0.339829 Shariah_i + 2.72965 BOD_i$ -----model 9

The coefficient of Shariah means that a 1% increase in the Shariah background of an SSB is predicted to cause a 0.339829% increase in the CSR disclosure level of an IB. To put that into perspective, let us say a bank has 4 members on its SSB, with 3 of them having a background in Shariah. This model predicts the when the fourth person gains a background in Shariah or is replaced with someone with a background in Shariah, the bank’s CSR disclosure level is expected to increase by 8.5% (0.339829*25). Whereas the coefficient of BOD means that, adding one more director to a bank’s board is expected to increase CSR disclosure levels by 2.72965%.

4.5.3 Selecting the Best Model Using Gretl’s Omit Command Based on Model 3

Table 4.15 depicts the variables which were sequentially eliminated and their p-values. The elimination of insignificant variables with this model started with Internationality (Inter), which had a p-value of 0.986, followed by the elimination of lnTA, then ROA, then Profquali, and then ended with the elimination PhD., which had a p-value of 0.235. Subsequently, a test is conducted on the variables to check their combined significance. The p-value of the joint test for the eliminated variables is 0.846203. Thus, we fail to reject the null hypothesis that the regression parameters are zero for the eliminated variables.

Table 4.15 Sequential Elimination Using Two-Sided Alpha = 0.10

Variable	p-value
Inter	0.986
lnTA	0.843
ROA	0.713
Profquali	0.447
PhD	0.235

4.5.4 Omit Test on Model 3

Null hypothesis: the regression parameters are zero for the variables

PhD, Profquali, Inter, lnTA, ROA

Test statistic: $F(5, 21) = 0.395681$, p-value 0.846203

Omitting variables improved 3 of 3 information criteria.

We can see from Table 4.16 that only three explained variables survived the elimination process in this trial, and the proposed best model based on model 3 is:

$CSR_i = \alpha_i + \beta_2 Shariah_i + \beta_3 BOD_i + \varepsilon$, which translates into

$$CSR_i = 7.51231 + 3.53233SSBsize_i + 0.242098PhDShariah_i + 2.19451BOD.Size_i$$

model 10

Table 4.16 GeTS Approach Based on Model 3

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	7.51231	14.9352	0.5030	0.6192	
SSBsize	3.53233	1.92168	1.838	0.0775	*
PhDShariah	0.242098	0.0938847	2.579	0.0159	**
BOD	2.19451	1.14758	1.912	0.0669	*
Mean dependent var	54.99074	S.D. dependent var		15.05346	
Sum squared resid	4380.201	S.E. of regression		12.97957	
R-squared	0.333465	Adjusted R-squared		0.256557	
F(3, 26)	4.335894	P-value(F)		0.013218	
Log-likelihood	-117.3229	Akaike criterion		242.6459	
Schwarz criterion	248.2507	Hannan-Quinn		244.4389	

Firstly, the coefficient of the SSBsize is interpreted as follows: adding one more scholar to a bank's SSB is expected to increase CSR disclosure levels by 3.5%. The coefficient of PhDShariah means that when the proportion of scholars with a doctoral qualification in Shariah of an IB's SSB increases by 1%, there is an expected increase of 0.24% in the CSR disclosure level of that IB. To put this into perspective, let us assume once again that a bank has 4 members on its SSB, with 3 of them having a doctoral qualification in Shariah. This means that the proportion of scholars on the SSB with a doctoral qualification in Shariah is 75%. This model predicts that a bank's CSR disclosure level is expected to increase by 6.1% (0.242098×25) when the fourth scholar obtains his doctoral qualification in Shariah or is replaced with someone with a doctoral qualification in Shariah. Lastly, the coefficient of BOD means that adding one more director to a bank's board is expected to increase CSR disclosure levels by 2.2%.

The adjusted R-squared means that approximately 26% in the variation of an IB's CSR disclosure is determined by the number of SSB members, doctoral qualification in Shariah of the SSB members, and the size of the BOD.

4.6 Comparing Model 9 and Model 10 in the Light of Theory and Empirics

Empirical comparison between the models will require us to compare the information criteria of all the models. Then, the model with the smallest information criterion is declared as the best model. It is clear from all the models (from one to ten) that model nine has the lowest Schwarz criterion (243.3224), and therefore, by this standard, it is the best model, followed by model ten, which has a Schwarz criterion of 248.2507. However, as said before, this study gives priority to theory over empirics. Therefore, in the case whereby one model makes more theoretical sense than the other, but the other has the empirical advantage, this study will go with the one that has more theoretical backing. Hence, we will take a brief look at the theoretical relevance of both models.

Firstly, we will look at model 9 and its place in the literature. The model suggests that both background and Shariah and BOD size positively influences the level of CSR disclosure of IBs. Both results are entirely in line with the findings of past studies. However, the same model suggests that SSB size has no significant effect on CSR disclosure levels of IBs. This finding is entirely contradictory to the findings of the

vast majority of previous studies, which found a positive relationship between SSB size and CSR disclosure/performance (Ibrahim et al., 2015; Mallin et al., 2014; Noordin & Kassim, 2019; Nugraheni, 2018). Therefore, we will favor a model that encompasses more variables that make theoretical sense.

Model 10, on the other hand, suggests that doctoral qualification in Shariah of the SSB, the SSB size, and the BOD size of an IB positively affects CSR disclosure levels of the IB. This model is much more plausible in the light of theory than model 9, despite its relative empirical inferiority to model 9 because of the following reasons:

- i. The main difference between ‘background in Shariah’ and ‘doctoral qualification in Shariah’ is that doctoral qualification in Shariah measures an individual’s level of education in a specific area. In contrast, Background in Shariah has to do with the area of education of an individual. Therefore, PhD. in Shariah gives us the chance to look at things from two different dimensions (area and level), unlike that of Shariah and PhD. measured separately. In fact, PhD. in Shariah is as significant in model 10 as Shariah is in model 9. At the same time, PhD. qualification by the SSB measured separately has been found to have no significant effect on CSR disclosure. This result is also consistent with the findings of Nugraheni (2018).
- ii. Moreover, in theory, we can argue that education level in certain areas (such as in Shariah/fiqh) should positively impact CSR disclosure levels of IBs. After failing to find any relationship between doctoral qualification and social performance of Indonesian IBs in her study, Nugraheni (2018) suggested that future researchers should also explore the field of study in connection with the level of education instead of concentrating on level of education only. Therefore, this study decided to concentrate on the effect of doctoral qualification of the SSB on CSR disclosure.
- iii. Lastly, model 9 ignores a crucial variable (SSB size) in the literature, whereas, on the other hand, this same variable is captured in model 10, which means that model 10 has more theoretically significant variables than model 9.

In a nutshell, we have shown in this part that empirical superiority does not automatically translate into a useful model - and that constructing a model through

the lens of theory is an invaluable way to attaining a parsimonious model that actually makes sense.

Table 4.17 Summary of Findings Per Hypotheses

Hypothesis	Variable name	Expected sign	Actual sign	Level of significance
H1: SSB size has a positive relationship with CSR disclosure levels	SSBSize	(+)	(+)	Significant
H2: Background in Shariah is positively related to CSR disclosure levels	Shariah	(+)	(+)	Highly significant
H3: Internationality of the SSB will positively influence CSR disclosure	Inter	(+)	none	Insignificant
H4: PhD. qualification in Shariah/fiqh has a positive relationship with CSR disclosure levels of IBs	Shariah	(+)	(+)	Highly significant
H5: Professional qualification of the SSB has a positive relationship with CSR disclosure	Profquali	(+)	none	Insignificant

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

Banks play a very crucial role in the wealth distribution of society due to the sheer amount of society's assets they control. However, as modern corporations, the pursuit of corporate interest is often prioritized to the detriment of society's wellbeing at large, which can be attributed to the lack of a solid moral foundation. The emergence of Islamic banks promised to provide an alternative to the status quo – a new financial system that is deeply rooted in the principles of Islamic morality. At the heart of this 'revolution' is the Shariah supervisory board (SSB), whose primary function is to ensure that Islamic banks operate within the limits of the Shariah by providing advisory services to the IB, and then following it up by supervising activities of the bank. In Islam, social responsibility is not an external factor that corporations have to incorporate into their activities; instead, it is inherent in the day-to-day activities of the corporation and will manifest itself so long as it works within what is prescribed by the Shariah.

In this study, we conducted an empirical investigation into some of the characteristics of the SSB and how they affect the CSR disclosure levels of IBs and found CSR disclosure to be positively and significantly influenced by larger SSB size, higher numbers of scholars with a doctoral qualification in Shariah/fiqh, and increased Shariah knowledge of SSB members. These findings are in line with the findings of (Ibrahim et al., 2015; Mallin et al., 2014; Noordin & Kassim, 2019; Nugraheni, 2018). In addition, this study also found that there is no significant difference between the disclosure levels of IBs in Malaysia and those in the GCC countries. However, when intra-regional differences in CSR disclosure was investigated, we found a significant difference in CSR disclosure between countries' banks in the GCC.

Another important finding of this study is that IBs, in general, tend to do reasonably well in reporting CSR mandatory disclosure requirements, but tend to ignore the voluntary aspects completely. On average, IBs reported 69% of the items in the mandatory requirement and 26% for items in the voluntary requirement section. In

fact, not a single IB in our study had a formal waqf (a Muslim endowment dedicated to a religious, educational, or charitable cause) scheme. Another important observation was that, even though according to the AAOIFI, IBs must state the SSB's opinion on the issue of late payment, not a single IB fulfilled this requirement. Apart from a couple of Malaysian banks that made mention of late payment, the remaining IBs abstained entirely from even making mention of that phrase in their annual reports.

The findings in this study show that compliance with mandatory requirements have seen a significant increase over the years since Maali et al. (2006) published their findings on IBs' CSR disclosures. However, these positive strides have only been visible in the mandatory disclosure requirements, with voluntary disclosure requirements ignored over the years almost in its entirety.

5.1 Recommendations

This study offers several practical implications for further improving social reporting by Islamic banks. The findings of this study support the notion that a better composition of the SSB with regards to the size of the board, the educational background of the Shariah board members, and higher levels of education of the SSB in Shariah play an essential role in contributing to improved CSR reporting by IBs. This study encourages policymakers and standard-setting bodies such as the AAOIFI and IFSB to recommend or put in place certain restrictions with regards to certain traits of the SSB, such as the Shariah board's size, the educational background, and the level of education of SSB members in the composition of the SSB.

5.2 Research Limitations

The first major limitation of this thesis is the lack of data on the Shariah scholars, which imposed severe restrictions and profoundly influenced the selection of IBs. Another significant limitation of this study is the methodology used in collecting data on the CSR items. Even though several steps were taken to ensure that the errors resulting from subjectivity in scoring were limited, the element of subjective judgment could not be gotten rid of in its entirety, as is always the case for studies of this nature. One final drawback of this study is the fact that this study concentrated on the disclosure of CSR as opposed to CSR performance, which is more desirable. Future research may consider investigating the CSR performance of IBs based on AAOIFI's

standard number 7. It will also be interesting to know the CSR disclosure levels of Malaysian IBs post-value-based intermediation (VBI), a collaboration between the central bank of Malaysia and the AAOIFI, which is aimed at strengthening the role and impact of IBs in Malaysia on the CSR front.



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APPENDIX A

Results of the Two Raters

Table A.1 Results of the two raters

Mandatory disclosure requirements	GFH Rater 1	GFH Rater 2	AUB Rater 1	AUB Rater 2	Agro Bank Rater 1	Agro bank Rater 2
Disclosure of policy for screening clients						
the specific provisions of the screening policy including the benchmarks and/or criterion utilized to measure compliance with Islamic law	1	1	0	0	1	1
Whether these have been approved by the Shariah supervisory board	1	1	0	0	1	1
Disclosure of policy for dealing with clients						
The defined procedure of the IFI on avoiding the imposition of onerous contractual terms on clients who are in a weaker bargaining position relative to the IFI	0	0	0	0	1	1
The provisions ensuring that marketing campaigns and documents are ethically balanced	1	1	1	1	1	1
The obligation and rights of both parties	1	1	1	1	1	1
The due process and responsible terms and conditions under which credit is extended to clients including the process by which the client's ability to repay and the effect on the client's financial and overall well-being is assessed	1	1	1	1	1	1

The remedies available in the event that one or both parties violate their contractual terms	1	1	1	1	1	1
The Shariah supervisory board's opinion on the permissibility of charging late payment charges	0	1	0	0	0	0
Late payment charges levied on clients	1	1	0	1	1	1
How the IFI allocates the late payment charges in its accounts (allocation to revenue or charity)	1	1	1	1	1	1
The conditions under which the IFI will defer collection of debt from insolvent clients	0	0	0	0	1	1
Disclosure of earnings and expenditure prohibited by Shariah						
Aggregate descriptions of earnings and expenditures prohibited by Sharath	1	1	0	0	1	1
Amount of earnings and expenditures prohibited by Sharath	1	1	0	0	0	0
Account classification (revenue, expense, liability or asset) of earnings and expenditures prohibited by Shariah	1	1	0	0	1	1
Reasons for undertaking these types of transactions	1	1	0	0	0	0
The SSB's verdict on the necessity of these transactions	1	1	0	0	0	0
How the IFI intends to dispose of such amounts	1	1	1	1	1	1
The IFIs strategy to find viable permissible or halal alternatives, if any, for similar impermissible transactions in the future	0	0	0	0	0	0
Disclosure of policy for Zakah						
The method used for determining the zakah base	1	1	0	0	1	1
The rulings of the Shari'ah Supervisory Board (SSB) concerning the method used for determining the Zakah base	1	1	0	0	1	1
Whether or not the Islamic bank as a holding company pays its share of zakah obligations in its subsidiaries	1	1	0	0	1	1
Whether or not the Islamic bank collects and pays Zakah on behalf of holders of investment accounts and other accounts	1	1	0	0	1	1

The restrictions imposed by the Shari'ah supervisory board of the Islamic bank in determining the Zakah base	1	1	0	0	1	1
disclosure of the notes accompanying the financial statements of the restrictions imposed by the Shari'ah Supervisory Board of the Islamic bank in determining the zakah base	1	1	0	0	1	1
Voluntary disclosure						
Disclosure of policy for Qard Hasan						
Whether there is a formal scheme operated by the bank for depositors, shareholders and other parties to place their funds for the use of Qard Hasan borrowers	0	0	0	0	1	1
Provisions of the policy/scheme including conditions for those unable to repay the loans	1	1	0	0	1	1
Sources of funding for Qard Hasan loans	0	0	0	0	1	1
Aggregate purposes for which the Qard Hasan loans have been made	0	0	0	0	1	0
Quotas/targets to increase internal and external Qard Hasan funding and achievements for the year in this regard	0	0	0	0	0	0
Reasons for upward and downward revisions in quotas/ target	0	0	0	0	0	0
Disclosure of policy for charitable activities						
Provisions of the policy	1	1	0	0	1	1
Aggregate classes of charitable activities by ultimate beneficiary and amounts distributed to each aggregate class	0	0	0	0	1	1
Quotas/targets and achievements for the year	1	1	0	0	0	0
Reasons for upward and downward revisions in quotas/ target	1	1	0	0	0	0
Disclosure of policy for Waqf management						
Types of Waqf managed by the IFI	0	0	0	0	0	0
Financial and other services offered to the Awqaf by the IFI	0	0	0	0	0	0

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