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THE IMPACT OF CORPORATE GOVERNANCE AND ITS CONSEQUENCES ON CSR DISCLOSURE: EMPIRICAL EVIDENCE FROM ISLAMIC BANKS IN GCC COUNTRIES

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THE IMPACT OF CORPORATE GOVERNANCE AND ITS CONSEQUENCES ON CSR DISCLOSURE: EMPIRICAL EVIDENCE FROM ISLAMIC BANKS IN GCC COUNTRIES

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ABSTRACT

The main aim of this research is to analyse the CSR disclosure and examine its determinants and consequences among Islamic banks in the GCC (Gulf Countries Council). In fulfilling the research aims, annual reports of GCC Islamic banks for the period 2010- 2014 are analysed using manual content analysis, which involves 195 observations of 39 Islamic banks. The CSR disclosure index is constructed based on 11 dimensions using AAOIFI standard no 7, 2010. An ordinary least square (OLS) regression is used to examine the determinants and consequences of CSR disclosure in the sample Islamic banks. The analysis shows a very low level of CSR disclosure (39.9%) among the sample Islamic banks. Using CG (corporate governance) mechanisms to measure the determinant of CSR disclosure, this current study finds a significant positive association between CSR disclosure and the size of the boards of directors of the sample Islamic banks. It provides evidence that stronger corporate governance is associated with a higher level of CSR disclosure. This current study finds a negative significant relationship of CEO. Duality and AC Size and CSR disclosure. However, the results show no significant association between CSR disclosure and other corporate governance variables. To examine the economic consequences of CSR disclosure, the study uses three different proxies of firm value (MTBV, Market Capitalization and Tobin Q). Using market capitalization proxies, this current study finds that there is a negative significant relationship between CSR disclosure and firm value. The study did not find any significant relationship between other proxies. This current study suggests that there is a need to improve the current CSR disclosure practice in GCC Islamic banks by imposing additional constraints on the board of directors' characteristics. The results inform the global debate on the need for corporate governance reform in Islamic banks, by providing insights on the role played by corporate governance mechanisms in encouraging and enhancing CSR disclosure practice among Islamic banks.

Keywords: AAOIFI, Corporate Social Responsibility (CSR), Content Analysis, Disclosure Level, Determinants, GCC, Islamic banks

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LIST OF ABREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institution
BIMB	Bank Islam Malaysia Berhad
BMMB	Bank Muamalat Malaysia Berhad
CAGR	Compound annual asset growth
Charity	Charitable Activities
Com.Bank	Commercial Bank
CG	Corporate Governance
CS	Par Excellence Customers Service
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure
EV	Internal Environment and Preservation Policy
EY	Employee Welfare
FV	Firm Value
GCC	Gulf Countries Council, which consists of Oman, Bahrain, Qatar, Saudi Arabia, United Arab Emirates (UAE) and Kuwait
GDP	Gross Domestic Product
IB	Islamic Bank
IBF	Islamic Banking and Finance
IFIs	Islamic Financial Institutions, in this study refers to Islamic banks
Intl	International

Invest	Investment
KSA	Kingdom of Saudi Arabia
LP	Late Repayment and Insolvent Clients and Avoiding Onerous Terms
M	Mandatory
MC	Market capitalization
MTBV	Market to book value ration
NSE	Earning and Expenditure Prohibited by *Shariah*
Qard	Qard Hasan (Benevolent Loan)
ROA	Return on asset
ROC	Return on capital
S.Client	Screening of Clients for Compliance with Islamic Principles
Shariah	Islamic Law
SME	Micro and Small Business Enterprise
SR	Social Responsibility
SSB	Shariah Supervisory Board
TQ	Tobin Q ratio
V	Voluntary
Waqf	Waqf Management
Zakat	Zakat (Islamic religious tax)

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In the name of Allah, The Most Compassionate, The Most Merciful. All praise is to *Allah,* who is Most Praiseworthy, Most High, may His peace and blessings be upon our beloved Prophet Muhammad *Sallāhualaihiwasallam* and upon his family, His companions, and all his sincere followers after them. My utmost thanks are to *Allah* for His blessings and for granting me the patience and the endurance to complete this thesis successfully.

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DEDICATION

To my dear parents:

Haji Harun Salleh & Hajjah Halijah Ghazali

&

Mihat Chiding & Faridah Md Din

To my beloved wife:

Norwahidah Mihat

Beloved sister, brother, and their families

For their unwavering support, encouragement and love

CHAPTER 1: INTRODUCTION

1.1 Overview

Islamic banking has grown rapidly since its inception in 1975[1] and it is believed to have doubled the growth rate of the conventional finance industry. According to the figures released by the banks in 2013, the number of *Shariah*[2]-compliant financial institutions and the number of *Shariah*-compliant mutual funds reached 349 and 800, respectively. Furthermore, the global Islamic assets held by commercial banks exceeded USD $1.8 trillion in 2013 and is predict to exceed USD $2 trillion in 2014 (Ernst & Young, 2013). Despite its growth, it is believed that Islamic banking represents the absolute ethical codes of Islamic religion. According to Maali et al. (2003), the Islamic codes impose strong social obligations on Muslim individuals and organisations.

From the Islamic perspective, CSR (corporate social responsibility) represents one's accountability to *Allah* and encompasses one's accountability to society; therefore, they can be interpreted as an institution, which promote social justice and social responsibility (Maliah, 2000). As Muslims entities, Islamic banks are accountable towards *Allah* (God), as stated in the *Quran: "And fear a Day when you will be returned to Allah. Then every soul will be compensated for what it earned, and they will not be treated unjustly"* (*Quran*, 2:281). Corporate social responsibility (CSR) in general shows how the companies meet their obligation to their employees and

[1] Institutions offering Islamic financial services started emerging in 1960 in isolation, the real momentum of Islamic banking and finance started in 1975 with establishment of Dubai Islamic Bank and the Jeddah Islamic Development Bank(Ayub, 23:2007).

[2] *Shariah* in general term is Islamic Jurisprudence or Islamic Law

community (Luan, 2005). In the Islamic context, social responsibilities represent the concept of brotherhood "*ukhuwah*" from one to another. Thus, the social role is very important for Islamic banks and they can be described as banks who have a social face towards the society (Haniffa & Hudaib, 2007; Al-Mubarak & Osmani, 2010;Hasan, 2011). This role is mainly a reflection of the importance of upholding the Islamic principles upon which these banks operate and how they address these social issues (Maali et al., 2003).

Consequently, as banks that operate in Islamic surroundings, it expected that they are aware of the impact of their activities on the community. In other words, Islamic banks should be more active on promoting CSR, rather than just focusing on profit maximisation. Islamic banks are also accountable towards stakeholders and society in general. These accountabilities can be proven through disclosure and full transparency, as stated in the Holy Quran: *"And O my people, give full measure and weight in justice and do not deprive the people of their due and do not commit abuse on the earth, spreading corruption"* (*Quran*, 11:85).

Disclosure is a crucial aspect of the accountability between Islamic Banks and its stakeholders. Therefore, it is expected that Islamic Banks disclose CSR information in a succinct, truthful and comprehensible method to meet their stakeholder's needs (Haniffa & Hudaib, 2007). On the other hand, communities are expecting Islamic banks to enhance their transparency, and have greater involvement in solving social issues and improved ethical behaviour from the Islamic banks (Case & Al-qadi, 2012).

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI, 2010), Islamic banks should disclose all information necessary to inform the community about their operations. It is related to the concept of accountability, which means that the community has the right to know how the organisations' activities are affecting their wellbeing. Therefore, the content of Islamic banks' annual reports is expected to provide social information, focusing in detail on the aspects of CSR, such as zakat, *Qard al-Hasan* funds, and employee information, which have particular relevance to the social accountability principle (Baydoun & Willett, 2000).

In recent years, a sizeable body of literature indicates a major increase in interest in disclosure studies (e.g. Linsley and Shrives, 2006, Hussainey and Walker, 2009; Wang and Hussainey, 2013; Moumen et al., 2015). It contains studies focused on disclosure level, as well as its determinants and consequences (Maali et al., 2006; Hussainey and Mouselli, 2010; Farook et al., 2011; Farag et al., 2014; Elzahar et al., 2015). Prior studies show that disclosure reporting plays an important role in improving communication with stakeholders. It also shows that disclosure practice has a positive impact on the firm's value (FV) (Uyar and Kilic, 2012; Anam et al., 2011; Wang et al., 2008; Schwaiger, 2004).

Generally, most of the prior studies examined the determinants and economic consequences of either overall disclosure or particular types of disclosure. Numerous studies that examined the factors affecting disclosure suggested that corporate governance (CG) and firm characteristics are the key drivers for corporate disclosure level, either as a whole (e.g., Samaha et al., 2015; Gisbert and Navallas, 2013; Farook et al., 2011; Elshandidy et al., 2011; Bhatti and Bhatti, 2009) or for different types of disclosure (e.g. Elshandidy et al., 2013; Abraham and Cox, 2007).

Other streams of research have shown the usefulness of corporate disclosure on stock market participants' decisions. For instance, several studies test the effect of corporate disclosure on the cost of capital (e.g., Beyer et al., 2010; Kothari et al., 2009), firm value (e.g. Hassan et al., 2009; Servaes and Tamayo, 2013), share price anticipation of earnings (e.g. Wang and Hussainey, 2013; Hussainey and Walker, 2009), and analysts' forecast accuracy (e.g. Yu, 2010). Notably, the majority of previous studies have focused on specific perspectives, such as firms or country-specific perspectives in measuring disclosure and used data for non-Islamic banks. However, prior studies have not provided evidence on the factors determining CSR disclosure for Islamic banks in a specific region such as the GCC (Gulf Countries Council).

To the best of the author's knowledge, there is limited study that has explored the CSR disclosure among GCC Islamic banks from 2010-2014, and which provides variations of CSR disclosure practices between banks and countries after the issuance of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institution) Governance standards no. 7, 2010. There is also a limited studies that adopts AAOIFI as a best practice for CSR reporting for Islamic Banks, based on the latest AAOIFI governance standards versions, 2010[3]. Previous studies (e.g. Case & Al-qadi, 2012; Maali et al., 2006; Mosaid & Boutti, 2012) have not clearly examined how CSR reporting could influence a firm's value for GCC Islamic banks. Overall, this research will contribute to the existing disclosure literature by exploring the CSR disclosure practice among GCC Islamic banks and then examine its determinants and consequences (firm value). This study differs from previous studies, which also

[3] From the researcher knowledge there is no updated of governance standards which relate to CSR disclosure practice in AAOIFI, 2014.

discuss the issue of CSR disclosure (Maali et al., 2003; Thompson and Zarina, 2004; Ramasamy and Ting, 2004; Hussainey, 2011; Mallin, Farag & Ow-Yong, 2014; Rahman & Bukair, 2013; Platonova, 2013) by narrowly focusing on GCC perspectives. Therefore, using a comprehensive disclosure index developed using AAOIFI standards and supported by prior research (such as: Haniffa & Hudaib, 2007; Platonova, 2014; Maali et al., 2006; Ullah, 2013), the study will provide an insight of CSR disclosure practice among Islamic banks in the GCC region.

The rest of this chapter is organised as follows: 1.2) the need for CSR disclosure, 1.3) the nature of the research problem, 1.4) gaps and motivations, 1.5) research aims and objectives, 1.6) research questions, 1.7) potential contribution of the study, and 1.8) the organization of study.

1.2 The Need for CSR Disclosure

The recent development of corporate social responsibility has a significant impact on the role of business, and has resulted in the change of accounting practices (Aribi & Gao, 2010). Nowadays, banks are not only focused on generating profit for their shareholders, but they have to also be more accountable and concerned with CSR issues in their business activity (Zain, 1999a; Morsing & Perrini, 2009). There is a growing concern within the business community with the significance of the key stakeholders attached to socially, environmentally, and ethically responsible behaviour by business enterprises (Zadek et al., 1997). The pressure on companies to be accountable to a wider audience of stakeholders is coming from a number of resources, such as the ethical investors, a growing number of pressure groups, consumer associations, and the growing number of United Nations and European Community Directives (Gray et al., 1988).As a result, public expectations of CSR have increased, and have forced companies to become more concerned about their relationship with societal interest groups and their corporate social responsibility (Held, 1970).

The rising importance of CSR disclosure in practical applications is also reflected in academic research (e.g., O’Dwyer et al,2005; Plumlee et al, 2008; Nichols and Wieland, 2009; Simnett et al, 2009; Johansen, 2010; Dhaliwal, Dhaliwal et al., 2012). Companies are no longer seen by society as institutions which give a mutual benefit to their shareholders only, but as organisations that operate within society which has a responsibility to ensure socio-economic justice and, at the same time give benefit to the stakeholders (McDonald & Puxty, 1979; Mohammed, 2007). As the banks realise the significance of stakeholders financial anticipation, the role of CSR disclosure has become more important as a means of discharging accountability (Gray et al., 1996; Park & Ghauri, 2014). In this sense, Haniffa (2002) argues that social responsibility reporting can be seen as a response by companies to the changing expectations of the society in which they operate. Nevertheless, it could be argued that social reporting is used as a tool to change perception without changing the fact.

When a firm discloses its corporate social responsibility (CSR) activities, it declares its accountability to a broader spectrum of stakeholders than its shareholders alone. Such disclosures provide insight beyond those conveyed in financial disclosures. In recent years, CSR disclosures have surged in popularity and are now widely used by professionals in the capital market. According to Dhaliwal et al, (2012), the number of firms issuing CSR reports in their sample of 31 countries increased from fewer than 100 in the early 1990s to over 1,000 in 2007. In a 2003 survey of 400 fund managers and financial analysts in nine European countries, around 80 percent of participants believed CSR activities were relevant to a firm’s long-term value, and approximately 50 percent acknowledged using information from CSR disclosures (Sofres, 2003).

While public concern over the social and environmental consequences of corporate activities has increased, this has resulted in a situation in which two essentially new factors have been introduced into investment decision-making (Spicer, 1978). First, the public interest on the side effects of corporate activities has led to new and increasingly stringent sanctions against certain types of these activities such as charitable activities. Secondly, the growth of numbers of investors who are concerned with the moral and ethical predictions of corporate activities and with the disclosure of all relevant information pertaining to a company's activities, may influence an investor's investment decision; it refers to a revelation of knowledge, free from secrecy or ignorance; Lanam, 2007). Therefore, CSR disclosure plays an important role in business, including enhancing corporate transparency, developing corporate image, and providing useful information for investment decision-making (see, for example, Gray et al., 1988; Friedman and Miles, 2001; O'Dwyer, 2005). In addition, it has been asserted that CSR disclosure is seen as a means by which business enterprises may attempt to manage their stakeholders in order to gain their support and approval (Deegan, 2000; Parker, 2005).

In terms of the relation between CSR and accounting, previous research (such as: Zainal et al., 2013; Aribi, 2009; Dong et al., 2015) finds that there is a natural link between CSR and accounting. An accounting scope has a general responsibility for the measurement, disclosure, and assurance of information, including CSR-related information. As CSR has become nearly ubiquitous in modern business over the last few decades, periodic CSR reporting became popular for larger businesses (Pederson, 2006). Accounting professionals have the opportunity to participate in the creation, assurance, issuance, and analysis of CSR reports. Therefore, accounting professionals play an important role in enhancing corporate social responsibility disclosure practice among financial institutions, such as Islamic banks.

1.3 The Nature of the Research Problem

Based on the accountability principles, Islamic banks are required to disclose all information that reflect their identity (Bayoud et al., 2012). Accountability from an Islamic perspective is wider than in the Western context, as it involves accountability to the God (*Allah)* as a main priority*,* then accountability toward its stakeholders (El-Halaby & Hussainey, 2015a). Accountability can be measured for Islamic banks through reporting, which shows the extent to which the disclosure practices of these banks reflect their accountability towards *Allah* and their stakeholders. Maali et al. (2006), categorise three broad objectives that are used as the basis for accountability disclosures by Islamic banks: a) to show compliance with *Shariah*, b) to show how the operations of the business have affected the wellbeing of the Islamic community, and c) to help Muslims perform their religious duties. According to Belal et al. (2014), Islamic banks have a similar responsibility to other financial institutions; they are expected to provide the best quality services without neglecting the social needs of their stakeholders.

Islamic banks represent a part of Islamic society and may consider their accountability towards the society as such: to be involved in charity activities and provide a Waqf (endowment) fund for the benefit of the society. CSR reporting, based on Gray et al (1995, p. 35), in this sense "extends the accountability of organisations, beyond the traditional role of providing a financial account to owners of capital, in particular shareholders". The objective of the establishment of Islamic banks is to promote a social and ethical justice towards society, and the promotion of social welfare and justice are significant to Islamic banks as part of their CSR (Haniffa and Hudaib, 2007). In the context of Islam, the key aim of Islamic banks' reporting is to disclose that all their activities are in compliance with *Shariah* principles (Baydoun and Willet, 2000). Hasan and Siti-Nabiha (2010) argue that issues regarding transparency and accountability in Islamic banks need further research. Therefore, the compliance of CSR disclosure can be considering as a way of Islamic banks to show their transparency and accountability towards society in conjunction with their compliance with the *Shariah*.

In an attempt to distinguish between CSR disclosures, this study will add to the existing literature by exploring the CSR disclosure practice among GCC Islamic banks. CSR information may be of a high quality if this information is useful for the users of annual reports. Therefore, the starting point of this study is to measure the CSR disclosure level. Prior research has attempted to measure disclosure levels using self-constructed indices (e.g. Maali et al., 2006; Haniffa and Hudaib, 2007; Volkov and Smith, 2015; Moumen et al., 2015). Therefore, this study will adopt the method used by prior studies in examining the level of CSR disclosure among sample GCC Islamic banks.

The study uses CSR reporting scores to explore the variation among GCC Islamic banks' disclosure practices. Then, this score will be used to examine its determinants and consequences. Prior studies on the CSR disclosure determinants were either conducted based on a single bank or specific country perspectives, such as those of Bahrain or Malaysia (e.g. Abdul Rahman et al., 2013; Aribi and Gao, 2012). In fulfilling the gap, this study will be conducted across 6 GCC countries using a large sample of data from 2010-2014, which may provide a better insight of CSR disclosure practice in that region. The limited disclosure about the CSR information draws and reflects a negative and unclear image about the true and core disclosure practice of Islamic banks (Haji, 2013). It also increases the negative attitudes from stakeholders about these institutions and increases the negative criticism towards Islamic banks (Basah & Yusuf, 2013). Therefore, this study will identify the CSR disclosure level and examine the main determinates and consequences of the CSR disclosure level in GCC Islamic banks. It is a critical issue for Islamic banks, which can assist and support them to enhance their image and construct a competitive advantage, differentiating them from the conventional banks.

1.4 Gaps and Motivations

From an Islamic perspective, the key purpose of corporate reporting that overrides other objectives is to allow Islamic institutions to show their compliance with *Shariah* (Baydoun and Willett, 2000). The consequence of this objective is that Islamic banks have a responsibility to disclose all information essential to its stakeholders about their operations (Maali et al., 2006). Full disclosure about all social information of Islamic banks is derived from the divine duty of accountability that each Muslim bears. Islamic banks have a duty to disclose their compliance with the *Shariah* to stakeholders. Maali et al. (2006, p. 27) explain “the requirement for Muslims to uncover the truth is intended to help the community to know the effect of a person or a business on its wellbeing”. Therefore, the first motivation of the study is to discuss the concept of CSR from an Islamic point of view, and to get a clear view of the extent to which Islam enhances CSR practice in business. As far as the researcher is aware, there are limited of studies that focus on the concept of CSR disclosure from the Islamic point of view. From the researcher’s knowledge, the researchers who discussed the disclosure from an Islamic point of view are Zakaria (2009) and Helfaya et al,(2016).Therefore, to get a better insight of CSR disclosure in Islam, the researcher will narrowly discuss the Islamic ethical principle in promoting CSR and a discussion of CSR in Islam in Chapter 3.

The existing body of literature on disclosure can be divided into three strands. The first strand adopts content analysis to measure the corporate disclosure level as described in the annual reports (e.g., Moumen et al., 2015). The second strand explores the determinants of disclosure (e.g., Farag et al., 2014; Farook et al., 2011). The third strand explores the economic consequences of disclosure (Elzahar et al., 2015; Hussainey and Mouselli, 2010). In spite of the richness of corporate disclosure studies, there is no study that provides a clear picture of CSR reporting practices regarding Islamic banks, especially from the GCC perspective. The closest studies to this research either focus only at the level of disclosure on one single year, country or institution (e.g., Haniffa and Hudaib, 2007; Maali et al., 2006; Belal et al., 2014; Kamla and Rammal, 2013), where this current study involve cross countries data. Therefore, the second motivation for conducting this study is to address this research gap by looking at the level of CSR reporting disclosure in 6 GCC Islamic banks, based on the most recent data and a comprehensive index. This current study is conducted from 2010 due to the latest Governance Standards Issued by AAOIFI in 2010; it attempts to measure the CSR disclosure practice among GCC Islamic banks after the issuance of that standard. At the time of this study, the most recent available annual report produced by the sample Islamic banks is from 2014 but there is no update of AAOIFI CSR conduct in this version; therefore, for the purpose of the study, AAOIFI, 2010 is used as a main standard.

The third motivation for the researcher to narrowly focus on GCC Islamic banks are due to their active contribution in Islamic banking development and its rapid growth. According to the figure by The Banker, 2014, GCC Islamic banking assets growth is over US$640 billion compared to $269 billion in the Asian regions (Malaysia, Indonesia, and Thailand). The Islamic banking industry has advanced from niche to critical mass in the last 30 years, since the establishment of the Islamic Development Bank in the Kingdom of Saudi Arabia (KSA) in 1974, and “it is one of the fastest growing industries, having posted ‘double-digit’ annual growth rates” (Munawar, 2005). Without denying the growth and contribution of GCC countries in the Islamic banking industry, the researcher tries to explore their awareness of the CSR issue through an examination of their CSR disclosure practice.

A rapid growth in Islamic banking, a number of self-regulating and standards bodies have been formed to help in the consolidation of the established industry and to guide the operations of the industry around the world. These include the Bahrain based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which was established in 1991 to provide accounting, auditing, and *Shariah* standards for financial reporting in Islamic financial institutions[4]. Due to the establishment of the AAOIFI in Bahrain, which issued several standards for Islamic banks, such as Governance Standard No. 7, 2010, it motivates the researcher to investigate whether the establishment of the AAOIFI in Bahrain influences GCC countries in their CSR disclosure practice.

Fourthly, the number of sample banks used in the prior literature was limited, as acknowledged by Haniffa and Hudaib (2007). In this current study, the sample is relatively large, involving 195 observations from 2010-2014, compared to the largest study so far (90 in Mallinb et al., 2014). Moreover, this study intends to bridge a gap

[4] As of March 2016, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued 88 *Shariah*, accounting and governance standards for Islamic institutions. Similarly, the Islamic Financial Services Board (IFSB) has issued 17 regulatory and prudential standards and six guidance notes.

of prior research by developing a comprehensive index, based on AAOIFI No. 7, 2010 and supported by prior research (such as: Maali et al., 2006; Haniffa & Hudaib, 2007; Platonova, 2014;) in measuring the CSR disclosure level. By conducting this study, the researcher will explore and provide a clear picture of the CSR disclosure practice among the sample Islamic banks. The current study is motivated by the question about the difference between the required information that may be published in the annual reports, based on the Islamic perspective based on AAOIFI standards, and what is presently being practised by these banks (e.g., Haniffa and Hudaib, 2007; Maali et al., 2006; Lewis, 2001).

The fifth motivation is related to the index created in measuring the CSR disclosure practice among sample Islamic banks. The study of AAOFI accounting standards has grown in recent years with substantial contributions from scholars, such as Ahmed and Khatun (2013), Hassan and Harahap (2010), and Vinnicombe (2010). There have been very few studies that measure the compliance with AAOIFI and determinants of disclosure for Islamic banks. Most of the existing research has focused on exploring the compliance level with International Financial Reporting Standards (IFRS) (e.g., Aljifri, 2008; Akhtaruddin, 2005) or with national financial standards (e.g., Fekete et al., 2008). Little is known about the compliance level with AAOIFI standards (Ullah, 2013; Vinnicombe, 2010) especially regarding the CSR related issue.

In addition, the existing body of CSR literature in Islamic banks focuses on either the level of CSR disclosure (e.g., Aribi and Gao, 2012; Abdul Rahman et al., 2010) or the determinants of CSR disclosure (e.g., Farook et al., 2011) are conducted before the issuance of AAOIFI governance standard No.7 that represents a benchmark of CSRD in Islamic banks. Therefore, this study is motivated to explore the compliance levels of this standard by GCC Islamic banks and their potential determinants. It is notable that the focus of most of these studies is descriptive or analytical in nature, emphasising the compliance level with AAOIFI without extending their study to explore the main factors behind the disclosure level. Most of the literature that tested disclosure for Islamic banks focused mainly on measuring the disclosure levels with limited studies exploring the determinants of CSR disclosure (e.g., Sarea and Hanefah, 2013; Ousama and Fatima, 2010), therefore the current study will fulfil the gap.

The sixth motivation is to examine the determinants of corporate CSR disclosure. To the best of researcher's knowledge, prior studies that explore the determinants of corporate disclosure are still in the early stage and there is a scarcity of empirical studies testing this issue (e.g., Farag et al., 2014; Farook et al., 2011). A limited number of studies have examined the determinants of CSR reporting (e.g., Farag et al., 2014; Wang and Hussainey, 2013; Farook et al., 2011; Hussainey and Al-Najjar, 2011). The closest studies to this study, which analyse the social disclosure practice among Islamic banks, have either a limited number of variables, sample (e.g., Belal et al., 2014; Haniffa and Hudaib, 2007; Bukhari et al., 2013; Gisbert and Navallas, 2013; El-Halaby & Hussaney, 2015), or have ignored the majority of CG(corporate governance) variables, (e.g., Samaha et al.,2015; Elshandidy et al., 2013) particularly those related to board and SSB(shariah supervisory bord)-related variables.

Moreover, this study is also motivated by incentive research, which only focuses on corporate governance CG with board-related variables as a main category in the CG structure and ignores SSB, which represents one of the main components in the CG for Islamic banks. Most of the previous studies, which explore corporate governance as a factor behind the disclosure level, have mainly focused on CG variables related to board-related variables (e.g., Alhazaimeh et al., 2014; Bokpin, 2013; Samaha et al., 2012; Elzahar and Hussainey, 2012). There are a limited number of studies that explore CG related to SSB as a unique mechanism of Islamic banks (e.g., Abdul Rahman and Bukair, 2013; Farook et al., 2011). Therefore, this study aims to fill this gap by exploring the impacts of CG related to board, SSB, audit, and ownership-related variables for Islamic banks and measuring the extent to which these variables affect CSR disclosure levels of the sample banks. The current study will provide evidence on whether CSR disclosure practice among the sample countries is derived from the same or different factors.

The seventh motivation for this study arises from the need to examine the extent to which CSR reporting could affect firm value (FV). More specifically, the study investigates whether CSR reporting has different effects on market-to-book value (MTBV), market capitalization (MC), and Tobin Q. CSR information involves different categories of information that might be attractive to annual report users. It incorporates important information that refers to financial and non-financial information concerned with *Shariah* and society. Although previous research has shown the impact of different types of reporting in different contexts (e.g., Hussainey and Walker, 2009; Hassan et al., 2009), these studies have not provided strong evidence on the potential impact on the firm value. One of the main explanations for the mixed results in previous research is the lack of a comprehensive and objective measure of disclosure (Beattie et al., 2004). This would add to the existing literature, to examine the value relevance of CSR reporting in terms of firm value (FV).

The final motivation of this research is to examine the impact of disclosure on firm value (FV). As pointed out by Al-Akra et al. (2010), there is little empirical evidence to support that association. Therefore, this research is motivated to conduct an empirical study on Islamic banks to show the extent to which CSR disclosure can influence the firm value of these banks. This current study is also motivated by rare studies that explore the impacts of different kinds of proxies in measuring the firm value (FV). Vogel (2005) argues that results related to the link between disclosure and firm value (FV) remain inconclusive. Elzahar (2013) argued that the link between firm value (FV) and disclosure is sensitive to the type of disclosure and the proxy employed for firm value (FV). This argument is asking for further research for Islamic banks. Astonishingly, there is a general absence of academic research that investigates the prospective economic consequences and valuation implications of social disclosure for Islamic banks. This study is motivated by a lack of research on reporting disclosures and by calls for research on the valuation implications of CSR disclosures (e.g., Hassan et al., 2009; Leuz and Wysocki, 2008).

1.5 Research Aim and Research Objectives (RO)

The main aim of this research is to analytically explore the extent of CSR disclosure practices in GCC Islamic banks. Further, this study will examine its determinants and consequences.

There are a number of objectives through which the aim of this study will be fulfilled, which are as follows:

RO 1: To measure the CSR disclosure practice among Islamic banks in GCC countries.

RO 2: To examine the impact of CG as determinants of CSR disclosure in the sample GCC Islamic banks.

RO 3: To examine the consequences (firm value) of CSR disclosure in the sample GCC Islamic banks.

1.6 Research Questions (RQ)

The study aims to respond and answer the following formulated research questions, which are derived from the identified research gap and problem:

RQ 1: What is the CSR disclosure practice among Islamic banks in GCC countries?

1.1 Has the CSR disclosure level of Islamic banks in GCC increased after the issuance of AAOIFI, No. 7, 2010 standards?

1.2 What types of CSR information are disclosed by Islamic banks in the sample countries?

1.3 Which GCC countries have higher levels of CSRD?

RQ 2: What are the determinants of CSR disclosure in the sample Islamic banks?

2.1 To what extent does the CG (corporate governance) affect the CSR disclosure practice among Islamic banks in GCC countries?

RQ 3: What are the consequences of CSR disclosure in the sample Islamic banks?

3.1 Does association exist between CSR disclosure and firm value?

Analytical responses to each of these questions are provided through empirical analysis in the following chapters (Chapters 4 and 7). Table 1 provides a summary of the research aims objectives, questions, and methods used in this study.

Table 1: Summary of the research aims, research objectives, research questions (RQ), and research methods/tools.

No	Aim and Objectives (RO)	RQ	Method/Tools	Source of data
1	To measure the CSR disclosure practice among Islamic banks in GCC countries.	What is the CSR disclosure practice among Islamic banks in GCC countries?	-Content analysis -Disclosure index	-Annual reports
2	To examine the impact of CG as determinants of CSR disclosure in the sample GCC Islamic banks.	What are the determinants of CSR disclosure in the sample Islamic banks?	-Content analysis -Disclosure index -Regression analysis/OLS	-Annual reports
3	To examine the consequences (firm value) of CSR disclosure in the sample GCC Islamic banks.	What are the consequences of CSR disclosure in the sample Islamic banks?	-Content analysis -Disclosure index -Regression analysis/OLS	-Annual reports -DataStream

1.7 Potential Contributions of the Study

Based on the originality of this study, the current study contributes to the existing disclosure literature as follows:

Firstly, this current study contributes to disclosure literature by measuring CSR disclosure, rather than other types of disclosure. It differs from Elzahar & Hussainey (2012), Moumen et al. (2015), and Journal & Birkbeck (2016), as they mainly measure narrative and risk disclosure.

Secondly, previous studies, which investigated CSR disclosure, measure using an index based on prior research (e.g., Farook et al., 2011), while limited research explores AAOIFI governance standards on compliance with social disclosure. Therefore, this study contributes to the disclosure literature by being the first that uses AAOIFI, No. 7, 2010, and prior research to measure the CSR disclosure practice among sample Islamic banks. It then measures the factors behind the variances of disclosure levels. This current study's index contains 11 main dimensions of CSR areas, whereas previous studies covered fewer dimensions (e.g., Abdul Rahman and Bukair, 2013; Hassan and Harahap, 2010). The model is a unique and comprehensive means of measuring CSR disclosure. Whereas previous studies tend to only adopt prior suggested indices such as those adopted by Maali et al. (2006) and Haniffa & Hudaib (2007), this research differs based on the number of Islamic banks that are contained in the sample (Hassan et al., 2012 (13 banks); Sobhani et al., 2009 (29 banks)). This research sample is 39 Islamic banks and contains 195 observations from 2010-2014.

Thirdly, previous work has applied manual content analysis to a one-year period, or within one country, in addition to its limited samples (e.g., Hassan et al., 2012 (13 banks); Sobhani et al., 2009 (29 banks)). This study contains a larger sample size (39 Islamic banks) spread across GCC countries from 2010-2014, and involves 195 observations. This study covers Islamic banks that are located in 6 different GCC countries, whereas previous studies just focused on one country (e.g., Belal et al., 2014). The cross-countries level analysis permits the researcher to construct a holistic picture of social disclosure reporting for Islamic banks. Also, it provides a better picture of CSR disclosure practice in GCC countries.

Fourthly, the study of AAOIFI standards has grown in recent years with substantial contributions from scholars such as Ahmed and Khatun (2013), and Hassan and Harahap (2010). It is notable that the focus of most of these studies is descriptive in nature, emphasising in particular the compliance level with AAOIFI without extending their study to explore the main factors behind the disclosure level. This study contributes to the disclosure literature by exploring the determinants of disclosure concerned with CG for GCC Islamic banks.

Fifthly, the present study used CG mechanism in exploring the determinants of CSR disclosure. The study used board, SSB, audit, and ownership-related variables in measuring the CSR disclosure determinants. Previous literature provides mixed empirical evidence for variables related to CG characteristics; limited studies (e.g., Farook et al., 2011; Safieddine, 2009; Farag et al., 2014) have examined the existence of an in-house SSB and auditing committee, which can potentially influence the CSR disclosure practice. This study, therefore, is advanced by considering the existence of SSB and auditing committees and their influence to CSR disclosure practice in GCC Islamic banks.

Sixthly, this study contributes to the disclosure literature by developing a large number of CG variables in its model. The research model contains 12 CG variables, whereas previous research, such as Hidalgo et al. (2011), focused only on two CG variables, which are board-independence and ownership structure. Gisbert and Navallas (2013), and Samaha et al. (2012) measured determinants of disclosure for banks that were located in one single country (Egypt and Spain, respectively). On the other hand, this research explores this relationship for banks located in 6 different countries. Moreover, this study is focused on Islamic banks, whereas other previous studies are testing this association either for non-Islamic institutions (Liang et al., 2012; Tsamenyi et al., 2007) or non-financial companies (Alotaibi and Hussainey, 2016).

Last, but not least, there has been limited studies that measured the association between disclosure and firm value (FV) (Uyar and Kilic, 2012). This strand is located in the early research stage for Islamic banks. Yet, exploring the consequences of CSR disclosure and firm value (FV) has not yet been investigated empirically in the context of Islamic banks. The study is concerned with the work of Dhaliwal et al.

(2011) in its examination of the impact of social disclosure on firm value, but differs in the proxies used in measuring the economic consequences of CSRD and firm value. This current study also differs from Richardson and Welker (2001), who examine the economic consequences of social and financial disclosure using the cost of capital. This current study contributes to the disclosure literature by examining the economic consequences of CSRD using firm value.

1.8 Organisation of the Study

This thesis is structured into seven chapters, as follows:

Chapter One: Introduction

This chapter provides an introductory outline of the nature of study, gaps and motivations, research aims and objectives, research questions, thesis statement, originality, significance and contribution of the study, and the organization of study. It outlines the whole research direction and the essence of the study in the area of CSR disclosure.

Chapter Two: The Development and Growth of Islamic Banking in GCC

The purpose of this chapter is to discuss the development and growth of Islamic banking and finance in GCC, which motivated the researcher to conduct this study in this region. This chapter also provides a historical and current development of Islamic banking in GCC countries.

Chapter Three: CSR Disclosure: An Islamic Perspective

The chapter will which discusses the concept of CSR and CSRD from an Islamic perspective. This chapter also provides a discussion of Islamic ethical principles in enhancing CSR practice among Islamic banks, supported by the Quran and *Hadith*. A brief discussion about AAOIFI is also presented in this chapter.

Chapter Four: Theoretical Framework

This chapter provides a theoretical discussion, which relates to the CSR disclosure discussion. In this chapter, the researcher briefly discusses several theories, such as agency, stakeholder, legitimacy, accountability, signalling, and economic theory.

Chapter Five: Literature Review and Hypotheses Development

This chapter will discuss all relevant literature to explain the CSR disclosure practice in Islamic banks, as well as its determinants and consequences. The hypothesis of this current study has been developed in this section supported by theoretical evidence.

Chapter Six: Research Methodology and Methods

This chapter will discuss research methodology and the methods used in this study to achieve RO 1, RO 2, and RO 3. The discussion of validity and reliability of the disclosure index develops is also discussed in this chapter. This chapter also discusses in detail the process of examining the CSR disclosure level, its determinants, and consequences.

Chapter 7: Findings

This chapter provides an empirical finding to answer RQ 1, RQ 2, and RQ 3. The discussion of the results is also presented in this chapter.

Chapter 8: Conclusion

This chapter provides the concluding remarks of the thesis. It presents a summary of the key findings of the research and discusses their implications. The remainder of the chapter shows a summary of the limitations of this research and highlights several avenues for future research.

CHAPTER 2: THE DEVELOPMENT AND GROWTH OF ISLAMIC BANKING IN GULF COUNTRIES COUNCIL (GCC)

2.1 Overview

Modern Islamic banking originated with the establishment of the Dubai Islamic Bank in 1975. It might, therefore, be expected that the GCC states [5] would be at the centre of the rapidly expanding Islamic finance industry, which encompasses retail and investment banking, insurance, fund management, and the issuance and trading of Shariah-compliant securities, known as *sukuk* or Islamic bond (Wilson, 2009). The IFIs (Islamic Financial Institutions), which conduct their business according to Islamic principles, are expected to reflect the socio-economic objectives of Islam, such as CSR activities. In this regard, Lewis (2001) noted that Islam has provided a comprehensive list of ethics that governs how business should be conducted, how banking and finance are to be arranged, and, alternatively, how accounting ought to be undertaken. Islamic financial institutions (IFIs) are considered as having ethical identity and they have different social and economic objectives, since the foundation of their business is based on religion (Haniffa and Hudaib, 2007).

The main purpose of this chapter is to provide a brief justification of conducting a study of CSR disclosure in the GCC region; it is due to its positive growth of Islamic banking industry in this region, which then becomes an Islamic banking hub. With the key roles of Bahrain, Kuwait, Qatar, UAE, and Saudi Arabia, the GCC becomes an active player in promoting and enhancing Islamic banking products and services around the world (Wilson, 2002). While Oman are slightly passive in participation with the Islamic banking industry due its unstable political condition (Alam, 2006).

[5] The GCC member states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Therefore, the discussion of this chapter will begin with: 2.2) the history and development of Islamic banking in GCC, then 2.3) the global Islamic finance growth, 2.4) the size of the Islamic finance industry in the GCC, and 2.5) government policy and legislative provision on Islamic banks in the GCC. Last, but not least, is 2.6) the summary of the chapter.

2.2 History and Development of Islamic Banking Industry in GCC

It is a reality that the Islamic banking industry has advanced from niche to critical mass in the last 30 years, since the establishment of the Islamic Development Bank in the Kingdom of Saudi Arabia (KSA). While the principles and notions of Islamic economic have existed for centuries, the institutionalization of these principles in the form of Islamic banking institutions is relatively new, compared to the conventional banking system.

Historically, the *Mitghamr* Saving Associations was established as the first Islamic bank in Egypt, in 1963, in the form of an Islamic social banking institution aimed at providing credit to small artisans and entrepreneurs (Anne,1985). Due to changing political circumstances, this experiment did not last long, though it did pave the way for the Nasser Social Bank in 1971. Another experiment was launched in Malaysia in 1967, in the form of the saving associations of pilgrim fund (known as *Lembaga Tabung Haji Malaysia*), which, since then, aims to invest the savings of potential Muslim pilgrims to help them finance their pilgrimages to Makkah.

In later years, Islamic banking and finance (IBF) institutions managed to penetrate other financial systems by taking advantage of the opportunities created through economic restructuring and liberalization of the financial system in most Muslim countries. In addition, due to the impetus provided by globalization, Islamic banking and finance institutions were internationalized and managed to enter the international financial systems by providing *Shariah*-compliant financial products. The major institutionalization came with the establishment of the Islamic Development Bank in 1974, as a result of the political mandate provided by the Organization of Islamic Conference, which aimed to act as the development-oriented 'World Bank' of the Muslim world (Molyneux,2007). This was followed by the establishment of the Dubai Islamic Bank in 1975, which remains the biggest Islamic bank in the world (apart from the entirely Islamized banking system of Iran), and the Kuwait Finance House in 1977(Wilson, 2009).

Institutionalization, the financing capacity, and the asset base of IBFs(Islamic Banking and Finance) have shown unprecedented growth since the 1990s. According to The Banker (2015), there were 176 IBFs operating around the globe since 1997(Latiffa,2001), these increased to 261 in 2006. By 2009, the number of IBF institutions had increased to about 500, operating in 75 countries. Southeast Asia (consists of: Malaysia, Indonesia, Thailand, Brunei) has the highest number of IBF institutions, followed by Africa, and the GCC region. However, in terms of asset base, the share of the GCC IBFs is over 70 percent of the entire sector. Thus, "what started as a small, rural banking experiment in the remote villages of Egypt has now reached a level where many mega-international banks are offering Islamic banking products" (Iqbal,2010). With around a 15-20 percent growth rate per annum, the asset base of the IBFs(Islamic Banking and Finance) has reached about $822 billion, globally[6]. It is estimated that within a decade, the IBF industry will capture half of the savings of the Muslim world (Khan, 2006). In this market-driven industry with global

[6] The Banker Database 2015(online).

opportunities, the GCC and Malaysia remain the leading region and country in the world.[7]

Due to rapid growth in the IBF sector, a number of self-regulating and standards bodies have also been formed to help in the consolidation of the established industry and to guide the operations of the industry around the world. These include the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which was established in 1991 to provide accounting, auditing, and *Shariah* standards for financial reporting at Islamic financial institutions[8]. In 2001, the International Islamic Financial Market (IIFM) in Bahrain was mandated to develop guidelines for the issuance of Islamic financial instruments and to encourage active secondary-market trading.

2.3 Global Islamic Banking and Finance (IBF) Growth

Islamic banking and finance (IBF) has grown rapidly over the past several years and it is expected to continue to grow for the foreseeable future. In many markets in the Middle East and Asia, IBF has evolved into part of the mainstream financial services landscape. With this steady increase, the market has become increasingly competitive with more Islamic financial service institutions in the marketplace than ever before. Islamic banks need to innovative and develop their products beyond *Shariah*-compliance to attract and keep customers in this competitive environment (Zarqa, 1983; Khan, 1986; El-Gamal, 2001). Islamic banking products and services

[7] The Banker Database 2015(online)

[8] As of March 2016, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued 88 *Shariah*, accounting and governance standards for Islamic institutions. Similarly, the Islamic Financial Services Board (IFSB) has issued 17 regulatory and prudential standards and six guidance notes.

not only satisfy the needs of the 2.08 billion[9] Muslims in the world, but may also attract ethically motivated customers. The importance of *Shariah*-compliant assets is significant in the Gulf as complete assets are about \$262.6 billion, when the data for Kuwait, Saudi Arabia, the UAE, Qatar, and Bahrain are consolidated, contrasted with the \$235.3 billion in Iran (Chapra, 2008).

Global Islamic banking and finance assets were valued at US\$1.6 trillion at the end of 2012 and the growth rate is 20.4 percent a year (KFH, 2013). The consensus is that by 2020, total Islamic financial assets will reach US\$6.5 trillion (World Islamic Economic Forum, 2013). Islamic banking offers a global opportunity for growth and profitability; it is predicted that Islamic finance will probably exceed US\$2.5 trillion in 2014 (Mughal, 2014). Global Islamic finance assets reached \$1.9 trillion by mid-2014 (ADB and IFSB, 2015), with about 75 percent of the industry concentrated in the Middle East and North African (MENA) region (excluding Iran), where GCC countries accounted for 96 percent. Moreover, these assets are estimated to have surpassed the \$2 trillion milestone at end of 2014. In terms of growth, the Islamic finance industry, including Islamic capital markets, grew, on average, by 17.5 percent since the onset of the global financial crisis in 2008 (Ernst and Young, 2015). The bulk of growth happened in countries outside of the MENA region, in countries with more Muslim populations, but the industry's growth in the MENA region was led by the GCC countries. In particular, the Islamic finance industry grew, on average, by 43 percent in Indonesia, and by 19 percent in Turkey between 2009 and 2013. Figure 2 presents the details of the growth of conventional and Islamic assets from 2009 to 2013.

[9] www.muslimpopulation.com

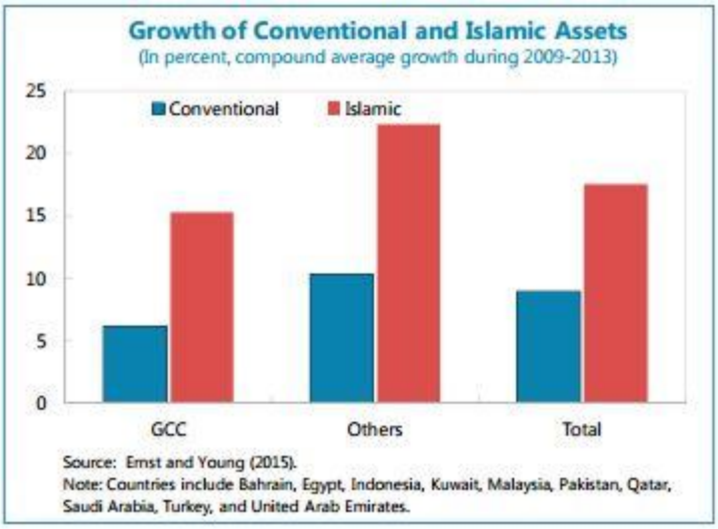


Figure 1: Growth of Conventional and Islamic Assets from 2009-2013.Source:Ernst and Young(2015)-online.

Islamic banks dominate the Islamic financial industry despite continued growth in *Sukuk* (Islamic bond) and other *Shariah*-compliant financial assets, such as Islamic funds and Islamic insurance (*takaful*). Islamic banking assets account for about 80 percent of total assets of the Islamic finance industry; it represents less than 1 percent of global banking assets[10]. In 2013, Iran held the largest share of Islamic banking assets (about 38 percent), Saudi Arabia and Malaysia accounted for nearly 29 percent of the banking assets.

In mid-2013, Islamic banking had reached a systemic stage in nine countries[11]. According to IFSB's banking assets data (2015), these countries include Iran and Sudan (both with 100 percent Islamic banking), Bahrain, Kuwait, Malaysia, Qatar,

[10] IFSB stability report 2014

[11] The IFSB considers the Islamic financial sector as systemically important when the total Islamic banking assets in a country comprise more than 15 percent of its total domestic banking sector assets, or the country's Islamic banking assets are at least 5 percent of the global portfolio of Islamic banking assets. The Basel Committee on Banking Supervision (BCBS) refrains from setting a specific threshold.

Saudi Arabia, Turkey, and the United Arab Emirates. In a 2013 survey of central banks by the IFSB and the Islamic Research and Training Institute (IRTI), similar countries reported that Islamic banking assets comprised 10 percent, or more, of their overall banking assets[12]. According to the survey, of the institutions offering Islamic banking services, nearly 70 percent are “standalone” Islamic banks, while the remaining 30 percent are conventional banks offering Islamic-banking services through “windows”. Except for those in Iran and Sudan, Islamic banks operate side-by-side with conventional banks, increasing the competitive intensity in the banking industry. Despite the wide reach of Islamic banking, industry assets remain highly concentrated in a small number of countries: Iran, Kuwait, Malaysia, Saudi Arabia, and the United Arab Emirates account for 80 percent of all Islamic banking assets worldwide.

At the end of 2013, there were about 410 Islamic banking institutions worldwide, including the fully *Shariah*-compliant banking systems in Iran and Sudan[13]. Most of these Islamic banks were established in the 1980s and 1990s. In recent years, Islamic banking has spread to Africa, Europe, and North America; Islamic banks are in operation in countries such as Denmark, France, Luxembourg, Nigeria, South Africa, Switzerland, and the United Kingdom. In addition, a number of large European and American banks (such as Citibank and HSBC) are operating Islamic banking windows to take advantage of this fast-growing sector. The Islamic banking sector has grown at an annual rate of about 17 percent in the period of 2009–2013,

[12] IFSB, ISDB and IRTI (2014).

[13] Islamic Financial Stability Report, 2014

even allowing for the post 2008 global crisis period[14]. This sustained growth is seen as a sign of the resilience of the industry. Figure 2, presents the composition of banking assets as-end of June 2013.

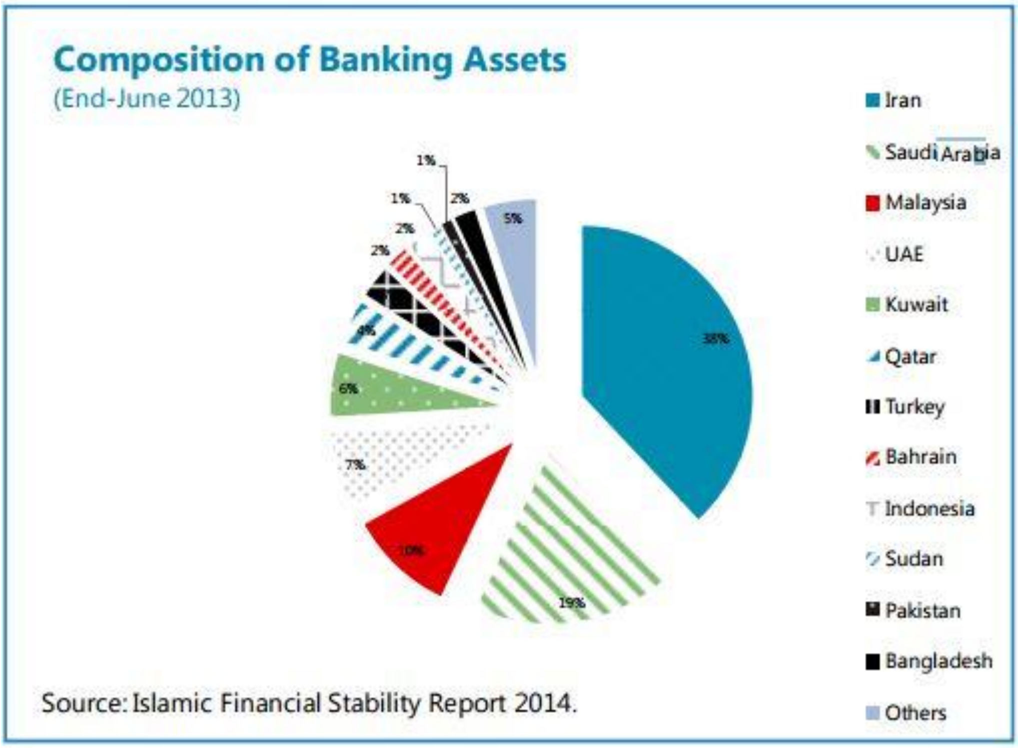


Figure 2: Composition of banking assets.Source: Islamic Financial Stability Report, 2014(online)

2.4 The Size of the Islamic Finance Industry in the GCC

From 2010 to 2014, liquid wealth in the GCC grew at an average of 17.5% per annum, doubling from US$1.1 trillion to US$2.2 trillion (Diemers & Khalil, 2015). This is partly explained by the high oil prices during that period, local government spending on infrastructure, an increasing effort to diversify, along with the general global rebound. In total, *Shariah*-compliant assets worldwide amounted to around $2,252 billion at the end of 2015; this implies that the GCC countries accounted for

[14] Ernst & Young (2015)

around 28 percent of the total. Furthermore, there is positive growth of *Shariah*-compliant assets in the GCC in 2015, compared to other regions, as shown in table 2. Although most of the positive growth in 2014 was due to rapidly rising oil and gas prices, which feed through to government spending in the GCC and, consequently, a buoyant level of economic activity.

Table 2: Regional asset growth (USD ($) billion)

Regions	**+ / -**	**2015**	**2014**
GCC	14.19%	$640	$561
Non-GCC MENA	-36.97%	$339	$537
MENA	-10.83%	$979	$1098
Sub-Saharan Africa	-22.21%	$8	$11
Asia	3.69%	$269	$259
Australia/Europe/America	-26.52%	$17	$24

Source: The Banker Database, 2015(online)

A review of Islamic Financial Services Industry Stability Report (2015) shows that global *Shariah*-compliant assets represent a significant portion of total banking assets of the GCC. While in the Middle East and North Africa (MENA) region Islamic banking assets represent 14 percent of total banking assets, in the GCC the market share of Islamic banking has crossed to 25 percent threshold, which suggests that Islamic banks have become systemically important in these countries. GCC Islamic banking assets reached $490 billion at end-June 2013, with Saudi Arabia dominating the region with a 49 percent share, followed by the United Arab Emirates (19 percent), Kuwait (16 percent), Qatar (11 percent), and Bahrain (5 percent), while this segment is still nascent in Oman[15].

Islamic banking has acquired systemic proportions in Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates[16]. Retail Islamic banking in Bahrain has reached systemic proportions with a 27 percent asset share in retail banking, and a 13 percent asset share in total retail and wholesale banking[17]. Oman's entry into Islamic banking was in late 2012. The Central Bank of Oman developed a comprehensive set of regulations for IB (Islamic Banks) from the following: (1) the existing conventional banking framework, based on Omani Banking Law and Basel II guidelines (where these do not contradict *Shariah*); (2) *Shariah* governance and accounting standards of AAOIFI; (3) Islamic Financial Services Board (IFSB) guidelines on capital adequacy and risk management; and (4) leading practices on *Shariah* governance from around the world. At the end of August 2015, the combined assets of Islamic banks and windows in Oman represented 6 percent of its total banking system assets.

The Islamic finance industry's strong growth continued. The global industry's CAGR (compound annual asset growth) between 2009 and the end of 2014 sits at 12.68%. This performance has largely been driven by the dominant markets of the GCC and Malaysia. For its part, the GCC registered a CAGR of 17.49 percent over this period, while in Asia, this number hit 10.55 percent followed by sub-Saharan Africa at 10.46%. The growth of Islamic finance in the Gulf region was underpinned by the

[15] See, IFSB, Islamic Financial Services Industry Stability Report, 2015, p.9.

[16] Systemic is defined as at least 15 percent of banking system assets.

[17] Shares based on 2013 data provided by Bahrain authorities. Islamic wholesale assets as a share of assets in wholesale segment amounted to 32 percent. Islamic bank assets (retail and wholesale) amounted to 30 percent of total assets in Bahrain's banking system.

gains of fully Shariah compliant Qatari banks. Between 2009 and 2014, these lenders posted a CAGR of 21.09 percent, vastly outperforming their regional peers. Qatari Islamic banks have also been putting these assets to good use, over the same ROA (return on assets) of 2.28%. Meanwhile, the aggregate ROC (return on capital) hit 16.93 percent, a notable figure given the high capitalisation levels of Qatari lenders.

These achievements were mirrored, to a lesser extent, elsewhere in the GCC. Fully *Shariah*-compliant lenders in the United Arab Emirates achieved a CAGR of 10.64% over this period, while aggregate ROA came in at 1.5%. In particular, the performance of the Dubai Islamic bank, which entered the top 10 commercial banks by ROA in this year’s report, was the standout contribution from the UAE. Meanwhile, the return on capital for fully *Shariah*-compliant banks was 11.39%.

The GCC regions’ other key market, Saudi Arabia, enjoyed a CAGR of 13.39%, accompanied by the highest ROA 2.4% - of any market over the 2009 to 2014-time period. Saudi banks also achieved an ROC of 16.6% behind Iran, Malaysia, and Qatar. Meanwhile, 5 of the 10 fastest-growing financial institutions, with Islamic windows with more than $500m in assets, hail from Saudi Arabia. Table 3 shows a summary of the Islamic banking sector’s compound annual assets growth rate (CAGR), aggregate return on assets (ROA) and aggregate return on capital (ROC).

Table 3: Summary of CAGR, ROA, and ROC from 2009 to 2014.

Country	CAGR	ROA	ROC
Qatar	21.9%	2.28%	16.93%
Saudi Arabia	13.39%	2.41%	16.6%
UAE	10.64%	1.5%	11.39%
Bahrain	9.2%	0.62%	4%
Malaysia	7.32%	1.75%	17%
Turkey	6.4%	1.3%	12%
Kuwait	6.4%	0.8%	6%
Iran	1.3%	1.4%	18%

Source: The Banker database, 2014(online).

2.5 Government Policy and Legislative Provision on Islamic banks in GCC

Historically, in the countries that now comprise the GCC, there was no Islamic banking model that could be applied to meet the financial needs of the region before the establishment of the Islamic Development Bank in 1952. In the absence of this, conventional banking filled the vacuum, although few local citizens opened savings accounts which paid interest, instead they simply maintained current accounts which paid no return (Wilson, 2002).

The Royal Decree of 1952, establishing the Saudi Arabian Monetary Agency (SAMA), was similar to other central banking laws, the main distinguishing feature being the designation ‘monetary agency’, rather than ‘central bank’. The Saudi Arabian Banking Control Law of 1966, which still governs regulation in the kingdom, specifically mentions bank lending under Articles 8 and 9, which is not permitted under *Shariah*. Article 10 prohibits banks from engaging in wholesale or retail trade, which could be interpreted as ruling out *Murabaha* (cost-plus) transactions. Much of the emphasis during the oil boom years of the 1970s was on building up a modern banking system to serve the kingdom's financial needs, but the sensitive issue of *Shariah* compliance was not really addressed by SAMA. There was, nevertheless, support for international Islamic finance initiatives, notably, the establishment of the Islamic Development Bank. This opened in Jeddah in 1975, its aim being to serve as a development assistance agency for the Islamic world (Wilson, 2002).

Elsewhere in the GCC, there was a more supportive attitude from the authorities for those who wished to establish Islamic banks; the Emir of Dubai passed a decree on 12 March, 1975, authorizing the establishment of the Dubai Islamic Bank and Kuwait passed legislation on 23 March, 1977, to allow the establishment of KFH (Kuwait Finance House). These were, for over two decades, the only Islamic banks in these states (Saeed, 1999). Bahrain and Qatar followed, establishing Islamic banks in 1979 and 1982, respectively (their active contribution in Islamic banking will be discussed in the next section).

The establishment of Islamic banks in Dubai and Kuwait might have been expected to influence the attitude of the Saudi authorities to Islamic banking, but they remained surprisingly cautious. Indeed, there was a reluctance to provide Al-Rajhi Bank, today the world's largest listed Islamic bank, with a banking licence; the concern being that this might highlight the interest transactions of the conventional banks in the kingdom (Wilson, 2002). Al-Rajhi Bank was finally given a banking licence in 1987, largely because it already had significant deposits, and it was felt that it would be preferable to have it regulated by the SAMA. The danger was that if there had been a run on its deposits, this could have severely damaged confidence in the whole banking system, including the regulated banks. With the launch of Al-

Rajhi Bank, five out of the six GCC states had Islamic banks, the exception being Oman, which refused to award any Islamic banking licences, due its unstable political conditions (Alam, 2006).

Other governments have been much more supportive in recent years, notably Kuwait, which, in 2004, passed an amendment to the Central Bank Law 32 of 1968, bringing KFH under the regulatory authority of the Central Bank of Kuwait. The new legislative framework aimed to ensure that competition within the Islamic financial sector was opened up with other banks permitted to apply for Islamic banking licences[18]. As a result, the Kuwait Real Estate Bank converted to being an Islamic bank, changing its name to the Kuwait International Bank. A new Islamic financial institution, Boubyan Bank, was also awarded an Islamic banking licence. The legislation also contained provisions on Islamic financial governance, especially Articles 86, 87, 93, and 96, including a stipulation that each institution should have a *Shariah* board with at least three members. Although Kuwait's legislative provision is only part of its wider banking law, there is more detail on specific Islamic banking issues than in Malaysia's dedicated Islamic banking law that created its dual system (Malaysia Islamic Banking Act,1983).

In sum, the smaller GCC states, apart from Oman, have passed legislation which has facilitated the development of Islamic finance, and Kuwait in particular has updated and augmented its banking legislation to ensure healthy competition between Islamic banks in its domestic market. Bahrain's regional support for Islamic financial growth in the GCC will be discussed in detail in the next section. Ironically, it is Saudi Arabia, which has been the laggard, as far as specific laws governing

[18] Central Bank of Kuwait, Legislation, Safat, 2004, Section 10.

Islamic finance are concerned with no mention of Islamic banking in its banking legislation, or even in the Capital Markets Law of 2003. Although, there have been *sukuk* issuances in the kingdom and all the mutual funds governed by the law are *Shariah* compliant. SAMA and the Capital Markets Authority have yet to issue a single document pertaining to Islamic finance, in contrast to Bank Negara and the Securities Commission of Malaysia, or even the Financial Services Authority in the United Kingdom, which have issued numerous documents and guidelines. SAMA is involved in the deliberations of the Kuala Lumpur-based Islamic Financial Services Board (IFSB).

2.5.1 The Regional Role of Bahrain in IBF

Among the active GCC members in enhancing Islamic banking is Bahrain. Bahrain has functioned as a regional financial centre since 1976, keeping its market open to foreign banks, while Saudi Arabia and Kuwait licensed only majority-locally-owned institutions. Bahrain has more Islamic financial institutions than any other centre, with twenty-four Islamic banks and eleven Islamic insurance (*takaful*) companies, most of which serve the regional, rather than the local market. It is very dependent on Saudi business, however, and as the latter opens up its financial sector, there are competitive challenges to Bahrain, including in Islamic banking.

The Bahrain Monetary Agency, now renamed the Central Bank of Bahrain, has been very active in promoting Bahrain as an Islamic financial centre. The island has been the headquarters, since its foundation in 1991, of AAOIFI, which serves as a standard-setting body for financial reporting (AAOIFI, 2015). Most Islamic financial institutions worldwide are members of AAOIFI and many adhere to its standards, which build on, rather than replace, the International Financial Reporting Standards (IFRS) used by the most conventional banks in Europe and Asia.

Bahrain also hosts the International Islamic Financial Market (IIFM), whose remit is to help Islamic capital and money markets through promoting common trading standards[19]. Its work is at an early stage, but it has support from the central banks of Bahrain, Brunei, Indonesia, Malaysia, and Sudan, as well as from the Jeddah-based Islamic Development Bank. However, the central banks of other GCC countries are not members, preferring to focus their efforts on their own markets and institutions. The Bahrain-based Liquidity Management Centre[20] has also been slow to take off. Its aim is to facilitate the placing of the surplus funds of Islamic financial institutions in profitable traded instruments. The capital was subscribed by the KFH, the Bahrain and Dubai Islamic Banks, and the Islamic Development Bank, but they used international investment banks for much of their own *sukuk* issuance, rather than the Liquidity Management Centre. The other major role of the Liquidity Management Centre is to promote secondary-market trading of *sukuk.* Trading volumes have been limited however, with eleven buying and selling transactions in 2005, twenty-five in 2006, and only fifteen in 2007.

The Central Bank of Bahrain has a detailed rulebook, which governs all financial activity on the island, including Islamic banking. However, there are only two additional specific requirements for Islamic banks: each Islamic bank must have an independent *Shariah* supervisory committee, and Islamic banks should adopt the AAOIFI standards for their financial reporting[21]. It is debatable how far Bahrain's relative success in attracting Islamic financial institutions is due to a pull factor – the encouragement of the Central Bank of Bahrain – or a push factor – the past

[19] www.iifm.net.

[20] www.lmcbahrain.com.

[21] Central Bank of Bahrain, Rulebook, Volume 2: Islamic Banks, HC-1.3.15 and HC-1.3.16.

unwillingness of its neighbours to grant new licences to Islamic banks and *takaful* operators. Nowadays, there are more than 15 Islamic retail banks catering to the local market in Bahrain; it is expected that with a full support from The Central Bank of Bahrain, it can enhance the growth of Islamic banks in the Bahrain market.

2.5.2 The Regional Role of Qatar and United Arab Emirates (UAE) in Islamic Banking and Finance (IBF)

Unlike Bahrain, Qatar and UAE have established financial centres in free zones, governed by their own laws and regulations, which are based on English common law, as applied to finance (Wilson, 2004). Both the Qatar Financial Centre and the Dubai International Financial Centre (DIFC) are separate jurisdictions, with disputes not subject to the civil law, which applies outside the zones in Qatar and the UAE. Institutions functioning in the free zones are also outside of the jurisdiction of the local Shariah courts. However, admittedly, *Shariah* arbitration is rarely used in banking disputes, the *Shariah* court remit being largely confined to disputes within families over matters such as inheritance.

The Qatar Financial Centre has a detailed rulebook covering Islamic finance, including criteria for *Shariah* supervision[22]. In Qatar, a higher proportion of bank deposits are *Shariah* compliant than in any other GCC state but institutions, such as the Qatar Islamic Bank, Masraf Al Rayan and the Qatar International Islamic Bank are narrowly focused on the domestic market and, despite the international designation of the last-named, it is regulated by the Central Bank of Qatar, rather than by the financial centre authority.

The major commercial banks in Qatar have established Islamic affiliates, most notably: the Qatar National Bank, which has an *Islamic* subsidiary, the Commercial

[22] Qatar Financial Centre, Rulebook on Islamic Finance, Doha, 2005, pp. 1–22.

Bank of Qatar, with its Al-Safa Islamic Banking subsidiary, and Doha Bank, with its subsidiary Doha Bank Islamic[23]. This increasing competition in a relatively small market is encouraging Qatar's Islamic banks to look overseas for diversification and expansion. The Qatar Islamic Bank owns the London-based European Finance House and the Kuala Lumpur-based Asian Finance Bank. It also has subsidiaries in Lebanon, Bahrain, Yemen, and Kazakhstan operating under its own name, and is undertaking feasibility studies of the Turkish, Egyptian and Indonesian markets. Masraf Al-Rayan has established a consumer-financing operation in Saudi Arabia and is seeking permission to open a branch in Libya.

The introduction of a single regulatory system in the UAE is unlikely, as the country is a federation in which each emirate enjoys considerable autonomy, although the Central Bank oversees the entire banking system with the exception of banks registered with the DIFC. The latter has the highest international profile in the region, but Islamic finance is somewhat marginal to its interests. As in Qatar, the major Islamic banks in the UAE are focused on the domestic market. Indeed, the Dubai Islamic Bank and the Abu Dhabi Islamic Bank largely concentrate on their native emirates, although they have branch networks throughout the UAE[24].

The UAE market for Islamic banking has become overcrowded with new entrants. The National Bank of Sharjah converted to being Sharjah Islamic Bank and, in Dubai, Noor Islamic Bank was established in 2008, with one quarter of its capital subscribed by the government of Dubai and a further quarter by the ruler himself, Sheikh Mohammed bin Rashid Al Maktoum. Noor means 'light' in Arabic, the aim being to

[23] Oxford Business Group, Islamic Financial Services Overview, The Report: Qatar, 2008, pp. 64–6.

[24] The Future of Islamic Banking, ATKertney Report, 2013.

be a high-profile regional force in Islamic finance at the centre of attention[25]. Its main focus is on personal finance and credit cards, indicating that it is yet another consumer-finance institution. Its most distinctive plan to date was to establish a subsidiary in the Maldives through a joint venture.

2.6 Summary

Islamic banks are novel financing institutions with a particular value and operational proposition, which has existed in its modern form in the GCC region since the mid-1970s. Since the 1990s, it has become an important partner in the global financial system, and, currently, Islamic banks have proved that it is a sustainable reality, evidenced by its resilience and growth, even during a period of financial crisis. Thus, they provide alternative opportunities for all countries regardless of their religious nature, as, in its modern version, it represents 'commercial banking' with a specific legal method, namely *Shariah* compliance. It is apparent from this study that Islamic financial institutions in the GCC are significant sources of capital and are contributing to the development of Islamic finance worldwide, especially in Asia. The GCC is well positioned at the heart of the Muslim world to serve as an Islamic finance hub linking Europe, Asia, and Africa; the spread of subsidiaries of GCC-based Islamic banks illustrates that this is starting to happen.

The popular preference for Islamic banking in the GCC indicates that it is more of a bottom-up than a top-down movement. Al-Rajhi Bank in Saudi Arabia has more branches than any other bank in the kingdom, and despite the reluctance to grant it a licence in the 1980s, it has become the largest stock-market-listed Islamic bank in the world. Like the Dubai Islamic Bank – the oldest Islamic commercial bank – Al-

[25] Oxford Business Group, Lighting the Way: Islamic Financial Services Overview, The Report: Dubai, 2008, pp. 96–7.

Rajhi has successfully developed a range of deposit and financing products that have attracted millions of clients. The aim of these institutions is to provide as wide a range of facilities as conventional banks, but through *Shariah*-compliant products.

As the major international banks have been weakened by the financial crisis of 2008–2009, this undoubtedly presents an opportunity for GCC Islamic banks, which have been less adversely affected. In contrast, the value of the Al-Rajhi Bank and Kuwait Finance House (KFH) investments in retail Islamic banking affiliates in Asia has been much more resilient. There are already proven synergies between the GCC and its Asian and African neighbours in Islamic finance, and these provide a platform for future developments.

Although the financial crisis has resulted in a large decline in oil prices and has reduced the profitability of all financial institutions in the GCC, including Islamic banks, it may also present opportunities. There has been much questioning of the values underpinning the Islamic financial system and the search for alternatives means that Islamic banks are likely to receive more attention, especially as their purpose is morality in financial transactions, based on religious teaching. The increasing international respect for Islamic banking is noted in the GCC, and it encourages local acceptance by both governments and bank customers, not least because no Islamic bank has failed in the crisis and required a substantial government bailout. Furthermore, a global economic recovery is likely to benefit the GCC, as oil and gas prices rebound, resulting in fresh liquidity being pumped into Islamic banks to fuel further expansion.

Without denying its positive growth and contribution to the IBF industry, in line with its establishment objective, Islamic banks are considered as having an ethical identity and they have different social and economic objectives to fulfil since the foundation of their business is based on religion (Haniffa and Hudaib, 2007). Within the range of *Shariah* (Islamic law), Islamic banks are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and the wellbeing of society (Dusuki and Dar, 2005). Therefore, the researcher will conduct a study in measuring how far the Islamic banks in the GCC disclose their CSR information and its determinants and consequences.

The main motivations for researcher to specifically focus on GCC Islamic banks are: a) most of the GCC countries have, to some extent, similar economic, political, and social environments; b) all the GCC countries are members of the Accounting and Auditing Organizations for Islamic Financial Institutions (AAOIFI); c) its positive growth and contribution in Islamic banking industry, such as *Shariah*-compliant assets, government policy and support in enhancing the development of Islamic banks; d) most of the "giant" Islamic banks, such as Al-Rajhi and KFH, are mainly located in the GCC; e) the GCC Islamic finance industry represents almost half of the global IBF assets, they hold a 70 percent share of IBF assets; f) GCC hold almost half of the world IBF *Shariah*-compliant assets; g) all GCC countries are very supportive in enhancing the development and growth of the Islamic banking industry with the establishment of a standard and research; h) last but not least, due the first idea of establishment of the Islamic Development Bank in Saudi Arabia, who are also a GCC member. Due to all these reasons, the researcher is highly motivated to conduct a study narrowly focused on this region.

CHAPTER 3: CSR DISCLOSURE-AN ISLAMIC PERSPECTIVE

3.1 Overview

This chapter will outline the main concepts that emerge from the literature and the practices that are to be examined in this study, such as the concept of CSR from an Islamic point of view, the Islamic ethical principles in promoting CSR, AAOIFI, and CSR disclosure in Islamic banks. Islamic banks aim to conduct their activities based on Islamic principles; therefore, it is important to discuss the concept of CSR from an Islamic perspective. It will provide a clear view of why Islamic banks have to be socially responsible to the community at the same time as achieving their firm’s objective.

The review of the previous CSR disclosure literature tends to focus on the responsibility of business toward its wider stakeholders, including customers, suppliers, employees, communities, and other stakeholders (Aribi, 2009). This responsibility is seen to extend beyond the statutory obligation to comply with legislation, and voluntarily take care and disclose information to those stakeholders and to a wider society. Nowadays, these issues become key topics for academics, organisations, and policy makers (Capron and Gray, 2000; Aribi, 2009; Platonova, 2014). To respond to this issue, the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) takes the responsibility of issuing the governance standards for Islamic Financial Institutions (GSIFI), which provide clear guidance on the disclosure of CSR for Islamic banks (AAOIFI, 2010, p38).

This chapter is divided into nine sections: 2.1) an overview of the outlining concept in this study; 2.2) a brief discussion of CSR in Islam; 2.3) Islamic ethical principles in promoting CSR; 2.4) the discussion about AAOIF as a regulatory standard in enhancing CSR disclosure among Islamic banks; 2.5) a discussion of collective religious duty of IFIs (in this study it refer to Islamic banks); 2.6) the CSR disclosure; 2.7) the discussion about CSR disclosure either it is mandatory or voluntary; 2.8) a summary of the chapter. The Islamic ethical values in promoting CSR discussed in this chapter consist of 10 Islamic ethical principles: 1) the *Shariah* (Islamic law), 2) Justice, 3) Zakah[26], 4) Riba (usury), 5) Maslahah (public interest), 6) *Tawhid* (unity), and *Khalifah* (Vicegerent), 7) *Ihsan* (benevolence), 9) transparency and, last but not least, accountability. These values should be reflected in Islamic organisations, such as Islamic banks, which are theoretically distinguished from conventional banks.

3.2 Corporate Social Responsibility in Islam

"The Islamic perspective on social responsibility is that the activities must directly assist individuals or societies to enhance their living or environmental conditions or assist them to better comply with religious rules and norms" (AAOIFI, 2010, p42). Islam provides clear guidance to its followers in all aspects of life, which are based on the *Quran* and *Sunnah* (Hamidullah, 2005; Kreinath, 2011). It is recognised that being responsible in business is more valuable than what is done with the profits made from business activities; therefore, the existence of activities that are regarded in Islam as *haram* (prohibited) have been clearly stated in the *Quran* to ensure that the community practice social and economic justice among them. Islam also provides a complete code of conduct for its followers and it embraces every aspect of life.

[26] Zakat is one of the five pillars of Islam. The payment of zakat is a religious obligation and must be fulfilled by Muslims who own wealth above the threshold (i.e 2.5%) (Jehle, 1994; Kamali, 2003; Ali and Myles, 2010,Basah 2012). Zakat can be divided into two types, *zakat-al-fitr* and *zakat-al-mal*. Zakat-*al-fitr* must be paid for charity at the end of Ramadan (fasting month in the Islamic Calendar), while zakat-*al-mal* is the zakat on wealth (Ali and Myles, 2010, pp.838).

Islamic banks are described as having a "social face" (Mashhour, 1996). From the Islamic perspective, CSR revolves around the concept of ultimate accountability to God; human beings are a vicegerent (*khalifah*) and are expected to relate with other humans in order to take care of the natural environment entrusted to them (e.g., Abbasi et al., 2012). Siwar and Hossain (2009) indicated that Islam is not just a religion, but a holistic way of life. Muwazir et al. (2006) highlighted that, as a vicegerent, leaders in Islamic business corporations are required to practice CSR fundamentally from the principle of unity (*Tawhid)*. Kamla et al. (2007) identified that, as a vicegerent, mankind needs to take care of the earth and the environment. Therefore, CSR is not isolated in the Islamic view and is one of the main concepts in Islamic teaching. Zainal et al. (2013) stated that the concept of CSR is deeply inscribed in the *Shariah* and any institutions, such as an Islamic bank, who claims to follow the *Shariah*-based principles, should naturally practise CSR, as it enshrines Islam's true spirit. Williams and Zinkin (2010) conducted a study on the compatibility between the tenets of Islam and the United Nations' Global Compact (UNGC), they find that the teachings of Islam do not only appear to be in close conformity with the Ten Principles of the United Nations' Global Compact but, in many respects, Islamic values go further than the minimum standards of that framework. They also find that Islamic teachings exceed the requirements of the UN Global Compact in a number of ways:

1. Islam appears to be wider in scope: for example, in the development of human capital and transparency requirements in business transactions.

2. Islam has a clear codification defining what is permissible, or halal, and what is forbidden, or haram.

3. Islam also has an explicit enforcement mechanism in the *Shariah,* as well as in the community, and there is the final accountability of the individual for unethical behaviour on the day of judgement.

In Islam, the prohibitions on certain types of business activities come from the concern to protect the community. Products and services which can give a negative impact to human life are strictly prohibited such as: alcohol and gambling (Kreinath, 2011b). The justification for the prohibition is best explained in the words of the Quran: ‘‘they question thee about strong drink and games of chance. Say: In both is great sin and (some) utility for men; but the sin of them is greater than their usefulness. And they ask thee what they ought to spend. Say: that which is superfluous. Thus *Allah* makes them plain to you (His) revelations that haply ye may reflect’’ (Quran, 2, p. 219). Gambling, in particular, is strictly forbidden in Islam, which can cause social problems among the community and interfere with life functioning properly (Potenza, 2013). CSR is a moral and religious initiative, based on the belief that a company may be 'good' regardless of its financial consequences, whether they are positive or negative. This is not to suggest that Islam is against profitmaking. Rather, it is seen as a necessary condition, though not the sole purpose, of their existence (Hasan, 2002).

Islam is intensely concerned with the problem of economic development. Therefore, the primary objective of Islamic economics is a social and economic justice, equitable distribution of wealth, and the elimination of exploitation in business activities by banning all sources of unfair enrichment (Asutay, 2012; Sarker, 1999). The emphasis on the welfare of the community is very significant from an Islamic perspective. Accordingly, working for the welfare of others is the best way of extending one's usefulness in pleasing *Allah* (Suliman and Willett, 2003). In line with this argument, the Holy Quran states, “Ye will not attain unto piety until ye spend of that which ye love. And whatsoever ye spend, Allah is Aware thereof” (Quran S3: 92), and “Ah, what will convey unto thee what the Ascent is: (it is) to free a slave, and to feed in the day of hunger an orphan, near of kin or some poor wretch in misery” (Qur'an: S90: 12-16). The next section will discuss the ethical values in CSR from the Islamic point of view, which is integrated into Islamic banking conduct.

3.3 Islamic Ethical Principles in Promoting CSR

Islamic ethical principles provide a broader framework for CSR. In terms of responsibility and accountability, Muslims believe that they will be accountable for whatever they do in this world and hereafter. Thus, it requires that every deed and word in this world must be in line with Islamic teachings. The importance of accountability to the man’s life has also been manifested by the Prophet Muhammad (PBUH) as Abdullah bin Umar, *Allah's* Apostle, said, “Surely! Every one of you is a guardian and is responsible for his charges: The Imam (ruler) of the people is a guardian and is responsible for his subjects; a man is the guardian of his family (household) and is responsible for his subjects; a woman is the guardian of her husband's home and of his children and is responsible for them; and the slave of a man is a guardian of his master's property and is responsible for it. Surely, every one of you is a guardian and responsible for his charges” (*Shahih Bukhari***:** Volume 9,252). Individuals are expected to feel socially responsible for others in the community. In general, the aim of the Islamic economic system is to allow people to earn their living in a fair and profitable way on the basis of *Shariah,* without the exploitation of others so the whole society may benefit. Islam also emphasizes the welfare of the community over individual rights (Shamim & Karim, 2010).

Prior research supports the idea that religious people have a wider notion of CSR than non-religious people (Williams & Zinkin, 2009; Brammer et al., 2005; Weaver and Agle, 2002). Given that Islam, like Judaism, is concerned with orthopraxy as well as orthodoxy, in Islam, the proper development of human life requires two things: (1) the resources needed to maintain life and fulfil the material needs of both the individual and society; (2) the individual's knowledge of the principles of individual and social behaviour to allow individual self-fulfilment, on the one hand, and the maintenance of social justice and tranquillity on the other (Ahmad, 1971). Unlike in some societies, where there is a separation between religion and state, which led to the consideration of religion as a private matter in a "so called value-free society" (Rice, 1999, p. 345), Islam influences the decision making of its followers in every context, including business. Perhaps more important is the need for balance between the demands of this world and the demands of the afterlife (Chapra, 1992). The importance and special nature of worship (*Ibadah*) are fundamental elements of Islam; worship is the main reason for the creation of mankind (Ali, 2006).

The influence of Islam on business practices is well documented in the Holy *Quran* and *Sunnah*. Islamic business values, such as justice, socio-economic measure, human wellbeing, and honesty are considered to be the core of CSR in Islam. Islamic banks are considered as having an ethical identity and they have different social and economic objectives, since the foundation of their business is based on religion (Aribi & Arun, 2014; Haniffa & Hudaib, 2007; Maali, et al, 2006). The general objective of Islamic banks is to contribute to the development of the economy within the boundary of Islam. Within the range of *Shariah* (Islamic law), Islamic banks are expected to be guided by an Islamic economic worldview, which is based on the principle of social justice and the wellbeing of society (Dusuki, 2008).

In general, Muslims are expected to conduct their business activities in accordance with the requirement of *Shariah,* which is fair and honest toward others (Rahman, 1994; Hussain, 1999). The issue of CSR has been clearly highlighted in the Quran and Hadith, and it has been practiced since the era of the Prophet Muhammad (PBUH). Appendices 1, presents the example of evidence from Quran and Hadith in promoting CSR. The next sections will review general Islamic ethical principles in promoting CSR, which is integrated into Islamic business conduct.

3.3.1 The *Shariah* (Islamic Law)

In Islam, the *Shariah* or 'Islamic Law' is the foundational basis in understanding CSR. The concept of the *Shariah* in Islam consists of ethics and values covering all aspects of life (personal, social, political, economic, and intellectual). Dusuki and Abdullah (2007a) stated that the concept of the *Shariah* reflects the holistic view of Islam, which is a complete and integrated code of life. It encompasses all aspects of life, either individual or social, both in this world and hereafter. Zinkin (2007) stated that the *Shariah* is not just a legal, but it also functions as a moral framework.

Shariah has grown within the guidelines set by the objective (*Maqasid Al-Shariah*), which aims to promote the well-being of mankind. According to Al-Ghazali (cited in Dusuki and Abdullah 2007a, p. 31), "the main objective of the *Shariah* is to promote the well-being of all mankind, which lies in safeguarding their religion (*ad-din*), their human-self (*nafs*), their intellect (*aql*), their family (*nasl*), and their wealth (*mal*)". For example, to achieve the objective of *Shariah* in protecting wealth, Islamic banks provide an alternative to conventional banks, which operate based on interest that gives a negative impact on the distribution of income and economic fairness (Basah, 2012). There is not just focus on the elimination of interest in transactions, the activities of Islamic banks should also be in line with the objective of the *Shariah* and they are expected to be more concerned on the CSR issue that conventional banks. According to Mohammad & Shahwan (2013), there are three main elements in *Shariah*: (1) the *Aqidah* that discusses belief and faith; (2) the *Akhlaq* that discusses morality and ethics; and (3) the *Fiqh,* or legal rulings, governing the acts of human beings. The fundamental aspects, such as the *Aqidah* and *Akhlaq*, are not subject to change, however, the *Fiqh,* or legal rulings, may change and vary according to time (Siwar and Hossain, 2009). Mankind is responsible for their actions to God *(Allah)*; therefore, they should act responsibly and strive to do well and avoid doing evil.

In addition, Dusuki and Abdullah (2007a) stated that the concept of *Shariah* has three implications on the concept of corporate social responsibility. First, in Islam, corporate social responsibility is an initiative of the religious and moral, based on the belief that the corporation should be good despite the financial impact. Based on this concept, business is not driven by profit maximisation alone, but alongside the pursuit of ultimate happiness in this world and hereafter. Secondly, the guidelines set out by the Islamic principles of bringing out a balance between individual rights and duties, responsibilities towards other people, and between personal interest and altruism. Finally, the concept of reward is developed to incorporate within its reward in this world and the hereafter. This provides a strong motivation and self-propelling motivation, without denying a person's natural instinct for personal gain. The principles above act as guidelines and an added value of Islamic banks in the financial industry. The *Shariah* acts as an internal control over Islamic banks alongside secular legislation. It is supposed to act as an internal control, which makes an Islamic bank more sensitive towards CSR than conventional banks.

3.3.2 Justice

Islam is a religion that emphasises justice in society. Graafland et al. (2006) divided the principles of justice in Islam to several types of business activity, such as justice including the fulfilment of promises, pacts, and contracts. Therefore, Muslims should be honest, sincere, and truthful in their business dealings, and ensure accuracy in terms of promised products and specifications. Second, it encourages equal treatment in labour management. Hiring people and wage payment should be based on merit and competencies. Finally, justice in Islam also includes the equitable distribution of wealth. In the Holy *Quran,* there are several verses, which discuss the concept of justice, such as:

“We have indeed sent our messengers with clear proofs, and sent down with them the Book and the Balance, so that people may uphold equity. And we sent down iron in which there is strong power, and benefits for the people; and (We did it) so that Allah knows the one who helps Him and His messengers without seeing (Him). Surely Allah is Strong, Mighty.” (Quran 57:25).

“Allah enjoins to do justice and to adopt good behaviour and to give relatives (their due rights), and forbids shameful acts, evil deeds and oppressive attitude. He exhorts you, so that you may be mindful” (Quran 16:90).

Besides the above, Islam also promotes justice and the equal treatment of all living beings. Based on the principles of justice, *Muslims* have to be fair, not only among themselves, but also in their dealings with others and even with their enemies (Zinkin, 2007). The concept of justice implies that human beings are equal, except on the basis of piety and good character (Dusuki, 2008). As vicegerents in this world, the concept of justice is important, as humans are not only responsible to God, but also to the society. Rather than fulfil their self-interest, they should also have concern about society and the natural environment. Kamla et al. (2006) indicated that human beings' responsibility towards nature is not only related to benefits for themselves, it is a comprehensive responsibility, which includes society and future generations. According to AAOIFI (2010) Islamic banks are voluntarily encouraged to disclose their internal environmental preservation policy in their annual report. They are expected to be more concerned and proactive in promoting socio-economic justice and apply all the Islamic values and principles in their CSR practice. Dusuki (2008) discusses that the human interactions should be based on trust, equity and justice. The right attitude of human beings is not to serve only one's own, or the national 'self-interest', but to cooperate with others to fulfil basic needs, to develop the entire human potential, and to enrich human life as a whole.

In economic activities, in order to achieve social justice in society, Islam provides a foundation for establishing socioeconomic justice to society. For example, Islam imposes an obligatory payment of income and wealth (*zakah*), philanthropic trusts (*waqf*), alms and charity (*sadaqah*), and interest free loans (Qard *al Hassan*). Another important aspect in economic activities is socio-economic justice. Socio-economic justice is an essential element in Islam; the objective of Islam is the formation of a justice to the society (Ibrahim, 1998). *Ibin Al Qayim al-Jawziyyah* contends, "The *Shariah's* basis is wisdom and welfare of the people in this world as well as the Hereafter, which lies in the complete justice, mercy, well-being and wisdom. Anything which operates from justice to oppression, mercy to harshness, welfare to misery and from wisdom to folly, has nothing to do with the *Shariah*" (cited in Aris et al. 2013; Ibrahim, 2000, p. 57).

Social responsibility and justice are based on the Islamic concept of human well-being and a good life; to strengthen brotherhood and sisterhood among Muslims, then promote socioeconomic justice, which requires a balanced satisfaction of both the material and spiritual needs of all humans (Chapra, 1992). The significance to pay *Zakah*, the encouragement of charity, the prohibition of Riba (usury), and the encouragement of *Al-qard hassan* (interest-free loan) are clear examples of the Islamic emphasis on social justice (Maali et al., 2006). With regard to *Qard Al-Hassan*, the Holy *Quran* states, "He who will give Allah *Qard al-hassan*, which Allah will double into his credit and multiply many times" (Quran, S1: 245).

3.3.3 *Zakah*

One of main pillars of Islam is *Zakah*, it literally means purification (Mohammed, 2007; Saheeh, 2000). *Zakah* is enunciated in many verses in the Holy *Quran* and *Sunnah (Hadith*). Ibrahim and Yaya (2005, p. 10) define *Zakah* as "a religious obligation and a levy accepted by Islam on a Muslim income and wealth to be distributed to the defined beneficiaries, such as the poor and indigent". While AAOIFI (2010) defines *Zakah* as a fixed religious obligation calculated by reference to net assets that have appreciated or have the capacity to appreciate in value over a specific period of time, except for assets that have been acquired for consumption or use in the production of revenues. It is collected from Muslim individuals and businesses (which meet net assets liable for *Zakah*) and distributed to the poor, needy, and for the interest and welfare of the community. Therefore, the main purpose of *Zakah* is the redistribution of wealth and to eradicate poverty in society (Lewis, 2001; Ibrahimet al, 2014). Muslims consider *Zakah* as one of their main duties to show their responsibility towards society, the poor and the needy (Bjorklund, 2004).

The significance of *Zakah* in Islam is slightly different from a normal welfare programme and it is different from general tax, as it is understood today by some people (Lewis, 2001). It is a specific type of fund that is compulsorily paid to the treasury (*Amil*), whether there is a need for it or not (Belal et al, 1997). The Islamic state may take the responsibility for collecting and distributing *Zakah*, but where this is not the case, individuals and businesses are still obliged to pay it directly for the interest and welfare of the community (Maali, 2005). Not all Muslims are obligated to pay *Zakah*, the payment is obligatory to individuals and businesses subject to the fulfilment of certain conditions and after deducting debts and needs (Nabhani, 1997). *Zakah* is payable once a year at the end of the *Zakah* period (i.e., one lunar year). According to Clark et al. (1996), it is payable on a productive asset that has been possessed for a full year. However, assets, which are being used or consumed, are exempted, provided they are not being used for trade purposes (Rahman, 1999). *Zakah* is considered as an act of worship; therefore, Islam really encourages its followers to seek for wealth, as it does not contradict the *Shariah*. The wealthier they are, the more they can contribute to the community by paying *Zakah*.

From an institutional point of view, Islamic banks are involved in *Zakah,* either by setting aside a percentage of their profits for charitable activities or through the administration of *Zakah* funds (Bjorklund, 2004). Islamic banks are expected to be more concerned with their *Zakah* management to ensure that all groups of needy (*Asnaf)* benefit from their *Zakah* contribution. According to AAOIFI (2010), all Islamic banks have to disclose *Zakah* information in annual reports as part of their CSR obligation to the stakeholders. Another aspect of ethical value in CSR from Islamic perspective is the elimination of *Riba* (usury) in the Islamic banking activities. This will be discussed in details in the next point.

3.3.4 *Riba* (usury

Generally, the word, *Riba* (usury), comes from the Arabic language and means an increase or a growth. The linguistic meaning of *Riba,* in this context, is an increase or a gain on a capital loan at a predetermined rate, which a lender charges a specific rate to a borrower for deferred financing facilities (Amjad, 1999). In the same vein, El-Ashker (1987, p. 38) defines *Riba* as the difference between the amount borrowed and the payment amount, which is normally higher than the principle amount, and is strictly prohibited in Islam. The prohibition of *Riba* is clearly stated in many verses in the Holy *Quran,* such as:

a) "That which ye lay out for increase through the property of (other) people, will have no increase with Allah: But that which ye lay out for charity, seeking the countenance of Allah (will increase): it is these who will get a recompense multiplied" (Quran 30:39).

b) "That they took *Riba* (usury), though they were forbidden and that they devoured men's substance wrongfully – We have prepared for those among men who reject faith a grievous punishment" (Quran 4:161).

c) "O ye who believe! Devour not usury doubled and multiplied; but fear Allah, that ye may (really) prosper" (Quran 3:140).

d) "Those who devour usury will not stand except as stands one whom the evil one by his touch hath driven to madness. That is because they say: 'Trade is like usury.' But Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge). But those who repeat (the offence) are companions of the fire, they will abide therein (forever)" (Quran 2:275).

e) “O you who have attained faith! Remain conscious of God, and give up all outstanding gains from Usury, if you are (truly) believers” (Quran 2: 278).

Theoretically, in Islam, *Riba* is regarded as a prominent source of unjustified advantage, where the business activities are operating using an interest-based system (Sarker, 2000). Therefore, the prohibition of *Riba* is a solution of establishing a fair economic system in which there are no forms of exploitation or unjustified enrichment (Bjorklund, 2004). This is known as an Islamic economic system, which is based on *Shariah*. Among the main points of the prohibition of *Riba* are: it causes unfair distribution of income in favour of the rich (financiers), who have the capital as interest guaranteed in return for the lender without taking any risk, while the borrower or the entrepreneur pays interest irrespective of the result of the business or investment (Attiah, 1989). Therefore, the prohibition of *Riba* is the best solution to establish socio-economic justice between the financers and the entrepreneurs (Bjorklund, 2004).

Most Islamic scholars state that the prohibition of interest, or usury, (*Riba*) in Islam is not because the religion does not see it as a way to turn excess capital into profit, but because of a deeper concern for the moral, social, and economic well-being of society. A *Riba* system creates profit without doing any work and it does not share the risk between the lender and borrower (Al-Qaradawi, 1985). The vast majority of Islamic schools of thought agree that *Riba* stands for interest in all types and forms (Chapra, 1992). However, the Islamic Research Centre (IRC) announced in 1996 that all banking interest charge is the same as *Riba* and is prohibited (cited in Maali, 2005). Islamic scholars have clearly explained that *Riba*, as mentioned in the Holy Quran, refers to all excessive rates of interest charged by banks (e.g., Ahmad, 1989; Hindi, 1996). *Riba*-free banking is a key advantage of Islamic banks; nowadays, Islamic banks are well accepted in all parts of the world and hold well over US $700 billion in assets and are growing at over 15% p.a (Khan, 2010). The Islamic banking industry involves wider ethical and moral issues with its *Riba*-free transactions. This factor makes it more economically efficient than conventional banking and promotes greater economic equity and justice.

3.3.5 *Maslahah* (Public Interest)

Dusuki (2008) stated that the *Maslahah* (public interest) is a juristic device used in Islamic legal theory. On the other hand, Laldin (2010) stated that the *Maslahah* is a second source of the *Shariah* in Islam. The *Shariah* gives consideration to the *Maslahah* as a source of law in order to accommodate natural development and social changes. It represents one of the essential sources for dealing with issues and matters, for which there is no explicit indication in the *Quran* or the *Sunnah*.

Laldin (2010) stated that the objective of enacting *Shariah* rules, based on the *Maslahah,* is to achieve fairness and justice by achieving benefits and removing hardships. It is important in order to promote public good and prevent societal evil or corruption. In the Islamic banking context, diligence (*ijtihad)* based on the *Maslahah* is essential, especially for regulators and corporate governance organs, since it requires them to provide standards, parameters, regulations, and policies for the benefit of society. He also explained that the *Maslahah* in Islam could be differentiated into two main categories. First is the public *Maslahah*, which is anything that benefits the whole society or the majority: for instance, saving property from any form of harm or transgression, including flood, theft, or unfair contracts. In contrast, the private *Maslahah* is anything that benefits individuals and the society to which they belong.

Besides being public and private, the *Maslahah* can be differentiated based on its priorities. Al-Shatibi (1997, cited in Dusuki (2010) and Laldin (2010)) stated that *Maslahah* could be classified into three main categories or priorities: (1) *dharuriyat* (basic essentials), (2) *hajiyat (*supplementary needs), and (3) *tahsiniyat* (complementary).

Dharuriyat is an essential basic need in life, which is a very important element for individuals and society to survive. It must be protected as it is fundamental for life (Al-Mubarak & Osmani, 2010). For example, the basic needs in life are electricity, water, and food. It is an important element for survival in today's world and any disruption to them will lead to total disruption.

Hajiyat is a supplementary need after the individual or society gets *dharuriyat* (basic needs). If *hajiyat* is neglected, this will not lead to total disruption but may lead to hardship and distress in human life (Cebeci, 2012). For example, the *Shariah* validates forward buying (bai' *salam*) in business transactions because these transactions are important to facilitate business transactions and, if neglected, may lead to hardship in business.

Tahsiniyat (complementary) refers to those interests that, if realised, would lead to refinement and perfection in the customs and conduct of people at all levels of achievement (Laldin, 2010). It is important, as it will lead to a peaceful life and harmony in human society. For example, Islam makes *Zakah* payment compulsory to Muslims individuals and organizations as a complementary element for social and economic justice in the society. At the same time, Islam also encourages Muslims to do charity as complementary activity to improve social life of the community.

2.4.5.1 The Pyramid of *Maslahah* (Public Interest) in CSR

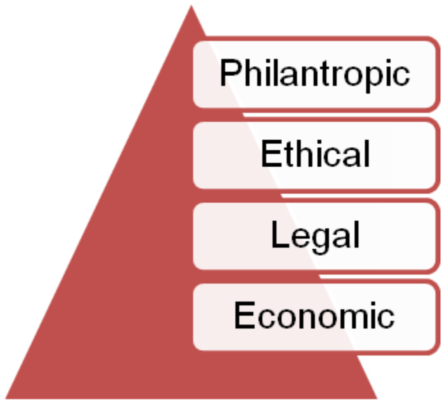
Dusuki and Abdullah (2007) viewed the concept of the weight in the *Maslahah* as a guide for moral judgement of managers and other stakeholders, particularly in solving conflicts that may arise when pursuing CSR. The concept of weight in the *Maslahah* is depicted in a pyramid form. It functions as a framework to provide managers with three levels of judgement to resolve the ethical conflicts that inadvertently emerge while applying CSR programmes and initiatives. Every level constitutes a different degree of importance. The bottom level (*dharuriyat*) is the most fundamental responsibility to be fulfilled, then the second level (*hajiyat*), followed by the top level (*tahsiniyat*). The pyramid moves upward and the degree of decision-making will be less fundamental as the level rises. The pyramids of *Maslahah* levels are not mutually exclusive; all levels are inter-related and mutually dependent.

The pyramid of *Maslahah* can be applied to the decision making process in CSR. In the first level (*dharuriyyat*), Islamic banks are expected to strive to preserve and protect their stakeholders' essential needs (Basah & Yusuf, 2013). For example, in order to obtain a high profit, it must ensure that all activities comply with Islamic principles. Any activities that may endanger people's lives and causes environmental degradation must be avoided. In regards to the employer-employee relationship, businesses must protect employee welfare by paying salaries on time and provide a safe working environment.

After fulfilling the fundamental level (*dharuriyyat*), Islamic banks may strive for the second level, the complementary (*hajiyat*). In this stage, the provision of continuous training and development, bonuses, and promotions is considered to be an extension of the fundamental responsibility. For the highest level of embellishment (*tahsiniyat*), Islamic banks are expected to be involved in CSR activities that lead to improving and attaining perfection in public life. For example, involvement in activities that are encouraged in Islam, such as donations, charitable activities, and philanthropic trusts (*waqf*), may contribute to a better social development of society. The embellishment will lead to the perfection of the community and society. Overall, the *Maslahah* pyramid provides a basic guide for Islamic banks to manage their CSR activities, based on prioritisation in developing their CSR management strategy. The weight of the *Maslahah* also provides guiding principles and strategy development for CSR management, based on its priorities.

Caroll (1979, cited in Cebeci, 2012) discussed that CSR pyramid also provides a comprehensive view of a framework for how businesses should act towards CSR. She develops her own CSR pyramid, which is divided into four main categories, namely: (1) economic, (2) legal, (3) ethical, and (4) philanthropic responsibilities. The main characteristics of her CSR pyramid is: 1) these four categories are not mutually exclusive; 2) it is not a continuum with economic concerns at one end and social concerns at the other; 3) they are neither cumulative nor additive; and 4) they are ordered in the figure only to suggest their fundamental role in the evaluation of importance (see: figure 3).

Figure 3: The Pyramid of *Maslahah.*



Caroll (1979): CSR pyramid

Dusuki & Abdullah (2010): Weight of *Maslahah*

The pyramid of *Maslahah,* above, provides a comprehensive framework on how Islamic banks should view CSR from the Islamic perspective and it is parallel with the general CSR pyramid, as proposed by Caroll (1979). Both models are not mutually exclusive; all levels are inter-related and mutually dependent (Carroll, 1979; Dusuki and Abdullah, 2007a). Dusuki (2010) stated that the weight of the *Maslahah* can be useful for CSR in three ways: (1) it provides a framework for making decisions and a mechanism for adapting to change; (2) it delineates the role of Islamic banks in terms of their CSR; (3) it offers guidelines for moral judgement for Islamic banks in solving conflicts that may arise when pursuing CSR. It is depicted based on a pyramid with three levels of judgement (*dharuriyat, hajiyat* and *tahsaniyat*).

Carroll (1979) pointed out that the CSR pyramid does not identify the degree of specific responsibility in each category; it provides a classification scheme for the kinds of social responsibility businesses are expected to have. The CSR pyramid provides a comprehensive CSR framework for businesses, since it presents various responsibilities that society expects businesses to assume. Each of the CSR categories deserves the same consideration and can be used to justify why CSR is important (Carroll, 1991). On the other hand, the weight of the *Maslahah* pyramid implies that Islamic banks need to engage in, and manage their, CSR activities according to their priority. Islamic banks must not just focus on attaining the embellishments while jeopardising the essentials of their stakeholders (Dusuki and Abdullah, 2007).

Finally, the weight of the *Maslahah* pyramid is based on the *Shariah.* It reflects the holistic view of Islam, which presents a complete and integrated code of life, encompassing all of its aspects (Aris et al., 2013; Dusuki and Abdullah, 2007a). The *Maslahah* is one of the elements to achieve the objective of the *Shariah* and, therefore, it must always be discussed and understood within the *Shariah's* framework and parameters (Laldin, 2010). The CSR pyramid is the main model, since it describes how businesses should react to CSR issues and has received more attention in CSR studies (Basah, 2012).

3.3.6 Tawhid (Unity) & *Khalifah* (Vicegerent)

In Islam, the concept of CSR is also consistent with the concept of unity (*Tawhid*). According to this concept, God is the Creator, Owner, and Source of all things, and has entrusted mankind as a *khalifah* (vicegerent) to use and manage the assets in this world (Ali, 2006). In return for the use of the physical universe, mankind has to be accountable for what they use and manage in this world, all aspects will be accountable in front of God (*Allah*) in hereafter. (Farook and Lanis, 2007).

Islamic economics take the midway between the two extremes of capitalism and communism (Al Banna Choiruzzad & Nugroho, 2013). Islam recognises that it is a human nature to possess property in order to satisfy one's needs, and ensures free trade. In this sense, ownership of private property is encouraged in Islam, and its usage, which is not contradicted with *Shariah,* is permitted (Lewis, 2001). It is clearly stated in the Holy *Quran* that all wealth belongs to *Allah* and *He* has put human beings in charge of this wealth. Islam accepts disparity in wealth within a rational limit but does not tolerate this difference arising so that some people spend their life in luxury, while the majority of people are left to lead a life of misery and hunger (Taheri, 2003). As a vicegerent, mankind has to manage their wealth in accordance with the commands and guidance of *Allah* (Rahman, 1999).

As a trustee of God (*Allah*), all actions must be based on His rules and regulations, namely the *Shariah*. The concept of vicegerency is inter-related with the concept of *Tawhid* (unity) in Islam. The concept of *Tawhid* states that all possessions, wealth, expertise, abilities, positions and power belong to Allah. The human being is only a trustee of them. The accumulation of wealth is not the key objective of landowners in Islam, but their ability to sustain and bring benefit to themself and others from the land (Kamla et. al., 2006). This concept is different from the conventional point of view. In Islam, the management of all resources must be in accordance with religious requirements.

The concept of *Khalifah* (vicegerency) defines the person's responsibility to Allah, to the community, and to himself. According to Chapra (1992), the implication of arising from the concept of *Khalifah* is that the individual is regarded as the trustee of God's resources and should ensure that the resources are well managed in a proper manner, which is in line with the *Shariah* (Islamic law). The underlying concept of the vicegerent is one of representation or stewardship; the real ownership of the assets remains vested in their owner, and not their steward or administrator, who simply manages them in accordance with the owner’s instructions, within the limits of authority prescribed, to do the will of the owner, as opposed to his own (Williams & Zinkin, 2009). This leads to different meanings of private ownership as understood in a conventional perspective (Suliman and Willett, 2003). *Allah* empowered individuals to possess, enjoy, and transfer what *He* has granted to them. Therefore, Islam perceives wealth as a grant, which has been given as a trust from *Allah* into the hands of human beings. Therefore, it should be utilized in an efficient way to produce the maximum output and to fulfil *Allah's* guidance (Metwally, 1997). It is stated in the holy Quran: “And recall what time thine Lord said unto the angels: ‘verily I am going to place a vicegerent on the earth.’ They said: ‘wilt Thou place therein one who will act corruptly therein and shed blood, while we hallow Thine praise and glorify Thee!’ Allah said: verily I know that which ye know not” (Al Quran 2:30).

Based on the vicegerency concept, there are no inhibitions attached to economic enterprise and people are encouraged to avail themselves of all opportunities available, which is in line with the *Shariah* (Rice, 1999). There is no conflict between the moral and socio-economic requirements. People can enjoy profit and wealth, but they must pay *Zakah.* Moreover, the right to accumulate wealth and profit is not negated in Islam as long as it does not contradict the Islamic principles (Ullah & Jamali, 2010). Resources are for the benefit of all and not just a few, everyone has the right to acquire and utilize the resources (Rice, 1999).

In summary, worship to *Allah* is not only restricted to the five pillars of Islam. It involves all aspects of life. Williams and Zinkin (2005) stated that in Islam, there is no separation between the individual’s public and private life. Thus, every decision and act in life and business must be based on Islamic teachings. This principle does not only apply among Muslims, but also in their relationship with non-Muslims, society, and the environment.

3.3.7 Benevolence (*Ihsan*)

The concept of benevolence in Islam complements the concept of justice. The Holy *Quran* clearly states the requirement of justice and benevolence: "Verily *Allah* Enjoins justice and worshipping none but *Allah* alone and Al-Ihsan and giving help to kith and kin (i.e. all that *Allah* has ordered you to give them such as wealth, visiting, looking after) and forbids *Al-Fahsha* (i.e. all evil deeds, such as illegal sexual acts, disobedience to parents, to take a life without right) and *Al-Munkar* (all that is prohibited by Islamic law) and Al-Baghy (All kinds of oppression). He admonishes you, that you may take heed" (16:90).

Al Qurtubi (cited in Basah, 2012) classified justice as mandatory and benevolence as being beyond the mandatory. To adhere to the concept of justice, a person's inner intentions and feelings should be consistent with his words and actions. The concept of benevolence is beyond the concept of justice, which requires the person's inner intentions and feeling to be better than his or her outward actions. Benevolence reflects the importance of protecting and promoting the wellbeing of others with whom one is in regular personal contact (Schwartz, 1992). Research by Schwartz & Bardi (2001) indicates that benevolence is among the most important values in society. It plays a crucial role in endorsing social harmony and predicting pro-social behaviours (Bardi & Schwartz, 2003). Previous studies have indicated that benevolence is positively associated with behaviours, such as helping others, voicing constructive suggestions, donating money, and volunteering (Grant & Mayer, 2009; Arieli et al., 2014), demonstrating social sensitivity (Mumford, Connelly, Helton, Van Doorn, & Osburn, 2002), with awareness concerning moral dilemmas (Myyry & Helkama, 2002), and expressing readiness for social contact with others (Sagiv & Schwartz, 1995).

To alleviate poverty in the community, Islamic banks offer several mechanisms, such as a benevolent loan (*Qard Hassan*)[27], a charity (*Sadaqa*) fund, and a Waqf fund (endowment fund) (Bhuiyan et al., 2012) . *Qard Hasan* is an implied loan, which is free from any benefit or return to the lender, and it is more commonly referred to as an interest-free loan (Obaidullah, 2008). Practically, *Qard Hassan* facilities are provided by the Islamic banks to support and enhance the development of small and medium enterprises (SME). It is also known as an interest-free loan, which is given for either welfare purposes or for fulfilling short-term funding requirements. The *Qard Hassan* is a loan, which granted by the lender without expectation of any return on the principal, but the borrower is obligated to make a principal repayment. The following verses from the holy Quran reveal the importance of Qard *Hassan* in Islam:

“Who is it that will lend Allah a *qard hasan* which He will multiply for him (the lender) many times and for him shall be a generous recompense” (Al-Quran 18:18).

“Verily, those who give *sadaqa*, men and women and lend to Allah a *qard hasan*, it shall be increased manifold (to their credit) and theirs shall be an honourable good reward” (Al-Quran 11: 57).

“If you lend Allah a qard hasan, He will multiply it for you. Allah is the most appreciating, the most forbearing” (Al-Quran 64:64).

[27] AAOIFI, 2010 define Qard Hasan as a non-interest bearing loan intended to allow the borrower to use the loaned funds for a period of time with the understanding that the same amount of the loaned funds would be repaid at the end of the period.

3.3.8 Transparency

When it comes to transparency in business, Islam goes much further than the UN Global Compact transparency standards (Williams & Zinkin, 2009). For example, clear written contracts are required for all business transactions, as stated in the Holy *Quran* (*Quran*, 2, p. 282). Also, in Islam, as in Judaism, the principle of caveat emptor does not apply. Many *Hadiths* outline that principles, such as, ‘‘it is not permissible to sell items without making everything about it clear, nor is it permissible for anyone who knows about its defects to refrain from mentioning it’’ (*Hadith,* narrated by Al *Hakim and Al-Baihaqi*). Muslim businesses are, therefore, expected to ensure high quality standards in performing their job and to be transparent in their transactions. The issue of quality standards can also be seen in Quranic teaching on weights and measures (Quran, 6, p. 152; 17, p. 35; 83, pp. 1–6). For example: ‘‘Give just measure and cause no loss (to others by fraud). And weigh with scales true and upright. And withhold not things justly due to men, nor do evil in the land working mischief’’ (Quran, 26, pp. 181–183). Whilst this does not of itself imply that the same standard should be applied everywhere, it does require that full information is provided on the standards used, which requires greater transparency and accountability. Therefore, Islamic banks are expected to promote a greater transparency in conducting their business, in line with Islamic business code of conduct.

3.3.9 Accountability

According to Haniffa (2001), under Western accountability models, companies are accountable to their stakeholders. In this model, the responsibility and accountability are not considered to extend beyond human society and the frameworks do not envisage any accountability to God (*Allah*). From an Islamic perspective, the perceived relationship of individuals and firms with God (*Allah*) affects the concept of accountability (Maali, 2006). Muslims, as required by Islam, have to question their actions or hold themselves accountable before being held accountable by Allah on the Day of Judgment for what they have done in their life (Abdul-Rahman and Goddard, 1998). As a vicegerent and trustee of *Allah*, every human act in this world will be questioned on the day of judgement. Farook (2007) called this concept ‘divine accountability’, and it is the basis for all actions of Muslims and, in turn, organisations representative of Islam. The concept of divine accountability is clearly stated in the holy Quran, in such verses as: “When you are greeted with a greeting, greet in return with what is better than it or (at least) return it equally. Certainly, Allah is Ever a Careful Account Taker of all things” (Quran 4:86).

The word *Hisab* in Arabic, which is synonymous with account or accountability, is repeated more than eight times in different verses in the Holy *Quran* (Askary and Clarke, 1997). It shows importance of accountability in Islam. According to Lewis (2006), the basic similarity between *Hisab,* or account and accountability, lies in the responsibility of individuals and businesses to carry out duties as prescribed by Islam. Accountability, in this context, means accountability to the Islamic community at large, which has the right to know about the effects of the operations of organisations on its wellbeing (Lewis, 2006). Ibrahim (2000, p 23) elaborates this aspect of accountability, as follows: "accountability is the duty of an entity to use (and prevent the misuse of) the resources entrusted to it in an effective, efficient and economical manner, within the boundaries of the moral and legal framework of the society and to provide an account of its actions to accountees, who are not only the person(s) who provided it with the financial resources, but to groups within society and society at large".

The concept of accountability is derived from the Quran and is powerful in the Islamic system of business, which means accountability in front of *Allah* (SWT) not only in this world, but also in the hereafter. Accountability to *Allah* reflects trustworthiness, which includes both instruments and goals. Abbasi et al. (2012) argue that the instrument is that which is started with to enhance efficiency and effectiveness, then in time is transferred to be a goal itself (p.233). As the Quran plainly explains: “Then shall anyone who has done an atom’s weight of good, see it, and anyone who has done an atom’s weight of evil, shall see it” (Quran, 99:7-8). *Allah* (SWT) said “Nor can bearers of burdens bear another’s burden. If one heavily laden may call another to bear his load, not the least portion of it can be carried by the other, even though he is nearly related” (Quran, 35:18).

Prophet Mohammad (PBUH) emphasises responsibilities and clarifies the intertwined responsibilities of applying real accountability. He said, “Beware that every one of you is a shepherd and everyone is answerable with regard to his folk. The caliph is a shepherd over the people and shall be questioned about them. A woman is a guardian over the household of her husband and his children and has to be questioned about them. A slave is a shepherd over the property of his master and shall be questioned about it”. Then, He (PBUH) adds: “beware that every one of you is a guardian and every one of you shall be questioned with regard to his trust” (Sahih Bukhari, 1967; Sahih Muslim, 1829). Afifuddin and Siti-Nabiha (2010) add that these verses apply to all organizations, not just personal accountability.

3.4 AAOIFI

The development of accounting in the Islamic state between 624 and 1500 AD was religiously motivated and associated with the imposition of Zakah (Zaid, 2004). According to Napier (2009), the historical evidence on Islamic accounting is becoming increasingly available and is reflecting research into the main archives that have survived, as well as many treatises and other secondary material on accounting. Hayashi (1989, p. 71) suggested, "Islamic accounting thinks of the society before the business enterprise, whereas conventional accounting thinks of individual profit before the social profit". Baydoun and Willett (2000, p. 81) stated, "private accountability and limited disclosure (western accounting criteria) are insufficient criteria to reflect the ethical precepts of Islamic law". Islamic accounting can be described as "a system of information that communicates the economic position and result of operation of an entity, and ensures that the information presented is correct, complies with *Shariah,* and is free from any misleading information" (Harahap, 2003, p. 70). Consistency of disclosure practices with Islamic law requires application of the all-embracing criteria of social accountability and full disclosure. Since the inception of the IFIs [28], there has been a call for the development of special accounting standards for IFIs (Karim, 1990; Omar, 1997).

The study of Islamic accounting has grown in recent years with substantive contributions from scholars, such as Baydoun and Willet (1995, 1997), Gambling and Karim (1986), Lewis and Algaoud (2001), and Vinnicombe (2010). It is notable; that the focus of most of these studies is descriptive or analytical in nature, emphasizing in particular the implications of Islam for accounting principles and practices, and the

[28] According to AAOIFI, 2010, IFIs referred to any institutions that role of a financial intermediary that strictly abides by the provisions of *Shariah*. In this study, IFIs refer to Islamic banks.

theoretical framework from which accounting standards for Islamic entities could potentially be derived (Baydoun and Willett, 2000; Lewis, 2001; Perera, 1989). There is little recognition that a practical response to the need for Islamic accounting standards has emerged in the form of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This organization was established in Bahrain in 1991 to develop and disseminate accounting and auditing standards for implementation by Islamic financial institutions worldwide (AAOIFI, 2003/1421H1 p. ix; Lewis and Algaoud, 2001, p. 171).

From an Islamic perspective, it is critical that the accounting principles applied in Islamic organisations conform to Sharia (Al-Hajjai, 2003). The *Shariah* clearly specifies when the revenue should be recognised and when the asset should be transferred. The nature of financial instruments and transactions in IFIs are not addressed in the conventional General Accepted Accounting Principles (GAAP) (Al-Mehmadi, 2004). This is because the functions of IFIs (Islamic Financial Institutions) are different from those of their counterparts, who have adopted the Western model of banking (AAOIFI, 2005). The relationship between investors and IFIs is based mostly on profit and loss sharing, which is different from CFIs (Conventional Financial Institutions). According to the AAOIFI (2005), conventional financial accounting does not offer all the information required by those who need to make decisions concerning business. This is because of the nature of financial accounting processes[29] and those related to cost and benefit[30].

[29] The limitation owing to the nature of the financial accounting process are as follows: (1) financial accounting is concerned mainly with measuring the financial effect of the transactions and other events on the entity's financial position, results of operation and cash flow. Therefore, financial accounting is not always able to provide information to help in the evaluation of the business ability to achieve its objectives that are not

Thus, accounting standards developed for CFIs may not be relevant for IFIs. Some new accounting regulations need to be designed to cater to the uniqueness of IFIs' financial instruments and contracts. Therefore, AAOIFI standards have been developed to overcome the limitation of conventional accounting standards for IFIs.

In April 2009, the AAOIFI issued an updated standard, which focus on CSR practice among IFIs (known as Governance Standards No. 7: Corporate Social Responsibility, Conduct and Disclosure for IFIs). According to the AAOIFI (2010), corporate social responsibility (CSR) for IFIs refers to all activities carried out by an IFI (the "IFI" referred to any institution that plays the role of a financial intermediary that strictly abides by the provisions of the *Shariah*; these include, but are not limited to Islamic banks and Islamic Insurance companies) to fulfil its religious, economic, legal, ethical, and discretionary responsibilities as financial intermediaries for individuals and institutions. Religious responsibility refers to the overarching obligation of IFIs to obey the laws of Islam in all their dealings and operations. Economic responsibility refers to the obligation for Islamic banks to be financially viable, profitable and efficient. Legal responsibility refers to the obligation of IFIs to respect and obey the laws and regulations of the country of operation. Ethical responsibility refers to the obligation of IFIs to respect the mass of societal, religious and customary norms, which are not codified in law. Discretionary responsibility refers to the expectation

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capable of financial measurement. (2) Financial accounting does not differentiate between business performance and management performance; (3) financial accounting relies to a great extent on estimation, which is based on management assumption when measuring the financial effect of its transactions (for example, depreciation) (AAOIFI, 2005).

[30] Cost consideration affects the information, which financial accounting produces. This results in the emphasis on the production of general-purpose financial reports to serve the common information needs of several external users (AAOIFI, 2005).

from stakeholders that IFIs will perform a social role in implementing Islamic ideals over and above the religious, economic, legal and ethical responsibilities (AAOIFI, 2010). Over two decades, the AAOIFI operated as a body of Islamic accounting organizations, which prepare standards for Islamic financial institutions. To date, there is still limited literature discussions about the CSR compliance of IFIs and the updated AAOIFI standards No.7, 2010 (Vinnicombe, 2010; Vinnicombe, 2012; Zakaria and Arun, 2014; Farag, Mallin & Ow-Yong, 2014).

3.4.1 Historical Discussion of AAOIFI

This section explains the history of the AAOIFI, its approach to developing accounting standards, and the problems and challenges it faced in the early stages of its establishment. The pragmatic approach taken by the AAOIFI in developing its standards has been criticised in the context of the conceptual framework debate, which asks whether accounting standards for Islamic entities can be adapted from conventional Western standards, or whether they should proceed from an Islamic framework (Sarea & Hanefah, 2013). The AAOIFI chose the former approach, believing that the efficiencies gained from previous work will facilitate a timely implementation of standards, without compromising *Shariah* law (AAOIFI, 2003/1424H, pp. xxiv–xxv).

The AAOIFI commenced operations in Bahrain in March 1991 (11 Ramadan 1411H) (AAOIFI, 2003/1424H, p. ix). Initially known as the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI), the name was changed to the AAOIFI in 1995 to reflect a broadening of the brief for the organization to include auditing, and other standards, in response to demands from the Islamic financial community. The AAOIFI has a two-tiered organizational structure, paralleling that of the IASB and other similar organizations, such as the Financial Accounting

Standards Board in the United States (Vinnicombe, 2010). The purpose of the two tiers is to separate the standard-setting function from financing the organization, so that the standard-setters are not subject to a conflict of interest.

The aims of the AAOIFI have evolved since its formation. Today, they include the preparation and publicising of accounting, auditing and governance standards for Islamic financial institutions, with the goal of achieving harmonization in the "accounting adopted by Islamic financial institutions in the preparation of their financial statements" (AAOIFI, 2003/1424H, p. ix). The AAOIFI also provides guidelines for Islamic financial institutions in a number of areas where they may experience difficulties in finding appropriate accounting treatments or interpretations, such as issues relating to Islamic insurance and new financial products. Finally, it is the goal of the AAOIFI to promote the adoption of its standards by Islamic financial institutions through the support of the relevant regulatory authorities in countries where these institutions operate. To this end, both national and transnational bodies, including central banks, accounting organizations and the IASB are encouraged to become AAOIFI members.

In 1993, the FAOIBFI issued Financial Accounting Statements 1 and 2 (FAS1 and FAS2) (Karim, 1996, p. 119). These two statements represented the finalization of the FAOIBFI's initial task to develop objectives and concepts of financial accounting for Islamic banks. FAS1 outlined the objectives and FAS2 the concepts (Karim, 1995, p. 289). Taken together, the two statements are often described as providing a framework for the further development of Islamic accounting standards (Karim, 1996, p. 119). The two statements were followed by Financial Accounting Standard Number 1 (FAST1), which detailed requirements for the general presentation and disclosure for financial statements of Islamic banks.

The AAOIFI has now published twenty-three Financial Accounting Standards (FAST 1–23), as well as standards for Islamic insurance companies, auditing standards, governance standards, and codes of ethics for accountants, auditors, and employees of Islamic financial institutions. This constitutes a substantial body of work in a relatively short period of time. In common with all accounting standard-setting bodies, however, the AAOIFI faces a number of challenges. Its task is comparable to that of the International Accounting Standards Board (IASB) in that, unlike national accounting bodies, it must set standards for banks located in vastly different parts of the world. The standards, therefore, need to be acceptable to a variety of regulatory regimes and a range of political, economic, and social circumstances. The AAOIFI has no power of enforcement, and must therefore proceed by gaining the support of national regulatory bodies and the major Islamic banks (Karim, 1995, p. 289). Despite these problems, the AAOIFI has experienced considerable success, in terms of the standards it has produced, growing membership, and what appears to be increasing acceptance by the regulatory authorities in many Islamic countries, such as the GCC. It seems timely, therefore, to test the extent to which the standards published by the AAOIFI are implemented by Islamic banks.

3.4.2 The need of AAOIFI Accounting Standards

Due to globalization, increased competition, communication revolution, new regulations and the strong growth in the IFIs, the AAOIFI move ahead in formulated and prepared accounting, auditing, and corporate governance, as well as ethics and *Shariah* standards for IFIs to ensure they are competitive with the global financial market (Vinnicombe, 2012).

The need for Islamic accounting standards also coincides with the development of Islamic financial products. New financial products require commensurate accounting treatments, especially where institutions are required to produce annual financial statements. However, the rapid growth of Islamic financial institutions, from the 1970s onwards, outstripped the ability of accounting standard development to keep pace (Pomeranz, 1997, p. 124). Moreover, the emphasis on the Islamization of financial products focused on developing financial institutions and financial products, rather than a corresponding regulatory framework. The AAOIFI is an independent international organization, which is supported by institutional members (200 members from 45 countries) including central banks, IFIs, and other participants from the international Islamic banking and finance industry. It published its first set of accounting and governance standards in 2004. Then, they were updated in 2008 and the latest updated was in 2010.[31] The 2010 edition is considered the most appropriate standard for this study, which covers the years between 2010 and 2014 inclusive.

Financial accounting plays an important role in providing the information, which users of the financial statements of Islamic banks depend on in assessing the bank's compliance with the precepts of *Shariah*. However, to perform this role effectively, accounting standards need to be developed and complied with by Islamic banks. The development of such standards must be based on clear objectives of financial accounting and agreed upon definitions of its concepts. In parallel with the positive growth of the IFI industry, the AAOIFI has published 85 standards that are comprised of 26 accounting standards, 5 auditing standards, 7 governance standards, 2 ethics

[31] The updated standards were adopted by the AAOIFI standards board meeting no. 35 on 2 April, 2009. This updated standard effective was to be implementing for financial period beginning 1 January, 2010.

standards, and 45 *Shariah* standards (AAOIFI, 2010). The AAOIFI has been recognized and mandated to develop accounting, auditing, governance, and ethics standards to ensure that IFIs operate in line with *Shariah* principles in order to promote comparable, transparent, and reliable accounting information for the stakeholders. Thus, it can be concluding that the AAOIFI standards are important tools in enhancing the growth of the IFI industry.

There have been many studies examining the appropriateness of conventional accounting for an Islamic economy. Scholars such as Haniffa (2002), Haniffa and Hudaib (2001), Baydoun and Willett (1995), Hamid et al. (1993), and Karim and Tomkins (1987) have suggested that Islam must influence the approach and the manner in which accounting is practised. Hameed (2001) calls for a strong support among Muslim accountants and accounting academics for applying Islamic accounting, as well as accountability framework instead of using the decision-usefulness framework of conventional accounting, and the need for developing specific accounting that helps Muslims to fulfil their objectives and achieve God's consent. Mirza and Baydounl (1999) found that Islamic societies need accounting and reporting standards that support them in obeying *Allah* and satisfying other stakeholders. Moreover, annual reports of IFIs may include a comprehensive disclosure about the firm's operations, financial compliance with Shariah, as well as social information. Al-Mehmadi (2004) concluded that Islamic banks need special accounting standards. In addition, International Accounting Standards (IASs) based on such techniques would create difficulties for Muslims (Shadia, 2007).

Hameed (2001) explains that the worldview, principles, objectives, and values of Islam are different from secular, Western society. As such, the particular obligations and prohibitions in the economic and social arena under *Shariah*, and the establishment of Islamic organisations, require a different accounting framework. Therefore, conventional accounting may be an inappropriate tool for the task. Hameed considers that an Islamic economy needs a different accounting system that corresponds to Islamic values and provides appropriate information for the Muslim users to help them achieve their religious objectives. Obviously, many studies have investigated different issues and aspects that affect the nature of accounting in Islam, such as *Zakat*, *Riba*, Islamic reporting scheme, disclosure, Islamic financial instruments, *Mudarabah,* and other issues (e.g., Ayub, 2007; Lewis, 2006; Maali et al., 2006; Siddiqi, 2005). Haniffa and Hudaib (2001) criticise conventional accounting, as well as international accounting standards like IFRS, as being inappropriate for Muslims and for IFIs. They assert that Islamic accounting helps Muslims to achieve the consent of *Allah*. They criticise conventional accounting as being barred from religion, as well as failing to ensure society's long-term wellbeing.

Ullah (2013) stated that, compared to other general or banking companies, Islamic banks are required to comply with *Shariah* standards, such as the AAOIFI standards. Moreover, Hossain (2010) stated that the Islamic banks are to abide by more rules and regulations than conventional banks, that is, conventional banks do not comply with the AAOIFI standards. As the activities of Islamic banks are different than those of their counter parts, their accounting and reporting is also different. These Islamic banks need to disclose some information; which conventional banks are not required to disclose. The AAOIFI has been recognized and mandated to develop standards that are in line with *Shariah* principles in order to promote comparable, transparent, and reliable accounting information for users. Thus, the main objective of the AAOIFI is to prepare and develop accounting, auditing, governance, and ethical standards relating to the activities of IFIs (Sarea and Hanefah, 2013).

However, Hameed (2001) argues that IFRS is inappropriate for IFIs because of the uniqueness of the transactions of Islamic banks. Also, IFRSs are not compatible with Islamic banks (Maali and Napier, 2010). To enhanced the disclosure level among Islamic banks. IFIs need Islamic accounting and Islamic standards, such as the AAOIFI standards, that complies with *Shariah* and support these institutions to achieve accountability towards *Allah,* as well as all stakeholders. Consequently, this research looks for the AAOIFI as a benchmark; the ideal models and best practices for all IFIs are those that could support them to disclose full information about CSR information and assist Islamic banks to fulfil the contract between themselves and *Allah* first, then towards stockholders, stakeholders, society, and others.

3.4.3 AAOIFI and CSR

Corporate social responsibility (CSR) for IFIs refers to all activities carried out by an IFI to fulfil its religious, economic, legal, ethical, and discretionary responsibilities, as financial intermediaries for individuals and institutions (AAOIFI, 2010). The AAOIFI issued Governance Standard No.7 (2010) to organise the activities related to CSR. The primary objective for this standard is to ensure that CSR activities and the compliance of IFIs is communicated in a truthful, transparent, and comprehensible manner to relevant stakeholders (AAOIFI, 2010). The accountability for CSR disclosure under this standard is divided between 5 mandatory disclosures (such as earnings and expenditure prohibited by *Shariah* and *Zakat*) and 6 voluntary disclosures (such as *Qard Hassan*, charitable activities and *Waqf* management) (AAOIFI, 2010). The CSR literature on Islamic banks has revealed an expectation gap between actual/communicated disclosures and ideal disclosures.

Haniffa and Hudaib (2001) state that disclosure in Islamic banks is a vital factor that helps Muslims to fulfil their religious duties. They add that Islamic banks are supposed to disclose any information concerning forbidden transactions they make, information related to *Zakat* obligation, and the bank's social responsibility, such as charities, and environmental protection. This shows us that financial reports in IFIs are likely to be more detailed than the financial reports in conventional institutions.

Maali et al. (2006) found that the level of social disclosure by the sample banks was well below their benchmark index. Haniffa and Hudaib (2007) found a significant gap between the communicated and ideal ethical disclosures for 7 Islamic banks. Belal et al. (2014) found an overall increase in both particular and universal disclosures during their study period. Hassan and Harahap (2010) concluded that some Islamic banks pay scant attention to disclosing their social activities and, thus, argued for a standard on CSR disclosure relevant to IFIs. Farook et al. (2011) found substantial variation in CSR disclosures and this variation is best explained by the presence of SSB governance and the preponderance of Muslims in their sample countries. From the above discussion, it can be concluding that’s are several factor/determinants in influence the CSR dislcosure level practice among Islamic banks such example the existance of SSB who provide an advice to Islamic banks manager.

3.5 Collective Religious Duty of Islamic Financial Institutions (IFIs)

According to the AAOIFI (2010), IFIs came into existence as a collective religious obligation (*Fard Kifayah*)[32] on the larger Muslim community. The obligation is to operate as a financial intermediary for individuals in the larger community wishing to

[32] *Fard Kifayah* refers to a collective religious duty, which, if performed by some, would exempt others from performing it. However, if it’s not performed by any, the entire community is sinful.

comply with Islamic law (*Shariah*). In this special position, IFIs are therefore representatives for individuals who:

a) Invest their money as shareholders or investment account holders.

b) Have co-operative, partnership, or borrowing relations with the IFIs.

c) Are employed by the IFIs.

d) Have other explicit contractual relations with the IFIs.

e) Have an implicit social contract with the IFIs as part of the larger Muslim community.

IFIs hold a position of significant responsibility in society as financial intermediaries, which source and allocate funds. The example set by IFIs has an impact on other individuals and organizations. These two points denote that IFIs are a *fard kifayah* It is therefore pertinent that IFIs play a role in encouraging the right type of behaviour and activities, while discouraging the wrong type of behaviour and activities.

Religiously, IFIs have a responsibility to comply with the form and substance of Islamic law (*Shariah*) in all aspects of their operations. This is because they are in an exemplary position. This means that all aspects of its operations should be conducted in a permissible or recommended manner, while no respect of the operations should be conducted in an impermissible, or not recommended, manner. If business is conducted in an impermissible, or not recommended, manner, it is an obligation to disclose to the stakeholders the reasons for that particular conduct (AAOIFI, 2010).

3.6 Corporate Social Responsibility Disclosure (CSRD)

The last few decades have witnessed increased interest in corporate social responsibility (CSR). The interest in corporate social responsibility disclosure (CSRD) has increased with time (Taha, 2010). Today, as ranges of stakeholder groups starts to demand information about social and environmental issues from the financial companies, the companies have to justify all their activities to a wider public by increasing their communications on a range of issues and not just confine themselves to communicating about the economic dimensions of their operations (Daub, 2007). CSRD is a key tool for communicating with stakeholders regarding a company's social responsibility activities. It forms a central charter for public relations in communicating and creating mutual understanding, managing potential conflicts, and achieving legitimacy (Golob & Bartlett, 2007).

There are several views of CSR disclosure defined by previous scholars (Huang, 2015) McWilliams and Siegel (2006) define corporate social responsibility as firms' efforts to surpass compliance by voluntarily engaging in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law". This means incorporating economic, legal, ethical, and philanthropic responsibilities into corporate decision making (Carroll, 1979), and it represents a potential departure from shareholder theory, in which firms strive to maximize shareholder wealth within legal constraints and basic social norms (Friedman, 1970). Shareholder theory has been a dominant assumption throughout research in economics, finance, and accounting. Corporate social responsibility is intriguing because it suggests that firms are motivated to make decisions that do not always obviously maximize wealth for the shareholders. Under stakeholder theory, as suggested by some CSR scholars, firms strike a balance between shareholder interests and the interests of other stakeholders (Carroll, 1991). This tension generates important questions that accounting researchers have a voice in answering.

CSR disclosure, in general, can be defined as the provision of financial and non-financial information relating to a company's interaction with its physical and social environment, as stated in corporate annual reports or corporate social reports, and it can be either mandatory or voluntary (Hackston & Milne, 1996). Social and environmental disclosure can typically be thought of as providing information relating to a company's activities, aspirations, and public image, with regard to environmental, community, employee, and consumer issues (Gray, et al. 2001). Haron et al. (2004) indicate that social disclosure can provide either positive information, which presents the company as operating in harmony with the environment, such as stating that the company is conducting training programmes for employees or that waste-management policies are being undertaken, or negative information which presents the company as operating to the detriment of environment, such as the inability to control or reduce pollution, or failure to solve a social problem. From the researcher's perspective, CSRD can be defined as an ability of the companies to provide relevant and suitable information in the financial report, or on the website, of the business activities, which meet the shareholders' and stakeholders' needs, such as an information of charity activities to the society.

Aaronson & Reeves (2002) argue that there is public pressure to develop corporate social responsibility (CSR) policies arising from the failure of voluntary disclosure as suggested by the authorities' body. This public pressure acts as a driver for governments, as well as other institutions, such as the AAOIFI, to provide different guidelines and standards for CSR disclosure practices and reporting. However, these efforts do not attempt to make CSRD mandatory by law, but seek to find the middle way, by which companies are held accountable for their actions. Van der Lann (2004) indicates an emerging form of CSR disclosure, the solicited disclosure, in which companies are increasingly asked to account, in various forms, about their interactions with, and impacts on, society. Non-governmental organisations (NGOs), regulatory agencies, ethical or socially responsible fund managers, ratings agencies, and other interested parties are requesting social information from companies. The difference between voluntary and solicited disclosure is the motive to provide the information. The motive for voluntary CSR disclosure comes from the management of companies, either in response to a threat to their legitimacy or a need to account, while the motive for solicited CSR disclosure is a direct request from the identified stakeholders (Van der Lann, 2004).

3.7 CSR disclosure: Mandatory vs Voluntary

Financial disclosure is an issue of whether information was intended by the corporate finance or not, compulsory or voluntary, through formal or other channels, it includes special reports covering social responsibility, environment, intellectual capital, and other corporate initiatives (Gibbins, Richardson and Waterhouse, 1990). Williams (2008) described the financial disclosure as providing quantitative information in the financial statements, business segment information, the research information, foreign information, and pricing information. On the other hand, it includes the non-financial information details, such as directors, staff, or intangible assets disclosure (Williams, 2008).

The discussion of disclosure in financial reporting can be divided into two main sections: voluntary or mandatory disclosure. In general, voluntary disclosure can be defined as “any disclosure by companies not mandated by law and/or self-regulatory bodies" (Owusu-Ansah, 1998, p. 154). In other words, voluntary disclosure is the situation when the companies disclose information that is not required by law or regulations, and it exceeds the minimum requirement of mandatory financial reporting disclosure. Schipper (2007, p. 303) pointed out that voluntary disclosure is needed, as the objective is to maximize a firm's value or its manager utility.

On the other hand, mandatory disclosure is the minimum information, which accounting standards or other promulgations require from a reporting entity (Dye, 2001: p. 184). According to Owusu-Ansah (1998), mandatory disclosure is limited disclosure to provide the financial information or is not a material complying with the disclosure guideline. Mandatory disclosure is needed for the following reasons: a) to describe recognized and unrecognized items; b) to provide a useful measure of unrecognized items; c) to provide alternative measures of recognized items; d) to provide information useful for assessing risks; e) to provide information, temporarily, while other solutions are being studied (SFAS, No. 105, cited in Schipper, 2007, p. 305). It could, therefore, improve the prediction level, as well as help users in making sound decisions.

The demand from companies to be more transparent in financial reporting disclosure has gained momentum due to popular recognition approach of stakeholders rather than shareholders, who traditionally recognized approach of exposure (Boesso & Kumar, 2007; Ng & Rusticus, 2011). Companies use several ways and channels to disclose their information, such as annual reports, interim reports, conference call services, press releases, prospectuses, and websites as channels to communicate with their stakeholders (Laskin, 2010 cited in Wright & Hinson, 2012). Annual reports have become the most important medium in present companies' current information to the stakeholders and shareholders (Lang & Lundholm, 1993; Arvidsson, 2011).

From the client's perspective, they tend to request further information, quickly and in a timely manner over the years. It has engraved a role for the Internet as a medium of exposure (Aly, Simon and Hussainey, 2010) and it has become as an alternative medium for timely disclosure by companies (Abdelsalam and El-Masry, 2008). A firm with greater disclosure has more analysts who follow them, a lack of dissemination of the analysts' forecast, and less volatility in the transmission prediction (Lundholm Lang, 1993). Piotroski (1999) found that disclosure on a voluntary basis could improve the accuracy of the predictions of analysts and reduce the spread of the forecast.

In this study, IFIs are expected to fulfil their religious and social responsibility, which obeys the laws of Islam in all their dealings and operations towards society. In enhancing the IFIs to fulfil their religious and social responsibility, the AAOIFI have uniform standards on CSR activities and compliance for IFIs. The main aim of the standard is to ensure that the CSR activities and compliance of IFIs are communicated in a uniform, truthful, transparent, and comprehensive manner to relevant stakeholders, to whom the IFIs owe a duty of accountability. It consists of 5 mandatory and 6 voluntary conducts, which cover all aspects of CSR, such as social responsibility towards employees, clients, and society. This guideline will be used to develop the disclosure index in measuring the level of CSR information disclosed among the sample Islamic banks.

3.8 Summary

This chapter provided a clear insight in CSR disclosure discussion from Islamic perspectives and the function of AAOIFI to enhance CSR disclosure practice among Islamic banks. With a discussion of corporate social responsibility in Islam and explained the extent to which Islam influences CSR. It also explained the religious duty of Islamic banks to society and to God (*Allah*). Corporate social responsibility has been defined in this chapter from the Islamic perspective, which differs from the Western view in five areas. First, the economy is not regarded as something independent; the concept of Unity (*Tawhid*) makes this impossible: all things in this world belong to Allah and mankind is a *Khalifah* (vicegerent) and should manage the property, which is not contradictory with the *Shariah* (Islamic law). Secondly, although Islam recognises the importance of market mechanisms, it regulates their workings to prevent market failure that is socially disruptive and in violation of the norms of justice and fairness. Thirdly, although self-interest is the driver, it must be linked to an overall concept of justice. All transaction in business should be free from *Riba* and Islamic banks are highly recommended to provide an interest-free loan such as *Qard Hassan* (benevolence loan) to alleviate poverty in the community.

Fourthly, although private property and private enterprise are undeniable rights, the moral filter transforms them so that property, in all its forms, is a trust (*amanah*); mankind also should be responsible towards environment. The property rights are subject to moral limits and are a means to achieving an ethical Islamic way (*Maqasid-Al-Shari'ah*), rather than ends in themselves; Islamic banks should ensure that they fulfil the *Maslahah* to society. Finally, as a vicegerent of *Allah*, mankind should be transparent and accountable in their transaction. The ethical principles in social justice, such as the *Shariah*, Justice, *Zakah*, *Riba*, *Maslahah*, *Tawhid*, Benevolence, Transparency, and Accountability, is evidence of how Islam really encourages and is concerned with social issues. Therefore, it is expected that all the institutions and organizations, which are established under the name of "Islam" should be more "Islamic" in conducting and managing their business. The next chapter will provide a theoretical framework of the study.

CHAPTER 4: THEORITICAL FRAMEWORK

4.1 Overview

This chapter will provide a discussion of the theoretical framework of the study. In general, the theoretical framework of the study will enable the researcher and reader to see how the findings are accurately related to the research questions and hypotheses. In other words, it plays a significant role in the explanation or justification of the link between what the researcher expects, and the findings.

According to the Cambridge Dictionary (2009), theory can be defined as ‘a formal statement of the rules on which a subject of study is based, or of ideas, which are suggested to explain a fact or event or, more generally, an opinion or explanation’. Gray et al. (2009, p. 13) stated, “the lens of theory enables us to evaluate practice and policy against criteria that we deem appropriate”. Generally, the literature presents many theories in order to explain the variation between entities in terms of their level of disclosure. Various theories have been developed to explain managers’ incentives for disclosure. However, there is no general or comprehensive disclosure theory that can be applied (Verrecchia, 2001).

Apparently, each theory explains different aspects of corporate disclosure or it looks at this phenomenon from different perspectives (Al-Htaybat, 2005). Therefore, it was argued that several theories could be used in an integrated framework to provide an explanation for managerial incentives, which affect CSR disclosure (Al-Htaybat, 2005). Several theories could explain the disclosure phenomena, such as stakeholder theory, agency theory, signalling theory, and accountability theory. Nevertheless, explaining disclosure supported by only a single theory is not comprehensive enough. Alberti-Alhtaybat et al. (2012) argue that disclosure theories, such as agency theory and stakeholder theory, would be of great help in explaining a particular phenomenon by providing clear insights in the understanding of the CSR disclosure practices. Further, it can be considered as a complementary aspect of disclosure discussions. Prior studies (Farook et al. 2011) argue that there is a consistency between both agency theory and stakeholder theory. Therefore, agency theory and stakeholder theory can be considered to be interrelated theories to explain the determinants of CSR disclosure. In general, agency theory concentrates on the relationship between the principal and the agents who are given the authority to manage the principal's interests and make beneficial decisions. Alternatively, according to general stakeholder theory, society expects corporations to behave in a manner that is beneficial in terms of their social or economic role.

Studies in corporate disclosure have primarily focused on the effect of firm characteristics on the extent of corporate disclosure (Ahmed and Courtis, 1999). In recent years, one of the most extensively discussed topics in this field has been how to design corporate governance mechanisms that lead to more disclosure levels (Cormier et al., 2005; Gul and Leung, 2004). Thus, agency theory provides a framework for connecting the disclosure behaviour to corporate governance through considering both as mechanisms used to protect stakeholders and assist them in reducing agency conflicts (Jensen and Meckling, 1976). Aksu and Kosedag (2006) propose that disclosure practices followed by corporations are a significant element and a leading indicator of corporate governance quality. Beeks and Brown (2005) argue that businesses with high CG quality make more disclosures that are informative. Further discussion of agency theory will be discussed in the next section.

The objective of this section is to present the main theories that provide a fundamental background with regard to the determinants and consequences of CSR disclosure. This chapter begins with the discussion of agency theory and then it continues with stakeholder theory, legitimacy theory, accountability theory, signalling theory, and economic theory. Last but not least, the summary of the chapter.

4.2 Agency Theory

The most dominant of all the disclosure studies is agency theory, which has been referred to widely in many disclosure studies. This theory basically refers to a principal-and-agent relationship. Jensen and Meckling (1976) defined the agency relationship as a contract, under which a principal engages an agent to perform a service on their behalf. They also identified the three types of agency costs, which are associated with agency problems. Firstly, there are monitoring costs that are incurred by giving certain incentives to the agent, which motivates him to act for the principal interests. Secondly bonding costs, which occur when the agent uses additional resources in order to make sure that his actions will not be against the principal of interests. Thirdly, there is the residual loss that results in the reduction of the principal’s welfare.

Previous studies also used agency theory to explain the decision to disclose CSR information, such as social and environmental information (Shane and Spicer, 1983; Belkaoui and Karpik, 1989; Ness and Mirza, 1991). Agency theory suggests that there is a separation between the ownership and the control of a firm; the potential for agency costs exist from the conflicts of interest between principals and the agents (managers) (Hossain et al., 1995). Each party makes a decision based on its self-determined goals (Safieddine, 2009). Therefore, agency costs, which include the cost of monitoring and controlling, are incurred by the principal and bonding costs are incurred by the agent. From the agency theory perspective, companies (management) are motivated to disclose more CSR information to convince the stakeholders that they are behaving optimally on the stakeholder's behalf, their concern on CSR issues and, as a result, it can reduce agency cost.

Agency theory also provides a framework for explaining disclosure practices by different firms, such as financial and unit-trust companies (Hill & Jones, 1992). It is claimed that agency theory predicts that agency costs are associated with different corporate characteristics, such as size, leverage, and listing status (Watson et al., 2002). Furthermore, corporate governance (CG) mechanisms are introduced by shareholders in order to aligned managers' actions with shareholders' interests. As a result, many empirical studies used firm characteristics and CG mechanisms as determinants of corporate social disclosure in accordance with agency theory assumptions (e.g. Ghazali and Weetman, 2006; Ho and Wong, 2001; Haniffa and Cooke, 2002; Ajinkya et al., 2005; Tauringana and Mangena, 2009; Hussainey and Al-Najjar, 2011). The implication of this theory has given rise to several hypotheses, such as the influence of *Shariah* Supervisory Board (SSB), who act as an agent on behalf of the banks in promoting CSR disclosure practice.

In other perspectives, information asymmetry problem and agency conflicts could exist between companies' managers and outsider stakeholders (Healy and Palepu, 2001). Outsiders usually do not have access to the internal information about the company, which is only available to the manager's/management team. Prior research (i.e. Sheu et al., 2010) shows that disclosure can reduce the information asymmetry between insiders (managers) and outsiders (stakeholders) and, hence, reduce agency conflicts between both parties. As a result, it leads to increasing the firm value (Sheu et al., 2010). Thus, the influence of CSR disclosure on firm value (FV) can also be understood based on agency theory. This theory will be used to test both the CSR disclosure determinants (RQ 2) and consequences (RQ 3) variables.

4.3 Stakeholder Theory

Stakeholder theory focuses on the assumption that the behaviour of various stakeholder groups encourages management to relate corporate needs with its socio-environment. Freeman (1983) defines a stakeholder as any group or individual who can affect, or is affected by, the achievement of organisations' objectives, and suggested that corporations should identify their direct and indirect stakeholders. Later, he indicated that the stakeholder theory could be used as a metaphor or a compilation of different narratives; thus, it cannot be described as one theory owing to the various interests of the stakeholders involved. It has become increasingly apparent that stakeholders have the ability to influence the way in which corporations conduct themselves, and ultimately influence their 'licence to operate' (Wilson, 1997). This implies that if a firm dissatisfies a relevant stakeholder, this stakeholder can apply pressure on the firm to meet its expectations. According to Ullman (1985), the greater the importance of stakeholders' resources or support for an organisation, the greater the probability that the stakeholders' expectations will be incorporated in an organisation's operation. In other words, the level of stakeholders' power increases as the importance of meeting stakeholders' demands increases (Deegan, 2000).

Stakeholder theory also reflects "the incorporation of social responsibility into the corporate planning framework, attempting to develop a corporate strategy that meets the approval of an organisation's key stakeholder groups and also provides the potential explanation of social accountability disclosure in terms of corporate responsiveness to the intensity of stakeholder demands, corporate strategic orientation towards its social responsibilities, and trade-off between corporate economic and social objectives" (Parker, 2005, p. 845). Several studies also investigated the relationship between social disclosure and stakeholder theory (e.g., Freeman, 1983; Adams and Harte, 1999). Adams and Harte (1999) used stakeholder theory to explain the decisions of managers to disclose certain social and environmental information in their annual report. They found that firms would not disclose social information if there was little demand for such information or that those who demand it were not considered highly prominent by the organisation.

However, stakeholder theory was criticised as being supportive for corporate disclosure being primarily responsive to the most powerful and influential stakeholders (Deegan, 2002; Gray et al., 1995, 1997). Although there are limitations in stakeholder theory, it has been conceded that stakeholder theory is useful; "it defines the influenced groups for us and explicitly defines what accountability the organisation itself is willing to recognise and discharge" (Gray et al, 1997, p. 333). In line with stakeholder theory, it is expected that CG characteristics could affect CSR reporting. For instance, the size of the board would affect the CSR disclosure practice in Islamic banks; they will provide more CSR information to meet the demands of their stakeholders. This theory will be used to test the CSR disclosure determinants (RQ 2) variables.

4.4 Legitimacy Theory

This theory proposes that corporate disclosures are made as reactions to environmental and non-environmental factors (including social, economic, and political) in order to legitimise corporate actions and activities. Patten (2005) suggests that the theory is based upon the notion that business (Islamic banks) operates in society via a social contract and, as such, is monitored through the public-policy arena rather than the market place. Adams and Roberts (1995) also suggest that this theory is used by firms to legitimise its activities by seeking to present the company as a responsible corporate citizen. In other words, in legitimizing its actions via disclosing all the CSR activities in the annual report and justifying its continued existence in the market.

Legitimacy theory asserts that "organisations continually seek to ensure that they operate within the bounds and norms of their respective societies, which is an attempt to ensure that their activities are perceived by outside parties as being legitimate" (Deegan, 2000, p. 253). Suchman (1995, p. 574) defines legitimacy theory as "a generalised perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially-constructed system of norms, value, beliefs and definitions". According to legitimacy theory, a firm which operates in society, such as Islamic banks, have a social contract whereby it agrees to carry out various socially desired actions in return for the approval of its objectives, other rewards, and its ultimate survival (Guthrie and Parker, 1990). Deegan (2002) argues that the "social contract is not easy to define but the concept is used to represent the multitude of implicit and explicit expectations that society has about how the organisation should conduct its operations".

Lindblom (1994) suggests four ways for an organisation to legitimise its actions: first, educate and inform its relevant customers about changes in the company's performance and activities; secondly, change the perceptions of the relevant public but do not change its actual behaviour; thirdly, manipulate perception by deflecting attention from the issues of concern to other related issues through an appeal; and, lastly, change the external expectations of its performance.

Thus, the interpretation of these studies suggests that the disclosure of social information seems to be proof for Islamic banks to provide information on their activities to legitimize their behaviours. They have to disclose enough information to assess whether they represent a good corporate citizen or not (Maali et al., 2003). Several studies have sought to employ legitimacy theory as a drive for disclosure (e.g., Deegan and Rankin, 1996; O'Dwyer, 2002; Campbell et al., 2003; Staden, 2003; Ahmad and Sulaiman, 2004; Ogden and Clark, 2005; De Villiers and Staden, 2006; Branco and Rodrigues, 2008). However, Gray et al. (1995) and Deegan (2002) assert that legitimacy theory overlaps with political-economy theory and institutional theory. In addition, legitimacy theory also has been criticised for lacking specificity and it is uncertain in its ability to anticipate and explain managerial behaviour (Parker, 2005).

Concerned with the economic consequences for social disclosure, legitimacy theory also argues that corporations may be enthusiastic to disclose social information to legitimize their position within society (Deegan et al., 2002). McDonald and Rundle-Thiele (2008) find influences of CSR on corporate profitability through the creation of intangible assets such as good reputation, trust, and commitment, which drive the long-term success of the business. This improves the firm's ability to attract resources, enhance performance, and build competitive advantages and enhancing firm value (FV) (Fombrun et al., 2000). Widespread previous research proposes that disclosure reporting can influence positively on stakeholders' perceptions of firm performance and, thereby, on firms' profitability and share price (Lourenco et al., 2012). This theory will be used to test both the CSR disclosure determinants (RQ 2) and consequences (RQ 3) variables.

4.5 Accountability Theory

According to general accountability theory, the term ‘accountability’ refers to the duty of accountors (agents/directors/managers) to provide an account (information/report) to accountees (stakeholders/users/society). It shows the managers’ responsibility to fulfil a defined set of duties or tasks and for conforming the rules and standards applicable to their posts in companies (Jagadeesan et al., 2009). According to Gray et al. (1995), to be socially accountable, managers are required to provide all financial and non-financial information to their stakeholders. Moreover, part of emancipatory accounting is to render an entity’s socio-economic activity visible. Making social problems visible may be seen as an emancipatory potential of accounting, as providing information may bring nearer a resolution. Furthermore, the accountability between accountee (principal) and accountor (agent) differs depending on the accountee. For example, managers may be accountable to workers for their salary and health and safety, as well as all employees’ rights, while employees may be responsible for their work performance.

From an Islamic point of view, Muslims, as well as Islamic banks, are accountable to *Allah* to obey and worship Him, as well as comply with the *Shariah*. It can be understood that accountability may be determined by the contractual relationship between the different parties (Gray et al., 1995). On another hand, some scholars have a deeper view regarding the meaning of accountability. Gallhofer and Haslam (1994, p.326) stated that “accountability is not so much about holding responsibility and judging behaviour; nor does it assume a simple agency-principal relation, but accountability appears equivalent to the ability to render accounts conducive to well-being”.

Accountability, from an Islamic perspective, refers to a responsibility to *Allah* as a main accountee, then society and other stakeholders. Thus, accountability theory is applicable for this study through extending this concept to contain more than investors and owners for Islamic banks. In Islam, as a creator, God (*Allah*) has an absolute ownership of the resources. Human beings are merely trustees in this world, therefore, they are required to behave according to God's (*Allah's*) will, protecting and looking after each other and God's other creations, as mankind will be accountable for their actions in this world on the Day of Judgment (*Al-Qhiamah*) (Baydoun and Willett, 1997; Maali, Casson and Napier, 2006). Accountability in Islam also includes accountability towards the community; Baydoun and Willett (2000) argued that companies, such as Islamic banks, should disclose all information required by their stakeholders and society, in order to fulfil its responsibility in providing CSR information. This theory will be used to test the CSR disclosure determinants (RQ 2) variables.

4.6 Signalling Theory

The company's annual reports contain information that serves as signals required by investors. Investors employ signals as considerations in making a decision. Signalling theory is valuable for companies and investors because the information delivered by firms provides signals that can reduce information asymmetry. This study primarily makes use of agency theory; it is also worth noting that some prior studies use signalling theory to explain corporate disclosure decisions (e.g., Wang et al., 2008). Signalling theory is considered to be an extension of agency theory (e.g., Buskirk, 2012; Jensen and Meckling, 1976). Spence (1973) introduced signalling theory in 1973 through his research on the information gap between employee and employer. It was developed to explain the information asymmetry between managers and shareholders (e.g., Black et al., 2006a; Morris, 1987). Signalling theory can be applied in the event of information asymmetry and, hence, this problem may be reduced when the party who has more information signals it to other interested parties. Signalling is a common phenomenon, applicable in any market with information asymmetry (Morris, 1987). Therefore, this theory was used to explain managers' incentives to disclose more information in financial reports (e.g., Haniffa and Cooke, 2002). Managers have to disclose adequate information in the financial statements to convey specific signals to potential users. Morris (1987, p. 51) claims that in order to ensure that information signalling from firms is effective in reducing the information asymmetry, the signalling costs must be borne by agent so that they have an incentive to signal truthfully.

According to signalling theory, a manager discloses information in order to reduce information asymmetry and to signal to outsiders that a firm is performing better than its peers (Álvarez et al., 2008). Signalling theory posits that investors rely on the information delivered by firms (Abhayawansa and Abeysekera, 2009), highlighting that the credibility of information is crucial in ensuring less information asymmetry (Hughes, 1986). In this regard, "A good firm can distinguish itself from a bad firm by sending a credible signal about its quality to capital markets". Bhattacharya and Dittmar (2004) argue that a signal will be credible only if the bad firm chooses not to mimic the good firm by sending the same signal.

In this study, signalling theory is the main theoretical framework that is used to explain the economic consequences of disclosure through measuring association between CSR disclosure and FV. Based on this theory, inclusive disclosure signals better CG and fewer agency struggles, leading to higher FV (Sheu et al., 2010).

Signalling theory is the main theoretical framework that is used to explain the association between disclosure and firm value (FV). Based on this theory, comprehensive disclosure signals better CG mechanisms and fewer agency conflicts, therefore leading to higher firm value (FV) (Sheu et al., 2010). It is argued that voluntary disclosures in the annual report send signals to the marketplace that are expected to increase a company’s net present value and, consequently, its stock market value (Gordon et al., 2010). Curado et al. (2011) point out that corporate disclosure influences firm value (FV) as perceived by markets. Cormier et al. (2011) claim that, disclosure delivers value-relevant information to stock markets. Gallego-Alvarez et al. (2010) provided evidence that disclosure has a positive consequence on shareholder value creation.

The importance of corporate disclosure arises from being a means of communication between management, outside investors, and market participants. Enhanced corporate disclosure is believed to mitigate the asymmetry problem and agency conflicts (Lambert et al., 2007). The consequences of increasing disclosure levels are often discussed in terms of reduced mispricing, cumulative profitability and growing firm value (FV) (Botosan and Plumlee, 2002). Consequent empirical studies provide supporting evidence about the association between disclosure and firm value (FV). For instance, Healy et al. (1999) find that firms with expanded disclosure levels experience substantial corresponding increases in firm value (FV). The direct effects of the corporate disclosures have the ability to change the firm value (FV) by affecting managers’ decisions and, hence, varying the distribution of future cash flows (Lambert et al., 2007). Thus, improved corporate disclosure may increase the market value for firms (Elzahar et al., 2015). This theory will be used to test both the CSR disclosure determinants (RQ 2) and consequences (RQ 3) variables.

4.7 Economic Theory

Economic theory was developed by Jensen and Meckling in 1976. The underlying assumption of the existing economic theory is that the motivation to invest in acquiring information is based on the expected effect of the investment on the party's share of the "contractual pie". A party invests in acquiring information in the pre-contractual phase on the basis of its belief that there is a high enough probability that some positive information will be revealed and that information may enable it to receive or provide an asset, whose value (costs) is higher (lower) than the price paid (received). When a disclosure duty is imposed, the investing party bears the costs of acquiring information before the contract is formed but cannot extract the benefits, since the price would reflect the actual value of the asset (Jensen and Meckling, 1976).

In particular, this theory has been widely used by accounting researchers to explain and understand the voluntary disclosure phenomenon (e.g. Hossain et al., 1995; Meek et al., 1995; Haniffa and Cooke, 2002; Hossain and Taylor, 2007; Chen et al., 2008; Akhtaruddin and Hossain, 2008). A major link between economic theory and contemporary accounting thought is the notion that a firm's commitment to greater disclosure should lower the costs of capital that arise from information asymmetries and positively affect the firm value (Leuz and Verrecchia, 2000). A commitment to increased levels of disclosure reduces the possibility of information asymmetries arising between the firm and its shareholders. This, in turn, should reduce the discount at which firm shares are sold and, hence, lower the costs of issuing capital and increasing the firm value (Baiman and Verrecchia, 1996).

The purpose of economic theory used in this study is to measure the impacts of increasing disclosure on the firm value. It argues that disclosure has positive impacts on FV (Lundholm and Van Winkle, 2006), such as: first, better quality information permits investors to make accurate appraisals of the parameters underlying the future stock returns, lessening non-diversifiable estimation risk and uncertainty about future cash flows as well as future profitability (Clarkson et al., 1996). Secondly, through enhanced disclosure, the willingness for investors to trade is increased in addition to increasing the shares' liquidity and improving firm value (FV) (Easley and O'Hara, 2004). Economic theory also advocates that increased levels of voluntary disclosures can reduce information asymmetries between the firm and market participants and, as a result, increase the firm's stock liquidity as well as enhancing firm value (FV) (Beyer et al., 2010). This theory will be used to test the CSR disclosure consequences (RQ 3) variables.

4.8 Summary

The previous debate has revealed that there is no single specific theory that can explain the CSR practices. Each theory has its specific role in explaining the disclosure phenomenon from a different perspective. For instance, in accordance with agency theory, managers will be motivated to present particular CSR information that proves their acting for the interests of the stakeholder. On the other hand, one can argue that this is driven by their need to signal themselves as high-quality managers (signalling theory).

In this context, Gray et al. (1995) assert that different theoretical perspectives need to be seen as sources of explanation for different factors at different levels of resolution, not as competitors for explanation. In line with this conclusion, Beattie and Smith (2012) documented that adopting more than economic and managerial theories will enable us to explain managers' incentives to disclose information. Therefore, it will not be suitable to use a specific theory alone to give a logical base for CSR reporting in practice. Variables that represent determinants and consequences of CSR disclosure can be explained by more than one theory. Thus, adopting a combination of theories will be useful for attaining greater insights to investigate the cause and effect of CSR disclosure in Islamic banks. This approach will be relevant as there are a variety of variables that are suggested in the literature as explanatory factors for corporate disclosure.

To sum up, stakeholder and accountability theory are the most relevant theories to the research questions (RQ 3) of this study, related to disclosure and its determinants. While agency and legitimacy theory can be used both in the explanations of the determinants (RQ 2) and consequences (RQ 3) of CSR disclosure. On the other side, signalling, as well as economic, theory is also applicable to explain the economic consequences of CSR disclosure in answering RQ 3. The next chapter will provide a literature review, and then develop a hypothesis for CSR disclosure determinants and consequences.

CHAPTER 5: LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

5.1 Overview

This chapter has seven parts, consisting of an introduction, followed by a discussion of Islamic banks and CSR, prior study of CSR disclosure from Islamic perspectives, prior studies of CSR disclosure in Islamic banks, and a prior study on CSR disclosure determinants. Then, the chapter discusses the CSR determinants and consequences, thus developing its hypothesis. All the hypotheses are developed based on the gaps in the prior literature and supported with a relevant theory.

5.2 Islamic Banks and Corporate Social Responsibility (CSR)

The establishment of Islamic banks was due to the criticism of conventional banks charging interest on their banking activities. The practice of interest has been reported to have a negative effect on the development of the socio-economic system (Siddiqi, 1983; Ariff, 1988; Lewis and Algaoud, 2001; Ahmad and Hassan, 2007). Chong and Liu (2010) stated that the prohibition of interest, or *Riba,* in Islam can be viewed as part of Islam's general vision for a moral economy. Thus, Islamic banking was introduced as an alternative to conventional banking. Islamic banks have a strong responsibility to society to establish a fair distribution of income, justice in the economy, and efficient capital mobilisation. These characteristics clearly suggest that Islamic banks should display a strong fundamental sense of social responsibility. The present study's examination of the corporate social responsibility of Islamic banks was, therefore, important in order to establish whether their CSR practice is in accord with the spirit of their establishment.

Islamic banks' commitment to CSR can be decoded through the philosophy underlying their establishment. According to Dusuki and Abdullah (2007b), the Islamic banking system is based on three main philosophies, which distinguish it from the conventional counterpart. First, Islamic banking strives for a just, fair and balanced society, as envisioned by Islamic economics. Second, Islamic banking is constructed upon the principles of brotherhood and cooperation, and a system of equity sharing and stake taking. Lastly, as a system grounded in the ethical and moral framework of the Islamic law of the *Shariah*, Islamic banking is characterised by ethical norms and social commitments.

Ahmad and Hassan (2007) indicate that one of the main objectives of Islamic banks is to work towards the establishment of an Islamic society and to create a deepening of the religious spirit among the people. Islamic banks' existence is based on the religious view and spirit. Thus, Islamic banks must ensure that their activities adhere strictly to the rules of the Islamic law. Therefore, they must ensure that all actions and business activities reflect Islamic principles. For these reasons, they have contended that Islamic banks' obligations towards society are greater than those of conventional banks for the following three main reasons. Firstly, an Islamic bank has a certain philosophical mission to achieve. According to Islamic principles, *Allah* is the creator and ultimate owner of all resources. Humans and institutions have a vicegerent role to play in society. Therefore, Islamic banks are not free to do as they wish, rather they have to integrate moral values with economic action. Secondly, an Islamic bank has to provide credit to those who have talent and expertise, thereby strengthening the economic foundations of society. Thirdly, an Islamic bank should aim to create harmony in society, based on the Islamic concept of sharing and caring in order to achieve economic, financial, and political stability.

The activities and operations of Islamic banks are not only based on government rules and regulations but, at the same time, must comply with the *Shariah*. Therefore, Islamic banks' permissible activities are limited compared to those of conventional banks, which are not subject to such restrictions, instead being obliged to comply solely with legislation and not with additional religious obligations. Any activities that contradict Islamic values and principles must be avoided. Islamic banks should also not invest in companies that violate human rights and affect the natural environment (Ullah and Jamali, 2010). Moreover, Islamic banks are not allowed to finance any enterprise involved in activities relating to pork, pornography, tobacco, gambling, and alcoholic liquor (Nathan and Ribiere, 2007). As a consequence, Islamic banks bring ethical values and social responsibility to banking practices simply because they are required to abide by Islamic law and the *Shariah*, which is full of moral values (Kahf, 1999; Dusuki and Abdullah, 2007b).

While the above principles restrict Islamic banks' activity, they support Islamic banks' core values and activities that cultivate entrepreneurship, trade and commerce, and bring societal development or benefit (BNM, 2010). Khan (1987) indicates that these core values are one of the major principles underlying Islamic banking. Thus, the contribution of Islamic banks to CSR practice is very important. Thus, Islamic banks that are driven by religious philosophy should, theoretically, evidence more ethically-founded CSR policies than conventional banks.

5.3 Prior studies of CSR disclosure in Islamic perspectives.

This section will discuss the previous studies of CSR disclosure from Islamic perspectives. The CSR disclosure discussion from an Islamic perspective is not relatively new; it has been discussed since the companions' era and has been clearly explained in the Holy *Quran*. Lewis (2006) emphasises that if the purpose of accounting information is to serve the public interest, this implies that in an Islamic context, the *Ummah* (community) has the right to know about the effect of the operations or investment of the Islamic banks on its wellbeing and ensure it is in line with the requirements of *Shariah*.

Since the values and principles that underpin Islamic teaching and philosophy are related to the notion of CSR, a number of studies attempted to reflect the notion of social and environmental responsibility to the teaching and values of Islam (e.g., Lewis, 2001; Kamla et al., 2006). A number of studies have investigated the practice of social and environmental disclosure in companies conducting their business in accordance with Islam (e.g., Maali et al., 2006; Haniff and Hudaib, 2007; Aribi and Gao, 2012; Hassan and Harahap, 2010). Williams & Zinkin (2009) look at whether the pillars of Islam are consistent with the 'Ten Principles' of responsible business, outlined in the UN Global Compact. The paper concludes that with the possible exception of Islam's focus on personal responsibility and the non-recognition of the corporation as a legal person, which could undermine the concept of corporate responsibility, there is no divergence between the pillars of Islam and the principles of the UN Global Compact. Indeed, Islam often goes further and has the advantage of clearer codification of ethical standards, as well as a set of explicit enforcement mechanisms. They suggest that focusing on this convergence of values could be useful in the development of a new understanding of CSR in a global context and help avert the threatened ''clash of civilisations''. Mohammed's (2007) studies on CSR values and principles that have been central to Islam since the time of the holy Prophet Mohammed (PBUH) may serve as a foundation for notions of corporate social responsibility (CSR) similar to those in the West. This study examines the values of CSR in Islam, which are in line with what has been practiced in the West.

The study was conducted on Islamic banks in Malaysia, UAE, the Kingdom of Saudi Arabia (KSA) and the UK. The finding states that Islamic banks that adhere to the *Shariah* principles are naturally bound to be socially responsible. In theory, Islamic banks are having to be fully compliant with the *Shariah* and implement all the Islamic values in their operation. However a few have argued against its implementation in reality since there is no regulatory body who ensure the level of compliance, such as F. Khan (2010).

Islamic banking has been in the market for almost fifty years, since its inception during the 1960s. During that time, Islamic banking has rapidly developed and is no longer a strange concept. The products and services provided are well accepted, not only among Muslim countries but also in non-Muslim countries, such as European countries. However, there is a lack of discussion on how Islamic banks perform in terms of corporate social responsibility compared to conventional banks. Basah & Yusuf (2013) conduct a study to analyse the relationship of Islamic banks and CSR performance. This study examines and analyse the relevant literature, which develops the relationship between the Islamic banks concept and CSR. It is a conceptual attempt to discuss how the principles of Islamic banks can influence the implementation of CSR. The religious characteristics that acted as a foundation for the establishment of Islamic banking are expected to have an influence on corporate social responsibility. The finding stated that the concept of the Islamic bank that complies with religious provision should exhibit more proactive CSR activity and policies. Islamic banks' performance should be superior compared with the conventional bank counterparts. From the researcher's point of view, Islamic banks should be more responsible to harmonize the CSR practice in Islamic banking industry, either local or international as a value added of their existence in the industry.

The most important line corporate governance structure to implement and adopt Islamic ethical values in CSR is the management team of Islamic banks. Thus, Aribi & Arun (2014) conducted a study on how Islamic financial institutions (IFIs) in Bahrain are responding to the CSR needs of society. Using 18 in-depth semi-structured interviews among 9 IFI managers and content analysis of the disclosures of 7 IFIs from 2006-2010. This study attempts to understand management perceptions of corporate social responsibility (CSR) in IFIs. The finding stated that, based on a thorough understanding of CSR by managers as evident in the interviews, it has not been translated fully into practice in the institutions. The partial use of IFIs' potential role in social welfare would add further challenges in the era of the Islamic banking and finance industry. The Islamic banking and finance regulatory body is supposed to be more proactive to counter this problem and fully utilize the IFIs' values rather than just focus on profit maximization. Thus, in fulfilling the gap, the researcher will conduct a study to discuss the key determinants and consequences of CSR disclosure practice among Islamic banks in GCC, which will be benefit to IFIs industry.

Haniffa (2001) adopts an ethical normative approach to develop a conceptual framework of CSR disclosure based on the *Shariah*. She further argues that the use of this framework is to fulfil both accountability and transparency objectives by tackling three, interrelated dimensions: seeking God's pleasure in establishing socio-economic justice, realising benefit to the community by fulfilling obligation, and pursuing wealth. As such, it addresses the relationship between Man and *Allah,* Man and Man, and also Man and Nature. This framework takes into account the material, moral, and spiritual aspects. According to Haniffa (2001), Islamic social responsibility disclosure practice should be different from conventional social reporting because the underlying principles are different, although the basic concepts of social responsibility and accountability are addressed in both instances. She then suggests the two broad objectives of Islamic CSRD. Firstly, it is to demonstrate accountability to *Allah* and the community. Secondly, it is to demonstrate transparency in business activities. However, Haniffa (2001) does not empirically examine the impact of Islamic values on Islamic banks.

Suliman and Willett (2003) point out that social responsibility and environmental accounting issues would be essential components that need to be disclosed in Islamic corporate reports. They interpret the Global Reporting Initiative (GRI) sustainability reporting guidelines as a basis for providing social and environmental performance indicators of an Islamic corporate reporting model, since the GRI provides a very comprehensive list of the social and environmental issues that a company needs to disclose. However, they emphasise that for the specific case of Islamic corporate reporting, the GRI is not suitable to be used as a measurement guideline. Thus, further study will use the AAOIFI (2010) as a main guideline to measure CSR disclosure practice in Islamic banks.

Previous studies have been conducted to examine the relationship between CSR disclosure and Islam, using Islamic banks annual reports (e.g., Anuar et al., 2004; Yahya et al., 2005; Haniffa and Hudib, 2007; Maali et al., 2006). Anuar et al. (2004) provide evidence that supports the view that the Islamic religion has an effect on corporate environmental reporting. Using content analysis, they compare the environmental practice of *Shariah*-approved companies, which conduct their activities in accordance with Islamic principles, with the environmental practice of non-*Shariah*-approved companies that operate in Malaysia. The results provide some evidence that the *Shariah*-approved companies have a higher level of environmental reporting than non-*Shariah*-approved companies. The findings of this study, therefore, suggest that the higher extent of environmental reporting amongst *Shariah*-approved companies may be reflective of an attempt by such companies to practise corporate reporting that embodies the Islamic principles of full disclosure and social accountability. However, the study conducted by Anuar et al. (2004) was limited to examining the influence of Islam on environmental disclosure only, and their sample was based on industrial companies, excluding Islamic financial institutions, such as Islamic banks. It is important to study the influence of Islam on CSR, and CSR in Islamic banks who have to follow *Shariah* in their activities and transactions. They hold two positions in community, religious and financial (Al-Mograbi, 1996). Stakeholders, therefore, see Islamic banks as having a social, as well as economic, role (Maali et al., 2006). This current study will be conducted to complement the finding of Anuar et al (2004).

Farook and Lanis (2005) aim to measure the CSRD (corporate social responsibility disclosure) level of 47 IFIs operating in 14 countries, and ascertain the determinants of that disclosure. Using the disclosure index, derived from Maali et al. (2003), they measured CSRD in IFIs, and they further developed a model linking CSRD to socio-political influences and corporate governance factors. Their results show differences in disclosure levels within the sample. The major sources for the variation are the socio-political contexts within which the IFIs operate, while the most significant driver for CSRD is the pressure from the relevant public. However, it is difficult to generalise about business practice across the ethnically diverse countries of the Islamic world, which are at very different stages of development (Mohamed, 2007).

The present study investigates the influence of Islamic values on CSR disclosure in two phases. First, it compares the extent of CSRD in IFIs with that of non-IFIs. Secondly, it examines the management perception of CSR and CSRD.

Yahya et al., (2005) measured the level of CSRD in *Shariah*-approved companies in Malaysia. Of the 194 companies in their sample, only 102 companies disclose their social activities in the annual reports. They further investigated the relationship between the level of CSRD and the number of Islamic equity fund-holding shares in the same companies. Their results reveal that the percentage of the number of Islamic equity funds investing in any company is parallel to the level of social activities disclosed by the company. The study of Maali et al. (2003 and 2006) is one of the earlier empirical studies that attempted to investigate the influence of Islam on social reporting.

Based on the Islamic text and relevant previous studies, Kamla et al. (2006) elaborate and discuss some key Islamic principles. They conclude that Islam pays great attention to the environment from a holistic perspective. Further, they argue that Islamic principles have very general relevance in respect of the concerns to govern our environment with its accounting implications. However, the above studies are mainly conceptual. It is therefore necessary to investigate empirically the religious influence on CSR disclosure in practice through measuring their CSR disclosure information of environmental issues.

Based on Islamic principles and the Islamic code of ethics, Maali et al. (2006) derived a benchmark for the social disclosure, which they would expect Islamic banks to provide. However, their results indicate that the extent of social disclosure by Islamic banks falls far short of their benchmark. Their findings indicate that there is a considerable variation in voluntary social reporting across Islamic banks. Maali et al. (2006) conclude, "With a few expectations, Islamic banks have a long way to go to meeting the expectations of the Islamic community" (p. 31). However, since corporate reporting practice, including corporate social reporting, varies across countries (Hope, 2003; Xiao et al., 2005; Wanderley et al., 2008), comparing the volume and the extent of CSR disclosure between Islamic banks operating in Islamic countries (developing countries) with those operating in non- Islamic countries (developed countries) would not be accurate. This is because such a comparison does not take into account the differences of environmental factors between different non-Islamic countries. Therefore, there is a need to replicate this study in countries that have similar business and social environments. The present study includes a sample in GCC countries where most of the countries have, to some extent, similar economic, political and social environments.

Haniffa & Hudaib (2007) conducted a longitudinal study of the annual reports of seven IFIs in four Arabian Gulf region countries. They used content analysis to examine how effective Islamic banks were in communicating their ethical identity. They investigated whether any discrepancy exists between the communicated (based on information disclosed in the annual reports) and ideal disclosure of information (deemed vital based on the Islamic ethical business framework).

Accordingly, they expect that IFIs must comply with the precepts of *Shariah* in their reporting. It is interesting to note that their findings fall far short of what would enable ethical and social communication in the context of IFIs. However, they describe the reports as "vary across the 3-year period, suggesting that communication is not static and often minimal. This may be attributed to a lack of pressure from and an indifferent attitude of stakeholders and also from the prevailing secretive culture in the region" (Haniffa and Hudaib, 2007, p. 111). Similarly, to an earlier study, their result was limited to content analysis with a small sample. Accordingly, increasing the size of the sample would provide more useful insights into the plausible reason for minimal information and a lack of clarity and consistency in disclosure practice by IFIs (Haniffa and Hudaib, 2004).

Rahman (2010) examines the themes, locations, extent, and also trends of corporate social responsibility (CSR) disclosure of the Bank Islam Malaysia Berhad (BIMB) from 1992 to 2005. A disclosure index (checklist) and the extent of such disclosures were measured using content analysis, based on number of sentences. The findings of this study show that BIMB prefers to disclose themes associated with employees, products, and service contributions and community involvement. Among the most popular locations in disclosing such information are in the chairman's statement, financial statements, and directors' report. The results also reveal that the bank has improved, in terms of volume and the manner of presenting or disclosing CSR from year to year. This study is the first of its kind to be conducted on a company in a specific industry in Malaysia using a longitudinal approach; however, the findings did not represent the actual trends and practices of CSR disclosure practice in the Islamic banking industry, since it just focused on one single bank.

Based on the review of previous studies on CSR disclosure, the majority of these studies (see Table 4) limited their research to measure the CSR disclosure level in single sample institutions or countries. They tended to examine the gap between the expectation of social disclosure and the actual disclosure practice in Islamic banks. In order to get a clear understanding of CSR disclosure practice in Islamic banks, it is important for the researcher to study the determinants and consequences of CSR disclosure in Islamic banks.

Overall, the previous studies leave scope to further extend the research of CSR disclosure in the context of IFIs, and provide an opportunity to further contribute to the knowledge of CSR and CSRD. The majority of these studies were concerned with the overall business practice from an Islamic perspective, and lacked in-depth discussion and analysis of the elements involved pertaining to CSR. Therefore, this study aims to investigate empirically the relationship between Islam, CSR and its disclosure. The researcher will replicate previous studies and extend the discussion to examine the determinants and consequences of CSR disclosure practice among sample Islamic banks in GCC countries. It will pursue this by measuring the disclosure levels of sample Islamic banks, and then examine the factor and the impact of CSR disclosures to the sample Islamic banks. Furthermore, the sample of this study will also look at wider perspectives, which involves 195 observations of GCC Islamic banks from 2010 to 2014. By doing so, it helps to get a clear view of CSR disclosure practice among major Islamic banks in the world. Table 4 provides summaries of previous CSR and CSRD studies from Islamic perspective.

Table 4: Summaries of previous CSR and CSRD study from an Islamic perspective.

Author(s)	**Objective(s)**	**Research method**	**Findings**
Ali Aribi & Arun (2014)	-To investigate IFIs manager's perception on CSR -To examine to what extent IFIs practice CSR in the company.	-18 in-depth interviews in 9 IFIs in Bahrain. -Content analysis 7 IFIs (2006-2010).	The result reveals that IFIs fall short behind the ethical and social objectives that would be implied by Islamic Law.
Basah & Yusuf (2013)	To analyse the relationship of Islamic banks and CSR performance.	Conceptual paper.	The concept of Islamic banks that comply with religious provision should exhibit more proactive CSR activity and policies. Islamic banks' performance should

			be superior to conventional bank counterpart.
Rahman (2010)	To examine the themes, locations, extent, and also trends of corporate social responsibility (CSR) disclosure of Bank Islam Malaysia Berhad (BIMB) from 1992 to 2005	A disclosure index (checklist) and the extent of such disclosures were measured using content analysis based on number of sentences.	BIMB prefers to disclose themes associated with employees, product, and service contributions and community involvement.
Williams & Zinkin, (2009)	To look at whether the tenets of Islam is consistent with the 'Ten Principles' of responsible business outlined in the UN Global Compact	Conceptual paper which discusses the Islamic principles.	The result shows that Islam often goes further and has the advantage of clearer codification of ethical standards, as well a set of explicit enforcement mechanism.
Siwar & Hossain (2009)	To examine the relationship between the concepts of Islam with the Malaysian managers' opinions.	-Open ended questionnaire -Study of 50 listed companies in Malaysia	A similarity between the Islamic concept and top executives' opinion about CSR was found.
Haniffa & Hudaib (2007)	To explore discrepancy between the communicated (based on information disclosed in the annual reports) and ideal (disclosure of information deemed vital based on the Islamic ethical business framework) ethical identities and then measure this by what they have termed the Ethical Identity Index (EII).	-Longitudinal survey of 7 Islamic banks	Only one Islamic bank out of seven surveyed to be above average. The remaining six Islamic banks suffer from disparity between the communicated and ideal ethical identities.
Mohammed (2007)	To explore notions of Islamic philosophy pertaining to social responsibility and justice, which may give rise to a conceptual	-Interview - Sample of 6 Islamic banks from Malaysia, UAE, Saudi Arabia and UK	Islamic Banks, in adherence to the *Shariah* principles, are naturally bound to be socially responsible.

	framework of corporate social responsibility (CSR) in Islam that has resonance with the prevailing notions of CSR.		
Haniffa & Hudaib (2007)	To examine whether any discrepancy exists between communicated (based on the information disclosed in 7 IFIs annual report) and the ideal ethical disclosure based on Islamic business framework.	Content analysis	1 out of 7 companies' annual reports were above average. The remaining 6 companies suffered from disparity between the communicated and the ideal ethical disclosures.
Kamla et al. (2006)	To elaborate and discuss the key Islamic principles and highlight their implications to accounting for the environment.	Conceptual paper	Drawing from key Islamic texts and relevant literature, they delineate key suggestions for accounting for the environment.
Maali et al. (2006)	To develop a benchmark set of social disclosure appropriate for IFIs. Then, they compare the actual social disclosure in the annual report of 21 IFIs to develop a benchmark.	Content analysis	The result indicates that social reporting by Islamic banks fall short of their expectations.
Yahya (2005)	To investigate the actual practice of CSRD in IFIs and to examine the relationship between CSRD and Islamic unite trust shareholdings in sample companies.	Weighted disclosure index	Only 102 companies from 194 sample companies disclose their social activities. The t-test shows that's there is a significant difference in CSRD between companies invested and those that are not invested in the Islamic unit trust.
Farook & Lanis (2005)	To measure CSRD levels of 27 IFIs	Disclosure index	The results show a difference in

	operating in 14 countries and ascertain the determinants of its disclosure.		disclosure levels within the sample, and it is suggested that a major source for the variation is the socio political context within which the IFIs operate.
Anuar et al. (2004)	To examine the difference in environmental disclosure between *Shariah*-approved companies and non-*Shariah*-approved companies.	Content analysis	The results provide some evidence that the *Shariah*-approved companies have a higher level of environmental reporting compared with non-*Shariah*-approved companies.
Haniff(2001)	To develop a conceptual framework based on the *Shariah* for Islamic social and environmental disclosure	Conceptual paper	The results suggest that the Islamic social responsibility to disclose practice should be different from conventional social reporting because of the different underlying principles.

5.4 Prior Studies on CSR Disclosure in Islamic banks

A number of studies have investigated the level of CSR disclosure by Islamic banks using the technique of content analysis and disclosure index (Belal et al, 2014; Farag et al, 2014; Platonova, 2014; Rahman & Bukair, 2013; Rahman et al, 2010; Farook et al.,2011; Haniffa and Hudaib, 2007; Maali et al., 2006). Maali et al. (2006) investigate the extent of social activities disclosed by 29 Islamic banks in different countries. They compared the disclosures of such activities with social practices that Islamic banks are expected to adopt that are particularly relevant to society. The expected social practices were then combined into a benchmark for social reporting by Islamic banks. Using content analysis, they found that the corporate social disclosure practice is far below the expectations of the pragmatic benchmark of disclosure levels, based on the *Shariah* principles. Therefore, they concluded that banks complying with mandated matters, such as paying *Zakah* and adopting AAOIFI standards, tend to provide more disclosures than non-compliant banks and most banks disclose CSR information to construct a positive image. From the analysis, they note that most Islamic banks tend to highlight CSR disclosed information that related to Islamic reality values, such as charitable activities.

Haniffa and Hudaib (2007) investigated the ethical identity based on the ideal Islamic moral business framework in 7 Islamic banks of the GCC countries by using their annual reports. They designed an ideal ethical disclosure benchmark, based on the five features that distinguish Islamic banks from conventional banks. Using content analysis of annual reports to determine the extent of CSR disclosure, it shows a significant gap between the communicated and ideal ethical disclosure in the annual reports of a sample of 7 Islamic banks over a 3-year period. They found that Islamic banks disclose additional information related to four dimensions out of eight, which are also being employed in this research. These dimensions are vision and mission, BOD (board of directors) and top management, product and services, *Zakah*, charity and benevolent loans, employees, debtors, community and society, and *Shariah* Supervisory Board (SSB). It is assumed that this expectations gap could arise from an indifferent attitude by stakeholders or an underlying secretive culture in the Arabian Gulf region, where the sample banks were based. They concluded that, for Islamic banks to remain competitive, they need to communicate more effectively to enhance their image and reputation in society.

Using a longitudinal case study approach, Abdul Rahman et al. (2010) investigated the themes, locations, extent, and trends of CSR disclosure by Bank Islam Malaysia Berhad (BIMB) during the period from 1992 to 2005. The CSR disclosure index has been developed consisting of nine themes: unusual supervisory restrictions, unlawful transactions, *Zakat* obligation, *Qard* fund, community involvement, employees, environment, product/service contribution, and the *Shariah* Supervisory Council. The findings showed that the highest score of disclosure is the *Shariah* Supervisory Council, followed by employees. However, BIMB does not provide any form of information related to the themes of unusual supervisory restrictions, unlawful transactions, and environment. The most common locations in disclosing information regarding CSR are the chairman’s statement and the financial statements. Overall, the volume and quality of CSR disclosure improved over the 14-year study period and the banks had improved, in terms of the amount of, and way of providing, CSR information in the annual reports from year to year.

Hassan and Harahap (2010) carried out a similar study to Haniffa and Hudaib (2007), focussing on the disclosure of social activities in the annual reports of seven Islamic banks. They found a significant expectations gap in all but one of the seven Islamic banks and surmised that CSR issues are not the main concern for most Islamic banks. They concluded that some Islamic banks pay scant attention to disclosing their social activities and, thus, argued for a standard on CSR disclosure relevant to IFIs.

Farook et al. (2011) provided a prior basis for CSR disclosure in Islamic banks, and investigated the extent and determinants of corporate social responsibility disclosure in the annual reports of 47 Islamic banks from 14 countries. They empirically analysed the level of social disclosure in 47 Islamic banks’ annual reports, based on a CSR benchmark derived from the Maali et al. (2006) index. This study found that the level of social and political freedom and the percentage of investment account deposits to total assets are important factors in determining the CSR disclosure by Islamic banks. From a descriptive analysis, they found significant differences in CSR disclosure among the banks and its substantial variation in CSR disclosure practices. This variation is best explained by the presence of the *Shariah* supervisory board (SSB) governance and the dominance of Muslims in their sample countries; it is a significant factor that explains the disclosure variations. They concluded that the regulatory bodies in Islamic banking should consider the SSB as being compulsory for all Islamic banks.

Aribi and Gao (2012) analysed the narrative disclosures of CSR in 21 IFIs operating in the GCC countries to examine the influence of Islam on corporate social responsibility (CSR) and corporate social responsibility disclosure (CSRD) in Islamic financial institutions (IFIs). They found that the main CSR disclosures were contained in the SSB reports with less disclosure in the annual reports on other Islamic-based information such as *Zakah*, interest-free loans, and charitable donations.

Rahman & Bukair (2013) empirically examines the influence of the *Shariah* supervisory board (SSB) and its characteristics on the level of corporate social responsibility (CSR) disclosure in a sample of 53 Islamic banks operating in Gulf Co-operation Council (GCC) countries for the year 2008, based on a disclosure index from the Islamic perspective. Using content analysis, the descriptive statistics show that there is an increase in CSR information disclosed in the annual reports of Islamic banks. In addition, using multiple regression analysis and, after accounting for bank size, financial performance, and economic performance, the findings indicate that the combination of SSB attributes has a significant positive influence on CSR disclosure. It shows that the characteristics of SSB are important factors in determining the level of CSR disclosure.

Platonova (2014) analyses the CSR attitudes and practices of Islamic banks in the GCC region through their CSR disclosure practices. She empirically examines the impact of CSR disclosure practices of the GCC Islamic banks on their financial performance. Annual reports of GCC Islamic banks for the period 2000- 2011 are scored by content analysis. The CSR disclosure index is constructed based on the eight dimensions developed for this purpose. Despite the high expectations for full disclosure and accountability, the research findings do not produce encouraging results in terms of CSR or the social outcome of Islamic banks in the GCC region. The majority of GCC Islamic banks disclose significantly less than required, as CSR disclosure indices for all the Islamic banks remain very low in comparison to the overall score, but also for each of the CSR dimensions included in the indices. While examining the impact of CSR disclosure practices on the financial performance of Islamic banks in the GCC region, the results indicate the positive relationship between CSR disclosure and financial performance. She concludes that there is a positive link between corporate social and financial performance in the Islamic banking industry.

Belal et al. (2014) also adopted a longitudinal study but with two notably significant exceptions. First, using a longer time frame of 28 years, they noted trends in CSR disclosure of a Bangladeshi Islamic bank over three distinguishing phases of the Islamic banking industry: pre 1990, 1990–2001, and post 2001. Secondly, they split ethical reporting requirements into two strands: ‘Particular’ reporting practices, relating to the nature of Islamic banks and especially to *Shariah* compliance issues, and ‘Universal’ reporting practices, which are more relevant to the wider stakeholder groups such as community, employees, and customers. They found an overall increase in both ‘Particular’ and ‘Universal’ disclosures over the study period with a shift towards more ‘Universal’ disclosures after 2006. They interpret their findings as being the bank’s adherence to the minimalist approach, without explicitly contravening the wider perspective of *Shariah*.

Mallin, Farag, & Ow-Yong (2014) examine the relationship between corporate social responsibility (CSR) and financial performance in Islamic banks. Using a comprehensive CSR index covering ten dimensions, they analyse the CSR disclosures in a sample of 90 Islamic banks across 13 countries. The CSR disclosure index shows that Islamic banks engage across a range of social activities, both as individual banks and as countries. However, Islamic banks seem to show more commitment to the vision and mission, the board and top management, and the financial product/services dimensions, whilst less attention is paid to the environment dimension. Islamic banks also show a considerable awareness of the mandatory disclosure recommendations of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). However, they pay less attention to the voluntary CSR disclosure. Moreover, they find a pronounced emphasis in Islamic banks’ strategy towards more universal disclosures, suggesting the legitimacy of these banks is reinforced through disclosure to the wider stakeholder community. The empirical analysis highlights a positive association between CSR disclosure and financial performance. It is a positive and highly significant association between the *Shariah* supervisory board (SSB) size and the CSR disclosure index. The results of the three stage least square estimation shows that the causality between the two endogenous variables runs from financial performance to CSR disclosure, and it can be conclude that the CSR disclosure is determined by financial performance.

The prior CSR literature on Islamic banks is largely quantitative-based studies, which measure the volume of narrative CSR disclosures against an ideal benchmark drawn from *Shariah*-based CSR objectives and AAOIFI standards. They generally find an expectations gap between actual or communicated disclosures and ideal disclosures. However, the main limitations of these studies are their reliance on data collected from the annual reports to infer CSR disclosure. The annual report itself did not provide the true picture of CSR disclosure, as Islamic banks may disclose some of their CSR separately in other reports (e.g., SSB report, corporate governance report and on their websites). In this current study, the data was mainly collected from the annual reports. The number of sample banks used in the literature is limited, as acknowledged by Maali et al. (2006) and Haniffa and Hudaib (2007). In this current study, the number of observations is relatively large (195), compared to the largest study so far (47 in Farook et al., 2011) but also uses recent data from 2010 to 2014, which provides a clear picture of CSR disclosure practice in GCC Islamic banks. Although most of the studies referred to AAOIFI standards (e.g., Hassan and Harahap, 2010); Al-Ajmi et al., 2015), none of them comprehensively constructed using AAOIFI Standard No.7, 2010. Therefore, this current study will examine the extent of CSR disclosure practice among sample Islamic banks in the GCC for the period of 2010 to 2014. Table 5 presents the summary of prior studies on CSR disclosure in Islamic banks.

Table 5: Summary of prior corporate social responsibility disclosures studies in Islamic banks.

No	Authors	Periods	CSRD level (%)	Methods	Sample	Main focus of study	CSR Dimension
1	El-Halaby and Hussainey, 2015	2013	26	Content analysis	138 Islamic banks across 25 countries	Determinants of CSRD	12
2	Farag et al., 2014	2010-2011	44	Content analysis	90 Islamic banks across 13 countries	Determinants of CSRD	10
3	Belal et al., 2014	1983-2010	42	Content analysis and in-depth interview	11 Islamic banks in Bangladesh	Measuring CSRD	16
4	Platonova, 2014	2000-2011	28	Content analysis	7 GCC Islamic banks	Measuring CSRD	8
5	Kamla and Rahman, 2013	2008	39	Content analysis	16 IFIs from 3 regions	Measuring CSRD	5
6	Hassan et al, 2013	2001-2008	49	Content analysis	19 Islamic banks	Measuring CSRD	8
7	Abdul Rahman and Bukhair, 2013	2008	83	Content analysis	53 Islamic banks from 3 regions	Measuring CSRD and the impact of SSB	13
8	Hassan, 2012	2011	23	Content analysis	10 Islamic banks	Measuring CSRD	8
9	Aribi et al., 2012	2004	40	Content Analysis	21 IFIs operating in GCC	Measuring CSRD	7
10	Farook et al., 2011	2007	8	Content analysis	47 banks across 14 countries	Determinants of CSRD	3
11	Abdul Rahman et al., 2010	1992-2005	38	Content analysis	1 Islamic bank in Malaysia	Measuring CSRD	9
12	Hassan and Harahap, 2010	2006	-	Content Analysis	7 Islamic banks	Measuring CSRD	8
13	Aribi, 2009	2004	48	Content analysis and interview	42 financial institutions in GCC	Measuring CSRD	8

14	Haniffa and Hudaib, 2007	2002-2004	13.3	Content analysis	7 Islamic banks in 6 countries	Measuring CSRD	8
15	Maali et al., 2006	2000	13.3	Content analysis	29 Islamic banks across 16 countries	Measuring CSRD	9

5.5 Prior Studies on CSR Disclosure Determinants

This section highlights the previous studies of CSR disclosure in Islamic banks, which examines the level and determinants of CSR information disclosure. A number of studies have investigated the level of CSR disclosure in Islamic banks.

Maali et al. (2006) investigated the extent of social activities disclosed by Islamic banks. They compared the disclosures of such activities with social practices that Islamic banks are expected to adopt that are particularly relevant to society. The expected social practices were then combined into a benchmark for social reporting by Islamic banks. Using content analysis, they found that the level of social disclosure by the sample banks was well below their benchmark index. They concluded that banks complying with mandated matters, such as paying *Zakah* and adopting AAOIFI standards, tend to provide more disclosures than non-compliant banks. Also, Islamic banks tend to emphasize disclosures that construct a positive Islamic image, such as charitable activities. Haniffa and Hudaib (2007) investigated the disclosure of information deemed crucial to Islamic ethics in business. They designed an ideal ethical disclosure benchmark based on the five features that distinguish Islamic banks from conventional banks. Using content analysis of annual reports to determine the extent of CSR disclosure, they found a significant gap between the communicated and ideal ethical disclosure in the annual reports of a sample of 7 Islamic banks over a 3-year period. They surmised that this expectations gap could arise from an indifferent attitude by stakeholders or an underlying secretive culture in the Arabian Gulf region, where the sample banks were based. They concluded that for Islamic banks to remain competitive, they have to communicate more effectively to enhance their image and reputation in society.

Using a longitudinal case study approach, Abdul Rahman et al. (2010) examined the CSR disclosure of a Malaysian Islamic bank. They found that the volume and quality of CSR disclosure improved over the 14-year study period. Belal et al. (2014) also adopted a longitudinal study, but with two notably significant exceptions. First, using a longer time frame of 28 years, they noted trends in CSR disclosure of a Bangladesh Islamic bank over three distinguishing phases of the Islamic banking industry: pre 1990, 1990–2001, and post 2001. Secondly, they split ethical reporting requirements into two strands: '*Particular*' reporting practices, relating to the nature of Islamic banks and especially to *Shariah* compliance issues, and '*Universal*' reporting practices, which are more relevant to the wider stakeholder groups such as community, employees, and customers. They found an overall increase in both *'Particular'* and '*Universal*' disclosures over the study period, with a shift towards more '*Universal'* disclosures after 2006. They interpret their findings as being the bank's adherence to the minimalist approach without explicitly contravening the wider perspective of *Shariah.*

Hassan and Harahap (2010) carried out a similar study to Haniffa and Hudaib (2007), focussing on the disclosure of social activities in the annual reports of seven Islamic banks. They found a significant expectations gap in all but one of the seven Islamic banks, and surmised that CSR issues are not the main concern for most Islamic banks. They concluded that some Islamic banks pay scant attention to disclosing their social activities and, thus, argued for a standard on CSR disclosure relevant to IFIs. Farook et al. (2011) provided a prior basis for CSR disclosure in Islamic banks. They empirically analysed the level of social disclosure in 47 Islamic banks' annual reports, based on a CSR benchmark derived from the Maali et al. (2006) index. They found substantial variation in CSR disclosures and this variation is best explained by the presence of *Shariah* supervisory board (SSB) and the preponderance of Muslims in their sample countries. They concluded that the regulatory bodies in Islamic banking should consider the SSB as being compulsory for all Islamic banks. Aribi and Gao (2012) analysed the narrative disclosures of CSR in 21 IFIs, operating in the Gulf countries. They found that the main CSR disclosures were contained in the SSB reports with less disclosure in the annual reports on other Islamic-based information, such as *Zakah*, *Qard Hassan* (interest-free loans), and charitable donations.

The *Shariah* supervisory board (SSB) is also one of the main determinants for CSR disclosure in Islamic banks. A study by Rahman & Bukair (2013) finds that the combination of SSB attributes has a significant positive influence on CSR disclosure. A study conducted by El-Halaby & Hussainey (2015), to examine the CSR determinants among Islamic banks across 25 countries, finds a positive association between CSR disclosure levels and accounting standards, auditor size, and the existence of a *Shariah* audit department.

Based on a review of previous studies, there is still a lack of comprehensive studies that focus on examining the CG mechanism and CSR disclosure practice, especially among GCC Islamic banks. Previous studies tend to focus on single Islamic banks, such as a study conducted by Rahman (2010), which are not representative of the whole picture of CSR disclosure practice in Islamic banking industries. The number of sample banks used in the literature was limited, as acknowledged by Maali et al. (2006) and Haniffa and Hudaib (2007). In this current study, the observations of Islamic banks are not only relatively large (195), compared to the largest study so far (90 in Farag et al., 2014) but also provide more recent data, which is from 2010-2014. From the research knowledge, there is only one study (El-Halaby & Hussainey, 2015) that adopted AAOIFI (2010) to develop their CSR disclosure index; other prior research tends to develop their index based on AAOIFI (2007). Thus, using a comprehensive CSR disclosure index develop based on the updated AAOIFI standards and prior literature, this current study is a step forward on the existing literature. It tries to fulfil the gap in examine the determinants of CSR disclosure among Islamic banks in GCC. Motivated by a prior study (e.g., Zalata & Roberts, 2016; Huang & Zhang, 2012), exploring the determinants of CSR disclosure and corporate governance mechanisms has become the objective of this study.

5.6 Determinants of CSR Disclosure and Hypothesis development

This section will determine the CSR disclosure determinants of GCC Islamic banks, fulfilling the RO 2 (research objective) and providing an answer for RQ 2(research question). This current study is motivated by incentive research, which focuses on corporate governance (CG) with board-related variables as a main category in the CG structure and ignores SSB (SSB-related variables), which is one of the main components in the CG for Islamic banks. Most of the previous studies, which explore corporate governance as a factor behind the disclosure level, just focused on CG variables related to board-related variables (e.g., Taylor et al., 2010; Cong and Freedman, 2011; Elzahar and Hussainey, 2012; Bokpin, 2013; Alhazaimeh et al., 2014). A limited number of studies explore CG related to SSB as a unique mechanism for Islamic banks (e.g., Abdul Rahman and Bukair, 2013; Farook et al., 2011). Thus, the study aims to fill this gap through exploring the impacts of CG-related to board-related variables, SSB, audit, and ownership-related variables for Islamic banks in GCC. Following this, it measures the extent to which these variables affect CSR disclosure levels. This study further contributes to the CSR literature by examining the CG mechanisms, which contains board- and SSB-related variables, in order to understand more completely how these factors jointly impact on the level of compliance.

The development of agency theory has resulted in the implementation of governance structures, whereby the control of decisions is separate from the management (Fama and Jensen, 1983a). A number of preceding studies have used the theoretical framework of the agency theory to test hypotheses concerning the extent of disclosure to corporate governance characteristics (Xiao and Yuan, 2007). The governance of banking industry has caught the attention of scholars and regulators. Hagendorff et al. (2007) concentrate their research on the banking sector backed by the argument that it requires a separate agency analysis. The uniqueness of the agency relationships in banks stems from the managers' duty to safeguard the funds of all capital providers. Islamic banks must follow both the regulations set by the supervisors and principles of *Shariah* (Archer et al., 1998). Therefore, while agency problems in conventional banks arise when the board deviate from their accountability to maximize shareholders' wealth, any divergence by boards of Islamic banks from placing all supplied funds in *Shariah*-compliant investments creates an added source of agency problems. Corporate disclosure presents an opportunity to apply agency theory, as managers with better access to a company's private information can transmit credible and reliable communication to market to optimize the corporation’s value.

Corporate governance mechanisms can be considered essential factors, illustrative of the decisions of corporate disclosure related to CSR from agency theory perspectives. Consequently, these mechanisms will be measured in this study. Very limited research has been undertaken to examine the link between corporate governance mechanisms and the CSR disclosure practice of GCC Islamic banks. To the best of the author’s knowledge, there are no previous studies that explore the determinants of CSR disclosure among GCC Islamic banks using CG mechanism variables. Gul and Leung (2004) argue that the role of corporate governance on the agency relationship between managers and stakeholders are best examined by looking at several CG mechanisms.

According to Rahman & Bukair (2015), it is expected that various factors could drive variances between Islamic banks and its CSR disclosure practices. Previous studies (Jo & Harjoto, 2011; Wan Amalina, 2009) provide strong evidence on the corporate governance mechanisms, which influence on the CSR information disclosure among the financial and non-financial companies. Thus, in developing the research hypothesis, by adapting Haniffa (1999) and El Zahar (2013), this current study use corporate governance characteristics as main explanatory variables and firm characteristics as a control variables in measuring the determinants of CSR disclosure practice in Islamic banks in GCC. The next sections will discuss the CG variables used in this current study.

5.6.1 Corporate Governance Characteristics

This current study will examine the CG determinants (such as board size, board cross holding directorship, and board composition) and CSR disclosure practice among Islamic banks. This study takes into consideration most of the CG mechanisms (board-related variables and SSB-related variables) as potential determinants of CSR disclosure of Islamic banks. The Organisation for Economic Co-operation and Development (OECD) indicated that corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders.

In fact, CG mechanisms are introduced - based on the agency theory framework - to mitigate managers' opportunistic behaviours and reduce information asymmetry. CG mechanisms should facilitate corporate monitoring, as they lead to an improvement in companies' internal control and, consequently, extend disclosure levels (Leftwich et al., 1981; Welker, 1995; Ho and Wong, 2001). Accordingly, it could be predicted that CG mechanisms could improve CSR reporting. Most of the previous research has focused on CG mechanisms that are related to the monitoring role of corporate boards of directors. However, it has not tested the influence of the board and its sub-committee characteristics on the amount of information disclosed, such as SSB-related variables. Therefore, this current study will fulfil the gap by testing the board-related and SSB-related variables as follows:

5.6.1.1 Board Related Variables

1. Board Size

The board of directors consists of the total number of executive and non-executive directors on the board. They play an important role in the corporate governance of a company, especially in Islamic banks. Healy and Palepu (2001) stated that electing a board of directors that acts on behalf of investors is an efficient mechanism that affects mangers' disclosure decisions and controls the agency problem. In general, the size of the boards in a company, such as an Islamic bank, can improve their efficiency in handling and solving any presence issues, such as CSR-related issues. However, Wang and Hussainey (2013) claimed that larger boards' effectiveness is negatively affected by the presence of problems regarding communication and coordination. In turn, some studies have indicated that larger boards incorporate a variety of expertise, which result in greater effectiveness in terms of the boards' monitoring role (e.g., Singh et al., 2004; Abdel Fattah, 2007). It can be argued that directors serving on larger boards would have more incentive to signal their role in performance improvement to various parties and increase an awareness of CSR information disclosure.

Empirical evidence in corporate governance suggests that the board size impacts the level of controlling, monitoring, and disclosure (Rahman & Bukair, 2015). According to Chen and Jaggi (2000), a larger board size may decrease the possibility of information asymmetry. Agency theory predicts that larger boards incorporate a variety of expertise that result in more effectiveness in the monitoring role of the boards (Singh et al., 2004). Moreover, a higher number of board members may also reduce the uncertainty and the lack of information (Birnbaum, 1984). The board's size is likely to affect its ability to control and review all transactions to ensure their operations. It is argued that talented managers are motivated – by their desire to signal themselves – to make voluntary disclosure (Graham et al., 2005). This incentive is reported to be more important for managers of smaller and high-growth firms (Graham et al., 2005).

Based on agency and signalling theory, this study expects that larger board sizes will increase board-monitoring capabilities; as a result, this gives positive influences to disclosure practice in Islamic banks. The benefit of having a larger board is that it can increase a company's value because they provide a firm with members from different fields of expertise (Khan, 2010). Based on these arguments, this current study sets the following hypothesis:

H1: There is a positive relationship between CSR disclosure and board size.

2. Gender Composition

It has been evidenced in the CG literature that board diversity has become a significant element of CG arrangement in recent years. Branco and Rodrigues (2008) mentioned that the theme of board diversity correctly matches into the structure of stakeholder theory. Prior research indicated that board diversity is associated with a stronger orientation towards corporate social reporting and a higher intensity of social performance (see Ibrahim and Angelidis, 1994; Sicilian, 1996). According to Amran et al. (2014), gender diversity is shown to be positively associated with corporate social reporting. Female boards are shown to be more sensitive to CSR issues than male boards (Adams & Ferreira, 2004). They also suggest that boards with a higher proportion of women directors tend to make more board meetings possible and special attendance patterns at board meetings, which make different boards more successful than homogenous boards. Therefore, organizations with a higher proportion of women directors do engage in more CSR disclosure practices and CSR activities, such as charitable activities (Williams, 2003; Haniffa & Hudaib, 2007). Based on stakeholder theory, it can be hypothesized that a higher proportion of women directors on the board can influence the CSR disclosure in Islamic banks, with greater disclosure and higher incidence of assurance reports accompanying such disclosures (Fernandez-Feijoo et al., 2012). Therefore, the second hypothesis is:

H2: There is a positive relationship between CSR disclosure and gender composition.

3. Board Composition

Besides board size, board composition also reflects how much the banks are linked to the outside world; as a result, they will be more aware on CSR issues and improve their CSR disclosure practice. Board composition is defined as the proportion of outside directors (non-executive/independence) and inside directors (executive/non-independence) to the total number of directors appointed in the company (Al-Saidi & Al-Shammari, 2013). Board composition is seen as an important indicator of board independence; it is states that directors' independence can strengthen the board by monitoring, advising, and counselling the top management (Anderson et al , 2004), protecting the investors' interests (Petra, 2005), as well as reducing agency cost (Choe and Lee, 2003). The presence of non-executive directors on the boards provides "additional windows on the world" (Tricker, 1984). In other words, the non-executive directors are perceived to bring a fresh and wider view to board discussion and decision making, such as CSR disclosure practice.

Tricker (1984) illustrated that the CSR reporting endeavour can be viewed as a strategy heading towards closing a perceived legitimacy gap between management and shareholders (especially foreign shareholders) via non-executive directors. Non-executive directors are seen as the check-and-balance mechanism, not only in ensuring that companies act in the best interests of the owners, but also other stakeholders; advising on the public presentation of the company’s activities and performance and providing additional windows on the world. Furthermore, Zahra and Stanton (1988) pointed out that they are likely to respond to concerns about honour and obligations and would generally be more interested in satisfying the social responsibilities of the firm because this might improve their social prestige and honour. Fama and Jensen (1983) explained that non-executive directors are regarded as a dependable method, equipped to disseminate agency conflicts between managers and owners. In view of the ideas derived from the above discussion, the standing at this point is that non-executive directors have an essential role to play on banking companies to take on CSR activities with a view to ensure similarity between organisational actions and societal values or firms’ legitimacy. Based on legitimacy theory, this current study anticipates that larger composition of non- executive boards would improve the CSR disclosure practice in Islamic banks, where the non-executive directors reduce the legitimacy gap between the management and shareholder. Hence, the third hypothesis is:

H3: There is a positive relationship between CSR disclosure and board composition.

4. Board Meetings

Frequent board meetings are important as a corporate governance mechanism because they enable the directors to control the company effectively (Tuggle et al. 2010; Hossain, 2008). It can be argued that active boards in Islamic banks (those with more frequent meetings) are more likely to monitor their company’s activities and financial reporting. Active boards members will tend to signal their performance to potential employers (Hasan, 2011). Laksamana (2008) and Taha (2010) find that there is a positive association between board meetings and transparency of compensation disclosure. In accordance with signalling theory where frequent board meeting represents more proactive board, a positive association between board meetings and CSR disclosure is expected and active board members will tend to signal their performance to potential employers (Zarith,2014). Therefore, the following hypothesis is formulated:

H4: There is a positive relationship between CSR disclosure and board meetings.

5. CEO Duality

Role duality in a position exists when the CEO (chief executive officer) is also the chairman of the board. Gul and Leung (2004) stated that firms with CEO duality are more likely to be associated with lower levels of disclosures, since the board is less likely to be effective in monitoring management and ensuring a higher level of transparency. Agency theory predicts that role duality creates individual power for the CEO that would affect the effective control exercised by the board (Zahir,2008). Based on agency theory, CEO duality is seen as detrimental because the agent may pursue their self-interest at the expense of the owners.

One aspect of corporate governance, which has given rise to concern, is the 'dominant personality' phenomenon and this was found to be associated with poor disclosure (Forker, 1992). This phenomenon also includes role duality, which is when the chief executive officer (CEO) or managing director is also the chair of the board. It has been suggested in the previous literature (Tuggle et al., 2010; Hashim & Devi, 2008; Ramdani & Witteloostuijn, 2010; Peng et al,. 2007) that these two roles should be separated, mainly for reasons of independence. Although the separation of roles is suggested, some companies are not prepared to be absolutely categorical about dividing the roles (Rahman & Bukair, 2015). In disclosure practice, the current study believes that the separation of roles between chair and chief executive will enhance the monitoring quality and reduce benefits from withholding information, which may consequently result in improved CSR disclosure practice in Islamic banks. Based on agency theory, Islamic banks which are free CEO duality issue are expected to have better CSR disclosure score. Therefore, it can be hypothesized that:

H5: There is a positive relationship between CSR disclosure and CEO duality.

6. Cross Holding Directorship

Other potential determinants related to the board characteristics are cross-holding directorships. Cross-holdings of directorships refer to the situation where directors (regardless of executive or non-executive) sit on more than one board. According to agency theory, effective control over management performance will be provided by the separation between the two positions (Jensen and Meckling, 1976; Haniffa and Cooke, 2002). The concentration of decision-making power resulting from dual board membership could result in opportunistic behaviour by that individual (Khan, 2010). But, from the researcher's point of view, it is important to investigate the impact of cross-holding directorship on CSR reporting because results of previous studies that examined the relationship between role duality and corporate disclosure are mixed. For instance, it has been suggested in the literature (Ahmed, 2013; Rahman & Bukair, 2013; Haniffa, 1999; Lee, 2009) that cross-holding directorship will help in making information more transparent, as well as encourage the sharing of experience. However, there are also researchers (Aguilera, 1998; Young et al., 2008;

Tan & Lee Chu, 2006) who believe that this will put the company at a competitive disadvantage and, in the case of executive directors; their existence on more than one board will make them less independent, as they will be more sympathetic with others who are in similar shoes.

In developing the hypothesis on the association between cross-holdings and CSR disclosure, it is argued that cross-holdings will encourage companies to be transparent because such directors will have better knowledge of the practices in companies on which they sit (Lewis, 2005). Using the same line of argument, directors who have previously experienced a social reporting issue, and how it was dealt with, could share this knowledge in another company on which they sit. Nevertheless, it depends on how much power they have in influencing the disclosure policies of companies. Similarly, when the chairperson has cross-holdings, he/she would be in a better position to influence the boards, as they not only have relatively more power, but also more experience about disclosure policies in other companies on which they sit. But, if the demand for such information were low, then it would be difficult for chairs to influence management to disclose. Based on agency theory, Islamic banks which have no cross holding director are expected to have better management control and effective performance, as a result have better CSR disclosure score. Therefore, it can be hypothesizing that:

H6: There is a positive relationship between CSR disclosure and cross-holding directorships.

5.6.1.2 SSB (*Shariah* Supervisory Board) Related Variables

The SSB has social influence and authority in monitoring the Islamic banks' compliance with *Shariah* principles and provides the confidence to stakeholders about the legitimacy of the business transactions. Disclosure by the SSB may see as a key aspect of accountability by the Islamic banks to its stakeholders. However, the degree to which social activities are disclosed depends on the underlying rationale of the SSB monitoring role on behalf of the Islamic banks' investors. Moreover, the degree to which the SSB influences the level of CSR disclosure is depending on SSB characteristics, such as board size. Therefore, the SSB size is expected to have a positive impact on CSR disclosure (Farook et al., 2011). Empirical evidence suggests that SSB size can affect the level of disclosure (Akhtaruddin et al., 2009).

On the other hand, the governance literature indicates the level of disclosures could increase or decrease depending on whether mechanisms substitute or complement each other (Ho and Wong, 2001). When governance mechanisms substitute each other, firms may not provide additional disclosures, since the multiple governance mechanisms should have increased the level of monitoring. Therefore, the SSB size may see no need to urge for additional CSR disclosure if investors are already assured of the Islamic bank's compliance in the *Shariah* compliance report (Maali et al., 2006).

7. SSB Size

From AAOIFI perspectives, they are recommending that SSB board should be appointed by a number of different people from different professions such as: bankers and economists which can enhance the effectiveness of SSB (AAOIFI, 2004). This allows for the implementation of diverse perspectives on the application of the *Shariah*. To enable this to happen, a large SSB would be required to represent these sectional professions. Empirical evidence suggests that board size can affect the level of disclosure (Akhtaruddin et al., 2009). The common number of SSB members in Islamic banks is between three and five members, based on AAOIFI Governance Standard No.1. According to Chen and Jaggi (2000), a larger board size may decrease the possibility of information asymmetry. Agency theory predicts that larger boards incorporate a variety of expertise that results in more effectiveness in the monitoring role of the boards (Singh et al., 2004). Moreover, a higher number of board members may also reduce the uncertainty and the lack of information (Birnbaum, 1984). The board's size is likely to affect its ability to control and review all transactions to ensure their operations. With more members, the collective knowledge and experience of SSB will increase, leading to greater disclosure. Concerned with banking sector, and especially Islamic banks, Farag et al. (2014) find a positive significant association between the *Shariah* supervisory board (SSB) size and disclosure index; however, the studies are limited to the specific sample of Islamic banks in Bahrain, where this current study will provide better insight by using more sample in GCC. Thus, based on agency theory, bigger size of SSB are expected to be more effective in monitoring disclosure practice among Islamic banks, therefore it can be hypothesized that:

H7: There is a positive relationship between CSR disclosure and SSB size.

8. Cross Membership

Cross memberships of SSB members may also lead to higher disclosure of CSR information (Dahya, Lonie and Power, 1996). Farook et al. 2011, suggest that cross-directorships will increase transparency and accountability in financial reporting for two reasons. Firstly, members with cross-directorships can make comparisons from knowledge gained in other companies. Secondly, "decisions at one board become part of the raw material for decisions at other boards" (Haniffa and Cooke, 2002, p.

321); SSB members with cross-memberships will be exposed to more discussions about the application of Islamic law in banking. This increases their knowledge about the application of Islamic principles to corporate reporting and in particular to CSR disclosure practice. As a result, they enhance their transparency and accountability to *Allah*, then towards other stakeholders. The cross-membership of SSB members is preferable because of their ensuing knowledge and credibility (Lorsch and MacIver, 1989). Moreover, SSB members with cross-memberships will be able to adopt their tacit and explicit knowledge into their application of *Shariah* rulings in Islamic banks. Based on accountability theory cross membership of SSB members may increase their transparency and accountability to disclosure CSR information. Thus, it can be hypothesized that:

H8: There is a positive relationship between CSR disclosure and SSB cross membership.

5.6.1.3 Audit Committee (AC)

9. AC Size

Barako et al. (2006) state that the audit committee should monitor the integrity of the financial statements and review the company's internal financial control system, as well as improving their corporate information disclosure. AC monitoring is not only about the financial reporting process; it extends to the reporting of non-financial information (Li et al., 2012) such as CSR information disclosure. Mangena and Pike (2005) suggest that larger audit committees give rise to more effective monitoring, since it is more likely to involve the essential expertise and views to do that. However, mixed results can be obtained from previous studies. Mangena and Pike (2005) and Tauringana and Mangena (2009) found no statistically significant relationship between the level of disclosure and AC size. Felo et al. (2003) and Li et al. (2012) report a positive relationship between AC size and the quality of financial reporting. Using the same argument by Rahman & Bukhair (2015), it is expected that the size of the audit committee may give an impact to the level of controlling, monitoring, and disclosure. A larger audit committee size may decrease the possibility of information asymmetry and agency conflicts (Chen and Jaggi, 2000).

Based on agency theory, this study expects that larger audit committee size will increase board-monitoring capabilities; as a result, it gives positive influences to disclosure level practice in Islamic banks. Therefore, the present study will empirically explore the relationship between AC size and the of CSR information disclosure practice. The following hypothesis is formulated:

H9. **There is a positive relationship between CSR disclosure and AC size.**

10. AC Meetings

Amran et al. (2014) recommend that AC meetings should not be fewer than three meetings a year to enhance the companies sustainable reporting. An active AC with high frequency of meetings will have enough time to discharge its duties. Prior research provides evidence on a positive relationship between AC meetings and subcategories of financial reporting, like Internet reporting (e.g., Kelton and Yang, 2008; Li et al., 2012). According to Gray et al. (1995), to be socially accountable, managers are required to provide all financial and non-financial towards their stakeholders; conducting frequent audit meetings enables them to perform their duties towards stakeholders. Therefore, it is considered that active AC meetings would be able to oversee and monitor CSR reporting. Based on agency theory, frequent AC meeting may provide monitoring to Islamic banks activities; as a result provide better CSR information in their annual report. The following hypothesis is formulated:

H10. **There is a positive relationship between CSR disclosure and AC meetings.**

5.6.1.4 Ownership Structure

11. Institutional Ownership

Agency theory predicts that ownership structure affects the level of disclosure (Eng and Mak, 2003). The relationship between institutional ownership and disclosure has been examined in prior studies; however, the empirical evidence is mixed. Barako et al. (2006), and Mangena and Pike (2005), found a positive association while Schadewitz and Blevins (1998) found a negative association; Hannifa and Cooke (2002) do not find a significant association between the two variables. Hidalgo et a.l (2011) supported the prior studies by stated that “the results appear to corroborate the view that an increase in institutional investor shareholding has a negative effect on voluntary disclosure, supporting the hypothesis of entrenchment, whereas an excessive ownership by institutional investors may have adverse effects on strategic disclosure decisions” (p.490). Islamic banks with a concentrated ownership structure do not have to disseminate more information because the main shareholders can easily obtain it, as they usually have access to that information. Akhigbe and Martin (2006) found a positive association between disclosure and institutional ownership, based on the financial services industry. Based on agency theory, it can be hypothesized:

H11: **There is a positive relationship between CSR disclosure and institutional ownership.**

12. Foreign Ownership

Foreign stockholders' use of disclosure is underpinned by the fact that they are "informational" disadvantaged compared to domestic stockholders (Choe et al., 2005). The ownership structure of the firm may lead to legitimacy gaps. Branco and Rodrigues (2008) explained the involvement between the proportions of foreign ownership and reporting might lead to raise the issue of causality. Fields and Keys (2003) found that the heterogeneity of experiences, ideas, and innovations that individuals carry to a company tends to impact on company performance. At the same time, Ayuso and Argandona (2007) illustrated that foreign owners are typically assumed to play a key role in supporting CSR reporting strategies. However, a study by Branco and Rodrigues (2008) on Kenyan banks found no association between the ratio of foreign ownership on the board and CSR reporting initiatives.

Based on agency theory, Fama and Jensen (1983) suggest that, as the number of shareholders increases and ownership becomes more dispersed, the demands for additional information increase. Several studies have found an association between disclosure and foreign ownership. For instance, according to Xiao et al. (2004), higher foreign ownership not only encourages information disclosure, but also motivates firms to create web pages to facilitate dissemination of financial information. The extent of foreign investor ownership is an important determinant of the demand for financial information (Soderstrom and Sun, 2007). The demands for disclosures are usually higher when foreigners, due to the separation between board and owners geographically (Bradbury, 1991). Moreover, foreign stakeholders have diverse values and knowledge because of their foreign market exposure. Haniffa and Cooke (2005) find a positive association between foreign ownership and disclosures. Concerning the banking sector, Sharma (2014) also found a significant positive relationship between disclosures and foreign ownership. Using different sample and data from prior studies, as a compliment of prior studies this current study will test the association between CSR disclosure and foreign ownership. Therefore, based on agency theory, the final hypothesis is:

H12: **There is a positive relationship between CSR disclosure and foreign ownership.**

5.6.2 Bank Characteristics and Country-Specific Characteristics as a Control Variable.

As the sample contains Islamic banks from 7 GCC countries, the researcher used firm characteristics as a control variable, such as firm size, firm age, profitability, leverage, and liquidity. In this current study, the researcher also uses country-specific characteristics, such as GDP growth and corruption rate of the sample GCC countries as our control variables. Olken & Pande (2012) argued that there is a positive association between GDP (gross domestic product) and corruption to the level of disclosure among countries, while Andres and Vallelado (2009) did not find any significant relation between those variables and disclosure practice. This current study also use year as a dummy variable.

It is argued that bank size has an impact on the level of corporate social activities. A large strand of the literature on CSR finds an association between firm size and CSR activities (e.g., Mallin and Michelon, 2011; Al-Tuwaijri et al., 2004 and Brammer et al., 2006). Roberts (1992) finds a positive relationship between size and CSR; he argues that the bigger and older the company, the more involvement there will be in CSR activities, which gives a positive impact on its reputation. According to agency theory, larger firms need to disclose more information to different user groups, which leads to a decline in agency costs and reduces information asymmetries (Inchausti, 1997). In prior disclosure studies, the association between firm size and disclosure reporting is mixed. For example, while some studies found a positive association (e.g., Elshandidy et al., 2011; Hassan et al., 2009; Vandemele et al., 2009; Alsaeed, 2006; Chavent et al., 2006; Mangena and Pike, 2005), others found an insignificant association (Rajab and Schachler, 2009). Bank size is a significant determinant of disclosure and accounting policy choice, and a discriminator for accounting quality (Goodwin et al., 2008; Rahman et al., 2002). Furthermore, large banks face higher demand for information from customers, analysts, and the public (Cooke, 1989). A few empirical studies on banking disclosure (e.g., Hossain and Taylor, 2007; Hossain and Reaz, 2007) have documented empirical evidence towards the positive relationship between bank size and extent of disclosure.

Prior research finds that there is an association between bank age and disclosure practice (e.g., Akhtaruddin, 2005; Haniffa & Cooke, 2002). They argue that the age of a corporation affects the CSR involvement of the firm, and that long-established firms are likely to make greater voluntary social disclosures. For example, Roberts (1992) reported a positive relationship between CSR and age of firms. This relationship may exist because long-established banks have received more support from the society than newly established banks and the link matures as the bank undertakes a greater leadership role, developing an increased sense of social responsibility. Hossain and Hammami (2009) found that older companies tend to disclose more information than young companies. Older, well-established companies are likely to disclose much more information in their annual reports than younger companies because they are less likely to suffer any competitive disadvantage. In addition, the cost and the ease of gathering, processing, and disseminating the required information may be a contributory factor (Owusu-Ansah, 1998). Many studies have shown that the level of voluntary disclosure is positively associated with company age (e.g., Hossain and Hammami, 2009; Cormier et al., 2005), while others (Alsaeed, 2006; Akhtaruddin, 2005; Hossain, 2008; Galani et al., 2011) conclude that the age of the corporation has insignificant association with the level of disclosure. Abdul Hamid (2004) suggested that the age of a bank might influence the level of information disclosure. In the case of banking industries, Hossain (2008) claimed that no relationship exists between a banking company's age and the extent of monetary disclosure. In contrast, a significant positive association between the bank's age and the extent of disclosure has been found by Owusu-Ansah (2005).

The influence of profitability on disclosure in previous studies received mixed reactions. Singhvi and Desai (1991) argued that when the rate of return is high, managers are motivated to disclose more detailed information to support the continuance of their positions and remuneration. On the other hand, when the rate of return is low, managers may disclose less information in order to conceal the reasons for the effects. Profitability is central to the discussion of corporate disclosure. Inchausti (1997) suggested that profitability is capable of influencing the extent to which companies disclose information items.

Consistent with signalling theory, management, when in possession of good news due to better performance, are more likely to disclose more detailed information to the stock market than that provided by companies in possession of bad news to avoid undervaluation of their shares. Chavent et al. (2006) and Wallace and Naser (1995) propose that companies with higher profitability provide comparatively more information. Ahmed and Courtis (1999) showed that the results of prior studies provide mixed evidence on the association between a firm's profitability and the level of corporate disclosure. Elshandidy et al. (2011), Othman et al. (2009), Chavent et al. (2006), Hossain et al. (2006), and Gray et al. (2001) report a positive association between both variables. Agency theory argues that corporate managers of profitable banks are motivated to disclose more information to increase their compensation (Abd El Salam, 1999). Galani et al. (2011) report an insignificant relationship between banks' profitability and level of disclosure. In a similar vein, previous empirical research on banking voluntary disclosure by Hossain and Taylor (2007) shows no significant relationship between the extent of voluntary disclosure in the annual reports of Bangladeshi commercial banks and the profitability variable. In contrast, a study by Hossain (2008) found a significant positive relationship between the aggregate disclosure levels of listed banking companies in India and their profitability.

Where, legitimacy theory justifies this positive correlation by the fact that corporate boards of highly profitable firms are more likely to disclose more information to increase stockholders' confidence and, accordingly, to raise their compensation and to raise capital at the lowest cost (Marston and Polei, 2004). However, from an Islamic perspective, where full disclosure represented an accountability towards *Allah* before stakeholders, Haniffa (2002) argues that a corporation may provide full disclosure in any situation, whether it is making a profit or otherwise.

Based on agency theory, Xiao et al. (2004) argue that increased disclosure can reduce debt holders' inclinations to price-protect against transfers from themselves to stockholders. Debreceny and Rahman (2005) find that increases in the debt-equity ratio create agency costs. Therefore, corporate managers report more voluntary information to assist creditors to continually monitor the affairs of the corporation and help them evaluate the ability of the firm to pay its obligations on time. Managers tend to provide more information in order to send a good signal to debt holders regarding the corporate ability to meet its obligations. Empirical evidence on the association between leverage and disclosure is mixed. While Elshandidy (2011), Taylor et al. (2010), Marshall and Weetman (2007), and Barako et al. (2006) find a positive relationship, Rajab and Schachler (2009), and Abraham and Cox (2007) find insignificant association. Related to the banking industry, Sharma (2014) find a significant positive correlation existed between disclosures and leverage.

The last control variable of CSR information disclosure is liquidity and it is possible to argue that corporate managers of companies with low liquidity ratio may publish more voluntary information in their annual reports to satisfy the information required by the stakeholders. In addition, Ezat and El-Masry (2008) find a positive association between levels of corporate Internet reporting and liquidity, while Aly et al. (2010) find no association between the two variables. In addition, Samaha and Dahawa (2010) find a positive association between the overall level of voluntary disclosure and liquidity; however, they do not find the same results in their study in 2011, when they tested the association between CSR and liquidity. The study also puts in place a control for the macro-economic factors by using the GDP growth and corruption index in this study and the year effect. Table 6 presents a summary of variables used in this current study (independent and control variables) and their expected relationship with CSR disclosure, based on prior studies.

Table 6: Presents a summary variables used in this study and their expected relationship based on previous studies.

Main Items	Variables	Theory & Association Sign	Previous Studies
Board Related Variables	1. Board size	**Agency Theory** +	Singh et al. (2004); Lakhal (2005); Cheng and Courtenay (2006); Abdel-Fattah et al. (2007); Laksamana (2008); Wang and Hussainey (2013)
	2. Gender	**Stakeholder Theory** +	Haniffa (1999); Mazni (2011); Lawrence (2013)
	3. Board composition	**Legitimacy Theory** +	Forker (1992); Ho and Wong (2001); Haniffa and Cooke (2002); Ajinkya et al. (2005); Tauringana and Mangena (2009); Hussainey and Al-Najjar (2011)
	4. Board meetings	**Signalling Theory** +	Laksamana (2008)
	5.Role duality	**Agency theory** +	Forker (1992); Haniffa and Cooke (2002); Ho and Wong (2001); Cheng and Courtenay (2006); Ghazali and Weetman (2006); Abdelsalam and Street (2007); Wang and Hussainey (2013)
	6. Cross Holding Directorship	**Agency theory** +	Ahmed (2013); Rahman & Bukair (2013); Haniffa (1999); Lee (2009)
SSB	7. SSB size	**Agency Theory** +	Farook et al. (2011); Maali et al. (2006)
	8. SSB cross membership	**Accountability Theory** +	Rahman & Bukair (2013); Farook, Sayd, M. Kabir Hassan (2011)
Audit committee characteristics	9. AC size	**Agency Theory** +	Mangena and Pike (2005); Tauringana and Mangena (2009); Felo et al. (2003); Li et al. (2012)

	10. AC meeting	**Agency Theory** **+**	Kelton and Yang, 2008; Li et al, 2012
Ownership Structure	11. Institutional ownership	**Agency Theory** **+**	Schadewitz and Blevins (1998); Eng and Mak (2003); Mangena and Pike (2005); Lakhal (2005); Wang and Hussainey (2013)
	12. Foreign ownership	**Agency Theory** **+**	Diamond and Verrecchia (1991); Mangel and Singh (1993); Haniffa (1999);Oh et al. (2011); Gamerschlag et al. (2010)
Firm Characteristics	13. Firm size	**+**	Hossain et al. (1995); Watson et al. (2002); Boesso and Kumar (2007); Tauringana and Mangena; (2009); Alves et al. (2012); Wang and Hussainey (2013).
	14. Firm Age	**+/-**	Hossain (2008); Soliman (2013); Aljifri (2008); Sehar et al. (2013).
	15. Profitability	**+/-**	Wallace et al. (1994); Ahmed and Courtis (1999); Tauringana and Mangena (2009); Hussainey and Al-Najjar (2011).
	16. Leverage	**+/-**	Xiao et al. (2004); Elshandidy (2011); Taylor et al. (2010); Marshall and Weetman (2007); Barako et al. (2006); Rajab and Schachler (2009); Abraham and Cox (2007).
	17. Liquidity	**+/-**	Wallace et al. (1994); Watson et al. (2002); Mangena and Pike, (2005); Anis et al. (2012).
Country specific characteristics	18. GDP	**+**	Olken & Pande (2012)
	19.Corruption level	**+**	Olken & Pande (2012)

Note: **(+)** indicates a positive relationship, where **(-)** indicates a negative relationship, based on prior studies.

5.7 Consequences of CSR Disclosure and Hypothesis Development

Since investigating the effect of CSR quantity on firm value is the key part of the analyses to answer research questions (Q 3), this section will discuss prior studies regarding CSR disclosure and firm value. It will then develop a hypothesis based on the theoretical perspectives.

5.7.1 CSRD and Firm Value[33]

The literature on the impact of corporate disclosure on firm value is limited and with mixed results. To the best of the researcher's knowledge; there is limited prior study that directly tests the effects of CSR reporting on firm value, specifically among GCC Islamic banks from 2010-2014. Extensive literature explores the impacts of disclosure generally, but the number of studies that investigated the influence of CSR disclosure on firm value (FV) in Islamic banks is still limited. Several empirical studies concluded that voluntary disclosure enhances investors' ability to predict future earnings, which has consequences on firm value (FV) (e.g., Hussainey et al., 2003). Rhodes and Soobaroyen (2010) argue that disclosure can curtail agency problems by decreasing information asymmetry, thus enhance firm value (FV). Al-Akra et al. (2010) specified the existence association between disclosure and firm value (FV) using panel data for Jordanian listed companies.

Sheu et al. (2010) specifies that the market only provides a higher valuation to those corporations that elect to disclose inclusive information. Gordon et al. (2010) conducted a study in the United States (US) about value relevance of information security disclosures, and provided strong evidence that voluntarily disclosed information is associated positively with the firm value (FV). Anam et al. (2011)

[33] Firm value (FV) in this study refers to the firm's value of Islamic banks.

proved that the extent of disclosure has a significant positive effect on the firm value (FV) based on market capitalization.

Previous studies reveal that increasing disclosure level results in decreasing misevaluation of share price, hence increasing firm’s market capitalization (Anam et al., 2011). Garay et al. (2013) find that an increase of 1% in the corporate disclosure causes an upsurge of 0.15% in the Tobin's Q[34] and an increase of 0.0119% in the firm's ROA (return on assets). Dhaliwal et al. (2011) find a positive association between firm value (FV) and disclosure, based on an investigation of the link between the cost of equity and CSRD. Studies by Villiers (2013) examine the effect of a firm’s governance measures on the relationship between CSR disclosure and firm value (FV). Stronger governance mechanisms could reduce the ability of managers to disclose CSR information opportunistically, making CSR disclosures more credible, and, thus, increase the weight capital market participants put on these disclosures. This would suggest a stronger link between CSR disclosures and firm value (FV) in stronger governance countries. However, financial disclosures themselves may be more opaque in weakly governed countries. Alotaibi and Hussainey (2016) find a positive relationship between CSR disclosure quality and market capitalization of Saudi non-financial listed companies in 2013-2014.

However, enhanced disclosure could have adverse effects if it puts the firm at a competitive disadvantage compared with its rivals (Healy and Palepu, 1993; Hassan et al., 2009) or if it makes more noise to the investors, which affects negatively on their valuation (Chung et al., 2012). Therefore, the existing literature does not

[34] Tobin's Q, or the Q ratio, is the ratio of the market value of a company's assets (as measured by the market value of its outstanding stock and debt) divided by the replacement cost of the company's assets (book value).

present strong evidence on the positive association between corporate disclosure and firm value. Furthermore, it is found that the direction and magnitude of the relationship is associated with the disclosure score (Hassan et al., 2009) and the proxy that is used for firm value (Uyar and Kiliç, 2012). Alotaibi and Hussainey (2016) argued that they did not find the same results when using either Tobin's Q or Return on Assets (ROA) as proxies for firm value. They suggest that both CSR disclosure quantity and quality have the same impact on firm value (FV); the significance of this impact depends on the proxy used in measuring the firm value.

Board Size

Literature on the relationship between board size and firm value offers mixed findings. Jensen (1983) believes that as board size increases, decision-making becomes slower and with free-riding problems, it becomes less efficient, leading to lower corporate value. Yermack (1998), Eisenberg et al. (1998), Mak and Kusnadi (2005), De Andres et al. (2005), Gill and Marthur (2011), Ujunwa (2012), and Kumar and Singh (2013) provide evidence of such arguments and find that smaller boards are related to higher firm value. Jakling and Johl (2009) provide contradicting evidence while studying top Indian companies.

On the other hand, Coles et al. (2007) provide evidence that both very large and very small board sizes affect firm value positively; he believes that this happens due to business complexity. Raheja (2005) supports Coles et al. (2007) by suggesting that there is no optimal board size, since board size tends to depend on either advising or monitoring needs and this changes from company to company. It is claimed that the collective experience and knowledge of board members is crucial in today's complex business environment (Conger et al., 1998). However, previous studies have shown positive association between board size and firm value (FV) (Ujunwa, 2012). Other researchers, such as Lehn et al. (2009) in their research of 88 US companies between 1935 and 2000, found no significant relationship between size and value; Boone et al. (2007) found a positive relationship between board size and corporate size but found no relationship between board size and firm value.

Board Composition

Literature on board composition (characteristics) is more plentiful than literature on board size. There is mixed evidence on board composition and its positive influence on firm value. Jackling and Johl (2009), and Giraldez and Hurtado (2014) find that outsiders provide better monitoring of management (thus, decreasing agency costs) because they are independent. Barnard and Rosenstein (1996), Hermalin and Weisenbach (2001), De Andres et al. (2005), and Baghat and Black (1998) suggest that board structure does not show a positive relationship with firm value. However, Colombo and Baglioni (2008) provide evidence from Italy on a positive relationship, contradicting prior studies. As with board size, it is equally accepted that there is no ideal board composition; board structure should be based on corporate reality, especially on the company's priority between advice (more executive) and monitoring (more non-executive) (Harris and Ravis, 2005; Lehn et al., 2004; Link et al., 2008; Denis and Sarin, 1999).

CEO Duality

As with other governance variables, CEO duality literature presents mixed views on the relationship between CEO duality and firm value. CEO duality is supported by stewardship theory, since it argues for a stronger, more united leadership where interests are aligned and where advice, more than control, is needed (Vintila and

Gherghina, 2012). Other authors, such as Daily and Dalton (1992), Cho and Kim, (2007), Coles, Daniel and Naveen (2008), Kiel and Nicholson (2003), Chen et al. (2005), Chanie and Thome (2009), Ehikoya (2009), lam and Lee (2008), Pok and Sheik, (2012) and Dogan et al. (2013), support agency theory in its assessment of a negative relationship between CEO duality and firm value. Finally, authors, such as Agrawal and Knoebler (1996), Peng, Zhang and Li (2007), Yang and Zhao (2014), and Baptista, Klotze and Campelo de Melo (2008), support stewardship theory and find a positive relationship between CEO duality and firm value.

For firm characteristics variables, Almilia (2009) found that firm size is the main determining of financial reporting. Ezat (2010) found that there is a positive association reported between firm size and firm value (FV). He also claims that larger firms have more resources than smaller firms. Therefore, a positive association is reported between firm size and firm value in several prior studies (e.g., Hassan et al., 2009; Ezat, 2010). With regard to profitability, firms that report higher profits would signal their capabilities to the investors. It might be perceived that these firms have competitive advantages that enable them to achieve higher profits, which positively affect shareholder value. Hence, in line with Hassan et al. (2009), a positive relationship is expected between profitability and firm value (FV). Leverage is associated negatively with financial performance, which is consistent with the pecking order theory (Myers and Majluf, 1984). Hodgson and Stevenson-Clarke (2000) stated that high leverage leads to positive change in firm value (FV). In conducting this study, we also use GDP as our control variable, as most of the literature does (Coles et al., 2007; Yermack, 1996). The author used this variable to control for the growth that the country is having in its economy. The information from this variable was taken from the World Bank database, which shows the growth of GDP in GCC countries in 2010-2014.

In summary, most prior studies (Rhodes and Soobaroyen, 2010; Al-Akra et al., 2010; Sheu et al. 2010; Gordon et al. 2010; Anam et al. 2011; Dhaliwal et al. 2011; Garay et al. 2013; and Alotaibiand Hussainey 2016) find a positive relationship between the level of disclosure and firm value.

5.7.2 Hypothesis Development

This section mainly focuses on examining whether disclosing more CSR information affects firm value. Outsiders usually do not have access to the internal information about the company, which is only available to the manager’s/management team. Prior research (e.g. Sheu et al. 2010) shows that disclosure reduces the information asymmetry between insiders (managers) and outsiders (stakeholders) and, hence, reduces agency conflicts between both parties. This leads to an increase in firm value (Sheu et al. 2010).

The influence of CSR disclosure on firm value (FV) can be understood based on agency, signalling, and economic theory. Signalling theory is the main theoretical framework that is used to explain the association between disclosure and firm value (FV). Based on this theory, comprehensive disclosure signals better CG mechanisms and fewer agency conflicts, thus leading to higher firm value (FV) (Sheu et al., 2010). It is argued that voluntary disclosures in the annual report send signals to the marketplace that are expected to increase a company’s value and, consequently, its stock market value (Gordon et al., 2010). Curado et al. (2011) point out that corporate disclosure influences firm value (FV), as perceived by markets. Cormier et al. (2011) claim that, disclosure delivers value-relevant information to stock markets. Gallego-Alvarez et al. (2010) provided evidence that disclosure has a positive consequence on shareholder value creation.

Economic theory suggests that increased corporate disclosure has an influence on firm value (FV) (Lundholm and Van Winkle, 2006). First, better quality information permits investors to make accurate appraisals of the parameters underlying the future stock returns, lessening non-diversifiable estimation risk and uncertainty about future cash flows, as well as future profitability (Clarkson et al., 1996). Second, through enhanced disclosure, the willingness for investors to trade is increased in addition to increases in the shares' liquidity and improving firm value (FV) (Easley and O'Hara, 2004). Economic theory advocates that an increased voluntary disclosures level reduces information asymmetries between the firm and market participants, which increases the firm's stock liquidity as well as enhances firm value (FV) (Beyer et al., 2010).

The importance of corporate disclosure arises from being a means of communication between management and outside investors and market participants. Enhanced corporate disclosure is believed to mitigate the asymmetry problem and agency conflicts (Lambert et al., 2007). The consequences of increasing disclosure level are often discussed in terms of reduced mispricing, cumulative profitability, and growing firm value (FV) (Botosan and Plumlee, 2002). Consequent empirical studies provide supporting evidence about the association between disclosure and firm value (FV). For instance, Healy et al. (1999) find that firms with expanded disclosure levels experience substantial corresponding increases in firm value (FV). The direct effects of corporate disclosures have the ability to change the firm value (FV) by affecting managers' decisions and, hence, varying the distribution of future cash flows

(Lambert et al., 2007). Thus, improved corporate disclosure may increase the market value for firms (Elzahar et al., 2015).

Concerned with the economic consequences for social disclosure, legitimacy theory suggests that corporations may be enthusiastic to disclose social information to legitimize its position within society (Deegan et al., 2002). McDonald and Rundle-Thiele (2008) find influence of CSR on the corporate profitability through creation of such intangible assets as good reputation, trust, and commitment, which drive the long-term success of the business. This improves the firm’s ability to attract resources, enhance performance, and build competitive advantages thereby enhancing firm value (FV) (Fombrun et al., 2000). Widespread preceding research proposes that disclosure reporting can influence positively on stakeholders’ perceptions of firm performance and, thereby, on firms’ profitability and share price (Lourenco et al., 2012). Therefore, based on the above theory, it can be hypothesized that:

H13: **There is a positive relationship between CSR disclosure and firm value (FV).**

5.8 CSR Media

A variety of media can be used to disclose social and environmental information: annual reports, advertisements or articles published detailing companies’ activities, booklets or leaflets to address the social and environmental activities of the company, community reports, environmental reports, labelling of products to promote environmental and other concerns, press releases, supplements to the annual report or produced at interim dates, video tapes, and websites (Jenkins & Yakovleva, 2006, p. 273).

This is supported by Campbell et al. (2003) indicate that companies may use media other than their annual reports to disclose social and environmental information. For example, tobacco companies in the UK used advertising extensively until recently, and it is still used as a medium of corporate communications by other companies. Also, the Internet is a powerful tool in providing social information, as the website of a company has the potential to reach a much wider audience than its annual reports. ACCA (2001) indicates that there are three major methods to present the social, environmental, and sustainability information through the website: 1) Piggy back: replication of the paper based report in electronic form; 2) Stand-alone approach: complete reporting solely through the website; 3) Integrated approach: reports plus additional features and information (ACCA, 2001 p. 13).

Taha (2010) stated that, it is important for companies to provide separate CSR reports for users; the growing trends towards CSR disclosure is matched by the release of increasing number of companies who provide a stand-alone CSR reports to fulfil the stakeholder needs. Jenkins & Yakovleva (2006) argue that the petro-chemical industry was the first sector that issued stand-alone reports, starting in the 1980s, while the mining sector started producing environmental reports gradually from the 1990s. According to KPMG’s triennial surveys (initiated in 1993), CSR reporting has been steadily rising and has increased substantially in recent years. In 2008, 79% of the G250 (global 250) companies and 45% of N100 (national 100) companies in 16 countries issued separate CSR reports, compared with 52% and 33% respectively in 2005, 45% and 28% in 2002, and 35% and 24% in 1999 (KPMG, 2002, 2005, 2008).

Nowadays, the current trend of companies to disclose their CSR information is through an annual report and website. With the rapid growth of Internet access around the world, stakeholders tend to find online CSR information through the company website. Islamic banking industry, it is rare to find a stand- alone CSR reports produced by the companies to disclose their CSR information. But for the purpose of this study, in measuring the CSR disclosure level among Islamic banks in the GCC, a main source of information will be collected from the companies' annual reports. The researcher neglects to use websites as a supportive source of data due to information consistency issue. The annual reports have widely been used as the main tools in measuring the level of compliance by previous researchers (e.g., Maali et al., 2006; Zainal et al., 2013; Platonova, 2014; Farag et al., 2014; Elzahar & Hussainey, 2012; Belal et al., 2014; Huang, 2015). Adopting this approach, annual reports will be used as a main document in measuring the CSR disclosure practice in the GCC Islamic banks.

5.9 Annual Reports

Annual reports are formal public documents produced by companies in response to the mandatory corporate reporting requirements existing in most Western economies (Santon & Santon, 2002:478). Daub (2007) stated that the annual report is sometimes referred to as a company business card, which reflects that it provides readers with a comprehensive picture of the publishing organization (Daub, 2007, p. 75). The annual report is one of the multiple channels through which companies communicate with their stakeholders; in support of this choice, the literature shows that it is the main disclosure vehicle (Malafronte et al., 2013) and is an influential source of information because of its wide coverage and availability (Beretta and Bozzolan, 2004). Annual report disclosure levels also positively correlated with the amount of corporate disclosure provided via other media, such as websites (Marston & Shrives, 1991, Lang & Lundholm, 1993).

The annual reports are commonly divided into two sections: one for statutory required financial statements, and other for non-statutory matters (Stanton & Stanton, 2002). It is observed that content changes have been partly mandatory, partly voluntary. Tsang (2001) argued that compared with one or two decades ago, today, annual reports are more professional with colourful graphs and diagrams, fancy designs and exotic paper. There is growing realization that annual reports have a disclosure function, which can serve crucial public relations function. White & Hanson (2002) present a justification for the extensive use of annual reports by researchers “for no other medium offers the same blend of consistency, accessibility and wide applicability. No other medium yields the same access to corporate communication with lay audiences” (White & Hanson, 2002, p.455).

According to Beretta (2007), the annual report in particular is increasingly perceived by companies as a communication tool towards stakeholders. In addition to its main function of reporting their financial and economic condition, it is also used to announce important positive results, to manifest core values, to reassure stakeholders in difficult financial times; for stakeholders, it is necessary to make sound decisions, and primarily regulators, shareholders, and customers are interested in its content (Stanton & Stanton, 2002). With the information disclosed in annual report, it allows the solving of the asymmetric information problem between principal and agent (Hill & Jones, 1992). Companies are aware of the crucial role assumed by disclosure, it could be beneficial but also costly; it requires investment and expertise. Thus, the choice is no longer disclosing or not, but strategically deciding when, how and what to communicate (Malafronte et al., 2013).

In conducting this study, the researcher will focus on annual reports of the sample Islamic banks as a main source in measuring the CSR disclosure. The justifications of choosing an annual report as a main dataset in this study are as follows:

- Annual reports provide a high degree of credibility to information disclosed within them (Tilt, 1994).
- The annual report is a statutory document and produced regularly, and it represents what is probably the most important document, which companies use in the construction of their own social imagery (Hines, 1988).
- Annual reports are the most accessible source of information for listed companies, in hard copies and electronically (Yusoff & Lehman, 2005).
- The financial image of a company is critical in terms of how companies are seen and judged, the social and environmental factors frequently will produce conflict with financial ambitions of the company and its owners, so the presentation of the financial information and social and environmental information within the same report becomes an important element in demonstrating how the company reconciles these matters (Gray et a.l, 1995b, p.82).

5.10 Summary

This chapter provides literature discussions of CSR disclosure in Islamic banks. Based on prior study of CSR disclosure level, its determinants and consequences, this study identifies several research gaps to be fulfilled. This chapter also provide a brief discussion of CSR media which general used in CSR reporting. In fulfilling the research gaps, this study will measure the CSR disclosure level (RQ 1), its determinants (RQ 2) and consequences (RQ 3), of GCC Islamic banks by measuring the CSR disclosure level and develops the hypothesis to identify the determinants and consequences.

In summary, the research hypotheses of this study can be classified into two main groups, based on research questions and objectives. The first group of hypotheses is related to the association between the corporate governance (CG) mechanisms and CSR disclosure level (RQ 2 and RO 2). The second group is related to the firm value (FV) and CSR disclosure level (RQ 3 and RO 3).

The **first group** is the association between CG variables and CSR disclosure level. This hypothesis can be divided into four different groups, namely board-related variables, SSB-related variables, audit-related variables, and ownership-related variables.

a) Board related variables:

H1: There is a positive relationship between CSR disclosure and board size.

H2: There is positive relationship between CSR disclosure and board gender composition.

H3: There is positive relationship between CSR disclosure and board composition.

H4: There is a positive relationship between CSR disclosure and board meetings.

H5: There is a positive relationship between CSR disclosure and CEO duality.

H6: There is a positive relationship between CSR disclosure and cross-holding directorships.

b) SSB-related variables

H7: There is a positive relationship between CSR disclosure and SSB size.

H8: There is a positive relationship between CSR disclosure and SSB cross-membership.

c) Audit-related variables

H9. There is a positive relationship between CSR disclosure and AC size.

H10. There is a positive relationship between CSR disclosure and AC meetings.

d) Ownership-related variables

H11: There is a positive relationship between CSR disclosure and institutional ownership.

H12: There is a positive relationship between CSR disclosure and foreign ownership.

The **second group** is the association between firm value (FV) and CSR disclosure.

H13: There is a positive relationship between CSR disclosure and firm value (FV).

The next chapter will provide a discussion of research methodology and method used in achieved the RO 1, RO 2, and RO 3, and to answer RQ 1, RQ 2, and RQ 3.

CHAPTER 6: RESEARCH METHODOLOGY AND METHODS

6.1 Overview

It is necessary to determine the relevant methodology and methods that will be used in order to achieve the research aims, answer the research questions, and to test hypotheses, as well as how the data will be collected and how to measure the variables (Aryani, 2015). In conducting this study, the researcher verified a suitable methodology to ensure its consistency with both the research objectives and questions. In order to achieve the objectives and to answer the research questions, this section discusses the research philosophy, strategy, approach, methodology, and methods used to measure the CSR disclosure level, determinants and consequences.

6.2 Research Philosophy

The research philosophy can go from the “interpretivism” on one extreme to the “positivism” on the other extreme (Collis & Hussey, 2003). The interpretivism philosophy emphasises the differences between conducting research among people and objects of the natural sciences and, therefore, requires a social scientist to grasp the subjective meaning of social action (Bryman, 2004 and Saunders et al, 2009).

Apart from interpretivism, the research philosophy employed in the current study is positivism. The positivism philosophy seeks to adopt a scientific detachment, free from the distorting potential opinion and bias, and consequently pursuit objectivity (Parsa, 2001). Therefore, under the positivism philosophy, the researcher is likely to use an existing theory to develop hypotheses, which would be tested and confirmed or rejected (Saunders et al., 2009).

6.3 Research Strategies

There are two main research strategies that are widely employed in social science: "quantitative" and "qualitative". The quantitative strategy emphasises quantification in the data collection, using mathematical models that link between a cause and effect relationship, and testing the hypotheses of the chosen theories. On the other hand, the qualitative strategy emphasises words and interpretation to discover the required knowledge, rather than quantification in the collection and analysis of data.

The quantitative strategy is most suited with the positivism philosophy (Crotty, 1998). Furthermore, the nature of this research objectives and research questions suggests the use of quantitative strategy. This strategy allows the quantification in the collection and analysis of data to test and interpret the association between variables (independent and dependent variables). It is more likely to answer the research questions and, therefore, generalize the results.

6.4 Research Approach

There are two main research approaches, namely the "deductive" and "inductive" approaches. The deductive approach is to start from a theory (or theories), and then the hypotheses are developed based on this theory (or these theories). A research strategy is designed to test the hypotheses depending on the collected data (Saunders et al., 2009). Unlike the deductive approach, under the inductive approach, the data related to the phenomenon is collected and analysed, then a theory is built up as a result of the conclusion from data analysis (Bryman & Bell, 2003).

For the purpose of the study, the deductive approach is more appropriate. Under this approach, research questions are established, then various hypotheses are developed based on the existing theory (or theories) and finally statistical techniques are used to test the developed hypotheses, which lead to either accepting or rejecting the relationship between variables according to the chosen theory (or theories).

6.5 Research Methodology

This current study will investigate CSR disclosure and examine the hypothesis of its determinants and consequences. The data related to CSR disclosure, its determinants, and consequences is collected from annual reports, Bank Scopes and data stream databases. This current study used secondary data, namely as annual reports. The annual reports are downloaded from the bank's website. According to Hakim (1982), data that is collected from literature reviews and publications (such as journals, newspapers, books, and websites) are categorised as secondary data. He stated that there are seven benefits of conducting research using secondary data; firstly, the data already exists. Secondly, it is relatively easy to collect by searching the Internet, scanning newspapers, or by reading reports published by companies, governments, stock exchanges, public databases, or related departments. Thirdly, the researcher does not gather data directly in the field because others have already collected it. Fourthly, the researcher can use the data in a variety of forms. Fifthly, it is more efficient and less expensive. Sixthly, data can represent a national or international scope. Finally, the data is easy to collect over a long time period and it is easy to process with software. In this study, all data collected will be analysed using SPSS software, such as measuring the mean of CSR disclosure, and will test all the hypotheses.

6.6 Research Methods

Methods, according to Crotty (1998, p. 3), are “the techniques or procedures used to gather and analyse data related to some research questions or hypothesis”. This research will adopt quantitative research methods in measuring the CSR disclosure of Islamic banks in the GCC. The financial report of sample Islamic banks from 2010-2014 will be analysed using disclosure index and content analysis. There is neither a general definition for CSR, nor a certain set of CSR to be disclosed by GCC Islamic banks. Therefore, the manual content analysis could be a relevant approach to quantify CSR disclosures in sample Islamic banks. This traditional technique is used in prior studies (e.g., El-Halaby & Hussainey, 2015; Rahman et al., 2011; Mosaid & Boutti, 2012; Khan, 2010; Alotaibi and Hussainey, 2016). It helps to avoid many drawbacks of the automated content analysis. These drawbacks include misleading results because of using inappropriate/insufficient key words, or using the words in isolation of the whole meaning of the sentence, in addition to the limitations related to the software used to perform the analysis (Elzahar & Hussainey, 2012; Hassan and Marston, 2010).

CSR disclosure refers to the level of CSR information disclosed in the annual report. It is measured by the number of CSR information that is published by banks. To measure the CSR disclosure quantity in the study, the un-weighted approach is employed to code and measure CSR disclosures over the annual reports. Therefore, ‘1’ is given for each CSR disclosed in the annual report, and ‘0’ if there are no CSR disclosure items disclosed in the annual report. Each bank has been given a score of quantity, which represents the total number of the CSR disclosure items in the annual report. It includes mandatory and voluntary items as stated in AAOIFI, No 7, 2010.

To investigate the determinants of CSR disclosure among the sample Islamic banks, annual reports have been used the main resources in collecting data. Whereas in measuring the firm value, data stream is used to obtain all relevant data. To test the hypotheses and examine the association between the main variables, this current study used OLS regression.

6.7 Sample and Data

For the purpose of this study, the researcher retrieved Islamic banks' annual reports from their websites. Similarly, to Farook et al. (2011), in this study, Islamic banks refer to commercial banks, service banks, and investments banks. These banks operate either as public listed companies, private, or government link companies. In this study, no distinction is drawn between the types of the banks because all the sample Islamic banks claim to comply with the *Shariah.* According to the Bankers database, from the record updated in June 2015, there are 62 full-fledged licensed Islamic banks in GCC. For the sake of consistency in the research sample, the researcher excluded Islamic banks' subsidiaries and banks, which have not published an English version of the annual report. Therefore, the researcher excluded 23 banks. Therefore, the final sample of this study consists of 39 Islamic banks in the GCC. This represents 63 % of the total sample, and it is in line with the minimum size required for multiple regressions (Coakes, 2005; Green, 1991). This dataset provides sufficient information of disclosure practices across Islamic banks operating in the GCC for the years 2010-2014; it involves 195 observations throughout the year.

The study is conducted from 2010 due to the latest Governance Standards Issued by the AAOIFI in 2010; it attempts to measure the CSR disclosure practice among GCC Islamic banks after the issuance of that standard. During the conduction of this study, the most recent available annual report produced by sample Islamic banks is 2014, so the researcher decided to focus in that time frame. This study also narrowly focuses on GCC Islamic banks, due to their active contribution to Islamic banking development since 1975 and its positive growth. Furthermore, due to the establishment of the AAOIFI in Bahrain, which issued several standards for Islamic banks, such as Governance Standard No.7, 2010, which is focus on CSR disclosure. It motivates the researcher to investigate whether the AAOIFI influences other GCC countries in their CSR disclosure practice. Table 7; provide the sample breakdown across countries.

Table 7: Sample breakdown across countries

No	Countries	Total Number of Islamic Banks	Sample Islamic Banks
1	Bahrain	27	15
2	Qatar	9	6
3	Kuwait	6	3
4	KSA	6	4
5	Oman	5	3
6	UAE	9	8
	TOTAL	**62**	**39**
Source: Bank scope Database and Data Stream, June 2015			

6.8 Content Analysis

There are many definitions of content analysis. The most widely accepted definition is the one offered by Berelson (1952). Berelson (1952, p.18) defines content analysis as a research technique for the objective, systematic and quantitative description of the manifest content of communication'. Similarly, Carney (1972: 21) describes it as a research technique for making inferences by objectively and systematically identifying specified characteristics of messages'. Krippendorff (1980, p.21) describes this approach as “a research technique for making replicable and valid inferences from data to their context”. According to Gray et al. (1995), contents analysis is a method or technique employed to measure objectively, systematically and quantitatively the content of communication. Weber (1985), as quoted in Hackston and Milne (1996), defined content analysis as a method of codifying the text or content of a piece of writing in various groups or categories, depending on the selected criteria.

This concept has been further defined by Guthrie and Abeysekera (2006) as a technique for gathering data contained in the annual reports and it involves codifying qualitative and quantitative information and pre-defined categories, in order to derive patterns in the presentation and reporting of information. Social disclosure can be measured in a few different ways; Belkaoui and Kaprik (1999) proposed four measurements to be used: a) social disclosure scale by Ernst and Ernst (1973), b) Percentage of proposal in the annual report, c) Quality of disclosure in the annual report, and d) quantity of disclosure in annual report.

According to Hussainey (2004), content analysis has many advantages. Firstly, it looks directly at texts and, hence, looks at a central aspect of social communication. Secondly, it is easy to perform both quantitative and qualitative analysis but, in this study, the researcher will focus on quantitative analysis, rather than qualitative analysis. Thirdly, it provides valuable historical insights through the analysis of textual content for different periods and it is useful for examining trends and patterns in documents over time. However, there is no method free from limitations and criticisms; this approach can be extremely time-consuming and expensive (Hussainey, 2004), especially when analysing large volumes of textual data. Human coders also could make mistakes during their analyses (Kim & Kuljis, 2010). They could overlook some important text when handling a large volume of textual data. Content analysis also requires researchers to dedicate many hours in labour-intensive reading processes (Boesso and Kumar, 2007).

Content analysis has been widely employed in previous CSR research (Gray et al., 1995) and is the most common method of analysing social and environmental reporting, particularly in firms (Milne and Adler, 1999). Although CSR reporting can be made through a variety of channels, such as advertising, promotional leaflets, company websites, interim reports and press releases, a substantial proportion of research has employed the annual report as the main data source of a company's attitudes toward social reporting. Moreover, in developing countries, other disclosure channels have little use (Abu-Baker and Naser, 2000), and the annual reports are the best source of information. Content analysis is also selected as a tool to study CSR reporting in a number of studies, proving to be a well-established method in this type of research (Aribi & Gao, 2010). Content analysis also has a strong foundation in the social disclosure literature since 1978 (Ingram, 1978; Ingram & Frazier, 1980; Guthrie & Parker, 1989). The method has been widely adopted in prior social responsibility disclosures studies (Platonova, 2014; Zainal et al., 2013; Ali Aribi & Arun, 2014; Gamerschlag et al., 2010).

To achieve the research objective, manual content analysis methods have been used to record the data. Traditional content analysis via manual reading is generally more effective than computerised analysis in identifying certain themes in the texts. (Hussainey, 2004 ;El-Halaby & Hussainey, 2015).

In performing the manual content analysis procedure, the disclosure index will be crosschecked with the annual report to detect the CSR information disclosed by the Islamic banks. The annual report will be read line by line, the score (1) will be awarded if the banks disclose the CSR information listed in the disclosure index and (0) if otherwise. Numerous prior literature studies have employed this technique in assessing either the quality or quantity of disclosure in the annual report (e.g., Ghazali and Weetman, 2006; Eng and Mak, 2003; Cooke and Haniffa, 2002). To enhance the reliability and validity of the index, the same index is carefully reviewed by the researcher and academic experts to ensure it produces the same result. It is to ensure that the same coder is consistent over time when coding the same item of the indices (stability), the coders produce the same results when coding the same item (reproducibility), and ensure its accuracy as well (Beattie and Thomson, 2007).

6.9 CSR Disclosure Index

To provide an answer for RQ 1, this study conducts an empirical investigation into CSR disclosure level using a comprehensive un-weighted disclosure index. According to Beattie et al. (2004, p.126), "disclosure index studies are based on the general principles of content analysis – a well-established method in the social sciences". It is supported by Dragomir (2010), disclosure index studies form a part of content analysis, "which involves classifying text units into categories" (p.368). Since the analysis in this study focused on sections of the text that relate to CSR information, it is important for the researcher to develop a disclosure index as a 'partial type of content analysis' (Beattie et al., 2004). Yusoff et al. (2006, p10) argue that "using disclosure index as a part of content analysis is considered a most useful technique as a result of its important role, where (a) it is based on the 'breadth' (number of different topics) and 'depth' (specificity of information provided) and (b) it may avoid elements of subjectivity". Many studies have used a disclosure index as a research method (e.g. Cheung et al., 2010; Hossain et al., 2006; Maali et al., 2006).

Guthrie and Abeysekera (2006, p.11) state that "a disclosure index is a research instrument comprising a series of pre-selected items which, when scored, provide a measure that indicates a level of disclosure in the specific context for which the index was devised". It could identify the level of disclosure and particular predefined information in the Islamic banks' annual report; in this study, it measures CSR disclosure scores for Islamic banks. Basically, the main approach that has been used in the previous studies was initialised by selecting a group of items that will represent the disclosure index, which will then be used to screen the annual report.

Prior research (e.g., Kamla and Rammal, 2013; Hassan and Harahap, 2010; Williams and Zinkin, 2010; Haniffa and Hudaib, 2007; Maali et al., 2006) normally developed the disclosure index using several steps. Thus, in conducting this study, the researcher implements these steps. First, in measuring the CSR disclosure, the items in the disclosure index were develop based on AAOIFI, No. 7, 2010 and supported by extensive past literature (e.g., Maali et al., 2006; Haniffa & Hudaib, 2007; Farag et al., 2014; Aribi & Gao, 2012; Hussainey & Elsayed, 2011). The purpose of reviewing prior research in constructing the index is to get a better understanding and idea on the items constructed in prior CSR disclosure studies.

Second, the selection of items to be included in the index is chosen very carefully. Then, it is divided based on its category, either mandatory or voluntary, as suggested by AAOIFI, No. 7, 2010. The main dimensions of the index consist of four main aspects, which cover the issues of social responsibility within organizations, social responsibility in its relationship with customers and clients, social responsibility in screening its investments, and social responsibility in its relationship with greater society. The testable index, which consists of 11 dimensions, was designed to measure the volume of disclosures. The purpose of the dimensions is to determine the themes of CSR using the disclosures checklist and the location of the CSR items in the annual reports, following the approach used in the study by Mustafa (2004). The themes have been clearly identified to ensure that each definition is unambiguous and mutually exclusive in order to eliminate overlapping interpretations. Table 8 presents the summary of the main and sub- dimensions in measuring CSR disclosure practices among the sample Islamic banks in the GCC.

Table 8: Summary of CSR disclosure dimensions develop based on AAOIFI, 2010 and prior research.

Main Dimensions	**Sub-Dimensions**	**Source**
Social responsibility within organizations	1. Employee welfare (M)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010
	2. Policy for social development and environment-based investment quotas. (V)	AAOIFI, 2010; Aribi, 2009; Aribi & Gao, 2012
	3. Earning and expenditure prohibited by *Shariah* (M)	AAOIFI, 2010; Maali et al., 2006; Aribi, 2009; Aribi & Gao, 2012
Social responsibility in its relationship with customers and clients	4. Par excellence customer services (V)	AAOIFI, 2010; Vinnicombe 2010; Ullah, 2013; Aribi, 2009; Taha, 2010
	5. Policy for dealing with clients (M)	AAOIFI, 2010; Belal et al., 2014
	6. *Qard-Hassan* (benevolent loan) (V)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010; Haniffa, 1999
	7. Micro and small business	AAOIFI, 2010; Maali et al.,

Social Responsibility in screening its investments	and social savings, investments and development. (V)	2006; Taha, 2010
	8.Policy for screening clients (M)	AAOIFI, 2010; Maali et al., 2006; Aribi, 2009; Aribi & Gao, 2012
Social responsibility in its relationship with greater society	9. *Zakat* (M)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010; Haniffa, 1999
	10.Charitable activities (V)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010
	11.*Waqf* (endowment) management (V)	AAOIFI, 2010; Aribi, 2009; Aribi & Gao, 2012
Note: (M) - Mandatory Conduct (V) - Voluntary/Recommended Conduct		

Third, the verification of disclosure index takes place. Some research employs an independent external examiner to validate the disclosure index (e.g., Barako et al., 2006; Hossain et al., 1995; Singhvi and Desai, 1971). They will choose the practitioners or experts in the accounting areas to verify the list of the disclosure index. In this study, the researcher verifies items constructed in the index by consultation with academic experts and researchers who have an accounting background and knowledge regarding CSR disclosure.

Fourth, after validating the index, the researcher has to decide whether they want to assign a weighting to the disclosure index or not. In this study, an un-weighted disclosure index is used to determine CSR disclosure level. This method has been commonly used by previous researchers (e.g., Elzahar & Hussainey, 2012; Maali et al., 2006; Haniffa & Hudaib, 2007) in measuring disclosure practices. Thus, the researcher adopted this method in measuring the CSR disclosure quantity of Islamic banks in the GCC. According to Gray et al. (1992), those who want to employ an un-weighted disclosure index have to treat all items in the list as equally important and the dichotomous method will be used to score the item. The firm will get a score of "1" if they disclosed the item and "0" if they have not disclosed.

Although the disclosure index is subject to controversy, especially on the subjectivity involved from researchers' discretionary, one may admit that the disclosure index has its own strength (Chow and Wong-Boren, 1987). The complete disclosure index that will be used to screen the annual report can reveal the extent of the disclosure quality and quantity (Gray, et al., 1992). The disclosure index is very comprehensive and robust in nature because it was created based on many sources including past literature and accounting standards, crosschecked against the disclosure items, screened to current announcements by standard setters and validated by experts (Maali et al., 2006).

6.10 Unit of Analysis

The common methods used in content analysis studies to quantify disclosure are number of characters, words, sentences, pages, and proportion of CSR disclosure volume to total disclosure (Taha, 2010). Previous literature does not provide a theoretical justification for the choice of any one of these measures (Rahman et al., 2011; Street & Bryant, 2000; Farook, 2011; Aribi, 2009; Belal, Abdelsalam and Nizamee, 2014). From the researcher's knowledge most of prior research uses character and words in measuring the CSR information from the annual report. The measurement of quantity of disclosure, in terms of words, was justified by maintaining that volume of disclosure can thereby be recorded in greater detail (Deegan & Gordon, 1996; Kolk & Pinkse, 2010). Zeghal & Ahmed (1990) indicated that words are the smallest unit of measurement and can be expected to provide the maximum strength to the study in assessing disclosure quantity.

In examining the CSR disclosure level, this study uses keywords to find CSR information in the annual report, based on CSR dimensions developed using AAOIFI, 2010 standards. To overcome an ambiguous measurement problem, the researcher takes a precautionary measure to enhance the validity and the reliability of the analysis. All annual reports have been carefully read line-by-line to find the CSR information using keywords related to the items measure. For example, in measuring the CSR information regarding *Waqf* in the annual report, several keywords have been used to find that information: *Waqf*, endowment, endowment management and *Awqaf*. Then the score will be awarded (1) if there is *Waqf* information presented in the annual report and (0) if otherwise.

In general, in order to explore CSR disclosure practices of Islamic banks in the form of an index, a Corporate Social Responsibility Disclosure Index (CSRDI) score is calculated. The quantity of disclosure is measured through the construction of a disclosure index. This process consists of the analysis of the content of the information. The approach to scoring items is essentially dichotomous in that an item in the research instrument scores '1' if communicated and '0' if it is not (see :Aribi & Arun, 2014; Haniffa and Cooke, 2002; Haniffa and Hudaib, 2007), and is additive and equally weighted to avoid potential scoring bias and scaling problems (Cooke, 1989). The method used in measuring the CSR disclosure level of the sample Islamic banks is as follows:

$$CSRDI(i,t) = \sum_{i=1}^{N} Score(j)$$

Where:

CSRDI = corporate social reporting index score for company *i*. and for the year *t*

N = number of items in the index

j= indicates each item included in the index

Thus, the value of the index, for each companies *i* for the year *t*, is obtained as the sum of the scores assigned to each item in Score (j).

It can be standardized as follows:

$$CSRDI(i,t) = \left(\frac{\sum_{i=1}^{N} Score(j)}{N}\right) \text{x } 100 = \frac{\text{Total Score}(i,t)}{N} \text{ x } 100$$

6.11 Designing the Research Instrument and Ensuring its Validity

To design the initial research instrument, many considerations are taken into account. First, the research instrument should be relevant to measure the CSR disclosure of each dimension. Second, the eleven CSR disclosure dimensions are included within the initial checklist. Third, each CSR item is categorised into different themes in order to conduct further analyses, such as social responsibility within organizations, social responsibility in its relations with customers and clients, social responsibility in screening its investments, and social responsibility in its relationship with greater society.

Validity is defined as the extent to which any instrument measures what it is intended to measure (Marston and Shrives, 1991). Following prior disclosure studies (Hope, 2003; Tsalavoutas et al., 2010; Hassan and Marston, 2010), validity is ensured through the assessment of content validity. Hence, it is achieved by relying on the literature while constructing the instrument so as to make sure that the instrument contains relevant and adequate items to measure CSR disclosures.

Following previous studies (e.g. Tsalavoutas et al., 2010), after designing the initial checklist, it is reviewed independently by the researcher and supervisors in order to achieve instrument validity. All suggestions and comments are discussed and considered in order to improve the validity of the research instrument.

6.12 Assessing the Reliability of the Research Instrument: A Pilot Study

Reliability is the extent to which the instrument produces the same results on repeated trials (Hassan and Marston, 2010). Reliability could also be defined as the ability of different coders to code the same text in the same way (Weber, 1990). Prior research suggests that content analysis might not be as reliable as intended if it is conducted only once or only by one person (Neuendorf, 2002; Hussainey et al., 2003). In addition, it is argued that the reliability of computerized content analysis is based on the reliability of the coding schemes, in this case the lists of keywords, designed by the researcher (Sydserff & Weetman, 2002). Thus, disclosure measure has to be subjected to reliability tests in order to get useful inferences from the instrument in research (Beattie et al., 2004). Inter-rater reliability is the most frequently reported measure to assess the reliability (Beattie et al., 2004). By comparing the results produced by more than one coder: the more the results are related, the greater the reliability of the instrument.

To assess the reliability of the research instrument, a pilot study was conducted. It also aimed at checking the variation between firms in CSR reporting using the research instrument. The pilot study was conducted on a sample of 15 annual reports for the year 2013-2014. This sample was randomly selected from different countries to measure the quantity of CSR reporting. This enabled the researcher to get an initial idea about the variation between firms in different countries with respect to CSR reporting.

To improve the reliability, decision rules were produced and used as a reference in coding. Then, the researcher and three independent academic experts, who have an accounting background and knowledge regarding to CSR disclosure, independently coded the annual reports of the pilot study sample using the initial checklist. This procedure aimed to ensure the consistency in applying decision rules. Finally, the results obtained were checked, and found to be too close. Furthermore, total scores will be tested for reliability and validity by using SPSS. If the Cronbach's Alpha shows more than 70%, it means the measurement is reliable (Aryani, 2015). The result, indicated in Table 9, shows that Cronbach's alpha is 0.815 (> 0.70), meaning the initial checklist and items used in the pilot study have a high reliability. It is consistent and can be used more than once or in another research, whereby the result will produce a consistent data when those items are used in other research.

Table 9: Reliability test: Cronbach Alpha Result

Cronbach's Alpha	Cronbach Alpha's Based on Standardized Items	No of items
0.815	0.705	11

6.13 CSR Disclosure Determinants

6.13.1 Regression Model

To measure CSR disclosure determinants for Islamic banks, this study used content analysis as a method of coding, which has been widely employed in previous studies of corporate disclosure (Abdul Rahman et al., 2010; Maali et al., 2006). To test for an association between corporate disclosures levels with CG variables (board, SSB, AC, and ownership variables), one comprehensive index that consists of 6 board-related variables, 2 SSB-related variables, 2 AC-related variables, and 2-ownership variables have been construct and calculated. The study also adds control variables in that index; it consists of 5 firms' characteristics variables and 2 country-specific variables. The scores for the index are calculated by assigning equal weightings to each item of disclosure and the indices were derived by computing the ratio of actual scores awarded to the maximum possible score attainable for items that were applicable to each Islamic bank. Each item of disclosure was scored without a weighting on a dichotomous basis, taking the commonly used approach of giving the item a score of one (1) and zero (0) (e.g., Ghazali and Weetman, 2006; Haniffa and Cooke, 2002). To empirically investigate the relationship between CSR disclosure and CG-specific characteristics in Islamic banks, the study used the following OLS (ordinary least square) regressions to estimate the association between CSRD and corporate governance variables, using the same procedure as (Chan et al. 2012). Ordinary Least Squares (OLS) is the most commonly used technique in disclosure studies (Leventis, 2001) where the dependent variable is the compliance level/CSR disclosure score and the independent variables include all the CG variables. Therefore, this study uses the following OLS transformed multiple regression models:

$$\begin{aligned}\mathrm{CSRD}_{it} = \ & \alpha + \beta_1 \mathrm{B.Size}_{it} + \beta_2 \mathrm{B.Gender}_{it} + \beta_3 \mathrm{B.Composition}_{it} + \beta_4 \mathrm{B.Meeting} \\ & + \beta_5 \mathrm{B.Duality}_{it} + \beta_6 \mathrm{B.CrossHold}_{it} + \beta_7 \mathrm{SSB.Size}_{it} + \beta_8 \mathrm{SSB.Cross}_{it} \\ & + \beta_9 \mathrm{AC.Size}_{it} + \beta_{10} \mathrm{AC.Meet}_{it} + \beta_{11} \mathrm{Ins.Own}_{it} + \beta_{12} \mathrm{For.Own}_{it} \\ & + \beta_{13} \mathrm{F.Size}_{it} + \beta_{14} \mathrm{F.Age}_{it} + \beta_{15} \mathrm{F.Profitability}_{it} + \beta_{16} \mathrm{F.Leverage}_{it} \\ & + \beta_{17} \mathrm{F.Liquidity}_{it} + \beta_{18} \mathrm{GDP}_{it} + \beta_{19} \mathrm{Corruption}_{it} + \text{Year Dummy Variable} \\ & + e\end{aligned}$$

Where:

CSRD_{it} = is the total CSR disclosure score provided by CSR disclosure index, which measures the level of disclosure CSR in the sample Islamic banks ***i*** at year ***t*** or known as the dependent variable

α .   = the intercept

β1- β12 = independent variables. CG Variables consists of: B. Size (board size), B. Gender (board gender), B. Comp (board composition), B. Meet (board meeting), B. Dual (board duality), B. Cross Hold (board cross holding), SSB size, SSB cross membership, AC Size (audit committee size), AC Meet (audit committee meeting), Ins Own (institutional ownership), and For. Own (foreign ownership)

β13- β19= control variables. Firms (in this study refers to Islamic banks) and country-specific variables consist of: F. Size (firm size), F. Age (firm age), F. Profitability (firm profitability), F. Leverage (firm leverage), F. Liquidity (firm liquidity), GDP (gross domestic product of the country) and Corruption (the corruption index of the country).

Year dummy variables = Year 2010, 2011, 2012, 2013, 2014 as a dummy variable.

e = the error term, the difference between the predicted and observed value of the CSR for sample company.

6.13.2 Dependent Variable (CSRD score)

In examining the CSR disclosure determinants, this study used CSR disclosure score as dependent variable.

6.13.3 Independent Variables (CG mechanisms)

To examine the determinants of CSRD, the author collected CG information of the banks, consisting of board- and SSB- related variables from the sample banks' annual reports.

6.13.4 Control Variables

The study uses such firm characteristics as control variables. Firm and country-specific characteristics variables of the sample Islamic banks have been collected from various databases such as DataStream, World Bank, Transparency index database and annual reports. Table 10; provide a summary of dependent, independent and control variables definition and measurement used to examine CSR disclosure determinants.

Table 10: Dependent, independent and control variables definition and measurement

Variable	Definition	Measurement	Source
1. CSRD	Quantity of CSRD score by sample banks	The percentage of CSR information disclosure by Islamic banks	Annual Report
1. B. SIZE	Board size	The total number of directors on board	Annual Report
2. B. GENDER	Gender of BOD	A dummy variable equals 1 if the all boards member of the firm is male and 0 otherwise.	Annual Report
3. B. COMP	Board composition *- ratio of exec and non-exec in the board*	The board composition is calculated as the number of non-executive directors divided by board size	Annual Report
4. B. MEET	Board meetings	The total number of board meetings during the year	Annual Report
5. CEO. DUAL	Role of CEO duality	A dummy variable equals 1 if the chairman is the same person as the CEO of the firm,0 otherwise	Annual Report
6. B. CROSS	Cross Holding Directorship	A dummy variable equals 1 if the Director (regardless of executive or non-executive) sits on more than one board, 0 otherwise.	Annual Report
7. SSB SIZE	*Shariah* Supervisory	The total number of	Annual Report

	Board size	*Shariah* supervisory board committee	
8. SSB CROSS	*Shariah* supervisory board cross membership	A dummy variable equals 1 if the SSB member sits more than one board and, 0 otherwise.	Annual Report
9. AC SIZE	Audit committee size	The total number of audit committee members.	Annual Report
10. AC MEET	Audit committee meeting	The total number of AC meetings during the year	Annual Report
11. INS OWN[35]	Institutional ownership	The aggregate percentage of shares that are held by institutional shareholders.	Annual Report /DataStream/
12.FOR OWN	Foreign Ownership	The aggregate percentage of shares that hold by foreign shareholders.	Annual Report /DataStream
13. F. SIZE	Firm size	The natural logarithm of firms' total assets.	Data stream
14. F. AGE	Firm age	The age of the firm	Data stream
15. F. PROFIT	Profitability	The profitability measured by return on equity	Data stream
16. F.LEVERAGE	Leverage	The ratio of total debt/total equity.	Data stream/Annual report
17. F. LIQUID	Liquidity	Current assets/Current liabilities	Data stream
18. GDP	Growth domestic products	GDP of the sample countries	World Bank
19. Corruption	Corruption rate	Corruption rate of the sample countries	Transparency index

[35] In collecting the data for INSOWN and FOROWN, the researcher analyze few source of information in measuring the aggregate percentage of shares hold by institutional/foreign shareholders in companies annual reports and data stream

6.14 CSR Disclosure Consequences

6.14.1 Dependent Variables:

To measure CSR disclosure consequences for Islamic banks, empirical studies used different proxies in order to measure firm value (FV). Among 95 studies that Margolis and Walsh (2001) reviewed, 49 adopted accounting measures, 12 adopted market measures, and the rest used a mixed set. The study uses three alternative dependent variables associated with firm value (FV) to test the hypothesis, which is consistent with several literatures (Sheu et al., 2010; Barontini and Caprio, 2006). The three measures have diverse theoretical implications (Hillman and Keim, 2001; Servaes and Tamayo, 2013). Selecting three proxies may support the researcher to construct the holistic view of the impacts of disclosure on firm value (FV) through different proxies. Further discussion of firm value proxies follows.

6.14.2 MTBV

In measuring the impact of CSRD to firm value, the current study used several indicators, such as market-to-book value of the companies. The market-to-book ratio, which is also known as price to book ratio, measures the market value of a company relative to its book or accounting value. The market value of the company is its value at any point in time, as determined by the financial marketplace. The book value, or historical value, is almost always lower than the market value since some assets may be off-balance sheet items. The market value and book value of liabilities tend to be closer in value than the market value and book value of assets. This is because liabilities that are due in one year, or current liabilities, usually retain their book value.

Other studies used market-to-book value to reflect the market value of the firm compared with its book value (e.g., Hassan et al., 2009; Uyar and Kiliç, 2012). Additionally, market-to-book ratio is also used in a further analysis so as to check the robustness of results (Haniffa and Hudaib, 2006; Hassan et al., 2009). Regarding market-to-book ratio (MTBV), it is measured as the ratio of market value of equity to book value of equity. This ratio is a good indicator of how a firm is valued by investors. If the ratio exceeds 1, it means that the firm is overvalued by investors and vice versa (Hassan et al., 2009)[36]. The market-to-book ratio is used by security analysts to determine whether a stock is undervalued or overvalued. If a stock is undervalued, the price is expected to rise. If it is overvalued, the price is expected to fall. Investors looking for value stocks often look for low market-to-book companies. According to Khlif (2015), MTBV can be calculated as follows:

Market-to-book = Share price of the stock / Book value per share

In this current study, the data of MTBV of the sample Islamic banks are collected from the DataStream database. To empirically investigate the relationship between firm value (using MTBV as a proxy) and CSRD in the Islamic banks, the study uses the following OLS regressions:

<u>Model 1: Firm Value (FV) using MTBV as a proxy.</u>

FV(MTBV)n = α + β1CSRD+ β2 B.SIZE n+ $\beta\beta$3 B.Comp n+ $\beta\beta$4 CEO Dual n+ $\beta\beta$5 F.Size n+ β6 F.Profit n+ β7 F.Leverage n+ β8 C.GDP n+ Year dummy variable+ ε

Where:

[36] A logarithm transformation is used by Hassan et.al,(2009) in order to bring the distribution of TQ and MTBV more near to normality

FV (MTBV) = firm value measured using MTBV as a proxy for the sample Islamic banks, also known as the dependent variable. Data gathered from DataStream database using data code: MTBV

α. = the intercept

β1 = Independent variables (CSR disclosure score of the sample Islamic banks)

β2 - β8= Control variables (B. Size (board size), B. Comp (board composition), CEO Dual (CEO duality), F. Size (refers to Islamic banks size), F. Profit (refer to Islamic banks' profitability), F. Leverage (refers to Islamic banks leverage) and C. GDP (growth domestic product of the sample countries).

Dummy variable= the study uses year as a dummy variable

e = the error term, the difference between the predicted and observed value of the MTBV for the sample banks.

6.14.3 Market Capitalization (WC08001) or MC

Another variable in measuring firm value is market capitalization (WC08001). Market capitalization data of the sample Islamic banks was collected from the Data Stream database. In general, market capitalization represents the total dollar market value of a company's outstanding shares. Market capitalization is calculated by multiplying a company's outstanding shares by the current market price of one share. The investment community uses this figure to determine a company's size. As opposed to sales or total asset figures, this study uses MC, which is used in the corporate disclosure literature (Servaes and Tamayo, 2013).

To empirically investigate the relationship between firm value (using WC08001 as a proxy) and CSRD in Islamic banks, the study uses the following OLS regressions:

Model 2: Firm Value (FV) using MC (WC08001) as a proxy.

FV(WC08001) n = α + β1CSRD+ β2 B.SIZE n+ $\beta\beta$3 B.Comp n+ $\beta\beta$4 CEO Dual n+ $\beta\beta$5 F.Size n+ $\beta\beta$6 F.Profit n+ $\beta\beta$7 F.Leverage n+ $\beta\beta$8 C.GDP n+ Dummy variable+ ε

Where:

FV (WC08001) = is the firm value measured using market capitalization (WC08001) as a proxy for the sample Islamic banks, also known as the dependent variable. Data gathered from Data Stream database using data code: WC08001

α . = the intercept

β1 = Independent variables (CSR disclosure score of the sample Islamic banks)

β2 - β8= Control variables (B. Size (board size), B. Comp (board composition), CEO Dual (CEO duality), F. Size (refers to Islamic banks size), F. Profit (refers to Islamic banks profitability), F. Leverage (refers to Islamic banks leverage) and C. GDP (gross domestic product of the sample countries)

Dummy variable= the study use year as a dummy variable

e = the error term, the difference between the predicted and observed value of the market capitalization for the sample banks

6.14.4 Tobin Q (TQ)

According to the theoretical framework, a relationship is expected between CSR reporting quantity and firm value. Empirical studies used different proxies in order to capture investors' reactions to the information disclosed. For instance, stock return is used in many of previous studies to investigate the effect of released information (e.g., Conover and Wallace, 1995; Healy et al., 1999; Bloomfield and Wilks, 2000; Lang and Lundholm, 2000; Bushee and Leuz, 2005; Hussainey and Mouselli, 2010; Roychowdhury and Sletten, 2012; Tsalavoutas et al., 2012). In addition, Tobin's Q is also used to measure firm value in some studies (e.g., Morck et al., 1988; Laporta et al., 2002; Haniffa and Hudaib, 2006; Hassan et al., 2009; Aggarwal, 2009; Setia-Atmaja, 2009; Ezat, 2010).

Following prior studies (e.g., Morck et al., 1988; Laporta et al., 2002; Lins, 2003; Haniffa and Hudaib, 2006; Hassan et al., 2009; Aggarwal, 2009), Tobin's Q ratio is used as a proxy to measure the dependent variable (firm value) in the main analysis. Tobin's Q, equal to the ratio of the firm's market value to the replacement cost of its physical assets (Morck et al., 1988, p. 296), or 'the ratio of the market value of assets to their replacement value at the end of the most recent fiscal year' (La Porta et al., 2002, p.1156). This ratio implies the investors' perception of the value of a firm by reflecting this perception on ratio's value. If the ratio is larger than one, it will refer to an improvement in that firm value, due to the efficient usage of its resources management and vice versa (Hassan et al., 2009).

Prior empirical studies also used Tobin Q as a proxy in measuring firm value to examine the effect of corporate governance on financial performance (Bhagat and Black, 2002; Demsetz and Villalonga, 2001). Adopting an approach used in prior studies (Khlif, 2015; Alotaibi and Hussainey, 2016), the study also uses Tobin Q as a proxy for firm value. According to Tjia & Setiawati (2012), Tobin's Q ratio can be defined as: Tobin's Q= (TMV+DEBT)/ TA. TMV is the total market value of the firm, comprising the market value of the common and the preferred stocks. DEBT is the book value of the firm's debt; in this study, the researcher used total firm liabilities (WC03351). TA (WC02999) is the book value of total assets. All data gathered from DataStream database. To empirically investigate the relationship between firm value (using Tobin Q as a proxy) and CSRD in Islamic banks, the study uses the following OLS regressions:

<u>Model 3: Firm Value (FV) using Tobin Q (TQ) as a proxy.</u>

FV(TQ)n = α + β1CSRD+ β2 B.SIZE n+ $\beta\beta$3 B.Comp n+ $\beta\beta$4 CEO Dual n+ $\beta\beta$5 F.Size n+ $\beta\beta$6 F.Profit n+ $\beta\beta$7 F.Leverage n+ $\beta\beta$8 C.GDP n+ Dummy variable+ ε

Where:

FV (TQ) = is the firm value measured using Tobin's Q (TQ) as a proxy for the sample Islamic banks, also known as a dependent variable. Tobin's Q ratio can be defined as: Tobin's Q= (TMV+DEBT)/ TA. TMV is the total market value of the firm, comprising the market value of the common and the preferred stocks. DEBT is the book value of the firm's debt. In this study, the researcher used total firm liabilities (WC03351). TA (WC02999) is the book value of total assets.

α . = the intercept

β1 = Independent variables (CSR disclosure score of the sample Islamic banks)

β2 - β8= Control variables (B. Size (board size), B. Comp (board composition), CEO Dual (CEO duality), F. Size (refers to Islamic banks size), F. Profit (refers to Islamic banks' profitability), F. Leverage (refer to Islamic banks' leverage), and C. GDP (growth domestic product of the sample countries).

Dummy variable = the study uses year as a dummy variable

e = the error term, the difference between the predicted and observed value of the TQ for the sample banks.

6.14.5 Independent Variables

In examining the CSR disclosure consequences, this study used CSR disclosure score as an independent variable.

6.14.6 Control Variables

In addition to the above dependent and independent variables, as well as to avoid model misspecification, this study considers additional variables, which might also influence firm value (FV). Therefore, this study added variables concerned with CG (board size, board composition and CEO duality), firm characteristics (size, profitability, leverage), and country specific variables (GDP growth). This study also uses year as a dummy variable. Drawing upon agency theory, the broad objective of CG mechanisms is to align managers' interests with shareholders' interests. It is predicted that CG mechanisms motivate managers to enhance shareholders' value (Bruce et al., 2007). Ntim et al. (2012) found that good CG practices enhance firm value (FV). Thus, this current study considers several CG mechanisms as control variables on firm value (FV) such as: board size, board composition, and CEO duality**.** Table 11 presents summary of the dependent, independent, and control variables, their definition and measurement in measuring CSR dislcosure consequences.

Table 11: A summary of dependent, independent and control variable definitions and measurement in measuring CSR disclosure consequences.

Variables		Definition	Measurement	Source
Dependent	MTBV	Market-to-book value ratio	The natural logarithm of market value of equity to book value of equity (WC03501) ratio.	Data Stream
	MC (WC08001)	Firm value based on market capitalization	By multiplying a company's shares outstanding by the current market price of one share	Data Stream (WC08001)
	TQ	Tobin Q	The natural logarithm of: (total assets (WC02999) + market value of equity - total common equity (WC03501))/ total assets (WC02999)	Data Stream
Independent	1. CSRD	CSR disclosure level of the sample Islamic banks	The percentage of CSR information disclosure by Islamic banks	Annual Report and Website
Control	2. B.Size	Board size	The total number of directors on board	Annual Report
	3.B.Comp	Board composition *- ratio of exec and non-exec in the board*	The board composition is calculated as the number of non-executive directors divided by board size	Annual Report
	4. CEO Dual	Role of CEO duality	A dummy variable equals 1 if the chairman is the same person as the CEO of the firm, 0 if otherwise	Annual Report
	5. F.Size	Firm size	The natural logarithm of Islamic	Data stream

			banks total assets.	
	6. F.Profit	Profitability	The profitability measured by return on equity of Islamic banks	Data stream
	7. Leverage	Leverage	The ratio of total debt / total equity. Of Islamic banks	Data stream/Annual report
	8. GDP	Gross domestic products	GDP of the sample countries	World Bank

6.14.6 Regression Model

This current study used 5-year data in measuring the association between dependent and independent variables. To test the hypothesis, this current study applies 3 OLS regressions and the study employs the following regression model. The dependent variable is MTBV for model 1. As an alternative proxy for firm value, the study also uses the MC (WC08001) as dependent variable for model 2, and Tobin Q (TQ) in model 3. Independent variables include the aggregate CSR disclosure levels of sample Islamic banks.

6.15 Summary

This chapter has presented an overview of the research methodology and methods used in this study to achieve the research aim. It provides an insight into the whole research process, which is imperative for the purpose of ensuring the originality and quality of the research. In achieving the main aims of this research, the researcher decided to narrowly focus on the quantitative approach. Using manual content analysis approach, a disclosure index has been developed to measure the CSR disclosure level among the sample Islamic banks. In ensuring the validity of the index, the researcher takes precautionary measure in developing the index; all items have been checked twice by different coders to make sure the instrument measures what it is intended to measure. Then, the researcher assesses the reliability of the research instrument through conducting a pilot test. The score gathers from the pilot test have been checked using SPSS software. The result shows that Cronbach's alpha is 0.815 (> 0.70). That means the initial checklist and items used in the pilot study have a high reliability. It is consistent and can be used more than once or in another research whereby the result will produce a consistent data when those items are used in other research.

This chapter also discussed the dependent and independent variables used to examine the determinants and consequences of CSR disclosure. The main variables used in examining CSR disclosure determinants are narrowly focused on corporate governance characteristics. This study used firm value to examine the economic impact of CSR disclosure among GCC Islamic banks. To test the hypothesis developed in this study, the Ordinary Least Square (OLS) method has been used to examine the relationship between all the variables. The next chapter will provide empirical findings of the study and answers for RQ 1, RQ 2 and RQ 3.

CHAPTER 7: FINDINGS

7.1 Overview

This chapter has five main sections; it will provide a descriptive analysis for CSR disclosure, also empirical results of its determinants and consequences. This chapter begins with an overview discussion of the chapter, then a descriptive analysis of CSR disclosure, an empirical analysis of CSR disclosure determinants and consequences. Lastly, a summary of the chapter is presented.

7.2 CSR Disclosure: A Descriptive Analysis (RQ 1)

In answering RQ 1, this section provides descriptive statistics of CSR disclosure levels among the sample GCC Islamic banks. The importance of this chapter is to provide a clear view for the CSR disclosure practice among GCC Islamic banks based on the index created using AAOIFI, 2010 guideline. The chapter is based on the statistical analysis results of disclosure measurement. This sections will provide cross country and cross dimensional analysis of CSR disclosure practice among Islamic banks in GCC from 2010-2014.

7.2.1 Cross country analysis

Table 12 presents the cross-country analysis of CSR disclosure of the sample GCC Islamic banks from 2010 to 2014. It represents details of the sample across the countries, 8 Islamic banks from the UAE, 15 from Bahrain, 6 from Qatar, 4 from the KSA (Kingdom of Saudi Arabia), 3 from Kuwait and Oman. From the analysis, in 2010, Kuwait had the highest score of CSR disclosure, which is 54.6%, followed by UAE (51.1%), Qatar (47%), Bahrain (45.5%), KSA (43.2%) and the lowest is Oman (27.3%). Whereas in 2011, the KSA had the highest level of CSR disclosure score (50%), followed by Kuwait (45.5%), UAE (43.2%), Qatar (34.9%), Bahrain (34.6%)

and Oman (24.2%). From the researcher's observations, it shows that Omani Islamic banks have the lowest score of CSR disclosure since the first year of the AAOIFI, No. 7, 2010 was implemented until 2013 (24.2%), when compared to other GCC Islamic banks. But since 2013, Omani Islamic banks have shown their concern regarding CSR disclosure issue; they have the highest score of CSR disclosure in 2013 (51.5%) and 2014 (60.6%) compared to other GCC Islamic banks. For Bahraini Islamic banks, who are regulated to be fully compliant with the AAOIFI standards, their CSR disclosure score is still lower; their average CSR disclosure score is just around 30.9% to 45.5%, which is lower than other GCC Islamic banks that are not regulated to comply with the AAOIFI. The average CSR disclosure level of the sample Islamic banks from 2010 to 2014 is 39.92 %. Based on cross country analysis, this current study finds that the level of CSR disclosure practice among Islamic banks in GCC are not influence by the issuance AAOIFI, no 7. An average of CSR disclosure score among sample Islamic banks are relatively lower compared to prior study (such as:.Hassan et al,2013;Belal et al,2014; and Farag et al,2014).

Table 12: Cross country analysis of CSR disclosure

YEAR	COUNTRY	N	MEAN CSRD (%)	MIN	MAX	STDEV
2010	UAE	8	51.1	0.0	1.0	10.8
	BAHRAIN	15	45.5	0.0	1.0	9.1
	QATAR	6	47.0	0.0	1.0	12.1
	KUWAIT	3	54.6	0.0	1.0	0.0
	KSA	4	43.2	0.0	1.0	4.5
	OMAN	3	27.3	0.0	1.0	9.1
2011	UAE	8	43.2	0.0	1.0	9.4
	BAHRAIN	15	34.6	0.0	1.0	13.0
	QATAR	6	34.9	0.0	1.0	16.7
	KUWAIT	3	45.5	0.0	1.0	0.0
	KSA	4	50.0	0.0	1.0	17.4
	OMAN	3	24.2	0.0	1.0	5.3
2012	UAE	8	37.5	0.0	1.0	10.2
	BAHRAIN	15	30.9	0.0	1.0	9.0
	QATAR	6	36.4	0.0	1.0	12.9
	KUWAIT	3	45.5	0.0	1.0	9.1
	KSA	4	38.6	0.0	1.0	11.4
	OMAN	3	24.2	0.0	1.0	10.5
2013	UAE	8	45.5	0.0	1.0	6.9
	BAHRAIN	15	41.2	0.0	1.0	12.3
	QATAR	6	33.3	0.0	1.0	4.7

	KUWAIT	3	45.5	0.0	1.0	15.7
	KSA	4	45.5	0.0	1.0	0.0
	OMAN	3	51.5	0.0	1.0	5.2
2014	UAE	8	43.2	0.0	1.0	13.5
	BAHRAIN	15	35.2	0.0	1.0	14.1
	QATAR	6	30.3	0.0	1.0	13.7
	KUWAIT	3	33.3	0.0	1.0	5.3
	KSA	4	52.3	0.0	1.0	13.6
	OMAN	3	60.6	0.0	1.0	13.9
Total N: 195						
Mean CSRD: 39.92 %						

Table 12 presents the descriptive statistics of the sample Islamic banks in GCC for the years 2010 to 2014. It presents the mean CSRD for each year, which is measured by the index developed from AAOIFI, No. 7, 2010 and previous literature (1 if the sample banks disclose required CSR information and 0 if otherwise). The table also presents the total sample (N) of Islamic banks by countries, mean CSRD across the sample MIN, MAX and STDEV of CSRD.

7.2.2 Cross dimensional analysis

Based on 195 observations of sample Islamic banks' annual reports and websites from 2010-2014, the researcher finds that the social responsibility in the employee welfare dimension on average has the highest scores across all the GCC Islamic banks, while the social responsibility in late repayment and insolvent clients and avoiding onerous terms scores the lowest. The highest average disclosure score of the CSR index is EY-employee welfare-related information, which is 64%, followed by ZAKAT-*Zakat* (57%), SME-Micro and small business and social savings, investments and development (34.3%), QARD-*Qard Hassan* (benevolent loan) (31.7%), CHARITY-Charitable activities (31%), NSE-Earning and expenditure prohibited by *Shariah* (24.3%), CS-Par excellence customer services (19%), EV-Internal environmental preservation policy (10%), S.CLIENT-Screening of clients for compliance with Islamic principles (7%) and WAQF- *Waqf* (endowment) management (5%). The lowest average disclosure score related to CSR index is late repayment and insolvent clients and avoiding onerous terms (2.7%). From the observations of the GCC Islamic banks' annual reports regarding *Zakat* information, which is one of the main items of CSR in Islam, some of the sample banks did not disclose the details of an amount allocated for that purpose, even though it is a mandatory requirement according to the AAOIFI (2010). From the researcher observations, the sample Islamic banks tend to disclose employee welfare related information compared to other themes of disclosure. It may be due to the pressure by stakeholder to ensure that the management concern with the employee welfare. Table 13 presents the descriptive statistics of the cross-dimensional CSR index score across 6 GCC countries and aggregate disclosure that contain all sections in their Islamic banks' annual report.

Table 13: Cross dimensional analysis of CSR disclosure

		CSR DISCLOSURE DIMENSIONS										
YEAR	**COUNTRY**	**1.EY**	**2.EV**	**3. NSE**	**4.CS**	**5.LP**	**6.Qard**	**7.SME**	**8.S.Client**	**9.Zakat**	**10.Charity**	**11.Waqf**	**ΣCSRD**
2010	UAE	7	1	1	7	0	6	7	3	7	4	2	51.1
	BAHRAIN	15	4	3	7	3	4	6	4	11	15	3	45.5
	QATAR	6	3	1	4	1	2	0	5	4	5	0	47.0
	KUWAIT	3	0	0	3	0	3	2	1	3	3	0	54.6
	KSA	4	0	0	4	0	0	3	0	4	4	0	43.2
	OMAN	3	0	0	0	0	1	2	0	2	1	0	27.3
2011	UAE	7	0	3	3	0	4	6	4	7	3	1	3.58
	BAHRAIN	15	0	7	3	0	7	3	0	12	9	1	5.50
	QATAR	6	0	2	1	0	3	4	0	5	2	0	2.17
	KUWAIT	3	0	0	1	0	3	2	0	3	2	1	1.42
	KSA	4	1	2	1	0	3	3	0	4	3	1	2.08
	OMAN	3	0	0	1	1	0	1	0	0	2	0	0.92
2012	UAE	8	1	1	2	0	4	6	0	8	3	0	3.08
	BAHRAIN	15	2	7	1	1	7	4	0	13	0	1	4.75
	QATAR	6	0	3	0	0	4	3	0	6	2	0	2.33
	KUWAIT	3	1	1	1	0	3	2	0	3	1	0	1.42
	KSA	4	0	1	1	0	1	4	0	4	2	0	1.67
	OMAN	3	1	0	1	0	0	1	0	0	2	0	0.92
2013	UAE	7	1	4	4	0	6	7	0	8	3	0	3.67

	BAHRAIN	15	5	7	4	1	7	6	0	14	8	1	6.42
	QATAR	6	2	5	1	0	1	1	0	6	0	0	2.25
	KUWAIT	3	2	0	1	0	2	2	0	3	2	0	1.50
	KSA	4	2	1	1	0	0	3	1	4	4	0	1.83
	OMAN	3	2	1	0	0	3	3	0	3	2	0	1.67
2014	UAE	8	0	4	2	0	6	4	2	8	4	0	3.25
	BAHRAIN	15	0	10	1	1	6	7	0	14	3	1	5.58
	QATAR	6	0	3	0	0	2	3	0	6	0	0	2.00
	KUWAIT	3	1	1	0	0	2	1	0	3	0	0	1.17
	KSA	4	2	2	1	0	4	4	0	4	1	1	2.08
	OMAN	3	1	3	1	0	1	3	1	2	3	2	1.83
Total	**N = 195**	**64.%**	**10.7%**	**24.3%**	**19%0**	**2.7%**	**31.7%**	**34.3%**	**7%**	**57%**	**31%**	**5%**	

Table 13 presents the descriptive statistics of the sample Islamic banks in the GCC for the years 2010 to 2014. It presents the average level CSRD, which measured by the index developed from the AAOIFI 2010 standard and previous literature (**1** if the sample banks disclose required CSR information and **0** if otherwise). The table also presents the details of the score from each dimension, which was measured in this study; **1) EY** -Employee welfare (M) **2) EV**-Internal environmental preservation policy (V) **3) NSE**-Earning and expenditure prohibited by *Shariah* (M) **4) CS**-Par excellence customer services (V) **5) LP**-Late repayment and insolvent clients and avoiding onerous terms (M) **6) Qard**-Qard-Hassan (benevolent loan) (V) **7) SME**-Micro and small business and social savings, investments and development (V). **8) S.CLIENT**-Screening of clients for compliance with Islamic principles (M) **9) ZAKAT**-*Zakat* (M) **10) CHARITY**-Charitable activities (V) **11)WAQF**- Waqf (endowment) management (V)

7.2.3 Discussion

Tables 14 and 15 provide a summary of cross-country and cross-dimensional analysis of 195 observations of the GCC Islamic banks between 2010 and 2014. The tables provide a clear picture of CSR disclosure practice among the sample Islamic banks after the issuance of AAOIFI, No 7, 2010. From the cross-country analysis, it shows an improvement of CSR disclosure practice among Omani banks. They have the lowest CSR score from 2010 to 2012, but from 2013 to 2014, they are at the top compared to the other GCC Islamic banks. For Bahraini banks, that are expected to be fully compliant with the AAOIFI as stated by Vinnicombe (2012), they have a low level of CSR disclosure compared to Kuwait and Qatar, who are not legally required to be fully compliant with the AAOIFI. It is contradictory with findings by Vinnicombe (2012) and Sherif El-Halaby (2016), who find that Bahrain have the highest number of Islamic banks compliant with the AAOIFI rather than other GCC countries. Based on the findings, there is no significant difference of CSR disclosure practice among the GCC Islamic banks after issuance of AAOIFI, No. 7, 2010. As a result, it shows that the AAOIFI have no influence in CSR disclosure practice among the GCC Islamic banks. From the researcher's point of view this is maybe due to the lack of proactive actions from the AAOIFI towards Islamic banks in the GCC to enhance their CSR disclosure practice. Therefore, it is expected that the AAOIFI, as a standard setter, can enhance the awareness of CSR disclosure practice among other GCC countries in future. It is hoped that proactive action from regulatory body, either the AAOIFI or Central Banks in GCC, may improve their CSR disclosure score.

From the dimensional analysis, it can be seen that the GCC Islamic banks tend to disclose employee-related information in their annual report more than other CSR information. It consists of information such as: a) provisions of the policy, including targeted disadvantaged groups, b) quotas/targets, and c) achievement for the year and the reason for upward and downward revisions in quotas/targets. The least information disclosed by the sample GCC Islamic banks regards their policy for dealing with clients. According to the AAOIFI (2010), the Islamic banks are recommended to disclose such particular information in their annual report as:

i. Procedure of the IFIs on avoiding the imposition of onerous contractual terms on clients who are in a weaker bargaining position relative to the IFIs.
ii. Ensuring that marketing campaigns and documents are ethically balanced.
iii. The obligation and rights of both parties (stakeholder and shareholders).
iv. 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.
v. The remedies available in the event of that one, or both, parties violate their contractual terms.
vi. The SSB's opinion on the permissibility of charging late payment charges.
vii. Late payment charges imposed on clients.
viii. How the IFIs allocate the late payment charges in their accounts (allocation to revenue or charity).
ix. The conditions under which the IFIs will defer collection of debt from insolvent clients.

Overall, the result shows a low level of disclosure for CSR reporting for the sample Islamic banks. The mean CSR disclosure of the sample Islamic banks from 2010-2014 is 39.92%; it is lower compared to the prior study. But, the findings are in line with a finding by Maali et al. (2006), Hassan and Harahap (2010), and Farook et al (2011); who also find that the extent of CSR disclosure by Islamic banks falls far short of their expectation (13.3%, 38%, and 16.8% respectively). Based on the observations and findings, the researcher agrees with the statement by Maali et al. (2006), who indicate that Islamic banks are not completely fulfilling their social role in accordance with the prescriptions of Islam as they are expected to be more aware on CSR issues in future. According to Gray et al. (1995), to be socially accountable, managers are required to provide all financial and non-financial information towards their stakeholders. Due the low level of CSR disclosure score, it shows that Islamic bank managers are less accountable in performing their duties, they tend to focus on disclose several themes of CSR information's where ignoring other themes of CSR information such as charitable activities and Waqf related information's.

From the agency theory perspectives, Islamic bank managers have to disclose more CSR information to convince the stakeholders that they are behaving optimally on the stakeholder's behalf, their concern on CSR issues and, as a result, it can reduce agency cost. From the researcher's point of view, this issue still appears since there is no pressure from the stakeholders for Islamic banks to be more socially accountable. Therefore, stakeholders have to put pressure on Islamic banks to enhance their CSR practice towards the benefit of society. It is expected that Islamic banks will be more concerned with all CSR-related issues and be more socially responsible than conventional banks.

In summary, this section shows a low level of CSR disclosure practice among the GCC Islamic banks from 2010 to 2014. But, what are the determinants in influencing the differences in the CSR disclosure practices among the sample GCC Islamic banks? This question is the focal point of the discussion in the following sections, to examine the determinants of CSR disclosure practice among the GCC Islamic banks.

Table 14: Summary of cross-country analysis of CSRD for GCC Islamic Banks (2010-2014)

COUNTRY	2010(%)	Ranks	2011(%)	Ranks	2012(%)	Ranks	2013(%)	Ranks	2014(%)	Ranks
1)UAE	51.1	**2**	43.2	**3**	37.5	**3**	45.5	**2**	43.2	**3**
2)BAHRAIN	45.5	**4**	34.6	**5**	30.9	**5**	41.2	**3**	35.2	**4**
3)QATAR	47.0	**3**	34.9	**4**	36.4	**4**	33.3	**4**	30.3	**6**
4)KUWAIT	54.6	**1**	45.5	**2**	45.5	**1**	45.5	**2**	33.3	**5**
5)KSA	43.2	**5**	50.0	**1**	38.6	**2**	45.5	**2**	52.3	**2**
6)OMAN	27.3	**6**	24.2	**6**	24.2	**6**	51.5	**1**	60.6	**1**
Mean CSRD across 2010-2014: **39.92 %**										

Table 15**:** Summary of cross-dimensional analysis of CSRD score and percentage for GCC Islamic banks (2010-2014)

Items	**2010**		**2011**		**2012**		**2013**		**2014**	
	Score	**%**	**Score**	**%**	**Score**	**%**	**Score**	**%**	**Score**	**%**
1) EY	38	**97.4**	38	**97.4**	39	**100**	38	**97.4**	39	**100**
2) EV	8	**20.5**	1	**2.5**	5	**12.8**	14	**35.9**	4	**10.2**
3) NSE	5	**12.8**	14	**35.9**	13	**33.3**	18	**46.1**	23	**58.9**
4)CS	25	**64.1**	10	**25.6**	6	**15.3**	11	**28.2**	5	**12.8**
5) LP	4	**10.2**	1	**2.5**	1	**2.5**	1	**2.5**	1	**2.5**
6) Qard	16	**41**	20	**51.2**	19	**48.7**	19	**48.7**	21	**53.8**
7) SME	20	**51.2**	19	**48.7**	20	**51.2**	22	**56.4**	22	**56.4**
8) S.Client	13	**33.3**	4	**10.2**	0	**0**	1	**2.5**	3	**7.6**
9) Zakat	31	**79.4**	31	**79.4**	34	**87.1**	38	**97.4**	37	**94.8**
10) Charity	32	**82**	21	**53.8**	10	**25.6**	19	**48.7**	11	**28.2**
11) Waqf	5	**12.8**	4	**10.2**	1	**2.5**	1	**2.5**	4	**10.2**
1. Employee welfare (M) 2. Policy for social, development and environment based investment quotas (V) 3. Earning and expenditure prohibited by *Shariah* (M) 4. Par excellence customer services (V) 5. Policy for dealing with clients (M) 6. Qard-Hassan (benevolent loan) (V) 7. Micro and small business and social savings, investments and development (V) 8. Policy for screening clients (M) 9. *Zakat* (M) 10.Charitable activities (V) 11.*Waqf* (endowment) management (V) Score (CSR disclosure score of sample Islamic banks) %(Percentage of CSR disclosure score of sample Islamic banks)										

7.3 CSR Disclosure Determinant: An Empirical Analysis (RQ 2)

In answering RQ 2, this section will provide descriptive statistics of the dependent and control variables. Then, this current study will check the OLS assumptions such as normality, heteroscedasticity, multicollinearity, and auto correlation. Last but not least, this section will provide an empirical analysis of the CSR disclosure determinants.

7.3.1 Descriptive statistics of dependent and control variables

Table 16 provides the descriptive statistics for dependent and control variables used in this study. It provides the descriptors of CSR disclosure quantity, as well as the independent and control variables (B. Size, B. Gender, B. Composition, B. Meeting, CEO. Duality, B. CrossHold, SSB Size, SSB Cross, AC Size, AC Meet, Ins Own, For. Own, F. Size, F. Age, Liquidity, Leverage, and Profitability). The mean value of CSR disclosure quantity (CSRD) is 0.3992, with a minimum and maximum of value of 0.09 and 0.73, respectively. The standard deviation of CSRD is 0.130. The descriptive statistics of the independent variables are as follows. Board size (B. Size) has a minimum value of 4 and maximum value of 16; it shows the lowest and highest numbers of members on Islamic banks' boards. The mean value of B. Size of the sample Islamic banks is 9.15.B. Gender has minimum value of 0, a maximum value of 1 and a mean value of 0.82. B. Composition has a minimum value of 0.10 and maximum value of 0.75; its mean value is 0.75. B. Meeting has a minimum value of 4 and maximum value of 11; its mean value is 6.46. CEO. Duality, B.Crosshold, and SSB Cross have a minimum value of 0 and maximum value of 1; whereas, their mean values are 0.18, 0.85 and 0.79 respectively. SSB size has a minimum value of 3 and maximum value of 6 with its average size as 4.08. AC Size has a mean value of 4.12 where its minimum and maximum values are 2 and 7, which is same value as

AC Meet. Otherwise AC Meet has a mean value of 5.25. For InsOwn and ForOwn, they have mean values of 0.1926 and 0.1852, respectively.

The descriptive statistics of control variables are as follows. F. Size has a minimum value of 1.10 and maximum of 5.84. F.Age has a minimum value of 1 and maximum value of 57. Profitability and liquidity has a minimum value of 0.36 and -127.15, its maximum values are 84.44 and 24.19. F.Leverage has a mean value of 108.22 and min value of 0.04. For country specific characteristics, C. GDP and C. Corrupt have mean values of 10.87 and 5.5662, respectively; its minimum and maximum values are 10.32, 4.30 and 11.72, 7.70, respectively.

Table 16: Descriptive Statistics of CSRD Variables 2010-2014

Variables	N	Mean	Std. Deviation	Minimum	Maximum
1.CSRD	195	0.3992	0.13026	0.09	0.73
2.B.SIZE	195	9.1538	2.24227	4.00	16.00
3.B.GENDER	195	0.8205	0.38475	0.00	1.00
4.B.COMP	195	0.3386	0.12557	0.10	0.75
5.B.MEET	195	6.4564	1.16738	4.00	11.00
6.CEO.DUALITY	195	0.1795	0.38475	0.00	1.00
7.B.C.HOLD	195	0.8462	0.36173	0.00	1.00
8.SSB SIZE	195	4.0769	1.02506	3.00	6.00
9.SSB CROSS	195	0.7949	0.40483	0.00	1.00
10.AC SIZE	195	4.1282	1.04486	2.00	7.00
11.AC MEET	195	5.2564	0.90582	2.00	7.00
12.INS. OWN	195	0.1926	0.06671	0.11	0.40
13.FOR.OWN	195	0.1852	0.04811	0.11	0.33
14.F.SIZE	195	3.5987	1.05947	1.10	5.84
15.F.AGE	195	17.8000	14.61379	1.00	57.00
16.F.LIQUID	195	48.8651	22.18020	0.36	84.44
17.F.PROFIT	195	8.2287	14.12631	-127.15	24.19
18.F.LEVERAGE	195	110.4239	108.22184	0.04	771.16
19.C.GDP	195	10.8787	0.48287	10.32	11.72
20.C.CORRUPT	195	5.5662	1.03724	4.30	7.70

7.3.2 Normality, heteroscedasticity, multicollinearity, and autocorrelation

This current research is conducted among GCC sample Islamic banks, and consists of 195 observations throughout the years 2010 to 2014; it employs a large amount of data that can be assumed to have a normal distribution. Therefore, this study used the parametric method. In addition, Gujarati and Porter (2009, p. 100) asserted that the ***normality*** assumption is not crucially needed for large data. Meanwhile, since the N of Islamic banks is only 39, it must be tested by normality. This study conducts the Kolmogorov-Smirnov test to ensure that the data is normally distributed. The result of the normality test for Islamic banks is demonstrated in Table 17.

Cooke (1998) states that the transformation of data is helpful in many cases: when a non-linear relationship exists between dependent and independent variables, in case the errors are not nearly to normal distribution, where a problem of heteroscedasticity is present, or when the relationship between dependent and independent variables is monotonic. Following most disclosure studies (e.g. Li et al, 2012), control variables are transformed: firm size (F.Size) is transformed using log of the original values in order to become more approximate to normal distribution (Cooke, 1998; Pallant, 2005; Tabachnick and Fidell, 2007). The researcher adopted the method used by Aryani (2015) in conducting a heteroscedasticity test. Based on the analysis, the result shows that all variables are more than 0.05 and less than t - table, which implies that all variables did not have a heterocedasticity problem.

Furthermore, many procedures are performed to avoid multicollinearity among the independent variables. Perfect relationships between those variables would affect the reliability of the estimates, and may cause a wide inflation in the standard errors for the coefficient (Acock, 2008). Tabachnick and Fidell (2007) state that multicollinearity among independent variables results is a problem in assessing the importance of each dependent variable in the regression. Therefore, it is necessary to compare the total relationship of the independent variables with the dependent variable (correlation), and the correlations of the independent variables with each other (in the correlation matrix) (Tabachnick and Fidell, 2007). The Pearson correlation matrix is the initial tool to detect multicollinearity. It is also used to measure the strength and direction of the linear association between any pair of variables. Gujarati (2003) indicates that collinearity among the independent variables is acceptable if the correlation coefficient (r) is as maximum as 0.80. The Pearson correlation matrix indicates that multicollinearity is not a problem in the present study. It is clear that all associations among the explanatory variables are below 0.80. Finally, it shows that the correlation is positive and statistically significant between the proxies that are used to measure CSR reporting quantity. That shows the consistency among each group of measures in capturing the required information. Each CSR reporting quantity is positively correlated with most of CG attributes (e.g., board meeting, board cross holding, audit committee size, and audit committee meeting). In contrast, CSR reporting quantity looks to be negatively associated with foreign ownership and board duality variables.

After carrying out each regression, the variance inflation factor (VIF) is calculated. This procedure is an additional step to ensure that explanatory variables are not extremely correlated. The rule that has been applied is: correlation between independent variables is accepted, as long as VIF is still smaller than 10 (Gujarati, 2003; Acock, 2008). The result is higher than 0.1 and VIF was less than 10, so it has no multicollinearity problem. The results also showed that the models are free from autocorrelation problems. Due to the data not having a problem with normality, heteroscedasticity, multicollinearity, and autocorrelation, the data can be processed further in order to answer the research questions and hypotheses. Further investigation is needed to get empirical evidence on CSR reporting determinants. This investigation should take into account the mutual effects of those determinants.

Table 17: Normality testing (Kolmogorov-Smirnov test)

One-Sample Kolmogorov-Smirnov Test

		CSRD	B.SIZE	B.GENDER	B.COMP	B.MEET	B.DUALITY	B.C.HOLD	SSB SIZE	SSB CROSS	AC SIZE	AC MEET	INS. OWN	FOR.OWN	F.SIZE	F.AGE	F.LIQUIDITY	F.PROFIT	F.LEVERAGE	C.GDP	C.CORRUPT
N		195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195
Normal Parameters[a,b]	Mean	0.3992	9.1538	0.8205	0.3386	6.4564	0.1795	0.8462	4.0769	0.7949	4.1282	5.2564	0.1926	0.1852	3.5987	17.8000	48.8651	8.2287	110.4239	10.8787	5.5662
	Std. Deviation	0.13026	2.24227	0.38475	0.12557	1.16738	0.38475	0.36173	1.02506	0.40483	1.04486	0.90582	0.06671	0.04811	1.05947	14.61379	22.18020	14.12631	108.22184	0.48287	1.03724
Most Extreme Differences	Absolute	0.136	0.168	0.500	0.122	0.193	0.500	0.511	0.222	0.489	0.241	0.227	0.154	0.276	0.121	0.201	0.148	0.216	0.154	0.229	0.299
	Positive	0.136	0.168	0.320	0.122	0.193	0.500	0.335	0.222	0.306	0.241	0.227	0.154	0.276	0.090	0.201	0.084	0.151	0.133	0.229	0.299
	Negative	-0.134	-0.114	-0.500	-0.070	-0.172	-0.320	-0.511	-0.147	-0.489	-0.169	-0.209	-0.108	-0.124	-0.121	-0.125	-0.148	-0.216	-0.154	-0.124	-0.201
Test Statistic		0.136	0.168	0.500	0.122	0.193	0.500	0.511	0.222	0.489	0.241	0.227	0.154	0.276	0.121	0.201	0.148	0.216	0.154	0.229	0.299
Asymp. Sig. (2-tailed)		.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

7.3.3 Empirical Analysis

Table 18 presents empirical analysis of CSR disclosure determinants of Islamic banks in the GCC. The analysis shows that board size has a positive significant impact on the levels of social disclosure reporting (0.042). The level of significance is 0.05. Therefore, H1 is accepted. It shows that board size has a positive impact on the CSR disclosure score of the sample Islamic banks. This result is consistent with the studies by Singh et al. (2004), Lakhal (2005), Cheng and Courtenay (2006), Abdel-Fattah et al. (2007), and Laksamana (2008), which also find there to be a positive association between disclosure and board composition in their study. It can be stated that board size is positively associated with CSR disclosure practice. Therefore, organizations with a higher board size do engage to a greater extent in CSR disclosure practices and CSR activities, such as charitable activities as stated by Williams (2003) and Haniffa & Hudaib (2007). According to Khan (2010), the benefit of having a larger board is that it cans improve the company's efficiency, because they provide a firm with members from different fields of expertise as a result increase the CSR score.

The study finds that there is a negatively significant (0.045) correlation between CEO. Duality (H5) with CSR disclosure practice among GCC Islamic banks. With the level of significance is 0.05 or at 95%. It is contradictory with the agency theory assumptions where CEO duality is seen as detrimental because the agent may pursue their self-interest at the expense of the owners. One aspect of corporate governance, which has given rise to concern, is the 'dominant personality' phenomenon and this was found to be associated with poor disclosure (Forker, 1992). This phenomenon also includes role duality, which is the occasion when the chief executive officer (CEO) or managing director is also the chair of the board. The result is contradictory with the previous literature (Tuggle et al., 2010; Hashim & Devi, 2008; Ramdani & Witteloostuijn, 2010; Peng et al., 2007) that suggests these two roles should be separated in enhancing the disclosure practice. Although the separation of roles is suggested, some companies are not prepared to be absolutely categorical about dividing the roles (Rahman & Bukair, 2015). The analysis shows that CEO duality is negatively significant with CSR disclosure practice among GCC Islamic banks. Thus, the assumption, that separating the roles between chair and chief executive will enhance the monitoring quality and reduce benefits from withholding information, which may consequently result in improved the CSR disclosure practice, can be rejected. Therefore, the hypothesis (H5) that there is positive association between CEO duality and CSR information disclosures can also be rejected.

The analysis also shows that there is a negatively significant (0.037) relationship between AC size and the CSR disclosure practice among GCC Islamic banks. The level of significance is 0.05 or at 95%. The findings are contradictory with Mangena and Pike (2005), who suggest that larger audit committees give rise to more effective monitoring, since it is more likely to involve the essential expertise and views to do that. However, mixed results can be obtained from previous studies. Mangena and Pike (2005), and Tauringana and Mangena (2009) found no statistically significant relationship between the level of disclosure and AC size. Felo et al. (2003), and Li et al. (2012) reported a positive relationship between AC size and the quality of financial reporting. Therefore, the hypothesis (H9) that there is a positive relationship between AC size and CSR reporting quantity can be rejected.

However, the results also show that there is no association between CSR disclosure and other CG variables; it is consistent with the argument by Ho and Wong (2001).

Corporate governance mechanisms may be substitutive and may not affect disclosure scores. Therefore, the study rejects H2, H3, H4, H5, H7, H8, H10, H11 and H12. This result also contrasts with the findings by Anderson et al. (2004), which stated that directors' independence can strengthen the board by monitoring, advising and counselling the top management. The result also shows that board composition has no significant effect on the level of CSR disclosure practice among Islamic banks. The analysis also shows that there is no significant relationship between SSB size and SSB cross membership with the level of CSR disclosure, as stated by Maali (2003); the SSB may see no need to emphasize additional CSR disclosures if the bank's activities are complying with Islamic laws and principles.

From the above analysis, it shows that board of director's size plays an important role in the GCC Islamic banks to enhance the CSR disclosure practice. It is consistent with the agency theory, which predicts that larger boards incorporate a variety of expertise, resulting in more effectiveness in boards' monitoring role, which could affect mangers' CSR disclosure decisions and the extent of CSR disclosure level (Singh et al., 2004). Looking at the coefficients of the control variables (firm and country specific characteristics), the analysis shows that only C. GDP has a positive relationship with the level of CSR disclosure. It is in line with a study by Olken & Pande (2012), who find that there is a positive association between GDP and the level of disclosure among countries, while Andres and Vallelado (2009) did not find any significant relationship between that variables and disclosure practice. Liquidity, leverage and corruption have no significant relationship with CSR disclosure.

The results summarised in this section have some distinctive theoretical implications, either in support of existing theories or in extending the scope of previous works and creating additional linkages within the existing literature. Firstly, the analysis provides strong support for the agency theory argument, which suggests that corporations with a strong CG mechanism (e.g., higher number of board size) are more likely to disclose CSR information to stakeholders (Taylor et al., 2010). The result shows that there is a significant positive relationship between CSRD and board size. In increasing the CSRD score, Islamic banks may have to increase their board size. Second, there is no significant association between board composition and CSRD score. Thus, the study cannot prove that stakeholders have the ability to influence the way in which corporations conduct themselves, and ultimately influence their 'licence to operate'. Third, with a low level of disclosure, the outcome is inconsistent with legitimacy theory as argued by Guthrie and Parker (1990); firms which operates in society, such as Islamic banks, have a social contract where they agree to carry out various socially desired actions in return for approval of their objectives, other rewards and their ultimate survival. It shows that the CSR issue is still neglected by Islamic banks in the GCC. Fourth, the outcomes support the theoretical root of accountability for Islamic banks; that accountability to *Allah* may come before stakeholders. This study constructs a comprehensive model for CSR accountability that is applicable for Islamic banks and shows the link between the primary accountee (Allah), as well as the secondary accountee (stakeholders), with the primary accountor (CG) and role of disclosure (CSR) to satisfy this accountability

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Table 18: Regression Coefficients Result

Variables	Sign		Standardize Coefficients			Collinearity Statistics	
	Expect	Actual	Beta	t	Sig.	Tolerance	VIF
1.(Constant)	0	0	0	-1.784	0.076	0	0
2.B.SIZE	**+**	**+**	+0.176	2.049	**0.042****	0.584	1.711
3.B.GENDER	+	+	+0.129	1.571	0.118	0.637	1.570
4.B.COMP	+	-	-0.032	-0.368	0.713	0.574	1.742
5.B.MEET	+	-	-0.014	-0.131	0.896	0.401	2.496
6.CEO.DUAL	**+**	**-**	-0.204	-2.021	**0.045****	0.424	2.356
7.B.C.HOLD	+	-	-0.010	-0.124	0.902	0.709	1.411
8.SSB SIZE	+	+	+0.172	1.364	0.174	0.272	3.681
9.SSB CROSS	+	-	-0.010	-0.103	0.918	0.439	2.279
10.AC SIZE	**+**	**-**	-0.194	-2.100	**0.037****	0.507	1.972
11.AC MEET	+	+	+0.127	1.449	0.149	0.562	1.780
12.INS. OWN	+	+	+0.000	0.002	0.999	0.797	1.255
13.FOR.OWN	+	-	-0.025	-0.337	0.736	0.808	1.237
14.F.SIZE			-0.073	-0.662	0.509	0.352	2.838
15.F.AGE			+0.034	0.318	0.751	0.375	2.668
16.F.LIQUIDITY			+0.149	1.498	0.136	0.438	2.285
17.F.PROFIT			-0.015	-0.190	0.850	0.694	1.442
18.F.LEVERAGE			+0.119	1.423	0.156	0.621	1.611
19.C.GDP			+0.268	2.216	0.028	0.294	3.396
20.C.CORRUPT			+0.018	0.172	0.864	0.400	2.502
Y2010			+0.277	3.144	0.002	0.555	1.803
Y2012			-0.113	-1.345	0.180	0.606	1.651
Y2013			+0.126	1.427	0.155	0.550	1.820
Y2014			+0.006	0.070	0.944	0.560	1.786
Adjusted R Square	0.164						
Std.Error	0.11910						
Sig	0.000						
N	195						

This table presents the regression results for the determinants of CSR disclosure quantity of Islamic banks in GCC. All variables are defined as follows: B.Size (board size), B.Gender (board gender), B.Bomposition (board composition), B.Meeting (board meeting), B.Duality (board duality), B.CrossHold (board cross holding), SSB Size (*Shariah* supervisory board size), SSB Cross (*Shariah* supervisory board cross membership), AC Size (audit committee size), AC Meet (audit committee meeting), InsOwn (Institutional ownership), Man Own (Managerial ownership) F.Size (firm size), F.Age (firm age), F.Profitability (return on asset), F.Leverage (firm leverage), F.Liquidity (return on equity), C.GDP (gross domestic product) and C.Corupt (level of corruption) *, **, *** indicates significance at 10%, 5%, & 1%, respectively.(-) indicates the negative correlations, (+) indicates a positive correlation, and (0) indicates no correlation was found in the regression model. Constant is a level of CSRD (dependent variable).

7.4 CSR Disclosure Consequences: An Empirical Analysis (RQ 3)

In answering RQ 3, this section will provide descriptive statistics of the variables used in this study, and then check the OLS assumptions, such as normality, heteroscedasticity, multicollinearity and autocorrelation. This section will also provide an empirical analysis of CSR disclosure consequences.

7.4.1 Descriptive Statistics

Descriptive statistics are presented in Table 21. It shows mean values of the all variables used in measuring the consequences of CSR among a sample of 39 Islamic banks in the GCC from 2010 to 2014, involving 195 observations. It shows that, on average, Islamic banks disclose 39.92% of CSR information in the annual report. Moreover, the average natural logarithm of market value of equity to book value of equity (WC03501) ratio, or MTBV, is 1.5960. Meanwhile, the average market capitalization (WC08001) of the sample Islamic banks is 6.3477. Mean Tobin Q ratio for GCC Islamic banks is 81.02%. For the control variables, the mean number of board size is 9 people, while the average composition between executive and non-executive board is 33%. On average, 18 banks have the problem of CEO duality. Other control variables are average firm size (3.5987), firm profitability (8.22), firm leverage (110.423), and GDP (10.8787). Table 19 provides the descriptive statistics of all variables used in this study.

Table 19: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
MTBV	195	0.30	6.79	1.5960	1.11883
WC08001	195	3.92	8.17	6.3477	0.94080
TOBIN Q	195	0.00	0.93	0.8102	0.14803
CSRD	195	0.09	0.73	0.3992	0.13026
B.SIZE	195	4.00	16.00	9.1538	2.24227
B.COMP	195	0.10	0.75	0.3386	0.12557
CEO.DUAL	195	0.00	1.00	0.1795	0.38475
F.SIZE	195	1.10	5.84	3.5987	1.05947
F.PROFIT	195	-127.15	24.19	8.2287	14.12631
F.LEVERAGE	195	0.04	771.16	110.4239	108.22184
C.GDP	195	10.32	11.72	10.8787	0.48287
Y2010	195	0.00	1.00	0.2000	0.40103
Y2011	195	0.00	1.00	0.2000	0.40103
Y2012	195	0.00	1.00	0.2000	0.40103
Y2013	195	0.00	1.00	0.2000	0.40103
Y2014	195	0.00	1.00	0.2000	0.40103

7.4.2 Normality, heteroscedasticity, multicollinearity, and autocorrelation

This research is conducted among the GCC sample Islamic banks, consisting of 195 observations throughout the years 2010 to 2014; it employs a large amount of data that can be assumed to have a normal distribution. Therefore, this study used the parametric method. In addition, Gujarati and Porter (2009, p. 100) asserted that the normality assumption is not crucial for large data. Meanwhile, since the number of Islamic banks is only 39, it must be tested by normality. This study conducts the Kolmogorov-Smirnov test to ensure that the data are normally distributed. Based on that test, the study finds that all data is normally distributed. The result of the normality test for Islamic banks is demonstrated in table 20.

Cooke (1998) states that transformation of data is helpful in many cases: when a non-linear relationship exists between dependent and independent variables, in case of errors that are not nearly to normal distribution, where a problem of heteroscedasticity is present, or when the relationship between dependent and independent variables is monotonic. Following most disclosure studies (e.g. Li et al., 2012), control variables are transformed: firm size (F. Size) is transformed using a log of the original values in order to become more approximate to normal distribution (Cooke, 1998; Pallant, 2005; Tabachnick and Fidell, 2007). The researcher adopted the method used by Aryani (2015) in conducting a heteroscedasticity test. Based on analysis, the result shows that all variables are more than 0.05 and less than t table, which implies that all variables did not have a heteroscedasticity problem.

Furthermore, many procedures are performed to avoid multicollinearity among the independent variables. Perfect relationships between those variables would affect the reliability of the estimates and may cause a wide inflation in the standard errors for the coefficient (Acock, 2008). Tabachnick and Fidell (2007) state that multicollinearity among independent variables results in a problem in assessing the importance of each dependent variable in the regression. Therefore, it is necessary to compare the total relationship of the independent variables with the dependent variable (correlation), and the correlations of the independent variables with each other (in the correlation matrix) (Tabachnick and Fidell, 2007).

The Pearson correlation matrix is the initial tool to detect multicollinearity. It is also used to measure the strength and direction of the linear association between any pair of variables. Gujarati (2003) indicates that collinearity among the independent variables is acceptable if the correlation coefficient (r) is at maximum as 0.80. The Pearson correlation matrix is illustrated in appendices 3, 4 and 5; it shows that there is no multicollinearity problem in this study. An association among the variables are below than 0.80. Finally, the analysis also shows that the correlation is positive and statistically significant between the proxies that are used in measuring consequences of CSR disclosure. That shows the consistency among each group of measures in capturing the required information. There is a significant positive correlation between firm size and firm value proxy in all models (MTBV, MC and Tobin Q). On the other hand, there is negative significant correlation between firm leverage and firm value proxy.

After carrying out each regression, variance inflation factor (VIF) is calculated. This procedure is an additional step to ensure that explanatory variables are not extremely correlated. The rule that has been applied is: correlation between independent variables is accepted as long as VIF is still smaller than 10 (Gujarati, 2003; Acock, 2008). The VIF results are higher than 0.1 and less than 10, meaning those variables did not have a multicollinearity problem (refer to tables 25, 26 and 27). The results also showed that the models are free from autocorrelation problems. Due to the data not having a problem with normality, heteroscedasticity, multicollinearity, and autocorrelation, the data can be processed further in order to answer the research questions and hypotheses. Further investigation is needed to get empirical evidence on consequences of CSR disclosure in sample Islamic banks. This investigation should take into account the mutual effects of those consequences.

Table 20: One-Sample Kolmogorov-Smirnov Test

		MTBV	WC08001	TOBIN Q	CSRD	B.SIZE	B.COMP	CEO.DUAL	F.SIZE	F.PROFIT	F.LEVERAGE	C.GDP
N		195	195	195	195	195	195	195	195	195	195	195
Normal Parameters[a,b]	Mean	1.5960	6.3477	0.8102	0.3992	9.1538	0.3386	0.1795	3.5987	8.2287	110.4239	10.8787
	Std. Deviation	1.11883	0.94080	0.14803	0.13026	2.24227	0.12557	0.38475	1.05947	14.12631	108.22184	0.48287
Most Extreme Differences	Absolute	0.168	0.081	0.265	0.136	0.168	0.122	0.500	0.121	0.216	0.154	0.229
	Positive	0.168	0.081	0.214	0.136	0.168	0.122	0.500	0.090	0.151	0.133	0.229
	Negative	-0.123	-0.078	-0.265	-0.134	-0.114	-0.070	-0.320	-0.121	-0.216	-0.154	-0.124
Test Statistic		0.168	0.081	0.265	0.136	0.168	0.122	0.500	0.121	0.216	0.154	0.229
Asymp. Sig. (2-tailed)		.000[c]	.003[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]	.000[c]
a. Test distribution is Normal.												
b. Calculated from data.												
c. Lilliefors Significance Correction.												

7.4.3 Empirical analysis

Tables 21, 22 and 23 present an empirical analysis of CSR disclosure consequences of Islamic banks in the GCC. The results of the regressions can be interpreted in accordance with the main hypotheses developed in this study. The results show a negative and significant relationship between firm value and CSR disclosure score. This result is consistent with prior research, such as Elliott, Jackson, Peecher and White (2014), who show that CSR disclosure is negatively associated with firm value. However, according to Klein et al. (2005), firm value rises with greater social disclosure and is expected to have a positive impact on the firm value. Previous studies (Sheu et al., 2010; Gordon et al., 2010) pointed out that social disclosure has an impact on firm value based on signalling theory, but the study finds a contradictory effect between CSR disclosure and firm value.

Using market capitalization as a proxy of measuring firm value, the study finds a negative significance between firm value (using market capitalization as proxy) and CSRD, a level of 90% (0.090). The results are contradictory with studies by Anam et al. (2011), who proved that the extent of disclosure has a significant positive effect on the firm value (FV) based on market capitalization. It is in line with a finding of other prior studies (Healy and Palepu, 1993; Hassan et al., 2009; Chung et al., 2012), which claimed that enhanced disclosure could have adverse effects if it puts the firm at a competitive disadvantage with its rivals, or if it makes more noise to the investors, which affects negatively on their valuation. Therefore, the existing literature does not present strong evidence on the positive association between corporate disclosure and firm value. Furthermore, they also find that the direction and magnitude of the relationship is associated with the type of disclosure (Hassan et al., 2009) and the proxy that used for firm value (Uyar and Kiliç, 2012).

Based on the result, it can be claimed that disclosure cannot curtail agency problems by decreasing information asymmetry and, as a result, enhance the firm value (FV) as argued by Rhodes and Soobaroyen (2010). It is also contradictory with economic theory's assumption, which argues that increased corporate disclosure has an influence on firm value (FV) (Lundholm and Van Winkle, 2006). The result also contradicts the signalling theory assumption, as claimed by McDonald and Rundle-Thiele (2008), who find that the influence of CSR on the corporate profitability through creation of intangible assets such as good reputation, trust, and commitment, drives the long-term success of the business. Consequently, H1 – which expects that there is a significant positive relationship between the quantity of CSR disclosure and firm value (FV) of the sample GCC Islamic banks – is rejected.

With respect to the negative effect of CSRD on firm value, this finding adds to the contradictory evidence on the relationship between disclosure and firm value. This result is inconsistent with the findings of some studies that build on the agency theory framework (e.g., Healy et al., 1999). These studies suggest a positive impact of enhanced disclosure upon firm valuation to the reduction in information asymmetry between managers and shareholders. The negative effect of CSRD can be explained from different angles. First, consistently with the assertion of Chung et al. (2012) that extra information could have a negative effect on firm value, the excessive CSR information disclosed might cause extra noise to the investors, which negatively affects their valuation of the firm. Second, the negative effect on firm value could be driven by the content of CSR information disclosed, and how investors perceive it. There is a possibility that CSR information itself raises concerns about firms' performance, which leads investors to lower their valuation. In that proposition, the more CSR information disclosed, the higher the possibility that firm value decrease. In contrast, CSR information could offer positive news to the stakeholders but this news might be under their own expectations, or might be suspicious because it is very different from information gained from sources other than the annual reports. Accordingly, having more CSR information disclosed might result in a drop in firm value. Third, stakeholders might misinterpret this practice from the firm to disclose more CSR information. They might perceive providing enhanced disclosure as a way to mislead them about the firm's performance. The investors might also consider that company's rivals would benefit from this excessive critical information, which can affect negatively on their expectation about the firm's performance and, hence, lower their valuation (Hassan et al., 2009).

Based on the analysis, the study did not find any significant relation between another proxy (MTBV and Tobin Q) in measuring the association between firm value and CSRD. The findings are associated with Alotaibi and Hussainey (2016), who also argued that they did not find the same results when using different proxies (Tobin's Q or ROA) when measuring an association between CSR disclosure (quantity and quality) and firm value. They suggest that the significance of the impact between CSRD and firm value depends on the proxy used in measuring the firm value. Consequently, this shortage of statistical significance supports the view that there is a conflicting relationship of determining the relationship between CSR disclosure and firm value. In addition, there is no agreement in the literature about an ideal measure for firm value (Mangena et al., 2012; Albassam, 2014).

With respect to CG variables in general, the study finds that better governance leads to a higher firm value. In particular, board size (B.Size) has a positive and significant effect on firm value, as stated in Model 1. This result is consistent with several studies (e.g., Ujunwa, 2012; Coles et al., 2007; Raheja, 2005; Conger et al., 1998). Coles et al. (2007) provide evidence that both very large and very small board sizes affect firm value positively; he believes that this happens due to business complexity. Raheja (2005) supports Coles et al. (2007) by suggesting that there is no optimal board size, since board size tends to depend on either advising or monitoring needs, and this changes from company to company. It is claimed that the collective experience and knowledge of board members is crucial in today's complex business environment (Conger et al., 1998).

Moreover, board composition (B.Comp) has shown a weak positive impact on firm value, as shown in Model 2, significant at 0.089. This result suggests that outsiders provide better monitoring of management (thus, decreasing agency costs) because they are independent (Jackling and Johl, 2009; Giraldez & Hurtado, 2014). The findings are not associated with Barnard and Rosenstein (1996), Hermalin and Weisenbach (2001), De Andres et al. (2005), and Baghat and Black (1998), who find that board structure does not show a positive relationship with firm value. On the other hand, Colombo and Baglioni (2008) provide evidence from Italy on a positive relationship, contradicting prior studies. As with Board size, it is equally accepted that there is no ideal Board composition; board structure should be based on corporate reality, especially on the company's priority between advice (more executive) and monitoring (more non-executive) (Harris and Ravis, 2005; Lehn et al., 2004; Link et al., 2008; Denis and Sarin, 1999).

CEO duality (CEO Dual) has shown a positive significant effect on firm value, as presented in Model 1 and Model 2. This finding can be explained by signalling theory, rather than agency theory. Agency theory does not support CEO duality because it limits the board's main responsibility of monitoring the CEO. Literature presents mixed evidence on the relationship between CEO duality and firm value. Authors, such as Faleye (2007), Chen et al. (2008), Vintila and Gherghina (2012), Braun and Sharma (2007), Raluca (2013), and Chen, Lin and Yi (2008) found no relationship between CEO duality and firm performance/firm value. CEO duality seems to be perceived by stakeholders as a signal of effective control and leadership. They might consider that CEO duality leads the firm to achieve better performance using his technical knowledge. The findings of this current study are in line with a prior studies such as; Agrawal and Knoebler (1996), Peng, Zhang and Li (2007), Yang and Zhao (2014), and Baptista, Klotze and Campelo de Melo (2008), who also find a positive relationship between CEO duality and firm value.

Finally, the results highlight the relative importance of the CSRD of the banks in influencing their firm value. In particular, in firm-specific variables, the result shows that firm profitability (F. Profit) is positively associated with firm value, as shown in Model 2. It is in line with prior studies, which find a positive and significant relationship between firm value and F.Profit (e.g. Setia-Atmaja, 2009). The study finds a negative significant relationship between firm size (F.Size) and firm value, it is contradictory to a finding by Ezat (2010) and Hassan et al. (2009), who find that there is a positive association reported between firm size and firm value (FV). This current study finds no significant relationship between firm leverage (F.Leverage) and firm value. Therefore, the study cannot support a finding by Haniffa and Hudaib (2006), who find a positive significant relationship between firm leverage and firm value. Lastly, is country GDP (C.GDP); the study finds a negative weak relationship between this variable and firm value, significant at 0.090 as shown in Model 2.

Referring to Model 3, which uses TQ as a proxy in measuring firm value (FV), the study did not find any association between all control variables (CG, F. Size, F. Liquidity, F. Leverage, C. GDP) and firm value. Dybvig & Warachka (2015) argued that Tobin's Q does not measure firm performance and it provides the two new measures for the firm value, which are efficiency measure and assesses cost discipline. This is also due to the low level of R square (0.075), which shows a very weak association effect between variables test in model 3.

Table 21: Model 1- MTBV Coefficients Table

Model		Sign		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		Expected	Actual	Beta			Tolerance	VIF
1	Constant				-1.482	0.140		
	CSRD	+	0	0.036	0.461	0.645	0.782	1.279
	B.SIZE	+	+	0.192	2.619	0.010**	0.893	1.120
	B.COMP	+	0	0.006	0.077	0.938	0.923	1.084
	CEO.DUAL	+	+	0.238	3.150	0.002***	0.840	1.190
	F.SIZE	+	+	-0.192	-2.166	0.032**	0.608	1.645
	F.PROFIT	+	0	0.111	1.400	0.163	0.764	1.309
	F.LEVERAGE	-	0	0.073	0.907	0.366	0.730	1.369
	C.GDP	0	0	0.178	1.906	0.058	0.548	1.826
	Y2011	0	0	-0.077	-0.841	0.401	0.571	1.753
	Y2012	0	0	-0.093	-0.990	0.324	0.547	1.828
	Y2013	0	0	-0.028	-0.316	0.752	0.591	1.691
	Y2014	0	0	-0.007	-0.071	0.943	0.560	1.785
	Adjusted R Square	0.072						
	Std Error	1.077						
	Sig	0.011						
	N	195						
	This table presents the regression results for the CSR disclosure consequences of Islamic banks in GCC. All variables are defined as follows: B.Size (board size), B.Composition (board composition), B.Meeting (board meeting), CEO.Dual (CEO duality), F.Size (firm size), F.Profitability (return on asset), F.Leverage (firm leverage) and GDP (gross domestic products). *, **, *** indicates significance at 10%, 5%, & 1%, respectively. (-) indicates the negative correlations, (+) indicates a positive correlation and (0) indicates no correlation was found in the regression model. Constant is a MTBV (dependent variable).							

Table 22: Model 2- Market Capitalization (WC08001) Coefficients Table

Model		Sign		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		Expected	Actual	Beta			Tolerance	VIF
2	Constant				-5.248	0.000		
	CSRD	+	-	-0.096	-1.705	0.090*	0.782	1.279
	B.SIZE	+	0	-0.026	-0.496	0.621	0.893	1.120
	B.COMP	+	+	0.088	1.712	0.089*	0.923	1.084
	CEO.DUAL	+	+	0.143	2.651	0.009***	0.840	1.190
	F.SIZE	+	0	-0.030	-0.477	0.634	0.608	1.645
	F.PROFIT	+	+	0.202	3.560	0.000***	0.764	1.309
	F.LEVERAGE	-	0	0.020	0.350	0.727	0.730	1.369
	C.GDP	0	+	0.647	9.665	0.000***	0.548	1.826
	Y2011	0	0	-0.097	-1.474	0.142	0.571	1.753
	Y2012	0	0	-0.137	-2.052	0.042	0.547	1.828
	Y2013	0	0	-0.060	-0.938	0.350	0.591	1.691
	Y2014	0	0	-0.079	-1.186	0.237	0.560	1.785
	Adjusted R Square	0.524						
	Std Error	0.649						
	Sig	0.00						
	N	195						
	This table presents the regression results for the CSR disclosure consequences of Islamic banks in the GCC. All variables are defined as follows: B.Size (board size), B.Composition (board composition), B.Meeting (board meeting), CEO.Dual (CEO duality), F.Size (firm size), F.Profitability (return on asset), F.Leverage (firm leverage) and GDP (gross domestic product). *, **, *** indicates significance at 10%, 5%, & 1%, respectively. (-) indicates the negative correlations, (+) indicates a positive correlation and (0) indicates no correlation was found in the regression model. Constant is a WC08001/Market Capitalization (dependent variable).							

Table 23: Model 3- Tobin Q Coefficients Table

Model		Sign		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		Expected	Actual	Beta			Tolerance	VIF
3	Constant				1.783	0.076		
	CSRD	+	0	0.052	0.643	0.521	0.782	1.279
	B.SIZE	+	0	0.038	0.501	0.617	0.893	1.120
	B.COMP	+	0	-0.020	-0.274	0.785	0.923	1.084
	CEO.DUAL	+	0	0.120	1.549	0.123	0.840	1.190
	F.SIZE	+	0	0.079	0.865	0.388	0.608	1.645
	F.PROFIT	+	0	0.083	1.016	0.311	0.764	1.309
	F.LEVERAGE	-	0	0.083	0.998	0.319	0.730	1.369
	C.GDP	0	0	0.034	0.352	0.725	0.548	1.826
	Y2011	0	0	0.125	1.324	0.187	0.571	1.753
	Y2012	0	0	0.127	1.323	0.188	0.547	1.828
	Y2013	0	0	0.141	1.518	0.131	0.591	1.691
	Y2014	0	0	0.180	1.892	0.060	0.560	1.785
	Adjusted R Square	0.014						
	Std Error	0.14696						
	Sig	0.261						
	N	195						
	This table presents the regression results for the CSR disclosure consequences of Islamic banks in GCC. All variables are define as follows: B.Size (board size), B.Bomposition (board composition), B.Meeting (board meeting), CEO.Dual(CEO duality), F.Size (firm size), ,F.Profitability (return on asset) ,F.Leverage (firm leverage) and GDP(growth domestic products) *, **, *** indicates significance at 10%, 5%, & 1%, respectively.(-) indicates the negative correlations, (+) indicates a negative correlations and (0) indicates that's is no correlation was found in the regression model. Constant is a Tobin Q (dependent variable).							

7.5 Summary

The aim of this research is to examine the level of CSR disclosure quantity, its determinants and consequences among the 39 sample Islamic banks in GCC through 195 observations from 2010 to 2014. Based on the analysis, it shows that the level of CSRD among the sample GCC Islamic banks is relatively low (39.92%). It is consistent with El-Halaby & Hussaney (2015), Hassan et al., (2012), Haniffa & Hudaib (2007), and Maali et al. (2006), who also find very low levels of CSR disclosures by Islamic banks.

This current study contributed to existing CSR reporting literature by being the first to examine the determinants of CSR disclosure in GCC Islamic banks for the years 2010-2014 using comprehensive CG variables. The study tests the degree to which CG mechanisms (board-related variables, SSB-related variables, AC-related variables and Ownership variables) affect Islamic banks' decision to disclose their CSR information in their annual report. The study used quantitative methods to test the research hypotheses. The study developed a comprehensive CSR disclosure index, based on previous literature and AAOIFI guidelines, and used manual content analysis to find the CSR disclosure information in a sample of 39 Islamic banks; it involves 195 annual report observations. OLS regression analysis is also used for the empirical analysis. The dependent variable was the total number of CSR disclosure quantity score (CSRD), while the independent variables were a set of CG mechanisms and the control variables consist of a set of firm characteristics and country-specific characteristics variables.

The empirical analysis shows that the board size is positively significant with CSR disclosure practice among GCC Islamic banks. This result is consistent with studies by Singh et al. (2004), Lakhal (2005), Cheng and Courtenay (2006), Abdel-Fattah et al. (2007), and Laksamana (2008), which also find a positive association between disclosure and board composition in their study. It can be stated that board size is positively associated with CSR disclosure practice. Therefore, organizations with a larger size of board of directors do engage to a greater extent in CSR disclosure practices and CSR activities, such as charitable activities, as stated by Williams (2003), and Haniffa & Hudaib (2007). The study also finds that B.CrossHold and AC Size are negatively significant with the CSR disclosure practice among GCC Islamic banks. On the other hand, the other CG characteristics variables (board composition, board gender, board meeting, board duality, board cross holding, SSB size, and SSB cross holding) have no significant relationship with the level of total CSR disclosure among Islamic banks. It is consistent with the argument by Ho and Wong (2001), where corporate governance mechanisms may be substitutive and may not affect disclosure score.

This current study also analyses the impact of CSR disclosure on firm value (FV) based on three different proxies, namely market-to-book value (MTBV), market capitalization (WC08001) and Tobin's Q (TQ). After controlling CG, firm characteristics and country specific variables, the research's finding confirms the significant negative association between disclosure and firm value (FV), based on market capitalization proxies, which is consistent with a finding by Chung et al. (2012) and Hassan et al., (2009).

This current study also provides a number of theoretical arguments and a range of empirical evidence as to why such an association might arise. The negative link between disclosure and firm value (FV) prove the inconsistency of prior findings, which build on the agency theory framework. Furthermore, the negative effect of CSR disclosure can be explained from different angles. Firstly, in consistence with

Chung et al. (2012), extra information could have a negative effect on firm value; the excessive CSR information disclosed may cause extra noise to the investors, which affects negatively on their valuation of the firm. Secondly, the negative effect on firm value could be driven by the content of the CSR information disclosed and how investors perceive it. There is a possibility that CSR information itself raises concerns about firm performance, which leads investors to lower their valuation. In that proposition, the more CSR information disclosed, the higher the possibility that the firm value will decrease. In contrast, CSR information could offer positive news to the stakeholders, but this news might be under their own expectations or might be suspicious because it is very different from information gained from sources other than the annual reports. Accordingly, the more CSR information disclosed may result in a drop in firm value. Thirdly, stakeholders might misinterpret this practice from the firm to disclose more CSR information. They might perceive providing enhanced disclosure as a way to mislead them about the firm's performance. The investors might also consider that the company's rivals would benefit from this excessive critical information, which can affect negatively on their expectation about firm's performance and, hence, lower their valuation (Hassan et al., 2009). This result is not consistent with finding by Gelb and Zarowin (2002), who find that firms with high disclosure are more likely to show a stronger firm value (FV). In addition, the result related to CSR disclosure shows an adverse impact of the socially-responsible firm, which corresponds with social issues and firm value (FV). This result also does not support the idea that Islamic banks can use corporate disclosure to differentiate themselves and enhance their competitive advantage through increasing firm value (FV) for Islamic banks.

The finding of the study provides important implications for investors, managers, regulatory bodies, policy makers and Islamic banks. This result tells investors that CSRD has a negative effect on market value of their banks, based on market capitalization, but proxies used to examine the consequences of CSRD may provide different results, as stated by Alotaibi and Hussainey (2016). However, managers who engage in good practices of information disclosure recommended continuing doing so. For those who refrain themselves from providing information to the stakeholders, the results call for more CSR transparency if they want their bank to be more valuable in the eye of their stakeholders. Regulatory bodies, such as the AAOIFI, are expected to be more proactive guiding Islamic banks toward the best practices of disclosures, since banks look for such guidance. They play a motivating role in this area of information disclosure. The AAOIFI are also expected to have a strong collaboration with countries' regulatory bodies in enhancing CSR disclosure practice among Islamic banks.

Based on the analysis, the results have shown that the disclosure of CSR information was absent in many annual reports and websites for the selected GCC Islamic banks. Therefore, the regulatory bodies and policy makers may identify a minimum benchmark for CSR disclosure that is published by each bank either in their annual report or website. Furthermore, this finding is important for Islamic banks, which may be aware that more CSR disclosure might have a significant impact on their firm value. Thus, they are expected to be more aware of CSR disclosure issues, rather than focusing only on profit maximization objective. This study, moreover, provides a valuable contribution to researchers as it extends the understanding of how the CSR disclosures affected the firm value (FV) of GCC Islamic banks from 2010-2014.

CHAPTER 8: CONCLUSIONS

8.1 Introduction

The main aim of this research is to analytically explore the extent of CSR information disclosure practices in Islamic banks by analysing the practices and implementation of the AAOIFI guidelines in GCC countries through their annual report and websites. To get a clear view of CSR disclosure practice among the sample Islamic banks, this study also examines the determinants of CSR information disclosure and its consequences. This study is motivated by the limited prior Islamic accounting and disclosure studies, as well as the recent interest in the CSS disclosure studies. Based on these motivations, three research questions have been addressed as well as achieving the research objective.

This chapter provides the concluding remarks of this thesis. The remainder of this chapter is organised as follows: section 8.2 provides a summary of the research, Section 8.3 presents a summary of the key findings of the research, Section 8.4 the research contributions, and Section 8.5 provides research implications, finally Section 8.6 presents the limitation and suggestions for future research.

8.2 Summary of Research

Research Question 1(RQ 1)

To provide an answer to RQ 1, a CSR disclosure index has been developed to measure CSR reporting in the annual reports, as well as through websites. Then, the research instrument was constructed based upon the AAOIFI, No. 7, 2010 guidance for best practice as well as indices suggested by existing research. Manual content analysis was used to code the text and to classify the indices disclosed into financial disclosure and non-financial disclosure that contains social factors. After reviewing the different databases, central banks, websites, and updated reports, as well as the criteria for the selected research sample, the study applied the comprehensive CSR index on 39 Islamic banks across 6 GCC countries, which involved 195 observations from 2010 to 2014. Descriptive statistics used to outline the disclosure levels for Islamic banks, including their CSR categories and compliance with AAOIFI, No. 7, 2010 governance standards.

Research Question 2(RQ 2)

To provide an answer to RQ 2, the study has reviewed the relevant theories that explain CG motivations to allow increased corporate disclosure. Consequently, the determinants of CSR reporting were proposed, drawing on agency, stakeholder, legitimacy, and accountability theories. Concerned with the CG characteristics, the main variables tested consist of board-related variables, SSB-related variables, and audit- and ownership- related variables. In addition to these main variables, the researcher uses firm characteristics and country specific characteristics as control variables. Some variables exist in the sample based on the objective and availability of data. The researcher checks the OLS assumptions, such as normality, heteroscedasticity, multicollinearity, and autocorrelation, to ensure that there is no problem with the variables tested. In addition to the Pearson correlation matrix, OLS regressions models were conducted to assess the significance of the association between determinants' variables and CSR disclosure scores.

Research Question 3(RQ 3)

To provide an answer to RQ 3, the relevant literature was reviewed. Agencies, signalling, economic, as well as legitimacy theories were used to explain how CSR reporting could affect firm value based on market-based measures, which are consistent with Sheu et al. (2010). Following the example of previous studies, this study has controlled for corporate governance, firm characteristics and country GDP. Following prior studies (e.g., Morck et al., 1988; Laporta et al., 2002; Lins, 2003; Haniffa and Hudaib, 2006; Hassan et al., 2009; Aggarwal, 2009), Tobin's Q ratio (TQ) was used as a proxy to measure the dependent variable (firm value) in the main analysis. Adopting prior study (e.g., Haniffa and Hudaib, 2006; Hassan et al., 2009), market-to-book ratio (MTBV) was also used in a further analysis so as to check the robustness of results. Regarding market-to-book ratio (MTBV), it was measured as the ratio of market value of equity to book value of equity. This ratio is a good indicator of how a firm is valued by investors. Moreover, tests were re-estimated using MC as a proxy for firm value, based on market-based measures, as used by Servaes and Tamayo (2013), in order to check the robustness of the results. Then, the researcher checked all the OLS assumptions, such as normality, heteroscedasticity, multicollinearity, and autocorrelation, to ensure that there is no problem with the variable tested. In addition to the Pearson correlation matrix, OLS regression models conducted to assess the significance of the association between CSRD and firm value.

8.3 Summary of Research Findings

Research Question 1(RQ 1)

This study measured the extent to which the sample GCC Islamic banks comply with the AAOIFI, No7, 2010 standards. It provides descriptive information of the CSR disclosure level of 195 Islamic banks in the GCC from 2010 to 2014. A comprehensive CSR disclosure index, which was developed based on AAOIFI, No 7, 2010 has been constructed; the annual reports have been used as a main source of information in measuring the CSR disclosure score of the sample Islamic banks.

Overall, between countries, Oman has the highest CSRD score compared with the other GCC countries. The findings of this study also show a low level of CSR disclosure score, which is 39.92%; it is lower than the researcher expectation.

The results related to CSR disclosure levels of Islamic banks with AAOIFI add significantly to the disclosure literature by emphasising the importance of widening this research scope to pay more attention to variations above the mandated requirements (AAOIFI adoption), which provides a minimum amount of information to all stakeholders. The results also find that the Bahrain Islamic banks that formally implement an accounting standard (AAOIFI) have not significantly improved their disclosure; they show inconsistent CSR disclosure scores from 2010 to 2014. The analysis shows that the sample Islamic banks tend to disclose employee related information, rather than other mandatory information, as stated in the AAOIFI standards (such as earning and expenditure prohibited by *Shariah,* policy for dealing with clients, policy for screening clients and *Zakat*).Based on the cross country and cross dimensional anaylsis,it can be conclude that the issuance of AAOIFI governance standard no.7 which focus on CSR dislcosure did not improve the CSR dislcosure practice among Islamic banks in GCC.The CSR dislcosure score are still relatively lower compared to study conducted before the issuance of AAOIFI,no 7 standard (such as: Maali,2006 and Haniffa,2007).

Research Question 2(RQ 2)

The main aim of RQ 2 is to examine the level of CSR dislcosure and its determinants among 39 sample Islamic banks in GCC through 195 observations from 2010 to 2014. This current study contributed to existing CSR reporting literature by being the first to examine the determinants of CSR disclosure in GCC Islamic banks for the years 2010-2014 using comprehensive CG variables. The study tests the degree to which CG mechanisms (board-related variables, SSB-related variables, AC-related variables, and Ownership variables) affect Islamic banks' decision to disclose their CSR information in their annual report. The study used quantitative methods to test the research hypotheses. The researcher developed a comprehensive CSR disclosure index based on previous literature and the AAOIFI guideline, and used manual content analysis method to find the CSR disclosure information in a sample of 39 Islamic banks with 195 annual report observations. OLS regression analysis was also used for the empirical analysis. The dependent variable was the total number of CSR disclosure quantity score (CSRD), while the independent variables were a set of CG mechanisms and control variables consisted of a set of firm characteristics and country-specific characteristics variables.

The empirical analysis shows that the board size is positively significant with CSR disclosure practice among GCC Islamic banks. This result is consistent with studies by Singh et al. (2004), Lakhal (2005), Cheng and Courtenay (2006), Abdel-Fattah et al. (2007), and Laksamana (2008), which also found positive association between disclosure and board composition in their study. It can be stated that board size is positively associated with CSR disclosure practice. Therefore, organizations with a more members on their boards of directors do engage to a greater extent in CSR disclosure practices and CSR activities, such as charitable activities, as stated by Williams (2003) and Haniffa & Hudaib (2007). The study also finds that CEO. Duality and AC Size are negatively significant with the CSRD practice among GCC Islamic banks. The other CG characteristics variables (board composition, board gender, board meeting, board cross holding, SSB size, and SSB cross holding) have no significant relationship with the level of total CSR disclosure among Islamic banks. It is consistent with the argument by Ho and Wong (2001) that corporate governance mechanisms may be substitutive and may not affect disclosure scores. Form the analysis, it can be concluding that board size have a significant influence in enhancing the CSR disclosure practice among Islamic banks in GCC. However, the banks who have the same person as CEO and chairman (duality) can also influence the CSR disclosure practice in Islamic banks. They have the power to influence and enhance the CSR disclosure practice in the organization. Where the AC size have no significant effect on the CSS disclosure practice, this is may be due to their lack of function to influence the board and the management.

Research Question 3(RQ 3)

This study aims to examine the impact of CSR disclosure on the value of a firm. It also contributes to the disclosure literature by being the first study to measure the economic consequences of CSR disclosure for 39 GCC Islamic banks from 2010 to 2014. In particular, it analysed the impact of the CSR disclosure on firm value (FV) based on three different proxies, namely market-to-book value (MTBV), market capitalization (WC08001) and Tobin Q (TQ). After controlling CG, firm characteristics, and country-specific variables, the finding confirmed the significant negative association between disclosure and firm value (FV), based on market capitalization proxies, which is consistent with a finding by Chung et al. (2012) and Hassan et al. (2009).

This study provides a number of theoretical arguments and a range of empirical evidence as to why such an association might arise. The negative link between disclosure and firm value (FV) proves the inconsistency of prior findings, which build on the agency theory framework. Furthermore, the negative effect of CSRD can be explained from different angles. First, consistently with Chung et al. (2012), extra information could have a negative effect on firm value; the excessive CSR information disclosed might cause extra noise to the investors, which affects negatively on their valuation of the firm. Secondly, the negative effect on firm value could be driven by the content of CSR information disclosed, and how investors perceive it. There is a possibility that CSR information itself raises concerns about firm performance, which leads investors to lower their valuation. In that proposition, the more CSR information is disclosed, the higher the possibility that firm value will decrease. In contrast, CSR information could offer positive news to the stakeholders, but this news might be under their own expectations, or might be suspicious because it is very different from information gained from sources other than the annual reports. Accordingly, increasing the amount of CSR information disclosed may result in a drop in firm value. Thirdly, stakeholders might misinterpret this practice from the firm to disclose more CSR information. They might perceive providing enhanced disclosure as a way to mislead them about the firm’s performance. The investors might also consider that a company’s rivals would benefit from this excessive critical information, which can affect negatively on their expectation about the firm’s performance and, hence, lower their valuation (Hassan et al., 2009).

This result is contradicting with the findings by Gelb and Zarowin (2002), who find that firms with high disclosure are more likely to show a stronger firm value (FV). In addition, the result related to CSR disclosure shows an adverse impact of the socially responsible firm, who corresponds with social issues and firm value (FV). This result also does not support the idea that Islamic banks can use corporate disclosure to differentiate themselves and enhance their competitive advantage through increasing firm value (FV). Using Tobin Q as indicator of firm value, the result did not show any significant relationship, this is due the less concern from the stakeholder regarding to CSR issue before make a transaction with the bank (products and investment). Therefore; it can be concluding that CSR disclosure did not have any significant impact to the firm value.

8.4 Research Contributions

This thesis contributes to the literature by answering the three research questions. Furthermore, the thesis could add to the methodologies applied in the literature.

8.4.1 Contribution to knowledge

This study contributes to the existing disclosure literature as follows:

- First, the present study provides a clear discussion on CSR from Islamic perspectives. It discusses the Islamic ethical principle in promoting CSR disclosure practice among Islamic banks, as stated in the Holy *Quran*. From the researcher's knowledge, there is limited prior research, which discusses the concept of CSR from Islamic perspectives; prior research tends to focus on measuring CSR disclosure score. Thus, this study contributes to the disclosure literature by providing a clear discussion of CSR disclosure from an Islamic perspective.
- Second, most of prior studies, which investigated CSR disclosure, measure using an index develop based on prior research (e.g., Farook et al., 2011), while limited research explores AAOIFI governance standards on compliance with social disclosure. Therefore, this study contributes to the disclosure literature by being the first that develops an index using AAOIFI, No.7, 2010 and prior research to measure the CSR disclosure practice among sample Islamic banks. It then measures the factors behind variances of disclosure level. Whereas previous studies tend to adopt prior suggested indices, such as Maali et al., (2006) and Haniffa & Hudaib (2007).

- Third, previous work has applied manual content analysis to a one-year period, or within one country, in addition to limited samples (e.g., Belal et al., 2014; Sobhani et al., 2009; El-Halaby&Hussainey, 2015). This study contains a larger sample size (39 Islamic banks) spread across 6 GCC countries between 2010-2014 and involves 195 observations. It provides a better picture of CSR disclosure practice among GCC countries.
- Fourth, the study of AAOFII standards has grown in recent years with substantial contributions from scholars, such as Ahmed and Khatun (2013), and Hassan and Harahap (2010). It is notable that the focus of most of these studies is descriptive in nature, emphasising in particular the compliance level with AAOIFI without extending their study to explore the main factors behind the disclosure level. This study contributes to the disclosure literature exploring the determinants of disclosure concerned with CG for GCC Islamic banks.
- Fifth, the present study explores, using CG mechanism analysis, the determinants of CSR disclosure by using firm- and country- specific control variables. While prior literature provides mixed empirical evidence for disclosure, limited studies examined the CSR disclosure practice in GCC. Also, previous literature provides mixed empirical evidence for variables related to CG characteristics. There is limited work has examined the existence of an in-house SSB and auditing committee, which can potentially influence the CSR disclosure practice. This study, therefore, is advanced by considering whether or not the CG mechanism and SSB variables have diverse impacts on the disclosure practice, rather than investigating

associations between single types of variable and disclosure practices (such example:Kamla and Rammal, 2013; Hassan et al., 2012).

- Sixth, there have been few empirical studies investigating the association between CSR disclosures and CG variables that contain board, SSB, audit and ownership related variables in the Islamic banking sector; this is the first study that empirically investigates this association.
- Seventh, two main methods are applied to examine the association between the main variables and test the models: OLS and descriptive statistics, which have been used frequently in prior research. This study provides more comprehensive CG variables to test its association with CSRD practice. As a result, it provides a better picture of CSR disclosure practice in GCC region.
- Last but not least, there have been limited empirical studies investigating the link between disclosure and economic consequences in the banking industry (e.g., Servaes and Tamayo, 2013; Dhaliwal et al., 2011). From the researcher's knowledge, this is the first study that empirically investigates this relationship among Islamic Banks. This study provides a valuable contribution to researchers, as it extends the understanding of how the CSR disclosures affect the firm value (FV) of GCC Islamic banks from 2010 to 2014.

8.4.2 Methodological contributions

- The study provides a methodological contribution by constructing a CSR disclosure index using AAOIFI, No. 7, 2010 and supported with prior research. The research index contains 11 main dimensions of CSR areas, whereas previous studies have covered fewer dimensions (e.g., Abdul Rahman and Bukair, 2013; Hassan and Harahap, 2010). The model is a unique and comprehensive means of measuring CSR disclosure. Previous studies tend to adopt prior suggested indices (Maali et al., 2006; Haniffa & Hudaib, 2007),while this study constructed disclosure index using AAOIFI,no7,2010. Based on the index constructed, 39 GCC Islamic banks' annual reports from 2010-2014 have been reviewed to measure their disclosure levels.

- The study also introduces a valid and reliable measure of CSR disclosure, as well as a model for measuring the firm value of CSR disclosure. This thesis has provided evidence that economic consequences for CSR disclosure by Islamic banks can be assessed based upon the quantitative characteristics, as used by El-Halaby & Hussainey (2015a), Khlif (2015), Uyar & Kiliç (2012), and Folorunsho Monsuru & Adetunji Abdulazeez (2014). Adopting previous studies that measured the consequences of disclosure, which adopted content analysis for annual report based on OLS (e.g., Elzahar et al., 2015; Kothari et al., 2009; Hussainey and Walker, 2009), this current study contributes to the methodological contributions by checking the OLS assumptions, which are normality, heteroscedasticity, multicollinearity, and autocorrelation.

8.5 Implications

The results summarised in the previous section have some distinctive practical and theoretical implications.

8.5.1Theoretical implications

The results summarised in the previous section have some distinctive theoretical implications either in support of existing theories or in extending the scope of previous works, and creating additional linkages within the existing literature.

- First, the analysis provides strong support for agency theory arguments, which suggest that corporations with strong CG mechanism are more likely to disclose CSR information to stakeholders (Taylor et al., 2010). The result shows that there is a significant positive relationship between CSRD and board size. The results prove that the board size significantly influences the CSRD practice in Islamic banks. Therefore, in increasing the CSRD practice, Islamic banks may have to increase their board sizes.
- Second, there is no significant association between board composition and CSRD score; the study cannot prove that stakeholders have the ability to influence the way in which corporations conduct themselves, and ultimately influence their 'licence to operate'. This implies that if a firm dissatisfies a relevant stakeholder, this stakeholder cannot apply a pressure on the firm to meet their expectations. The result proves that the stakeholder has no influence in CSR disclosure practice in Islamic banks; either there is a high non-executive board that monitors the banks.
- Third, with a low level of disclosure, the outcomes are inconsistent with the legitimacy theory as argued by Guthrie and Parker (1990). A firm, which operates in society, such as Islamic banks, has a social contract where it agrees to carry out various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival. The result shows that Islamic banks are still less concerned with their CSR disclosure practice since there is no legitimacy impact to the banks either the CSR information is disclosing or not.
- Fourth, the outcomes support the theoretical root of accountability for Islamic banks; accountability to *Allah* may come before stakeholders. This study

constructs a comprehensive model for CSR accountability that is applicable for Islamic banks and shows the link between the primary accountee (*Allah*), as well as secondary accountee (stakeholders), and the primary accountor (CG) and role of disclosure (CSR) to satisfy this accountability. Based on the mean of CSR disclosure scores by GCC Islamic banks, it shows that Islamic bank managers are still less accountable to the stakeholder in disclosing their CSR information.

- Fifth, with respect to the negative effect of CSRD on firm value (measure using market capitalization proxy), this finding adds to the contradictory evidence on the relationship between disclosure and firm value. This result is inconsistent with the findings of some studies that build on agency theory framework (e.g. Healy et al., 1999). These studies suggest a positive impact of enhanced disclosure upon firm valuation to the reduction in information asymmetry between managers and shareholders. Based on the findings, it shows that CSR disclosure did not give any significant impact to Islamic banks' value, which is contradictory with the theoretical assumptions discussed in this study. This is may be due to the low level of awareness among stakeholder regarding to CSR issue before make their investment. It is also due to the profit orientation as main objective among investor rather than social objective.
- Last, this research contradicts the theoretical basis for signalling and economic theories, which argue that increased discourse has a positive impact on a firm's value (Gordon et al., 2010; Easley and O'Hara, 2004). However, the result of the study didn't find any positive significant relationship between CSR and firm value. It also illustrates that non-financial disclosure

(such as CSR disclosure) has no superior impact when compared with financial disclosure, particularly for ethical institutions, such as Islamic banks.

8.5.2 Practical implications

This thesis provides several practical implications, as follows:

- The total number of sentences in the annual reports varied and there was a large gap between the highest and the lowest. Moreover, the annual reports were not value relevant for stakeholders. For these reasons, the regulators and banks' managers should pay more attention to increasing the usefulness of disclosure for stakeholders, the completeness of their CSR information, and how to deliver information more understandably and readably for stakeholders.
- The results suggest that the sample Islamic banks varied in the extent to which they reported their CSR activities. Some banks used many sentences, while some banks reported their CSR in just a few sentences. This indicates that banks had a different style in expressing their CSR information in their annual reports. Stakeholders may really need to understand this point and read annual reports critically, filtering the useful information from the whole information in an annual report, in order to minimise risk before making any financial decisions. Therefore, it is suggested that Islamic banks can provide a specific section in the annual report to provide CSR information.
- The finding provides important implications for investors, managers, regulatory bodies, policy makers and Islamic banks. This result tells investors that CSRD has a negative effect on the market value of their banks, based on market capitalization proxies. Different proxies may provide different results. However, managers who engage in good practices of information disclosure

are recommended to continue to do so. For those who refrain themselves from providing information to the stakeholders, the results call for more CSR transparency if they want their bank to be more valuable in the eye of their stakeholders.

- The results show that the disclosure of CSR information was absent in the annual reports for the selected GCC Islamic banks. Therefore, the regulatory bodies and policy makers may identify a minimum benchmark for CSR disclosure that is published by each bank either in their annual report or on the website. Furthermore, this finding is important for Islamic banks, which may be aware that more CSR disclosure might have a significant impact on their company image. Thus, they are expected to be more aware on CSR disclosure issues rather than focusing on profit-maximization objective.
- For regulators, this study provides some insight related to CSR disclosure. Up until now, regulators have not yet monitored the depth of disclosure in terms of banks' CSR disclosure. It is better to ensure that banks have disclosed their CSR information in their annual reports, since the results indicate that CSR disclosure in the annual reports was affected by strong CG. This study provides evidence that stronger corporate governance is associated with a higher level of CSR disclosure. Therefore, regulatory bodies, such as the AAOIFI, are expected to be more proactive in guiding Islamic banks toward the best practices of disclosure since banks look for such guidance. CG plays a motivating role in this area of information disclosure. The AAOIFI are also expected to have a strong collaboration with countries' regulatory bodies in enhancing CSR disclosure practice among Islamic banks.

- CSR disclosure scores among the GCC Islamic banks are varied but the trend tended to be towards greater transparency. It is recommended that regulators enhance the regulations in order to push banks voluntarily and transparently to reveal their CSR information. Moreover, the regulators also need to consider the disclosure levels within the annual reports for other IFIs (*takaful* or unit-trust company) with regard to the levels of disclosure that are needed by stakeholders.

8.6 Limitations and Suggestion for Future Research

There is no research without limitation; this study adopts disclosure indices to investigate disclosure levels. Therefore, the results are only valid to the extent that the disclosure indices used are applicable. The selection of the items included in the index involves some degree of judgment and subjectivity. However, the reliability test is satisfactory. One potential limitation is the relatively small sample size, which involves only 39 GCC Islamic banks, which may limit the application of the findings of other IFIs such as *Takaful* and the Islamic Unit Trust Company. Further study may be conducted using a large sample of data. This is a common limitation of labour-intensive studies, which employ manual content analysis to code the text. In addition, the researcher collects CSR data by reading firms' annual reports. This has bounded the ability to increase sample size for time and effort considerations. Due to the availability of data during this research, the data is limited from 2010 to 2014 only; further study can use the most recent data in conducting further study.

There are a limited number of CG variables that have been tested in this current study, which is just focused on the board-related, SSB-related variables, AC variables and ownership variables. Future research may consider other CG mechanisms (e.g., managerial ownership, number of subsidiaries, and family ownership) or other related variables. This current study is limited to Islamic banks only; therefore, future research may explore the determinants on CSR disclosure among other Islamic institutions, such as Islamic insurance companies (*Takaful*) and Islamic investment companies. This might substantiate the findings from the CSR disclosure studies. The study also is limited to discuss the AAOIFI, no. 7, 2010 compliance among GCC Islamic banks. Further study may be conducted in measuring the level of compliance with other AAOIFI governance standards or national standards.

In this current study, the researcher focuses on three measurements/proxies of firm value, which are MTBV, market capitalization, and Tobin's Q. It would be interesting to use other measures for firm value, such as scale efficiency measures, as suggested by Dybvig & Warachka (2015). This current study narrowly focuses on CSR disclosure consequences among Islamic banks. It would be interesting for further study to examine the association between CSR disclosure and firm value for other Islamic financial institutions, such as Islamic insurance companies (*takaful*). The study finally suggests that further research could also examine the non-economic consequences (such example: company image) of CSR disclosure and firm value, such as the image and reputation of the banks.

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APPENDICES

Appendix 1: Example of evidence from the Quran and *Hadith* in promoting CSR

Source from *Quran* and *Hadith*	Values to business practice	Values to CSR practice
-The Holy Prophet said “I will be foe to three persons on the day of judgment, one of them being the one who. When he employs apersons that has accomplished his duty, does not give him his due" (Al Bukhari, No. 2109). -“No Arab has superiority over a non-Arab and no non-Arab has any superiority over an Arab; no dark person has superiority over a white person and no white person has superiority over a dark person. The criterion of honour in the sight of God is righteousness and honest living” (saying of the prophet Muhammad (PBUH) (Cited in Ali Aribi, Zakaria and Arun, 2014).	-Employee fair treatment, equal opportunity and non-discriminatory behaviour	-Responsibility to employees.
-God likes that when someone does anything, it must be done perfectly well (saying of the prophet Muhammad pray and peace upon Him) (cited in Sallam and Hanafy, 1988).	-Excellence and quality of work	-Responsibility to the employer.
-Once he turns back, he moves about in the land trying to spread disorder in it, and to destroy the tillage and the stock; and Allah does not like disorder (Quran, 2:205). -“O Children of Adam! Take your adornment at every mosque: eat and drink, and do not be extravagant; Surely He does not like the extravagant” (Quran 7:31). -“And do not do mischief on the earth, after it has been set in order, and invoke Him with fear	-The importance to protect environment.	-Responsibility to the environment.

and hope; Surely, Allah's Mercy is (ever) near unto the good-doers” (Quran, 7:56). -“If the Final Hour (Al-Qiamah) is come, and one of you has a palm seeding in his hand and it is within his power to plant it, then let him do so” (Narrated by Ahmed, Hadith No.12689)		
-"And O my people, perfect the measure and the balance with justice and do not make the people short of their things, and do not go about the earth spreading disorder (Qur'an, 11: 85). -"He who cheats is not one of us” (saying of the Prophet Mohamed - pray and peace upon Him) (Cited in Keller, 1994).	-Honesty and transparency in conducting business transactions.	-Responsibility to customers and clients
-"... do not outbid one another in order to raise the price, don’t enter into a transaction when other have already entered into that transaction and be as brothers one to another” (Saying of prophet Mohamed-PBUH).	-Fairness in contracts negotiation	-Responsibility to shareholder and stakeholders.
-The acquisition of knowledge is a duty incumbent on every Muslim, male and female (saying of the prophet Muhammad-PBUH) (Sallam and Hanafy, 1988)	-Importance of seeking knowledge, research and development, scientific activities, training programme	-Responsibility for personal development program/employee/staff.
-“It is not righteousness that ye turn your faces to the East and the West; but righteous is he who believeth in Allah and the Last Day and the angels and the Scripture and the prophets; and giveth wealth, for love of Him, to kinsfolk and to orphans and the needy and the wayfarer and to those who ask, and to set slaves free; and observeth proper worship and payeth the poor-due. And those who keep	-Socio economic justice towards all level of people.	-Responsibility to the community.

their treaty when they make one, and the patient in tribulation and adversity and time of stress. Such are they who are sincere. Such are the God-fearing" (Quran 2: 177).		
-"And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as almsgiving would be better for you if ye did not know" (Quran, 2:280).	-Tolerate the debtor when they have difficulties to make a repayment.	-Responsibility to debtors.
-"O you who believe, be upholders of justice - witnesses for Allah, even though against (the interest of) your selves or the parents, and the kinsmen. One may be rich or poor; Allah is better caretaker of both. So do not follow desires, lest you should swerve. If you twist or avoid (the evidence), then, Allah is all-aware of what you do". (Quran, 4:135)	-An order to promote social justice	-Responsibility towards society
-"Allah (SWT) says: I will be an opponent to three persons on the day of judgement: One who makes a covenant in My name, but he prove treacherous, and who sells a free person (as slave) and eats the price, and one who employs a labourer and gets the full work done by him but he does not pay him wages" (Sahih Al-Bukhari, Vol 3: Hadith No. 2).	-Promoting social justice among community.	-Responsibility to employee and community
-O you, who believe, do not devour each other's property by false means, unless it is trade conducted with your mutual consent. Do not kill one another. Indeed, Allah has been Very Merciful to you. (Quran, 4: 29)	-Honesty in wealth management and business trade.	-Social responsibility in conducting and managing business trade.
-Anybody who believes in Allah and the Day of Judgement should not harm his neighbour, and anybody who believes in Allah and the Day of Judgement	-Enhance good ethics among society.	-Social responsibility to the community.

should entertain his guest generously, and anybody who believes in Allah and the Day of Judgement should talk what is good or keep quiet (i.e. abstain from all kinds of evil and dirty talk) (Al-Bukhari, Vol 8, Hadith No.47).		
-"So, observe taqwa (total obedience to Allah in awe of Him) as far as you can, and listen and obey, and spend (in Allah's way), it being good for you. And those who are saved from the greed of their hearts are the successful" (Quran 64:16). -The Prophet Muhammad (PBUH) said: "Every Muslim must pay sadaqah (charity)." Then the Companions asked: "What about someone who has nothing to give?" The Prophet replied: "Then let him do something with his two hands and benefit himself. That will be charity." The companion asked again: "But what if he cannot do that?" The Prophet replied: "Then he can help someone who is needy." Again the companion asked: "What if he cannot do that?" The Prophet replied: "Then he should enjoin the doing of good." The companion asked again: "But what if he cannot do that?" The Prophet said that: "Then he should give respite from evil, for that is a form of charity." (Hadith narrated by *Al-Bukhari*, Hadith, No.225).	-Philanthropy	-Responsibility to employees and the community.

(Source: Adapted from Mohammed (2007), Zakaria (2009), and Zakaria and Arun (2014).

Appendix 2: Details of CSR Disclosure dimensions develop based on AAOIFI, 2010 and prior literature.

DISCLOSURE REQUIREMENTS AND PRESENTATION TREATMENT OPTIONS Notes: The mandatory sections are applicable to al IFIs regardless to their legal form, country of incorporation or size. The recommended/voluntary sections are only applicable to IFIs which have the capacity, financial or otherwise, to carry out or comply with such activities. This table develop based on AAOIFI, No 7,2010		
Classifications	**Dimensions (Main Disclosure Items)**	**Sub-items**
Mandatory Disclosure Conduct	***1) Disclosure of policy for screening clients.***	i. Specific provisions of the screening policy including the benchmark and/or criterion utilize to measure compliance with Islamic law. ii. Whether these have been approved by SSB (Shariah Supervisory Board).
	2) Disclosure policy for dealing with clients.	i. 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. ii. Ensuring that marketing

		campaigns and documents are ethically balanced. iii. The obligation and rights of both parties. iv. Process and responsible terms and conditions under which credit is extended to client, 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. v. The remedies available in the event of that one or both parties violate their contractual firms. vi. The SSB opinion on the permissibility of charging late payment charges. vii. Late payment charges imposed on clients. viii. How the IFI allocate the late payment, charges in its account (allocation to revenue or charity). ix. The conditions under which

		the IFI will defer collection of debt from insolvent clients.
	3) Disclosure of earnings and expenditure prohibited by Shariah.	i. Aggregate description, amounts, account classification (revenue, expense, liability or asset) and reason for undertaking the types of transactions. ii. The SSB's verdict on the necessity of the transactions. iii. How the IFI intends to dispose of such amounts. iv. The IFI strategy to find viable permissible alternatives, if any, for similar impermissible transactions in the future.
	4) Disclosure policy for employee welfare.	i. Provisions of the policy, including targeted disadvantaged groups. ii. Quotas/target and achievement for the year. iii. Reason for upward and downward revisions in quotas/target.

	5) *Disclosure of policy of Zakah.*	i. Disclosure should be made for Zakah, in the financial statements, in accordance with the provisions of Financial Reporting Standards No:1 and No:9
Voluntary Disclosure Conduct	**1) *Disclosure of social, development and environment based investment quotas.***	i. The provisions of the policy ii. Classes of the investment by ultimate purpose/beneficiary of investments (example: orphans, SME development, Islamic culture, and reduction in tree logging, reduction in environmental greenhouse gases increase in recycling, science and technology). iii. The profitability of such investment for the year. iv. Quotas/target and achievements for the year. v. Reason for upward and downward revisions in quotas/target.
	2) *Policy for*	i. Establishing organization

	reduction of adverse impact on the environment.	wide guideline on efficient and minimal usage of non-renewable resources. ii. Initiatives to educate employees to efficiently use non-renewable resources and increase use of renewable resources. iii. Incentives and initiatives to find alternatives to non-renewable resources of energy and materials for operations (example: e-mail bank statements instead of paper bank statements). iv. Incentives and initiatives to recycle renewable sources of materials within the organization.
	3) Disclosure of the policy for par excellence customer service.	i. Provisions of the policy ii. Measure taken by management to top developer customer service skills

		iii. Aggregate results of customer surveys demonstrating overall quality of customer service and areas of improvement.
	4) Disclosure of policy for micro and small business and social savings and investments.	i. Provisions of the policy. ii. Features to offer. iii. Measures taken by management to implement the provisions of the policy. iv. Quotas/target and achievement of the year. v. Reasons for upward and downward revisions in quotas/target.
	5) Disclosure of the policy for Qard Hasan.	i. Whether there is formal scheme operated by the bank for depositors, shareholders and other parties to place their funds for the use of Qard Hasan borrowers. ii. Provisions of the policy/scheme including conditions for those unable to repay the loans.

		iii. Sources of funding for Qard Hasan loans. iv. Aggregate purposes for which the Qard Hasan loans have been made. v. Quotas/target to increase internal and external Qard Hasan funding and achievements for the year in this regard. vi. Reasons for upward and downward revisions in quotas/target.
	6) Disclosure of policy for charitable activities.	i. Provisions of the policy. ii. Aggregate classes of charitable activities by ultimate beneficiaries and amounts distributed to each aggregate class. iii. Quotas/targets and achievements for the year. iv. Reasons for upward and downward revisions in quotas/target.
	7) Disclosure of policy for Waqf	i. Types of Waqf managed by IFI.

	management.	ii. Financial and other service offered to the Awqaf by the IFI.

Appendix 3 Model 1-MTBV-Pearson Correlations

Variables	**MTBV**	**CSRD**	**B.SIZE**	**B.COMP**	**CEO.DUAL**	**F.SIZE**	**F.PROFIT**	**F.LEVERAGE**	**C.GDP**
MTBV	1								
CSRD	0.058	1							
B.SIZE	0.140	0.117	1						
B.COMP	-0.068	-0.052	-0.111	1					
CEO.DUAL	.234**	-0.126	-0.092	-0.066	1				
F.SIZE	-0.030	.168*	-0.076	0.057	.195**	1			
F.PROFIT	0.111	-0.059	-0.052	-0.116	0.107	0.057	1		
F.LEVERAGE	-0.054	0.096	-0.048	0.098	-.149*	.197**	-.388**	1	
C.GDP	0.123	.210**	-.217**	-0.016	.309**	.569**	.168*	-0.058	1
**. Correlation is significant at the 0.01 level (2-tailed).									
*. Correlation is significant at the 0.05 level (2-tailed).									

Appendix 4: Model 2:-Market Capitalization(WC08001)-Pearson Correlations

Variables	WC08001	CSRD	B.SIZE	B.COMP	CEO.DUAL	F.SIZE	F.PROFIT	F.LEVERAGE	C.GDP
WC08001	1								
CSRD	0.034	1							
B.SIZE	-.210**	0.117	1						
B.COMP	0.039	-0.052	-0.111	1					
CEO.DUAL	.365**	-0.126	-0.092	-0.066	1				
F.SIZE	.369**	.168*	-0.076	0.057	.195**	1			
F.PROFIT	.298**	-0.059	-0.052	-0.116	0.107	0.057	1		
F.LEVERAGE	-0.121	0.096	-0.048	0.098	-.149*	.197**	-.388**	1	
C.GDP	.688**	.210**	-.217**	-0.016	.309**	.569**	.168*	-0.058	1
**. Correlation is significant at the 0.01 level (2-tailed).									
*. Correlation is significant at the 0.05 level (2-tailed).									

Appendix 5: Model 3: -Tobin Q-Pearson Correlations

Variables	TOBIN Q	CSRD	B.SIZE	B.COMP	CEO.DUAL	F.SIZE	F.PROFIT	F.LEVERAGE	C.GDP
TOBIN Q	1								
CSRD	0.037	1							
B.SIZE	0.013	0.117	1						
B.COMP	-0.028	-0.052	-0.111	1					
CEO.DUAL	0.134	-0.126	-0.092	-0.066	1				
F.SIZE	.158*	.168*	-0.076	0.057	.195**	1			
F.PROFIT	0.102	-0.059	-0.052	-0.116	0.107	0.057	1		
F.LEVERAGE	0.058	0.096	-0.048	0.098	-.149*	.197**	-.388**	1	
C.GDP	0.137	.210**	-.217**	-0.016	.309**	.569**	.168*	-0.058	1
*. Correlation is significant at the 0.05 level (2-tailed).									
**. Correlation is significant at the 0.01 level (2-tailed).									

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