CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND SHARI’AH SUPERVISORY BOARD: A CASE STUDY OF ISLAMIC BANKS IN GCC REGION

Thesis Submitted in Fulfilment of the Requirements for the Degree of Doctor of Philosophy at University of Bolton

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Nehad Ineizeh, 2019

Abstract

The awareness of corporate social responsibility (CSR) has been observed among firms since last few decades. The existing literature related to Islamic finance has emphasised nature and level of CSR disclosure, rather than examining the elements that may impact the level of such CSR disclosure. Based on such understanding, this study aims to examine the level of the CSR disclosure as well as measure the impact of the Shari’ah Supervisory Board (SSB) on level of the CSR disclosure of Islamic banks in the Gulf Cooperation Council (GCC) countries. In order to test the research hypotheses and answer the research questions, this study uses the data gathered from the annual reports of the sampled GCC Islamic banks covering the period between 2006 and 2016. Accordingly, this study applied the content analysis method to analyse the data from twenty-eight Islamic banks. Furthermore, this study uses OLS multiple regression with fixed effect model to examine the effect of SSB on the level of CSR disclosure in the case of the examined GCC Islamic banks.

The research findings reported that the examined Islamic banks in the GCC region scored relatively a low level of CSR disclosure at a value of 0.53. Furthermore, the fixed effect regression model shows that SSB has a significant and positive relationship on the level of CSR disclosure in the case of the examined Islamic banks. Having achieved such results, it can be stated that when Islamic banks pay more attention to their SSB, they will disclose a greater level of information related to their CSR activities in their annual reports. Furthermore, to have a comprehensive understanding, this study examined the effect of SSB on the individual dimensions of the CSR, where statistically significant relationship is achieved by fixed effect regression analysis of the examined data throughout the sample period in the case of the GCC Islamic banks.

Keywords: Corporate Social Responsibility (CSR) Disclosure, Content Analysis, Shari’ah Supervisory Board (SSB), GCC Region and Islamic Bank.
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<th>Full Form</th>
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<tr>
<td>Accounting and Auditing Organisation for Islamic Financial Institution</td>
<td>AAOIFI</td>
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<tr>
<td>Bank Size</td>
<td>BS</td>
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<tr>
<td>Corporate social responsibility</td>
<td>CSR</td>
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<td>CSR Disclosure</td>
<td>CSRD</td>
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<td>CSR Disclosure Index</td>
<td>CSRDI</td>
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<tr>
<td>Gross Domestics Product</td>
<td>GDP</td>
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<tr>
<td>Gulf Cooperation Council</td>
<td>GCC</td>
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<tr>
<td>International Accounting Standards Board</td>
<td>IASB</td>
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<tr>
<td>International Financial Reporting Standard</td>
<td>IFRS</td>
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<tr>
<td>International Islamic Financial Market</td>
<td>IIFM</td>
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<tr>
<td>Islamic Corporate Governance</td>
<td>ICG</td>
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<td>Islamic financial Institutions</td>
<td>IFIs</td>
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<td>King Dom of Saudi Arabia</td>
<td>KSA</td>
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<td>Kuwait Finance House</td>
<td>KFH</td>
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<td>Leverage</td>
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<td>Liquidity</td>
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<td>Return on Deposit</td>
<td>ROD</td>
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<td>Shari’ah Supervisory Board</td>
<td>SSB</td>
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<td>Shari’ah Supervisory Board Cross- membership</td>
<td>SSBCROSS</td>
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<td>Shari’ah Supervisory Board Doctoral qualification</td>
<td>SSBPHD</td>
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<td>Shari’ah Supervisory Board Existence</td>
<td>SSBEX</td>
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<td>Shari’ah Supervisory Board Number (SIZE)</td>
<td>SSBN</td>
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<tr>
<td>Shari’ah Supervisory Board Overall Score</td>
<td>SSBSCORE</td>
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<tr>
<td>Shari’ah Supervisory Board Reputable scholars</td>
<td>SSBREP</td>
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<tr>
<td>State of Bahrain</td>
<td>BH</td>
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<tr>
<td>State of Kuwait</td>
<td>KT</td>
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<tr>
<td>Sultanate of Oman</td>
<td>ON</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>UAE</td>
</tr>
<tr>
<td>Variance Inflation Factor</td>
<td>VIF</td>
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</tbody>
</table>
Praise be to Allah the Almighty, and Peace and Blessings be upon our Prophet Muhammad, 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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*May God reward them all!*
Dedication

To my late father

Al Haji

Ibrahim Abd Alfatah Ineizeh

Al Ya’akoub Al Awadeen

And my dear mother

Al Hajjah

Zakiyah Lafi shihab

Al Ali Al Mihsin
Copyright Statement

This copy of the thesis has been supplied on condition that anyone who consults it is understood to recognise that its copyright rests with its author and that no quotation from the thesis and no information derived from it may be published without the author's prior consent.
CHAPTER ONE

INTRODUCTION
CHAPTER ONE

INTRODUCTION

1.1 Research Background

The awareness of Corporate Social Responsibility (CSR) has been observed among firms since last few decades (Reverte, 2009) and more importantly this concept has successfully been recognized as one of the noteworthy factors that empowered the firms’ prosperity by promoting their reputation that directly leads to higher level of profits (Gustafson, 2002). CSR disclosure is considered as a tool of transferring information about social activities that have been employed by internal and external decision makers into corporate reporting process as a strategic approach in rebranding image (Van Marrewijk, 2003; Basu and Palazzo, 2008).

In this regard, based on the existing literature, it can be stated that the concept of ‘social accounting’ represents the origins of CSR information disclosure (for instance, Ullmann, 1985; Gray et al., 1988; Cowen et al., 1987; Zeghal and Ahmed, 1990; Tilt, 1994) which is regarded as an extension of voluntary disclosure that related to specific aspect, as disclosing information about such aspect is not required by the regulation. In other word, it can be stated that social accounting is characterized by its interest in areas other than financial purposes (Hackston and Milne, 1996; Gray et al., 1996; Gray et al., 1997). The term of social accounting concerns about introducing the data related to the corporation activities. In general, 'social accounting' as a term has been used largely to cover the whole accounting fields, and with a special emphasis on voluntary reporting, such as CSR reporting, human resource reporting, social auditing and stakeholder’s discussion reports of environment (Gray et al., 1995a; Gray, 2002).

According to Guthrie and Mathews (1985, cited in Hackston and Milne, 1996: 78) CSR disclosure can be defined as “provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports”. Though, Lee (2008) and Taneja et al. (2011) pointed “that CSR disclosure definition should be flexible, open-ended and should be changed through time”.

1
Gray et al., (1996; 3) defined CSR disclosure as "the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large". As such, it is inclusive of branching the organizations’ and companies’ liabilities out beyond the act of making transparent the organizations’ financial account to respective proprietors, and shareholders in particular. Accordingly, the corporate voluntary disclosure refers to the disclosure of information more than the required items “representing free choices on the part of company management to provide accounting and other information deemed relevant to the decisions needs of users of their annual reports” (Chau and Gray, 2002: 247). Consequently, it can be stated that the CSR disclosure is a broad concept and hence it might include society participation regarding disclosure, client relations and product, environmental issues and energy matters concerning disclosure and data of human resource (Epstein and Freedman, 1994; Gray et al., 1995b; Hackston and Milne, 1996; Deegan and MRankin, 1996; Williams and Pei, 1999; Deegan, 2002; Gao et al., 2005). In addition, it may include moral matters and ethical investments (Maali et al., 2006; Parsa and Kouhy 2008; Zahra et al., 2009). Therefore, the way that the corporation and its stakeholders define CSR disclosure in the community, will impact the disclosure quantity and quality (Van der Laan Smith et al., 2005). According to Hale and Wills (2007) incorporating the CSR in business activities has been progressively adopted by firms.

The emerging Islamic financial institutions that operate based on the Islamic financial principles that are derived from roles and ethical values of Islamic financial law has rationalised the embeddedness of business ethics into all financial transactions that Islamic banks may conduct. Therefore, it can be stated that CSR activities, by definition, should be presented and taken into consideration in all financial products and operations of Islamic banks. From an Islamic finance point of view, CSR activities can be rooted in the belief that the corporation should be ethical in their activities besides their financial obligations. Hence, based on such understanding the profit maximisation is not the sole force behind businesses, but also a quest for happiness around this world and the hereafter (Dusuki and Abdullah, 2007a). In addition, Islamic financial principles promote the idea of finding the right between the rights and duties of the individual as well as their accountability to those around them, and between altruism and personal interest. The values that form Islamic financial principles promote the concept of reward for being socially oriented which boosts the motivation of individuals towards adopting an ethical approach towards the management of their business activities.
Correspondingly, the Islamic Financial Services Board (IFSB) (2015) reports a 33 per cent increase in the Islamic financial assets from the mid-1995s to 2003, with an 89 per cent jump from 2003 to mid of 2014. In addition, according to the Bank Negara Malaysia (2016) reported an anticipated continual increase at a slower growth in the Islamic financial assets with a 58 per cent increase from 2014 to 2018 with a predicted continuous growth. On a global level, according to reports (IFSB, 2015 and Islamic financial services industry IFSI, 2016), the value of the Islamic finance at the end of 2015 reached 1.88 USD trillion, accounting for 1 per cent of total financial assets worldwide. In addition, according to Mohammed (2016), towards the end of the year 2018, the market size is expected to amount 3.4 USD Trillion. Garrido et al., (2016: 35), state that for Islamic financial assets, the major segment (39.5 per cent) is located in the Gulf Cooperation Council (GCC)\(^1\) region, with a market value of 598 USD billion (Mohammed, 2016). However, it can be stated that the potential size of Islamic financial assets can be much higher. Therefore, according to Wilson (2009), in order to expand their market, the ideal situation for Islamic business organisations, like Islamic banks, is to fully adopt the Islamic \textit{Shari'ah}\(^2\) principles, rules and regulations. Moreover, the prohibition of \textit{Riba}\(^3\) (usury) further justifies the need for having Islamic banks operating the market as a tool to boost the current social values in the financial industry. Consequently, based on such axioms that the Islamic Banking system is derived from, Islamic banks may present their social responsibility and accountability through their CSR activities (Muwazir et al., 2006) that can directly boost the social wellbeing (Usmani and Zubairi, 2002; Khan and Bhatti, 2008; Sairally, 2007).

The primary reason for which the study concentrates on the Islamic Banks of the GCC region is the similarity of socio-economic structure, as this provides the researcher with the ability to control for macro and cultural factors that may have on the research domains. In addition, the GCC region is taken as a case study due to their position which considers as a hub for Islamic finance that has made a substantial influence towards the rapid growth of the Islamic banking worldwide. Moreover, the limited empirical evidence from the Islamic banks in relation to the CSR disclosure in the case of the GCC region is another key factor that has been taken into consideration when choosing the case study in this research.

\(^1\) The GCC consists of Kingdom of Bahrain, State of Qatar, State of Kuwait, Sultanate of Oman, Kingdom of Saudi Arabia and United Arab Emirates.

\(^2\) \textit{Shari'ah}: generally, is a term for Islamic Jurisprudence or Islamic Law.

\(^3\) \textit{Riba}: “to increase, to multiply, to exceed, to exact more than was due, or to practice usury”
1.2. The Nature of the Research Problem

Given that Islamic banks operate based on Islamic moral foundations, and more specifically the accountability and transparency that are considered as key values that need be considered when conducting their business operations, Islamic banks are obliged to fully disclose all required information to all stakeholders (Haniffa, 2001; Maali et al., 2006; Farook et al., 2011; El-Halaby and Hussainey, 2015). More specifically, given the axioms and principles that Islamic banks are operating based on, when it comes to the CSR reporting, it is an expectation that the Islamic banks demonstrate in comparison to their contemporaries, increased the extent of social activity and presence. In other words, Islamic banks are not only responsible to promote and protect the shareholder's interest as compared to conventional banks, but they are countable towards the society at large (Belal et al., 2014). Hence, it can be stated that the CSR reporting “extends the accountability of organisations, beyond the traditional role of providing a financial account to owners of capital, in particular, shareholders” (Gray et al., 1995: 35).

According to Haniffa and Hudaib (2007), the Islamic banks as an establishment serve the primary purpose of promoting ethical and social justice within the community through integrating CSR activity into their business. Baydoun and Willet (2000), confirm that as per Islamic principles, reporting by the banks should adhere to the Shari‘ah principles (Hasan and Siti-Nabiha, 2010). Thus, disclosing CSR activities by the Islamic banks evidences their adherence with Shari‘ah principles, which demonstrates their accountability and transparency towards the community. However, they have been criticised by not fully complying with the objectives of Islamic financial law in relation to the ethical behaviour. In other words, Islamic banks have been alleged by applying the form over the substance in relation to the moral foundations of Islamic finance. Therefore, as evident by the existing literature, there have been a considerable gap between the ideal and practices of the CSR activities (Haniffa and Hudaib, 2007 and Platonova et al., 2016). On the other hand, the role of Shari‘ah supervisory board (SSB) has been underestimated by Islamic banks. Given that SSB is present to warrant that all financial dealings accommodate the Islamic financial principles, it is expected of the member of SSB to carry out their duty which is to direct the revisers and monitor the transactions of Islamic banks in an independent manner. Moreover, SSB in addition to operating independently of the Directors Board retains the authority to attend the Directors Board’s meetings in order to deliberate over discussions involving religious aspects as
regards their alignment with the Islamic financial principles (AAOIFI, 2005). However, it has been criticised that such an important role that SSB could play in leading the Islamic banks towards fulfilling their key objectives of being ethically oriented has been challenged by pressure and control from the Board of Directors. In other words, there have been critiques that SSB not only been excluded from participating in the decision-making process, but they have also been under pressure and instructed in making decisions related to Shari’ah issues.

1.3. Aims, Objectives and Research Questions

The current study, on the basis of the background provided previously, raises the following aims:

i. Examine the level of CSR disclosure of Islamic banks in the GCC region based on the Islamic moral economy and Islamic finance principles backdrop.

ii. Measure the impact of the Shari’ah supervisory board on the CSR disclosure level of Islamic banks in the GCC region.

Correspondingly, the study raises the following objectives towards the fulfilment of the aims mentioned above:

i. Develop a theoretical framework for the CSR disclosure in concurrence with an Islamic finance perspective.

ii. Develop an index to measure the CSR disclosure levels, in concurrence with the Islamic ethical and financial principles, of the Islamic Banks in the GCC region.

iii. Measure the overall level of CSR disclosure activities in the GCC region Islamic banks.

iv. Examine the impact of SSB on the CSR disclosure level of Islamic banks in the GCC region.

Correspondingly, to fulfil the research aims and objectives, this study develops the following questions:

i. In the banking sector, what impact do the Islamic financial principles have on the CSR disclosure practices?
ii. To what extent the Islamic financial principles can influence the growth of CSR disclosure practices?

iii. Have the CSR disclosure practices of Islamic banks met the expectation derived from the theoretical understanding of Islamic moral values?

iv. Is it possible to assess the CSR performance of Islamic banks based on the disclosure of CSR activities?

v. To which extent the SSB may impact the CSR disclosure of the Islamic banks in the GCC region?

1.4. Research Gaps and Motivations

In order to identify the research gap, it is important to state that there are two areas in which the existing literature has focused on, namely: (i) The first category focuses on measuring the CSR disclosure level based on the annual reports (Moumen et al., 2015; Platonova et al., 2016). (ii) The second category examines the determinants of CSR disclosure (Hussainey and Mouselli, 2010; Farook et al., 2011; Elzahar et al., 2015; Rahman and Bukair, 2013).

Therefore, irrespective the expansive literature available on the CSR disclosure, studies focusing the Islamic banks in general and in the GCC Region in particular, specific to the CSR disclosure and the SSB impact on the CSR disclosure level are scarce, which is the focus of this research. Although there are a few studies, which come close to this discussion however they are limited with their focus on one single institution, country, or certain periods or disclosure level (Maali et al., 2006; Haniffa and Hudaib, 2007; Kamla and Rammal, 2013; Belal et al., 2014).

Relevant literature review reveals a limitation in the existing studies with the CSR disclosure levels being measured for the institutions or companies, only as an example. These studies focus more on the divide between the expectations and realistic scenario of the CSR disclosure practices in Islamic banks. Hence, it is imperative to examine the CSR disclosure determinants and impacts in Islamic banks in order to clearly understand the practices of Islamic banks. It can be safely inferred that few prior studies predominantly focused on the SSB impact on the GCC region Islamic banks’ CSR disclosure (Farook et al., 2011; Rahman and Bukair 2013). Accordingly, this study tries to bridge this gap and explore the CSR disclosure and the SSB intersect in GCC region Islamic banks. The prior studies seem to
leave scope for further research of disclosure of CSR in the context of Islamic Financial Institutions and offer a focused perspective underpinning CSR as well as CSR disclosure knowledge. The majority percentage of these studies could not provide a profound analysis and discussion pertaining to the fundamentals of CSR and were merely focused on the Islamic perspective of the all-around business practice. Hence, the researcher aims to follow the prior studies and thoroughly encapsulate the CSR disclosure practices and its determinants, along with a particular reference to the SSB impact on the disclosure level specific to the sampled GCC region Islamic banks. Thus, the current study will assess the disclosure levels of the sampled Islamic banks, following which observe the factors and their subsequent impact on the CSR disclosures. Correspondingly, the banks included in this study, have been deliberately selected to widen the study scope by making 250 observations of GCC Islamic banks from 2006-2016. The actions taken for this study would help obtain a comprehensive outlook towards the CSR disclosure practices as demonstrated across the major Islamic banks, worldwide.

Furthermore, the previous CSR literature is largely quantitative, as it measures the narrative CSR disclosures volume in contrast to an ideal paradigm sourced from CSR objectives and standards which are Shari’ah based. Generally, there exists a gap between the transacted or actual disclosures and ideal disclosures. However, there is a limitation regarding the number of sampled banks due to the relatively small sample size, which leaves challenges in generalising the outcomes (Haniffa and Hudaib, 2007; Maali et al. 2006). The number of observations in the current study (250), is fairly sizeable when linked to the biggest study to date (47 in Farook et al., 2011; 53 in in Rahman and Bukair 2013; 222 in Platonova et al., 2016). In addition, this study uses most updated data from 2006 to 2016, thereby, reflecting optimally on the latest CSR disclosure practices demonstrated by the GCC Islamic banks, which will rationalise the generalisation of the research results.

Also, a literature review of the existing studies, reveal that the mechanism of SSB and CSR disclosure practices, particularly amongst GCC Islamic banks, still lacked comprehensive studies. Hence, this study tries at fulfilling the gap in examining the CSR disclosure and its association with SSB among the Islamic banks in the GCC region.
1.5. Summary of Research Methodology

In concurrent with the study aims and objectives and nature of the data mandating qualitative as well as quantitative approaches for data collection and analysis in order to answer the research questions, this study adopts the pragmatism concept as research philosophy. In addition, according to objectives of this study, which warrant hypotheses development based on existing theories and test them through secondary analysis data, with the use of deductive approach, this research also applies multi-design research of exploratory and explanatory research strategy in order to assess the SSB and CSR disclosure intersect. Based on such understanding, this research uses mixed methods in collecting and analysing data. With regards to the disclosure analysis, this research develops an index for the measurement of the disclosure level by using content analysis to assess the CSR disclosure and SSB information from the annual reports of the sampled Islamic banks. Moreover, this research will use STATA econometric software to conduct regressions analysis in order to examine the effect of the SSB on CSR disclosure in the Islamic banks of GCC region.

1.6. Research Contribution

Given such understanding of the gaps of current literature, this study aims to supplement the knowledge body in the field of CSR disclosure as well as SSB and CSR disclosure intersect. Hence, it can be stated that this research will provide empirical evidence of the current practices of CSR activities in Islamic banks in general and the GCC region in particular. Furthermore, it will empirically prove whether there are any gaps between the ideal practices and the actual CSR disclosure practices demonstrated by the Islamic banks. Moreover, given the understanding of the role that the SSB is obliged to play in leading Islamic banks towards achieving their goals in promoting the social justice in the community, this research will contribute in highlighting the duty of SSB in promoting the wellbeing of the societies that they operate in. Raising such concerns among Islamic banks and communities, will positively affect Islamic banks and incentivise them to be more ethically oriented in their operations. It will also boost the awareness among the customers of the social responsibility that an Islamic bank should consider while operating, which in turn will pressurise Islamic banks to more socially responsible to boost their reputation among the public as a strategic plan to stay competitive in the market. In addition, on the level of SSB and their relationship with the bank, this research will highlight the concerns to the SSB to optimise their position in not only monitoring the compliance of all financial transaction with Islamic financial principles
but also become a part of the decision-making team. Having such understanding, this research will pressurise the Islamic banks to make more efforts to increase the engagement of the SSB in not only in issues related the compliance with Islamic financial principles, but also to boost their involvement in the whole business operations and decision-making process. Based on such arguments, it can be safely inferred that the current paper will augment the comprehension of aspects relevant to the Islamic banks’ social responsibility towards their stakeholders. As well as, the study will promote the SSB function towards augmenting the Islamic banks’ role in achieving social justice at large, and in the GCC region, particularly.

1.7. Thesis Organization

This research comprises of eight Chapters which are briefed as below:

*Chapter One: introduction* presents a research background followed by a research problem. Then the research aims, objectives and questions are elaborated followed by an explanation of the research gap and motivation. In addition, this Chapter will present a concise discussion on the research methodology followed by the contribution of this study, and it concludes with an overview of the Thesis organization.

*Chapter Two: Corporate Social Responsibility: A Theoretical Background* attempts to critically review the concept of CSR and CSR disclosure development. In addition, it reviews the key theories underlying both concepts which are; legitimacy theory, accountability theory, agency theory, signalling theory, stakeholder theory. The main concentration of this chapter has been made on the agency, stakeholder and accountability theories which are identified as the most applicable to this research.

*Chapter Three: CSR and CSR Disclosure form Islamic Finance Perspectives* explains the foundations of the social responsibility of Islamic banks towards the community. In addition, the main concepts emerging from the literature such as the Islamic finance view of CSR along with the Islamic ethical principles of its promotion and its disclosure in Islamic banks are examined in this chapter.

*Chapter Four: The Literature Review and Hypotheses Development* starts with an overview of CSR in Islamic banks. In order to develop research hypotheses, this Chapter will provide a critical review of the studies conducted previously on CSR disclosure in Islamic banks.
Furthermore, the Chapter discusses the association between the CSR and SSB to hypothesise the impact that the SSB may have on CSR disclosure of Islamic banks.

*Chapter Five: Research Methodology* attempts to explore the research philosophy and identify the philosophical position that this study takes. In addition, this Chapter highlights the research approach, design, philosophy and strategy adopted in order to answer the research questions. Furthermore, with the aim to rationalise the research sample, this Chapter describes the case study in depth. Then, the research methods for data mining and data analysis are thoroughly clarified.

*Chapter Six: Examining the CSR Disclosure of sampled GCC Region Islamic banks:* Critically measures the level of the CSR disclosure of the GCC Islamic banks. It attempts to critically provide empirical evidence of the existing gap, if any, between the ideal and the actual CSR disclosure practices demonstrated by the sampled GCC Region Islamic banks.

*Chapter Seven: Measuring the Impact of SSB on the level of CSR Disclosure of sampled GCC Region Islamic banks:* Empirically assesses the association between the CSR disclosure level and the SSB in GCC region Islamic banks. It attempts to highlight the impact if any, that may the SSB can have of the disclosure level to promote and optimise their role in not only issues related to Shari’ah compliance, but also engage them in the business operations at large.

*Chapter Eight: Conclusion* provides a critical summary of the research findings and presents a critical reflection on them. Then this Chapter provides research recommendation and future studies and brings the study to an end by providing an epilogue.
CHAPTER TWO

CSR DISCLOSURE: A THEORETICAL BACKGROUND
CHAPTER TWO

CSR DISCLOSURE: A THEORETICAL BACKGROUND

2.1. Introduction

Corporate Social Responsibility (CSR) is often associated with deferent terms like corporate citizenship, sustainability, corporate obligation, social and administration (UNICEF, 2013). It can be stated that CSR can be defined as “a set of voluntaries actions a business takes over and above compliance with the law which includes but not limited to corporate governance and philanthropy” (UNICEF, 2013: 12). Despite all the different terminologies, there is a typical theme to the definitions. Hence, it crucial to develop a conceptual understanding of CSR to establish a platform to develop the hypotheses, which would subsequently be tested empirically for alignment with the research aims and objectives.

As for structure, this chapter attempts to critically review the concept of CSR and CSR disclosure development. In addition, it reviews the key theories underlying both concepts which are; social contract theory, instrumental theory, economic/political theory, signalling theory, stakeholder theory and legitimacy theory. The main concentration of this chapter has been made on the stakeholder theory which identifies as the most applicable to this research.

2.2. Corporate Social Responsibility (CSR): A Background

The idea of CSR has developed as incorporating the way that organizations may act towards the wellbeing of the public (Griseri and Seppala, 2010). The popularity of Corporate Social Responsibility (CSR) as a term started since the 1960s and has stayed as a term to cover social duties of organisations towards the environment, purchasers, representatives, groups, investors and different partners (Griseri and Seppala, 2010). Furthermore, it can be stated that the literature on CSR was pioneered by the book: ‘Social Responsibilities of the Businessman’, written by Howard R. Bowen in the year 1953 (Valor, 2005). Bowen (1953) gave the underlying meaning of the social duties of business that may promote the social values of the public. In this regard, Chapple and Moon (2005) define the CSR as a company’s integration socially, their approachability and accountability to be their aims besides that of generating profits. These aims considerably surpass what is expected of the companies according to law or the government. Others define CSR as corporate behaviours which aim to promote the well-being of stakeholders positively and go beyond its economic interest (Turker, 2009).
However, it can be stated that despite the extensive literature that has dealt and elaborated on CSR, having a unified definition is difficult as CSR may be understood differently by each individual based their approach of understanding and looking into the business activities of individuals and organisations and their duties towards societies (Dusuki, 2005). Therefore, it can be stated that the literature is challenged to have a specific definition of CSR (McWilliams and Siegel, 2001) as there is a dispute over the definition of CSR among neither among scholars nor among practitioners (Fleming, 2012). Thus, in the literature, there are various terms to describe CSR. For example, the term ‘corporate social responsiveness’ was introduced in the 1970s and ‘corporate social performance’ in 1980s. In addition, in the 1990s, the ‘corporate citizenship’ was expressed to reflect on the social duties of the organisations toward the communities (Griseri and Seppala, 2010; Valor, 2005).

Based on the reviewed literature, it can be stated that the term CSR which was popularised by Carroll (1979) has made a clear expression on the expectations of the public on the organisations (Griseri and Seppala, 2010). In other words, Carroll (1979, 1991) has endeavoured to coordinate past conceptualizations by presenting four components of CSR: Economic Responsibilities; Legal Responsibilities; Ethical Responsibilities; and Philanthropic Responsibilities. Carroll (1979, 1991) believes that an organisation’s duty is not only to meet its financial obligations by being productive and meeting all their legal responsibilities but also, they need to consider morals and social values in their business activities, such as charitable activities and other activities that fulfil the social standards and norms (Carroll, 2000). Carroll’s (2000) popular definition of CSR based on a concept which is known as ‘The Pyramid of Corporate Social Responsibilities’ as illustrated in Figure 2.1. The four elements of The Pyramid of Corporate Social Responsibilities are discussed below.
i. Economic responsibilities: based on the corporate social responsibility pyramid (Carroll, 1991), financial obligations of the organisation are intended to satisfy social needs and demands by producing items and administering delivery to meet such necessities (Carroll, 1991). As a fundamental monetary substance in the society, the presence of a business is spurred by the strengthening the benefit and expanding investor esteem. Based on such understanding, it can be stated that as a result monetary obligation of enterprises provide job opportunities, create new investment opportunities, build upon and exchange novel research and innovation ideas and deliver secure output and services.

ii. Legal responsibilities: Carroll’s pyramid of corporate social responsibility suggests that legitimate duties of business corporations should meet the people’s image of them in order to reach their goals within the structure of the law (Dusuki, 2005). This understanding is reached based on the diverse rules and regulations which are established by the government, state and local bodies, and as such apply to the corporations. For example, organisations are restricted from participating in any transactions identified with perilous and pilfered products. Likewise, it is imperative for organizations to follow other legitimate duties, for example, worker welfare, consumer protection laws, contamination control and tax payment (Carroll, 1991).
iii. Ethical responsibilities: Ethical responsibilities or moral obligations of the business corporations refers to the ethical responsiveness of business partnerships as expected by society. It is essential for business organizations to perceive what is correct and what is not right with the goal of proving sensibleness and fairness to the individuals, including shareholders, employees, suppliers, customers, local community and environment (Carroll, 1991).

iv. Philanthropic responsibilities: based on the corporate social responsibility pyramid (Carroll, 1991), philanthropic obligations mean an individual’s aspirations to view their business being revered in terms of societal standards. Even though the nonattendance of philanthropic exercises is not considered as deceptive, any deliberate projects led by the business group, for example, advancing workmanship and social exercises, supporting philanthropy exercises and training will add to enhancing life (Carroll, 1991).

Having various manifestations of CSR suggests the essentiality of the CSR concept in which enterprises should consider it into their activities beyond profit making. CSR has been developed to consolidate diverse approaches relying upon conditions and needs to promote the social wellbeing. Issues in CSR spin around social concerns, for example, poverty, unemployment, competition, sexual orientation and religious separation, natural contamination, advancing human rights, group inclusion, human asset administration, socially dependable contributing and social revealing. Furthermore, CSR exercises are displayed in organisational programs that secure and enhance societal well-being, ranging from worker benefits, cause-related showcasing, group outreach, to sustainable business practices or eco-friendly (Du et al., 2013).

Different endeavours have been initiated to proceed with the legacy of CSR including declarations, strategic alliances, systems, awards, and policies. One of them is the United Nation’s Global Compact Policy which is a vital policy initiative for organisations whose main aims are to adapt their operations and systems to generally accepted standards in the aspects of human rights issues, working conditions and prevention of aggressive to violation (United Nation Global Compact [UN Global Compact], 2015). Currently, more than 8000 partnerships crosswise over 162 distinct nations, including Malaysia, have received the United Nation's Global Compact Policy, resolving to adjust their business operations to an arrangement of measures of socially attentive practices (UN Global Compact, 2015). Correspondingly, business as an entity which functions as pivotal force underpinning
globalization offers potential facilitation of business sectors, trade, innovation, and finance progress to promote economies and social wellbeing (Du et al., 2013).

According to (Garriga and Melé, 2004) CSR concept can be viewed by categorising the major CSR related theories and its related approaches into the following four groups:

i. Political theories: this type of theories emphasises on the social influence of businesses. Accordingly, these theories give especially consider the responsible using of business to empower political goal. They investigate the electiveness which is apparent among the business and community, with a concurrent focus on the companies’ influence and status as well as inherent accountability.

ii. Integrative theories: this type of theories state that a community helps make a build or break a firm or company. Therefore, social relations are important to sustain relationships with the community, to create a space where business gels with society. In other words, firms that concentrate on fulfilling societal responsibilities need to use CSR as a tool for legality.

iii. Instrumental theories; these theories argued that businesses are viewed as a tool for wealth maximisation. According to these theories, the relationship between firms and society is founded on the economics of it. Consequently, CSR is perceived as a strategic instrument which is applied for the accomplishment of the economic goals.

iv. Ethical theories; this approach is underpinned by the ethical accountability of firms towards the community. In addition, the ethical requirements which form the relation among firms and community, influence the ethical theories. Consequently, based on this approach, CSR can be viewed as a commitment by businesses towards the society.

2.3. Drivers behind the Emergence of CSR

According to Visser (2007: 480), there are ten main drivers that identify CSR activities which can be categorised into two groups: internal and external (Figure 2.2). He suggested that the external team members symbolize standards of international relations, activity with the stakeholder supply chains, investment incentives, which tend to have a global derivation. On the contrary, the internal team members stand for social pressures in the home country, inclusive of cultural traditions, governance gaps crisis responses socio-economic priorities,
and market access, and political reform. Moreover, the growing pressure of different stakeholders considers as the main driver of CSR disclosure. It can be stated that those various stakeholders who are interested in developing a corporation’s social performance and disclosures play a key role in promoting the CSR activities within the business corporations. Such as community request for "right-to-know" (Reverte, 2009) about the influence of corporate actions, customer interests about social and environmental effects of products, financial organisations requests for complete exposure of nonfinancial hazards, and the governmental efforts to employ exposure as a strategy of regulation. Thus, it is essential that the annual report of the institutions serve as the platform for CSR activities disclosure, which ultimately will positively affect the firm’s performance. Thus, Disclosure is an instrument to minimize nonfinancial hazards (Reverte, 2009).

**Figure 2.2 Drivers of CSR**

![Diagram of CSR Drivers]

*Source: Visser, 2007: 481*

In the CSR field, various studies (for example, Miles, 1986; Ibrahim et al., 2003; Hemingway and Maclagan, 2004; Cramer et al., 2004; Papasolomou-Doukadis et al., 2005) assessed the relationship among the CSR and different factors. A considerable amount of the literature was inclined towards exploring the CSR perceptions with respect to the management group. According to Miles (1986), the CSR adoption is critically underpinned by the top management philosophy. Similarly, a study also highlights the CSR policies being influenced by organisations’ directorial type influences (Ibrahim et al., 2003). In a study conducted on the top executive/manager’s CSR perspective, Cramer et al. (2004), identified the variable CSR definitions adopted by the managers. Likewise, the individual personal values of the
managers were found by, Hemingway and Maclagan (2004), to strongly impact the policies governing organisational CSR strategy.

Hence, it can be stated that the CSR adoption is critically influenced by the managerial initiatives (Papasolomou-Doukadis et al., 2005). Moreover, existing literature tends to suggest that the philanthropic activities are also impacted by the size of the company (Pinkstone and Carroll, 1996; Levy and Shatto, 1978), which is in corroboration of the finding by Garriga and Melé (2004) that greater social and economic power is exhibited by large companies. This finding is further supported by Pava and Krausz (1996) who present the comparatively larger size of the socially responsible firms as compared to the groups that were non-socially responsible. A positive relation was found among the financial performance and CSR of a company in another research stream (for example Frooman, 1997; Griffin and Mahon, 1997; Papasolomou-Doukadis et al., 2005; Key and Popkin, 1998). Moreover, the CSR behaviour and attitude have been studied and found to be influenced by the industry sector of the company (Bhambri and Sonnenfled, 1988; L'Etang, 1994).

Paul and Siegel (2006), highlight that external bodies like media, Non-Governmental Organisations (NGO), consumers, and suppliers in addition to institutional shareholders are pressurizing corporations towards CSR engagement. Also, according to O'Dwyer (2003) towards this external pressure, particularly industries that have a high environmental impact are expected to respond as compared to other companies. Moreover, employing their Social Responsibility Investment strategy, the NGOs potentially can influence organisational CSR policies (Whithouse, 2006). According to Pava and Krausz (1996), it has been observed that utilizing the social screening criterion, a minimum of 538 institutional investors have allocated CSR funds in the Social Investment Forum. Consistently, scholars state that the intended social responsibility activities may actually be directed or correspond with the firm’s motive of wealth maximization (Keim,1978; Belkaoui,1976). The scholars also argue the penalization of firms that fail to comply engaging in socially oriented activities with reference to the requirement of the social environment. Likewise, the vital role of NGOs in the Social Responsibility Investment has been emphasized by Guay et al. (2004). Therefore, it can be inferred by the foregone discussions that the social responsibility perspective of the companies is influenced by a host of diverse factors.
2.4. CSR Disclosure

While CSR disclosure is not a new idea, it is considered as a tool of transferring information about socially oriented activities that are instructed to employ by internal and external decision makers into corporate reporting process (Van Marrewijk, 2003; Basu and Palazzo, 2008). A considerable research has concentrated on the company’s motives and nature in performing CSR disclosure. Recently the dominance stance of many types of research towards CSR disclosure has been totally changed. Therefore, it is crucial to note the concept of CSR disclosure.

The expression ‘social accounting’ represents CSR information disclosure for most academicians (for instance, Ullmann, 1985; Cowen et al., 1987; Gray et al., 1988; Zeghal and Ahmed, 1990; Tilt, 1994) regarded social accounting as an extension of unordinary disclosure that related to specific aspect, as disclosing information about such aspect is not required by the regulation. For example, companies are not obligated to provide information about the product, the prevention or reduction of pollution, employees, services and human resource. In another word, it can be stated that social accounting is characterized by its interest in areas other than financial purposes (Hackston and Milne, 1996; Gray et al., 1996; Gray et al., 1997). The term of social accounting concerns about introducing the data related to the corporation activities and consists of four mixing forms of accounting, which include: (i) For non-economic activities, (ii) In various media, (iii) For various stakeholders, and (iv) For multi-objectives.

In general, 'social accounting' as a term has been used largely to cover the whole accounting fields and going into all various economic forms, such as SCR accounting, CSR reporting, human resource reporting, social auditing and stakeholder’s discussion reports of the environment. (Gray et al., 1995; Gray, 2002). Such disarrangement could be happening; as social accounting, might be utilised to indicate various meanings. As this research concentrates on CSR disclosure area, and to obviate any confusion, it is crucial to debate and research this term deeply. According to Guthrie and Mathews (1985, cited in Hackston and Milne, 1996: 78), it can be stated that CSR disclosure is a "provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports". Correspondingly, according to Lee (2008) and Taneja et al. (2011), “CSR disclosure definition should be flexible, open-ended and should be changed through time. This
proposition may also suggest that the CSR definition should be changed according to the time when a CSR definition is required for the purpose of a study being carried out. It should be purpose-driven. The purpose of one researcher may be different from that of another”. Another definition provided by Gray et al. (1996; 3) states that CSR disclosure is "the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large”. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders. In addition, the term corporate voluntary disclosure has been defined by Chau and Gray (2002: 247) as “disclosure more than requirements, representing free choices on the part of company management to provide accounting and other information deemed relevant to the decisions needs of users of their annual reports”.

Consequently, CSR disclosure is a broad concept and hence it might include society participation regarding disclosure, client relations and product, environmental issues and energy matters concerning disclosure and data of human resource (See for example, Epstein and Freedman, 1994; Gray et al., 1995b; Deegan and MRankin, 1996; Williams and Pei, 1999; Deegan, 2002; Gao et al., 2005). Also, it might include moral matters and ethical investments (See, for example, Maali et al., 2006; Parsa and Kouhy, 2008; Zahra et al., 2009). Therefore, the range and quality of disclosure would be impacted by the way that the corporation and its stakeholders define CSR disclosure in the community (Van der Laan Smith et al., 2005).

2.4.1. Forms of Disclosure

Broadly, the CSR disclosure is segregated into two primary categories: (i) Mandatory and (ii) Voluntary (Owusu-Ansah, 1998). The disclosure, which is not legally mandated or stipulated by self-regulatory regimes, refers to the voluntary corporate disclosure. Thus, according to Verrecchia (2001), the corporate organisations are forced to share and disclose both good and bad information of their operative functions. It can be argued that the corporate voluntary disclosure is a disclosure that is in excess of the organisational requirements (Chau and Gray, 2002), it represents the company management’s autonomous decision towards the specific provision of accurate accounting information, which is essentially meant for the annual report readership. Moreover, it is characterised by the balanced decision, which is undertaken by the top management to share information, deemed appropriately in alignment with the company’s social obligations. A positively comfortable relationship between firms’ actual
decisions and their disclosure decisions is a requirement of the principle underlying the voluntary disclosure. However, a robust amount of company information that reaches the public is disclosed through voluntary disclosures, as per the available empirical evidence (Beyer et al., 2010). While according to Owusu-Ansah (1998) mandatory disclosure refers to the disclosure applied in alignment with the accounting standards requirements as mandated in the minimum standard for financial and non-financial information release.

2.4.2. The Need for CSR Disclosure

According to Aribi and Gao (2010), there has been an alteration in the accounting practices with a significant impact on the business role of the recent emergence and development of CSR disclosure. Likewise, it has been observed that in the banking industry there is a transition in increased accountability and concern over the CSR issues and its subsequent integration within the business activity in comparison to simply profit generation for the shareholders (Rahman, et al., 2011; Morsing and Perrini, 2009). Concurrently, as regards the stakeholders who exhibit responsible behaviour in terms of social, environmental and ethical business practices, there is an increasing interest (Gray et al., 1997). This evident pressure being faced by companies for increased accountability towards a wider stakeholders’ audience can be attributed to diverse sources like increasing pressure groups number, ethical investors, increased directives issued by the United Nations and European Community and consumer associations (Gray et al., 1988). This has subsequently impacted an increase in the public CSR expectations, in turn, the companies are forced to be mindful of their association with their CSR and association with social interest groups and their CSR (Heald, 1970).

There is sufficient evidence of the rise of CSR disclosure importance for practical applications in academic research (for example, O’Dwyer et al., 2005; Plumlee et al., 2008; Nichols and Wieland, 2009; Simnett et al., 2009; Dhaliwal et al., 2012). Studies show that today companies simply are not perceived by society due to their exclusive emphasis on benefiting the business shareholders. On the contrary, the public considers the organisations functioning within the society to be accountable for socio-economic justice concurrent to extending stakeholders’ the benefits (McDonald and Puxty, 1979; Mohammed, 2007). Correspondingly, according to several scholars (Gray et al., 1996; Park and Ghauri, 2015), the escalating importance of CSR disclosure’s role in the industry is being realized by the banks with reference to the stakeholder’s financial anticipation, as a tool towards discharging social accountability. Therefore, this acceptance and wide-scale adoption of CSR in the
industrial domain, according to Haniffa and Cooke (2002), can be considered a response to the society’s expectations from these companies in the communities, wherein they operate. However, it can simultaneously be argued that without resulting in a change in fact, the concept of social reporting serves as a means to alter perception.

In addition, in the process of the CSR activities disclosure, the firm stands to announce its accountability to not only its shareholders singularly but rather cater to a broader spectrum of stakeholders and as such, certainly, a wider insight to the company’s operations is provided in these disclosures as compared to the financial disclosures. Also, the years of the recent past have witnessed a spate of popularity in the CSR disclosures, which is evidenced by its wide use in the capital market by the professionals. Correspondingly, Dhaliwal et al. (2012) conducted a study, wherein, a study sample of 31 countries in the early 1990s was studied, which showed that the number of firms issuing CSR reports showed an increase from fewer than 100 to over 1,000 in the year 2007.

Moreover, according to Spicer (1978), the investment decision-making has seen the introduction of two new factors, which can be attributed to the increased corporate activities and the concern of the public over their environmental and social consequences. Namely, these two factors, firstly, include the increased public interest in the corporate activities and their side effects have resulted in sanctions against charitable activities which are increasingly stringent. Secondly, there has been an increase in the investors’ numbers keen on ethical and moral corporate activities predictions, and CSR disclosure of all relevant information – particularly the information impacting the investment decision by an investor, from information which is relevant (Lanam, 2007). This emphasizes the essential role of the CSR disclosure in business, which entails corporate image development, corporate transparency enhancement, and availability of information available to make decisions regarding investment opportunities (see, for example, Friedman and Miles, 2001; Gray et al., 1988; O'Dwyer, 2005). Moreover, according to some studies (Deegan, 2000; Parker, 2005) CSR disclosure serves as a tool, used by business enterprises towards garnering the support and approval of their stakeholders by managing them.

In addition, a natural association has been established, amongst CSR and accountancy by previous research (for example Aribi, 2009; Gao, et al., 2016; Zainal et al., 2013). Therefore, parameters like assurance, disclosure, and measurement of information, inclusive of relevant CSR information is covered by an accounting scope in its general responsibility.
Accordingly, larger businesses are showing a trend towards a regular CSR reporting, with CSR achieving a universal status in last few decades in modern businesses. The functions of CSR reports involving creation, assurance, issuance, and analysis is conducted by the accounting professionals (Pederson, 2006). This indicates the significant role of accounting professionals towards CSR disclosure practise enhancement, particularly among Islamic banks and similar financial institutions.

2.4.3. Benefits of CSR disclosure

CSR imparts numerous benefits to the company in myriad ways. Accordingly, Cragg (2002) points out that the CSR disclosure objectives and values in corporate statements enhance the appeal of a company’s share price to socially conscious investors. In addition, it offers an informative and unmistakable signal relating to the beliefs and stance of the firm that is alleviating the ambiguity relating to long-term actions and hazards. Furthermore, according to Sethi (1975), the CSR disclosure meets the investors’ need for social and ethical validity. Hummels and Timme (2004) argue that CSR disclosure provides a clear road map allowing the companies to make durable long-term investment decisions. Moreover, several authors (Fombrun, 1996; Fombrun and Foss, 2004; Hillman and Keim, 2001) explicate that CSR disclosure is an invaluable tool to create reputational capital in the form of enhanced reputation and a good corporate image, which lends a competitive advantage to the firm. According to Hosmer (1994) an unambiguous statement pertaining to the firm’s intentions can result in both shareholders and the top management development of mutual trust and long-term commitment, thereby bringing down the incidents of transactional costs and opportunistic behaviours. Furthermore, other scholars (Waddock and Graves, 1997; Orlitzky et al., 2003) observe that investors may view a clear CSR statement as a significantly confirmative signal about a company’s resources. In this manner, CSR carries a significant value as regards informational attribute and while assessing the firms’ value investors tend to incorporate CSR information.

2.4.4. The Measurements of CSR Disclosure

On a general scale, there are several approaches that can be utilised to examine the themes of CSR disclosure. One of these approaches is that of the reputation indices, like the Council of Economic Priorities (CEP) reputation index, the Fortune reputation index, as well as the Milton Moskowiz reputation index. Many previous studies have applied this approach to
CSR measurement, including those of Waddock and Graves (1997), Pava and Krausz (1996), Griffin and Mahon (1997), Cochran and Wood (1984), Stanwick and Stanwick (1998) and Preston and O'bannon (1997). The second approach of assessing the CSR is the company rating, for instance, Dow Jones Sustainability Indexes (DJSI), Kinder, Lydenberg, and Domini index (KLD), Domini Social Index (DSI) 400 and Global Reporting Initiative Index (GRI). Numerous researchers have employed the company rating approaches, including Karagiorgos (2010), Orlitzky et al. (2003), Orlitzky and Benjamin (2001), Peters and Mullen (2009), Moneva and Ortas (2008), Inoue and Lee (2011), Dam and Scholtens (2008), Nelling and Webb (2009), and Oeyono et al. (2011). The third approaches of assessing CSR includes a survey methodology. In this method, roughly investigators conducted a field study, using a questionnaire and other survey techniques in order to gather CSR index (Aupperle et al., 1985; Mishra and Suar, 2010). The disadvantage of this approach is that it is costly as well as time consuming. Additionally, annual reports’ analyses have most commonly used this approach towards CSR disclosure measurement. Several researchers approach the analysis in this way, the extent to which firm publications specifically carry out CSR activities for integration in the annual reports. Correspondingly, several authors have extensively applied content analysis (Moore, 2001; Van de Velde et al., 2005; Murray et al., 2006; Mittal et al., 2008; Abdul Rahman et al., 2009; Kimbro and Melendy, 2010; Platonova et al., 2016).

For this research, the author applied content analysis for data collection and coding. The researcher explored the quantity and quality of CSR disclosure in the GCC Islamic banks to determine the impact and the relationship of SSB related variables and CSR disclosure.

### 2.5. Theoretical Background

A discussion of the CSR theoretical background is important to enable all the researchers and readers to evaluate how the results are related exactly to the research hypotheses and questions. In this regard, it can be stated that the theoretical background of the study plays a major role in explaining or justifying the link between the researcher’s expectations on the one hand, and the findings on the other. Gray et al., (2009: 3) posit that “the lens of theory enables us to evaluate practice and policy against criteria that we deem appropriate”. The existing literature evidenced the introduction of several theories so as to explain rational of the various levels of disclosure among entities. Hence, it is important to elaborate the main theories that offer a central background regarding the CSR disclosure’s determinants and impacts as follows.
(i) The Agency Theory

Agency theory is the most referred to and the leading theory in CSR disclosure studies. Agency theory mainly emphasises the principal-and-agent relationship, which has been explicated by Jensen and Meckling (1976) to be one wherein agent is engaged by a principal to carry out a service on their behalf. Moreover, Jensen and Meckling (1976) identified three types of agency costs and problems. On the first hand, giving certain incentives to the agent in order to motivate him/her to participate for the principal’s interests which incur monitoring costs. On the other hand, the agents’ use of additional resources to ensure that their individual actions do not impinge the principal of interests results in bonding costs. Finally, the residual loss results in reducing the principal’s welfare. The agency theory has also been used in studies to break down the several reasons underpinning CSR information disclosure related to social and environmental information (Shane and Spicer, 1983; Ness and Mirza, 1991; Belkaoui and Karpik, 1989).

According to the agency theory separates the firm’s controlling power its ownership, to safeguard against conflicts of interest between the agents (managers) and the principals, potential exists are accounted for (Hossain et al., 1995). Parties make their decisions based on their own goals (Safieddine, 2009). Thus, principal incurs agency costs that include monitoring and controlling costs, whereas the agent incurs the bonding costs. The agency theory regards companies (management) to be spurred on to a higher CSR disclosure in order to assure the stakeholders of optimal steps being undertaken, aligned to the best of their interest, and that they are dealing with CSR issues the things which can lead to agency cost’s reduction. Furthermore, agency theory offers a framework that explicates the disclosure practices which are undertaken by dissimilar firms, such as unit-trust and financial companies (Hill and Jones, 1992). Frequently, scholars have asserted that agency theory envisages that there is an association between agency costs and various characteristics of a corporation, which may include factors such as listing status and size, leverage amongst others (Watson et al., 2002). Moreover, shareholders introduce corporate governance mechanisms so as to align managers’ actions with shareholders’ interests. Consequently, numerous empirical studies attempted to determine corporate social disclosure through the use of firm characteristics and corporate governance mechanisms as its determinants, in line with agency theory assumptions (Ho and Wong, 2001; Haniffa and Cooke, 2002; Ajinkya et al., 2005; Ghazali and Weetman, 2006; Hussainey and Al-Najjar, 2011). In fact, the agency theory implication
has resulted in the creation of many hypotheses, such as the effect of SSB (who acts on behalf of the banks, as an agent) related variable on CSR disclosure practice. Nevertheless, agency conflicts and information asymmetry problems may arise between outsider stakeholders and managers of companies (Healy and Palepu, 2001). Typically, the non-employees are restricted from the right to information to the company’s internal database; rather it is solely available to management team and managers. Earlier research, for instance, Sheu et al., (2010) suggest the reduction of this asymmetrical availability of information between the managers and stakeholders through disclosure and, as a result, agency conflicts between parties can be reduced. The activities of CSR require companies to be more accountable regarding their stakeholders and the whole community. Thus, agency theory can be optimally leveraged to understand the SSB impact on CSR disclosure. Agency theory employed as a major theory in this study. Moreover, several variables like board size, age, cross membership, profitability, and the firm's debt ratio, can be used to understand the agency theory.

(ii) The Stakeholder Theory

Based on Stakeholder theory, states that stakeholder groups can influence the management’s behaviour, stakeholders are commonly representative of the corporation’s socio-environment. Freeman and Reed (1983) defined a stakeholder to be a set of individuals or an individual who can influence or impact or one that is impacted by the fulfilment of goals set by organisations. Furthermore, they suggested the significance of autonomously identifying a firm’s direct and indirect stakeholders. Freeman and Reed (1983) also metaphorised the stakeholder to represent an assembly of many perspectives. Hence, stakeholder theory cannot be regarded as a singular theory as there are many stakeholders best interests taken into consideration. It is evident that stakeholders are able to influence the very conduct of corporations, and eventually even influence the corporations’ ‘licence to operate’ (Wilson, 1997). Correspondingly, this implies that an unhappy stakeholder has the right of way to pressurize on the firm to meet his/her expectations. Ullmann (1985) points out that the more efficient and supportive companies are towards the stakeholders, the greater is the likelihood that the stakeholder’s interest will be incorporated in the organisation's operation. Hence, with regards to the stakeholders' power level, there is an exponential increase in the significance of meeting the stakeholder’s demands. Stakeholder theory also states that “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. 485).

Different studies have also explored the relationship between stakeholder theory and social disclosure, for example, Adams and Harte (1999, Freeman and Reed (1983), in their research, demonstrated the application of stakeholder theory. Wherein, it explicated the specific social and environmental information disclosure by the managers in their annual reports. They found out that this social information disclosure was underpinned by the popular demand or through specific requests from prominent personalities, as regarded by the organisation, requested the information.

Stakeholder theory, nonetheless, was criticised for being in favour of corporate disclosure, particularly for the stakeholders who were most dominant and instrumental (Deegan, 2002; Gray and Lavers, 1995a; Gray et al., 1997). Despite the fact that limitations exist in stakeholder theory, the theory has been deemed useful as 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: 333). According to the instrumental stakeholder theory “stakeholder management theory as an instrument to achieve an expected outcome, principally profitability” (Kakabadse, et al., 2005: 291). It can also be defined as “adherence to stakeholder principles and practices achieve conventional corporate performance objectives as well or better than rival approaches” (Donaldson and Preston, 1995: 71). The primary strategy goes deeper than a basic description to trace the absence or existence of the association between stakeholder administration by examining as well as analysing the available data – towards supplementing the theory’s descriptive explanation. Thus, instrumental stakeholder theory can be considered as an attempt to examine the negative or positive relationship among the management of stakeholder’s and a company’s financial performance along with an explanation of this association (Zandén and Sandberg, 2010: 38).

According to Abu-Tapanjeh (2009), God has handed every human being with resources and therefore they are answerable to him, thus they require access to the knowledge which helps facilitate informed decisions in the fields of economic and business. Therefore, following a wider stakeholder model of the Islamic governance, it can be argued that the IFIs
accountability to a wider cluster of stakeholders needs a tenet of transparency and full disclosure. In keeping with stakeholder theory, corporate governance characteristics are expected to affect CSR reporting. CSR disclosure practice in Islamic banks, for example, would be affected by the size of the board, they should provide more CSR information to meet their stakeholders’ demands.

(iii) The Legitimacy Theory

According to the legitimacy theory, a corporates’ choice to disclose is in response factors in the environment as well as non-environmental ones, including economic, political, and social factors which are used for the legal authorisation of the corporate actions and activities. Moreover, Patten (2002) points out that the theory fundamentally believes that societal operations of Islamic banks are forged through social contracts, thereby establishing them as the grounds for public policy development, instead of a market place. Moreover, Adams and Roberts (1995) argue that firms use this theory to validate their activities by attempting to showcase that the company acts and works in a reputable and respectable manner. As such, companies legitimise their actions by providing a comprehensive and all-inclusive CSR disclosure in their annual report and so they justify their continual market existence. From the perspective of Legitimacy theory “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: 253).

Suchman (1995: 574), defined 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”. Correspondingly, it can be argued that the legitimacy theory postulates that when firms like Islamic banks that must function in societies that uphold certain value systems function under a social contract which binds them to maintain certain societally approve standards, this, in turn, awards them with acceptance, assurance of goals being met and ultimately thriving in society. Survival (Guthrie and Parker, 1990). According to Deegan and Blomquist, (2006: 9) contend that “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) proposes that an organisation can legitimise its actions in four ways: first by raising awareness and informing relevant customers about ups and downs in the company’s performance and activities; second, by changing the companies’ image in the
relevant public’s eye without making modifications in its actual workings.; third, redirecting attention away from the issues of concern through manipulating perception through an appeal; four, changing the external expectations of the organisation’s performance.

Interpreting these studies indicates that social information disclosure looks as if Islamic banks had evidence to give information regarding their activities which would legitimise their behaviour. Thus, it emerges as a requirement of the Islamic banks to disclose sufficient information to make it possible to evaluate their entities as a good business citizen model or otherwise (Maali et al., 2006).

Evidently, several studies have attempted to utilise the application of legitimacy theory as a boost to disclosure, such as O'Dwyer, (2002), Branco and Rodrigues (2008), Deegan and Rankin, (1996), Ahmad and Sulaiman (2004), De Villiers and Staden (2006). Nonetheless, Deegan (2002) and Gray et al., (1995) stress that there is an overlap between legitimacy theory, institutional theory and political-economy theory. Furthermore, legitimacy theory has been criticised for its uncertainty to anticipate or explain managerial behaviour and for its lack of specificity (Parker, 2005). The legitimacy theory’s concern with social disclosure along with its economic consequences marks its core tenet that for corporations to legitimise their position within society, they could be enthusiastic to disclose social information (Deegan et al., 2002). According to McDonald and Rundle-Thiele (2008) the conception and establishment of immaterial assets, which may include trust, repeatability and commitment influence CSR on corporate profitability the things which motivate continual but also durable achievements in business. This would result in improving the firm’s ability towards augmentation in performance, attract capital and also improve the competitive advantages which would ultimately result in boosting the firm value (Fombrun et al., 2000). Former study suggests that disclosure reports can exercise positive impact on the perceptions of the stakeholders regarding the firm’s performance and, which affect the stake price and profitability of the company (Lourenco et al., 2012).

(iv) The Accountability Theory

The term accountability implies provision of a detailed account (i.e., information, which may be presented in several formats like a report) of duties fulfilled by the senior personnel, including managers, directors and agents to the business stakeholders and /or users/society. It displays what the managers’ is responsible for, that he satisfies a pre-determined set of tasks
or duties, an account that shows that these duties completed were agreeable with the ethics and rules of the organisations (Jagadeesan et al., 2009). Managers are answerable to stakeholders in terms of being transparent about financial as well as non-financial information about the firm (Gray et al., 1995). Furthermore, rendering an entity’s socio-economic activity visible is a part of emancipatory accounting. Highlighting social issues could potentially be the independent potential of accounting since disclosing this information may aid in reaching a resolution.

Depending on the accountee, the accountability between accountees (principal) and accountor (agent) may differ. For instance, while work performance is the responsibility of employees, other deliverables like the health and safety, salary and the employee rights of the workers are the responsibility of managers, and they are accountable to workers. In Islam, Muslims, besides Islamic banks, must always act in accordance with Shari’ah (Islamic law), thus obeying God and conforming to his will. The contractual relationship between various parties may determine accountability (Gray et al., 1995). However, some scholars, hold differing perceptions and definitions of accountability; Gallhofer and Haslam (1993: 326) state 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 wellbeing”. From an Islamic viewpoint, accountability in such a society regards God as the chief accountee, then regards society and then other stakeholders. Whereas, from Islamic finance viewpoint, accountability principles divided into two major principles: transparency and social accountability (Baydoun and Willett, 2000). Accountability represents as the first major significant principle which governs Islamic banking and financial transactions in accordance with the compliance of Shari’ah principles (Maali et al., 2006). According to Platonova (2013) in Islamic finance view, there are two main objectives of social reporting. The first, objective, in addition to their accountability towards God, Islamic financial institutions required to be accountable towards their communities. The second objective entails that the financial institutions demonstrate more transparency as regards their business operations by sharing all the mandated Shari’ah compliant information with the entrepreneurs. Hence, accountability theory can be applied to this study by the means of expanding this notion to include more than investors and owners of Islamic banks.
Moreover, accountability extends to include a responsibility towards society. Baydoun and Willett (2000) emphasized that establishments like Islamic banks mandatorily must disclose all information demanded by stakeholders and society thus fulfilling their obligation of providing CSR information.

(v) The Signalling Theory

The annual reports of a company contain information which functions as signals that investors require. Investors rely on signals in decision making. Signalling theory is respected by firms and their assets because the signals provided depend on the information provided to the parties by the firm, signals diminish the chances of miscommunications. Signalling theory is often taken as a sister theory to the agency theory (Jensen and Meckling, 1976; Buskirk, 2012). Spence (1973) conducted a research focusing on the disparity of information sharing between an employee and employer at the workplace, Spence developed the signalling theory in 1973 the theory was developed to vindicate the information asymmetry among shareholders and managers (for example, Morris, 1987). Whenever there is information asymmetry Signalling theory can be used in order to reduce the problem, especially when the holder of a bigger chunk of the information signals it to other groups concerned. Signalling can be applied in any market that has information asymmetry (Morris, 1987). Thus, this theory was employed to clarify the incentives of managers towards authorising financial statements to release more information (for example, Haniffa and Cooke, 2002). Moreover, managers are required to draft financial reports to provide sufficient information in order to communicate certain signals to probable users. Correspondingly, Morris (1987: 51) argues ensuring effective symmetrical information distribution in firms is possible when an agent bears the signalling costs—this way they are compelled to signal frankly. Signalling theory posits that when a manager discloses information with a motive of reducing information asymmetry, he/she, at the same time, gives a signal to people observing that his company is producing better output that his competition (Prado-Lorenzo et al., 2008). Signalling theory postulates that information asymmetry relies on the crucial credibility of information (Lev, 1992). As such, “A good firm can distinguish itself from a bad firm by sending a credible signal about its quality to capital markets” (Katchova and Barry, 2004: 7).
2.6. Conclusion

It seems that each theory either characterises the different facets of corporate disclosure or explicates it from various points of view (Al-Htaybat, 2005). Thus, in alignment with the findings of Al-Htaybat (2005), it was proposed that an integrated framework can be formed from different theories in order to explicate on the managerial incentives impacting the CSR disclosure. Several theories expound the CSR disclosure phenomena, for instance: (i) signalling theory, (ii) agency theory, (ii) accountability theory, and (iii) stakeholder theory. However, using a sole theory to explain CSR disclosure is not a comprehensive act. Accordingly, Von Alberti-Alhtaybat et al., (2012) contend that disclosure theories, such as stakeholder theory and agency theory, would be instrumental in expounding and understanding a phenomenon by giving obvious perceptions into the CSR disclosure practices such a concept would balance out discussions about CSR disclosure. Previous studies argued that stakeholder theory and agency theory are consistent (Farook et al., 2011). As such, in order to understand factors playing into CSR disclosure, stakeholder theory and agency theory can be viewed as interrelated. The agency theory correspondingly has been evidenced to stress on the connecting aspects between the principal and the agents authorised to manage the principal interests as well as make right decisions. On the other hand, general stakeholder theory posits that there are certain expectations from corporates that society holds, that they present a beneficial disposition that, in fact, is more inclined with their economic or social role.

By and large, it can be argued that the corporate disclosure studies have predominantly placed great focus on the effect of features of the business on corporate disclosure (Ahmed and Courtis, 1999). Aksu and Kosedag (2006) have argued that the act of disclosing CSR information taken by corporations are a significant element and a strongly indicate the quality of the prowess of the corporate. Similarly, Beekes and Brown (2006) claim that more informative disclosures are significant in businesses with high corporate governance quality. In addition, a significant attention has been one drawn to designing corporate governance mechanisms which give rise to more disclosure levels (Gul and Leung, 2004; Cormier et al., 2005). Hence, agency theory extends a construct that cohesively brings together CSR disclosure behaviour with corporate governance. This is achieved through accounting both the phenomenon as methods employed to safeguard and aid stakeholders as interventions when conflicts arise(Jensen and Meckling, 1976).
CHAPTER THREE

CSR AND CSR DISCLOSURE FORM ISLAMIC FINANCE PERSPECTIV
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CSR AND CSR DISCLOSURE FORM ISLAMIC FINANCE PERSPECTIVES

3.1. Introduction

Since Islamic financial principles govern Islamic banks activities and conduct, addressing the Corporate Social Responsibility (CSR) notion through an Islamic finance perspective is vital. CSR and CSR disclosure refer to the business responsibility of corporations toward their stakeholders which include employees, suppliers, communities and customers as well as other stakeholders (Aribi, 2009). Such responsibility does not only comply with legislation, but also willingly discloses information to stakeholders and to the wider community. According to Capron and Gray (2000), Aribi (2009) and Platonova (2013), these issues have become important areas for organisations, policy makers and academics. Correspondingly, the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) tackles this issue through issuing governance standards for IFIs, offering Islamic banks guidance regarding CSR disclosure (AAOIFI, 2010: 38).

This chapter will explain the reasons behind the social responsibility of Islamic banks towards the community while achieving their objectives. In addition, the main concepts emerging from the literature such as the Islamic finance view of CSR along with the Islamic ethical principles of its promotion and its disclosure in Islamic banks will be examined in this study.

3.2. The Shari’ah (Islamic Law) and Ethical Values

Shari’ah contains values and ethics encompassing different life aspects: societal, economical, intellectual, political and personal. Dusuki and Abdullah (2007a) pointed out that Shari’ah is Islam’s holistic perspective that is regarded as an integrated and complete code or guide to life. Furthermore, Zinkin (2007) explicates that Shari’ah is not merely concerned with issues surrounding legal attributes, but it extends to be a structure for moralities.

The main objectives of Islamic law (Maqasid Al-Shari’ah) are set to Adopt mankind well-being. Based on argument developed by Al-Ghazali (as cited in Dusuki and Abdullah, 2007a: 31), “the main objective of the Shari’ah 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)".
In this regard, it can be stated as an example, Islamic banks protect wealth by offering an alternative approach of doing banking of conventional way, where interest plays a significant role in negatively impacting the economic fairness and income distribution (Basah, 2012). Mohammad and Shahwan (2013) explain that Shari’ah has three main elements: (i) Aqidah that is concerned with faith and belief; (ii) Akhlaq that is concerned with ethics and morality; and (iii) Fiqh, or legal rulings and governance of human beings. Whereas Aqidah and Akhlaq are considered fundamental and thus not subject to any alteration, Fiqh, or statutory rulings, may vary and change according to interpretation and context (Siwar and Hossain, 2009).

In this context, Dusuki and Abdullah (2007a) highlighted three implications that Shari’ah has on the concept of CSR. On the first hand, in Islam, individuals who follow the religion and its morals initiate CSR based on the belief that the corporates must behave ethically through their activities besides their financial obligations. Hence, profit maximisation is not the singular force underpinning businesses, but also entails the quest of paramount happiness, both in this world as well as the hereafter. Second, Islamic financial principles require striking a balance between the rights and duties of the individual as well as the same towards individuals around them, and between altruism and personal interest. Last but not least, the reward concept incorporates rewards in this world and the hereafter which gives motivation, without denying the individual’s natural disposition towards personal gain. These principles function as guidelines for Islamic banks in the financial industry. Shari’ah as well as human legislation work hand in hand as internal controllers of Islamic banks (Bhatti and Bhatti, 2009: 6).

3.3. The CSR from Islamic Finance Perspectives

Islam is not perceived as merely a religion; rather, it is a fulfilling, all-encompassing way of life (Siwar and Hossain, 2009). Quran (the Holy Book of Islam) and Sunnah (the maxims and daily rituals of the Prophet of Islam Muhammad Pbh) are the main resources for guiding Muslims in their life aspects (Abu-Tapanjah, 2009; Platonova, 2013). Both represents the main sources of knowledge in Islam and considered as the epistemological and ontological origins of the Islamic doctrine. These two sources have an evident emphasis on human responsibilities toward themselves and other people, community and the environment, which explains the rationale behind considering CSR as a fundamental element of Islamic financial institutions. According to AAOIFI (2010: 42) “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”.

Therefore, individuals should take into consideration others in the community as they are socially responsible for them. Overall, the Islamic economic system aims to enable people to build a livelihood profitably and fairly based on Shari’ah with other people’s benefit in mind in order to benefit society as a whole. Moreover, Islam privileges the welfare of the community against rights of the individual (Shamim and Karim, 2010).

Human life development in Islam firstly requires resources to maintain and satisfy one’s materialistic requirements and of society and secondly the individual is required to know the social and individual principles of behaviour so that there is room for self-fulfilment and social equality (Ahmad, 1971). It is different from some societies that separate among state and religion, leading to consideration of religion as something special, which Rice (1999:345) describes as a “so-called value-free society”. Islam has a great bearing on its followers’ decisions in business as well as in every other life aspect. Therefore, a balance is required between obligations of this life and the afterlife (Chapra, 1992). Islam considers worship (Ibadah) as a fundamental part because it is the chief reason of creation (Ali, 2006). Both the Quran and Sunnah give clear indications and rules for business practices in Islam. CSR in Islam is significantly representative of the core Islamic business values, such as wellbeing, honesty and the socio-economic welfare (Platonova, 2013).

Based on the Islamic financial principles that are derived from Quran and Sunnah, more emphasis has been made on conducting business activities in a responsible manner rather than just focusing on the profit’s maximization (Kreinath, 2011). Islamic financial principles explicitly state that the activities that are deemed haram (prohibited) in Islam, ensure the economic and social justice within community. Therefore, Islamic banks can be regarded as social banks (Jamali and Mirshak, 2007). According to the Islamic finance viewpoint, the concept of CSR represents an ultimate accountability to God. As such, to obtain improved comprehension of this perspective, is crucial to state that human beings, from Islamic finance point of view, taken on the role of are vicegerents (khalifas), it refers to a caretaker of human beings, one who co-operates with others and one who is trusted with the environment around them. (Dusuki, 2008; Abbasi et al., 2012). Muwazir et al. (2006) pointed out that, as vicegerents, it is essential for leaders in Islamic financial institutions to practice CSR as it brings equality and justice in the community, especially given that concept of unity (Tawhid)
is considered one of the key principles of the Islamic philosophy. Kamala (2012: 6) explained that, as a vicegerent, mankind has the duty of taking care of the environment and the earth. Therefore, given the ethical foundations of CSR, it can be considered as one of the main notions that can be rooted in the Islamic philosophies. Zainal et al. (2013) state that CSR is an integral part of Shari’ah and therefore CSR should be practised by institutions such as Islamic banks that are operated based on Islamic values. In this regard, it is important to mention that in their research of exploring the relationship between the tenets of Islam and the United Nations’ Global Compact, Williams and Zinkin (2010) found that the teachings of Islam and Islamic values go beyond the minimum standards of the Ten Principles of the United Nations’ Global Compact. Their study also found that Islamic teachings, in many ways, have exceeded the requirements of the UN Global Compact. For example, the prohibition of certain types of business activities in Islam can be seen as an act of protecting the community. Any services or products perceived as negatively impacting human life for instance gambling or alcohol are explicitly prohibited (Kreinath, 2011). The prohibition is justified in the Holy Qur’an (Qur’an, 2: 219).

Hence, it can be argued that CSR is considered to be a religious and moral initiative regardless of the company’s financial consequences this, of course, does not mean that Islamic financial principles oppose making a profit (Dusuki, 2008; Alserhan, 2015). The issue of economic development is an area of concern from an Islamic finance point of view. Thus, the main goals of Islamic economics are to achieve economic and social justice, just distributions of wealth, and abolishing exploitation in business activities by prohibiting agents of unfair disparity (Iqbal and Mirakhor, 2011; Asutay, 2012).

Moreover, Islamic financial principles place great emphasis on community welfare whereby working for the others’ welfare is vital in helping the community and pleasing God (Suliman and Willett, 2003). This is further emphasised in the Qur’an’s assertion, as ordained by Holy Qur’an verses 3: 92 and 90: 12-16.

Accordingly, it can be argued that the ethical principles of Islamic finance offer a comprehensive framework of CSR. As for accountability and responsibility, Muslims hold the belief that all their actions will be accounted for by God, which implies that every endeavour must follow the Islamic teachings. Prophet Muhammad PBUH emphasised the significance of accountability to the man’s life.
Abdullah bin Umar said that Allah's Apostle Muhammad, 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” (Sahih Bukhari: Volume 9, 252).

Based on this understanding, it is surmised that Islamic banks retain an ethical identity specific to the economic and social objectives underpinned by the Islamic law (Maali et al., 2006; Haniffa and Hudaib, 2007; Aribi and Arun, 2015). Hence, Islamic banks aim to facilitate the development of the economy according to Islamic financial rules and regulations, which promote the wellbeing of society wellbeing and social justice (Dusuki, 2008). Based on such values, Islamic banks business activities are expected to be conducted in accordance with Shari‘ah law whilst ensuring honesty and integrity (Rahman, 1994; Hussain, 1999).

3.4. Islamic financial Values and CSR

3.4.1. The Justice

Justice in society is considered one of the key values that form Islamic finance principles. Graafland et al. (2006) compared various forms of business activities to justice principles in Islam, which includes justice in fulfilling deals, contracts, and promises. Consequently, based on such value, individuals have to be sincere, truthful and honest in their business practices and dealings, ensuring the accuracy of promised specifications and products. Moreover, justice promotes managing labour equally. Merit and competence should be the basis for hiring and wage payment. Furthermore, justice requires the unbiased dissemination of wealth. According to the Holy Qur'an, there are many verses that tackle the justice as a concept, for instance, see the Holy Qur'an verses 57: 25 and 16: 90.

According to Zinkin (2007), the principles of justice demand individuals to be impartial, not only in their own community but also with those they dislike. Correspondingly, the concept of justice emphasizes that all individuals are identical and can only be differentiated on the
basis of their devotion to God and good character (Dusuki, 2008). Since human beings are considered as the vicegerents on this earth, their accountability before God and society underpins the significance of the concept of justice. Humans should not only be concerned about fulfilling their self-interest, but they should additionally tend to society as well as the environment. Kamla et al. (2006) state that the responsibility of human beings extends beyond their own benefits to the society, nature, and future generations.

Islamic banks are willingly transparent in their annual reports about their internal environmental preservation policy (AAOIFI, 2010). It is expected that Islamic banks proactively promote socio-economic justice as well as applying Islamic financial principles and values in their CSR practice. Dusuki (2008) contends that justice, equity and trust should be the basis of individuals’ interactions. Human beings should not to attempt to serve their own self-interest; rather, there should be cooperation for developing and enriching human potential and life as well as fulfilling humans’ basic needs.

Islam moves to social justice through economic activities by offering substantial amount to build and establish socioeconomic justice. Through Zakat, for instance, an obligatory partial contribution of income which is imposed in Islam, through Zakat, alms and charity (Sadaqah), interest-free loans (Qard al Hassan) and philanthropic trusts (Waqf).

Based on the developed argument by Ibin Al Qayim al-Jawziyyah, it can be stated that “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 Shari‘ah” (cited in Aris et al. 2013; Ibrahim 2000, p: 57). Thus, the argument that social justice and socio-economic justice constitutes an indispensable element propelling the Islamic financial transactions looms into appearance (Ibrahim, 1998). The Islamic concepts of good life and human wellbeings are the basis for justice and social responsibility. Advocating socio-economic justice leads to strengthening brotherhood and sisterhood among individuals which in turn means justly and equally satisfying spiritual and material needs of mankind (Chapra, 1992). The importance of Islamic emphasis on social justice can be seen in the acts of encouraging charity, paying Zakat, encouraging Qard al Hassan and prohibiting Riba (Maali et al., 2006). The Holy Qur'an says about Qard al Hassan, “He who will give Allah Qard al-hassan, which Allah will double unto his credit and multiply many times” (Qur'an 1: 245).
3.4.2. Zakat

Zakat is a crucial definer of Islam that provides a foundation to the Islamic economic system, which literally means purification (Saheeh, 2000; Mohammed, 2007). Zakat is mentioned in various Holy Qur’an verses as well as in Sunnah (Hadith). Ibrahim and Yahya (2005: 10) define Zakat 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”.

On the other hand, as defined by AAOIFI (2010) Zakat is “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”.

Businesses and Muslim individuals as well meeting net assets liable for Zakat pay it and then it is distributed among the poor, those in need and the community. Hence, Zakat’s main purpose is to eradicate poverty and to redistribute wealth (Lewis, 2001; Ibrahim et al., 2014). Zakat is considered as a Muslim’s responsibility towards society and those who need aid (Bjorklund, 2004).

It can be stated that Zakat is different from a general tax or a welfare programme (Lewis, 2001). That is, Zakat is a compulsorily particular type of endowment paid to the treasury (Amil), regardless if is needed or not (Belal et al., 1997). Zakat’s collection and distribution could be the responsibility of government or businesses and individuals are still required to pay it forward to the community (Maali, 2005). However, paying Zakat is not obligatory for all individuals and businesses who need the funds for paying off needs and debts (An-Nabhani, 1997). Zakat has been defined to be payable once a year (i.e., the lunar calendar) and typically towards the end of the Zakat period. Clark et al. (1996) point out that an individual becomes liable to pay Zakat on having owned a productive asset for a full year. Nonetheless, Zakat is not payable on assets under use or consumption, considering that such resources are not being utilized for the purpose of business (Rahman, 1999). Zakat is honoured in Islamic banks by giving a percentage of profits to charities or through Zakat funds administration (Bjorklund, 2004). Islamic banks are concerned with the ways in which they manage Zakat, ensuring that Zakat contribution benefits all those in need. In this regard, AAOIFI (2010) highlights that as a crucial part of their CSR obligation towards the
stakeholders, Islamic banks are under the obligation to disclose Zakat information in annual reports.

3.4.3. Prohibition of Riba (Usury)

The exclusion of Riba (usury) from activities taking place at Islamic banking is another feature of ethical value that affects the CSR activities considering Islamism. The word, Riba (usury), is an Arabic word which means an increase or growth. In this context Riba means incurring interest on a loaned amount, at a rate that is predetermined; this interest is charged by the debtor to the creditor. (Amjad, 1999). EI-Ashker (1987: 38) defines Riba as the increment in the amount of money that is being paid back, in comparison to the money that was initially borrowed, the former is typically higher than the latter. As mentioned in several Holy Qur’an verses, Riba has been clearly prohibited. For example, Holy Qur’an verses: 30: 39 and 4: 161 or 3: 140, and verse 2: 275. As well as, see verse 2: 278 (Waemustafa and Abdullah, 2015).

In theory, Riba in Islam is considered a source of unjustified advantage (Sarker, 2000). Hence, prohibiting Riba establishes an unbiased economic system, one in which there is no acquisition of wealth through unjust means, through criminal exploitation (Bjorklund, 2004). Riba is not popular as an Islamic economical system underpinned by the Shari’ah principles. Riba is prohibited because it entails unjust income distribution promoting the wealthy (financiers). The rich because they possess the necessary capital when lending money demand guaranteed interest in a risk-free manner. The debtor or the businessman, on the other hand, must play interest regardless of how well their investment or business perform (Attiah, 1989). Thus, the ideal way to ensure socio-economic justice is by imposing a prohibition of Riba among the entrepreneurs and financers (Bjorklund, 2004).

Many Islamic scholars argue that Islam’s prohibiting usury, (Riba), is not because it is taken to be an unjust way of earning money by religion, but because society does not particularly benefit from it financially, it does not suit the economic welfare of the community. In this respect, it has been observed that the Riba system generates profit devoid of any human involvement and fails to share the risk amongst the borrower and lender (Al-Qaradawi, 1985). In fact, unanimously the Islamic schools agree that Riba signifies all forms, types and sorts of interest (Chapra, 1992). Nonetheless, the Islamic Research Centre (IRC) in 1996 declared a probation of all banking interest charges, because they are categorised as Riba
(cited in Maali, 2005). According to the Islamic scholars, *Riba*, as specified in the Holy *Qur’an*, demarcates all excessive interest rates levied by the banks (for example, Ahmad, 1989; Hindi, 1996). Hence, it can be stated that the Islamic banking industry possesses greater moral and ethical qualities with transactions that are, in fact, *Riba*–free, thereby introducing economically effective solutions for the society as compared to the traditional banking. Thus, promoting higher socio-economic justice and equity.

3.4.4. The *Maslahah* (Public Interest)

According to Dusuki (2008), *Maslahah* (public interest) can be considered as a tool used for serving justice within the Islamic legal theory. Alternatively, Laldin (2010) highlighted that *Maslahah* constitutes the second source of *Shari‘ah* in Islam. *Shari‘ah* considers *Maslahah* as a source of law so as to give room for social changes and natural development. *Maslahah* is considered as one of the indispensable sources for dealing with matter and issues which are not directly or explicitly indicated in the *Qur’an* or Sunnah. Laldin (2010) points out that enacting *Shari‘ah* rules based on *Maslahah* serves the objectives of achieving justice and fairness through eliminating hardships and creating benefits. Hence, *Maslahah* is vital in preventing corruption and promoting the public good. In Islamic banking, diligence (*ijtihad*) which is based on the *Maslahah* constitutes a critical component, particularly for corporate governance organs and regulators as it demands them to provide parameters, regulations, standards and policies that are beneficial to society. Laldin also explains that the Maslahah in Islam could be distinguished into two major groups. Firstly, public *Maslahah*, which extends benefits to the whole society or the greater part of the population; for example, preventing the property from sustaining any transgression or harm, such as theft, unfair contracts or flood. Private *Maslahah*, on the other hand, is anything benefiting individuals and their society.

Based on the argument developed by Al-Shatibi (cited in Dusuki, 2010 and Laldin, 2010), *Maslahah* is segregated into three primary categories or priorities: (i) *dharuriyat* (basic essentials), (ii) *hajiyat* (supplementary needs), and (iii) *tahsiniyat* (complimentary). *Dharuriyat* refers to the imperative and basic life need and as such highlights a very important element for the survival of the individuals and society. It must be safeguarded as it is essential to life (Al-Mubarak and Osmani, 2010). For instance, the bare necessities like food, water and electricity. They are important elements of survival in today’s world.
*Hajiyat* is an additional requirement which can be fulfilled after looking after one’s basic needs and follows the acquisition or meeting of the *dharuriyyat* (basic needs). Neglecting *hajiyat* will not cause major movements in one’s life, it may merely lead to small disturbances and hardships that can be overcome. (Cebeci, 2012). For instance, *Shari‘ah* provisions forward buying (bai’ Salam) in transactions, which are specific to business and are of significant nature, wherein, in case of neglect may result in great difficulties in business. The term *tahsiniyat* (complimentary) refers to those interests which on attainment would result in improvement and enhancement of people’s conduct and customs at all achievement levels (Laldin, 2010). It is important because it will peace and harmony in human society. For instance, paying *Zakat* is compulsory in Islam and thus constitutes an element of a complementary nature with respect to economic and social justice in society. Furthermore, Muslims are encouraged to do charity as complementary activity and a means of improving social life of the community.

Dusuki and Abdullah (2007) categorised the weight concept in the *Maslahah* as a guide of moral judgement for the purpose of managers and stakeholders, thereby facilitating reaching solutions of potential conflicts arising during CSR pursuit. A pyramid form depicts the notion of weight in *Maslahah*. It acts as a guideline for providing directors with three most important levels of judgement when faced with ethical conflicts which arise during the application of CSR initiatives and programmes. Each level holds a varying gradation of importance. At the bottom is (*dharuriyyat*) which is the most important responsibility to be fulfilled, and this level is preceded by (*hajiyat*), which is led by the top level (*tahsiniyat*). With the upward progression of the pyramid, the decision-making becomes less important. The *Maslahah* levels pyramids present a mutually inclusive structure, wherein, the levels are mutually dependent as well as interrelated. In the first level (*dharuriyyat*), protecting and preserving the essential needs of stakeholders are expected from banks (Basah and Yusuf, 2013). For instance, ensuring that all activities comply with Islamic principles will yield a high profit. Avoiding any activities putting people’s lives and the environment at risk is a must. Furthermore, as for the employer-employee relationship, employees’ welfare must be protected businesses by providing a safe working environment and timely payments of salaries.

The Islamic banks post providing the fundamental level (*dharuriyyat*), may attempt to garner the second level, which is the complementary (*hajiyat*) platforms, aimed at the continuous
development and training. Herein, promotions and bonuses are regarded as complementary to the fundamental level. Achieving the highest enhancement (tahsiniyat) level may require engaging in CSR activities by the Islamic banks, thereby, leading to quality improvement. For instance, involvement in Islamic activities may lead to a better social development of society. These activities may include charitable activities, donations and philanthropic trusts (Waqf). Community and society may be perfected by the enhancements (embellishments). The Maslahah pyramid offers a fundamental blueprint for managing and developing Islamic banks CSR management strategies and activities based on prioritisation of their CSR. Strategy development and guiding principles for CSR management can be provided by the weight of the Maslahah according to the stipulated priorities.

Caroll (1979, cited in Cebeci, 2012) states that CSR pyramid provides a complete agenda framework towards conducting CSR for a business, and accordingly, she introduced a self-devised CSR pyramid, which consists of four main categories: (i) economic, (ii) legal, (iii) ethical, and (iv) philanthropic responsibilities. Caroll’s CSR pyramid is characterised with: i) mutually inclusive categories; ii) lack of attention to either social concerns or economic concerns; iii) the levels do not display the quality of being either additive or cumulative; and iv) the order of the levels in the figure is indicative of their importance (see: Figures 3.1 and 3.2).

The Maslahah pyramid offers an all-inclusive guideline as for how, from the Islamic perspective, Islamic banks should view CSR. The pyramid also is similar to the general CSR pyramid provided by (Caroll, 1979). The two models are similar in that they are mutually inclusive with mutually dependent and interrelated levels (Carroll, 1979; Dusuki and Abdullah, 2007a). According to Dusuki (2010) CSR can benefit from the weight of the Maslahah in the following ways: (i) providing a mechanism for change adapting and a framework for decision making; (ii) providing framework for the Islamic banks’ role specific to CSR; (iii) providing moral judgement rules to the Islamic banks towards resolving conflicts arising during CSR pursuit. It is structured like a pyramid, wherein the three judgement levels are arranged on top of one another (dharuriyat, hajiyat and tahsiniyat).
However, Carroll (1979) highlights that the CSR pyramid fails to quantify the specific responsibility degree of every category. Instead, it offers a classification scheme for social responsibility expected of businesses. The CSR pyramid offers to the businesses a comprehensive CSR framework as it outlines the different responsibilities businesses are expected to undertake by society. Every CSR category should be equally considered and utilised for the justification of CSR’s importance (Carroll, 1991). Conversely, the Maslahah pyramid weight suggests the need for Islamic banks to systematize, arrange and involve in CSR activities in terms of their priority. Correspondingly, the Islamic banks must not merely be concerned with achieving the embellishments while risking their stakeholders’ essentials (Dusuki and Abdullah, 2007).

3.4.5. Tawhid (Unity) and Khalifah (Vicegerent)

In Islam, the CSR concept is in alignment with the concept of unity (Tawhid). Base on such understanding, God is considered the Owner, Creator as well as the Source of all things, and as such, he has commanded mankind to function in the capacity of khalifah (vicegerent) to manage and utilize the bounties in the world (Ali, 2006). Mankind has correspondingly been allowed to use the physical universe whilst remaining accountable for what and how they manage because in the hereafter each and every human being would be answerable to God (Farook and Lanis, 2007).

According to Al Banna et al. (2013), the Islamic economics adopt a central stance between the two entities of (i) political extremes of capitalism and (ii) communism. As such, Williams and Zinkin (2209) argue that in alignment with Islam ownership of reality to fulfil materialistic needs is part of human nature, ensuring free authority, to do the owners will
have contrasted with his own. This leads to varied comprehensions of private ownership as commonly understood (Suliman and Willett, 2003). God granted individuals power over their possessions to enjoy, and share amongst each other His gifts, which He gave to them. Hence, Islam considers wealth not only capital but a grant and a trust, accorded by God to the human beings. As such, wealth should be managed and used efficiently in order to yield the optimal output and to realise the guidance of God (Mettwally, 1997). As ordained by Holy Qur'an in verse 2: 30.

Based on viceregency, people are stimulated to benefit themselves from all available opportunities, in accordance with Shari‘ah (Rice, 1999). The socio-economic and moral requirements do not conflict between each other; individuals can attain wealth and profit; however, they must pay Zakat. Furthermore, accumulating wealth and profit is a right in Islam with a condition that it is in line with Islamic principles as provided in the religious scripture (Ullah and Jamali, 2010). In addition, the resources are for everybody to profit from as well as utilise and not exclusive to a select few people (Rice, 1999).

Indeed, worshipping God to be not merely limited to the five pillars of Islam but further extends into all aspects of life. Correspondingly, in their study, Williams and Zinkin (2005) highlighted that individual’s public and private life are not separated in Islam. Therefore, Islamic teachings become the basis for every act and decision in life and business. This principle applies to Muslims as well as to their relationship with the environment, society, and non-Muslims.

3.4.6. Benevolence (Ihsan)

Benevolence as a concept in Islam is parallel to the concept of justice. The Qur’an explicitly states the obligation of benevolence and justice see the Holy Qur’an verse 16: 90

According to Al Qurtubi (cited in Basah 2012) justice is considered obligatory whereas benevolence is not restricted as an obligation. A person obeys the concept of justice when his or her inner feelings and intentions are in accordance with their actions and words. The concept of benevolence must be intrinsic, an individuals intentions must be better than their outward actions. The importance of promoting and protecting the others’ wellbeing is reflected in Benevolence (Schwartz, 1992). In addition, research by Schwartz and Bardi (2001) reflects that benevolence ranks amongst the most significant values in society. Benevolence plays a central role in sanctioning and maintaining social cohesion and
foreseeing pro-social behaviours (Bardi and Schwartz, 2003). Based on several studies’ benevolence presents an interest with positive behaviours such as donating money, volunteering, giving constructive criticism and helping others (Grant and Mayer, 2009; Arieli et al., 2014). This reflects social compassion (Mumford et al., 2002), and an awareness regarding moral cross-roads (Myyry and Helkama, 2002), and displaying a willingness to be socially active with others (Sagiv and Schwartz, 1995).

Islamic banks provide several mechanisms, such as a charity (Sadaqa) fund, a Waqf fund (endowment fund) and benevolent loan (Qard Hassan) to assuage poverty in the community (Bhuiyan et al., 2012). Specifically, Qard Hasan refers to an implied loan, with no return or benefit to the lender, and pertains to an interest-free loan (Obaidullah 2008). Essentially, Islamic banks provide Qard Hassan services to enhance and support the small and medium enterprises (SME) development. In addition, Qard Hassan fulfils short-term funding requirements or welfare purposes and only the principal repayment is stipulated by the borrower in Qard Hassan. There are several verses in the Holy Qur’an (for example, 18: 18, 11: 57) and 64: 64 that highlight the importance of Qard Hassan in Islam.

3.4.7. Transparency

Islam greatly exceeds the UN Global Compact transparency standards when it comes to business transparency (Williams and Zinkin, 2009). For instance, The Qur’an requires easily accessible, written contracts for all transactions pertaining to business (Qur’an 2: 282). Furthermore, in Islam, unlike in Judaism, the principle of caveat emptor does apply. Various Hadiths also have additionally outlined several guiding principles, such as, it is prohibited to sell items without providing sufficient product clarification and anybody knowing about their defects must not fail to mention them (Hadith, narrated by Al Hakim and Al-Baihaqi). As a result, it is expected that Muslim businesses guarantee the output of the highest quality of standards in their job performance and transparency in their transactions. Quranic teaching on weights and measures can demonstrate the issue of quality standards (Qur'an 152: 17-35; 83: 1-6). For instance, as it has been stated in Qur'an (26: 181–183):

“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”.
Although it does not suggest that the same standard is applicable everywhere, it requires full information to be provided on the standards used, the thing that necessitates greater accountability and transparency. Hence, greater transparency promotion is expected from Islamic banks when they conduct their business.

3.4.8. The Accountability

Gray et al., (1996) points out that companies under Western accountability models - Carroll’s (1991) CSR Pyramid, comprising, legal, ethical economic, and philanthropic responsibilities- are accountable to their stakeholders (see, for example, Collins and Porras, 1994; Freeman, 1994; Paine, 1994; Wijnberg, 2000). The model does not consider accountability or responsibility as pertaining to any aspects beyond human society and its own structure is not answerable to any higher power. The relationship between firms and individuals with God in Islam has an effect on accountability as a concept (Maali, et al., 2006). Islam requires individuals to introspect first and be answerable to themselves before any accountability God on the Day of Judgment (Abdul-Rahman and Goddard, 1998). As a trustee of God and vicegerent, all human acts will be scrutinised and questioned on the judgement day. In addition, Farook (2007) categorised this concept as ‘divine accountability’, which serves as the supposition for all activities performed by the Muslims and Islamic organisations. ‘Divine accountability’ is explicitly mentioned in the Holy Qur’an, for instance:

“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”. (Qur’an 4: 86).

The Arabic word Hisab, which presents similarity to accountability or account, according to Askary and Clarke (1997) is mentioned more than eight times in different verses in the Holy Qur’an and demonstrates the crucial role of accountability in Islam. Lewis (2006) points out that the commonality between Hisab and accountability and account be lies in the individual businesses’ responsibility of performing their duties as set by Islam.

In this respect accountability denotes accountability to the Islamic community in general, that is entitled to know about the organisations’ operations effects on its wellbeing (Lewis, 2006). Ibrahim (2000: 23) further adds that “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”.

Accountability to God signifies trustworthiness, including goals and instruments. Abbasi et al. (2012: 233) argue that the instrument initially serves as the commencing point for enhancing effectiveness and efficiency, and subsequently transitions into a goal. Afifuddin and Siti-Nabiha (2010) argue that such understanding of accountability is not only applied to personal accountability, but it extends to include all organisations.

This is clearly explaining as Allah ordained in The Holy Qur’an verses 99: 7-8 and 35: 18. Prophet Mohammad (PBUH) placed great emphasis on responsibilities and clarified the entwined responsibilities to apply 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 added:

“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).

3.5. The AAOIFI and CSR Disclosure

Governance Standard No.7 (2010) was issued by the AAOIFI to organise CSR related activities. CSR disclosure for Islamic financial institutions activities performed to meet its responsibilities of various nature, including legal, economic, discretionary, ethical, and religious responsibilities, and function as financial intermediaries for institutions as well as individuals (AAOIFI, 2010).

The main objective of this standard is ensuring the comprehensible, truthful and transparent communication of CSR activities Islamic financial institutions compliance to relevant stakeholders (AAOIFI, 2010). This standard divides the CSR disclosure accountability into
five compulsory disclosures (including expenditure and earnings prohibited by Zakat and Shari‘ah) and six voluntary disclosures (including Waqf management, charitable activities, and Qard Hassan) (AAOIFI, 2010). An expectation gap between ideal disclosures and actual/communicated disclosures has been identified by the CSR literature on Islamic banks. Haniffa and Hudaib (2001) highlight the vital nature of disclosure in Islamic banks as it helps Muslims accomplish the duties set out for them by the religion. They also point out that Islamic banks are required to reveal all information pertaining to the obligation of Zakat, information about forbidden transactions and the social responsibility of the bank, such as environmental protection and charities. This implies that the financial reports generated by the Islamic financial institutions are likely to be more exhaustive than those of conventional institutions.

3.6. Conclusion

Based on the above arguments, it can be stated that many studies in the Islamic finance literature exploring CSR disclosure level based on related CSR standards of AAOIFI (2010). The existing literature identified that level of the banks CSR disclosure is relatively low and that the discrepancy the ideal ethical and communicated disclosures of Islamic banks is significant (for example see, Maali et al., 2006; Haniffa and Hudaib, 2007; Platonova, et al., 2016). However, as stated by Belal et al. (2014), the universal and particular disclosures increased recently, as a little attention has been paid by some Islamic banks for their social activities’ disclosure and, therefore it is crucial to call for a CSR disclosure standard appropriate to Islamic financial institutions (Hassan and Harahap, 2010). Such considerable variation in CSR disclosures can be explicated by the presence of SSB governance in the banks and the Muslims population where they operate (Farook et al., 2011). For Islamic banks, the key motivation to be CSR active is that by being ethically oriented in their business activities, they will acquire a good reputation in the market. Having such reputation achieved can be used as a key advantage in maintaining their position as competitive as required to be able to attract more funds from depositors and investors which will lead in return to higher financial performance. Having said this, a higher financial performance will positively lead to higher profitability that will promote the banks value in the market. Therefore, Islamic banks, in order to be CSR active, must pay more attention to disclose more information related to ethical activities in order to meet the expectations of their stakeholders, particularly their investors, thereby generating more profits and enhancing their
reputation. From the discussion above, it can be inferred that several factors influence the CSR disclosure level practice in Islamic banks, in which SSB may play a significant role in promoting such undertakings within Islamic banks by providing advice to managers and board of directors.
CHAPTER FOUR

SSB AND CSR DISCLOSURE: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT
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SSB AND CSR DISCLOSURE: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

4.1. Introduction

Due to the critiques of an ethical orientation of the conventional banks in operating based on interest, Islamic banks were established as such practices of charging interest negatively impacted the socio-economic system development (Siddiqi, 1983; Ariff, 1988; Lewis and Algaoud, 2001; Ahmad and Hassan, 2007). Accordingly, it can be stated that, based on the values and axioms that guide Islamic banks in their financial operations, they may play a dominant role in promoting the concept of a moral economy that may directly promote the social wellbeing (Chong and Liu, 2009). Hence, it can be argued that Islamic banking was, therefore, launched as an idea which would substitute conventional banking to boost the responsibility towards the society by endorsing the concept of fair distribution of income, economic justice as well as efficient capital mobility.

As for structure, this Chapter starts with an introduction of Corporate Social Responsibility (CSR) disclosure in Islamic banks. Moreover, in order to develop research hypotheses, this Chapter critically reviews prior studies on the practice followed in Islamic banks with regard to CSR disclosure Islamic banks. Furthermore, the Chapter discusses the CSR disclosure and Shari’ah supervisory board (SSB) intersects to hypothesise the impact that the SSB may have on CSR disclosure level of Islamic banks.

4.2. Islamic Banks and CSR Disclosure

The unique characteristics of Islamic financial products and operations, Islamic banks by definition are obliged to embed social responsibility in their activities. In the present study about the CSR disclosure of Islamic banks, it, therefore, became necessary to determine and establish whether the CSR practice of these banks is in accordance with their core values. The commitments towards CSR can be traced in the philosophy that underpins the objectives of Islamic banks establishment. According to Dusuki and Abdullah (2007b), there are three main philosophies on which the Islamic banking system is based, and which distinguish it from its conventional counterpart. Of these philosophies, the first states that Islamic banking endeavours for a society, which is fair-minded, impartial and balanced as deemed appropriate by the Islamic economics values. As per the second philosophy Islamic banking is based on
the cooperation and brotherhood principles and believes in sharing profits as well as stakes. The third philosophy states that since Islamic banking system is derived from ethical as well as the moral foundations of the Islamic law, it is naturally characterized by ethical norms as well as social commitments.

Ahmad and Hassan (2007) argue that Islamic banks aim at working with regard to establishing an Islamic society and creating a growingly intensive religious spirit among people. The existence of Islamic banks relies mainly upon the religious views and spirit. It, therefore, becomes a matter of utmost importance for the Islamic banks to see that their actions and undertakings adhere strictly comply with the rules of the Islamic law and that all their projects and business activities are true to Islamic financial principles. According to Ahmad and Hassan (2007), Islamic banks hold more commitments and responsibilities towards the society than the mainstream banks for three reasons; the first of these reasons is that an Islamic bank aims at attaining a certain philosophical goal. The Islamic principles state that God is the creator as well as the ultimate owner of all resources. Based on these principles, it is believed that humans, as well as institutions, play a vicegerent role in society. And thus, the Islamic banks fail to enjoy the liberty to act according to their wishes and are rather supposed to integrate moral values with economic actions. Accordingly, it is expected that an Islamic bank is also supposed to give more acknowledgement to those who have flair and proficiency, thus leading to the strengthening of the economic foundations of society. Finally, the ultimate aim of an Islamic bank should be building cohesion in the society, on the founded on of relating returns and risks, in order to accomplish economic, financial and social constancy.

Besides complying with the rules of the government, the activities and operations of Islamic banks should also abide by the rules of the Shari’ah. Therefore, the permissible activities of Islamic banks stay limited in comparison to conventional banks, since the conventional banks cannot be subjected to such religious obligations and restrictions and are supposed to comply only with the rules of the legislation. All contradicting activities with respect to the Islamic finance’ values and principles should be avoided. In addition, Islamic banks should refrain from investing in businesses that violate human rights and impact the natural environment (Ullah and Jamali, 2010). Further, Islamic banks have restrictions that keep them from financing enterprises that are involved in activities that may harm individuals and society at large, such as investing in tobacco, alcoholic, liquor, gambling and pornography (Nathan and
Ribiere, 2007). Consequently, it can be stated that Islamic banks bring about a certain social responsibility as well as ethics to banking practices, as they abide by the Islamic law, which is driven by ethical principles (Kahf, 1999; Dusuki and Abdullah, 2007b).

While these financial ideologies constrain the activities of Islamic banks, they do sustain the Islamic core values and actions that promote trade, commerce and entrepreneurship and introduce a societal development or social benefits (Ahmad and Hassan, 2007). According to Platonova, (2013: 283-285) the Islamic ethical values are primarily used towards achieving an equilibrium between the objectives of social and financial values. In this context, it important to highlight that some key Islamic financial principles that Islamic banks have to follow in their all operations that include:

(i) Ribab prohibition is a core requirement which should be complied with by the Islamic financial institutions, (ii) Prohibition of speculation (maysir) and uncertainty (gharar), (iv) The concept that money does not have an intrinsic value rather it is tool to represent value of goods, except the valued metals, such as gold and silver (v) all transactions must be attached to real assets (vi) evaluating in detail all activities of relevant ventures to warrant that they adhere to the principles of Islam. (vii) Risk sharing. Khan (1987) argues that these and such values are the supporting pillars on which Islamic banking stands, and hence, their contribution in promoting CSR practices is crucial in boosting the social wellbeing. Hence, those Islamic banks that are propelled by religious philosophy have been observed to demonstrate a higher commitment towards CSR activities as compared to the traditional or conventional banks.

4.2.1. Prior studies of CSR disclosure in Islamic Finance

As discussed earlier, due to the values and principles that form the base of Islamic finance teaching and philosophy that promote the notion of CSR, several studies have made an attempt to establish an association of social and environmental accountability with the Islamic teachings and values (for example, Lewis, 2001; Kamla et al., 2006). Correspondingly, several studies, in addition, have explored the social and environmental disclosure practices followed by the companies that perform a trade in harmony with Islamic financial laws (for example, Maali et al., 2006; Haniffa and Hudaib, 2007; Hassan and Harahap, 2010; Aribi and Gao, 2012). Haniffa (2001) tends to adopt an ethical normative approach, using a theoretical framework for CSR disclosure underpinned by the Shari‘ah
principles. She further makes an argument that this framework can be used to accomplish both the accountability and transparency objectives by dealing with three inter-related dimensions: the pleasure that God seeks in founding socio-economic impartiality, actualising the benefits to the society by meeting the social obligations and aiming to obtain wealth. In this context, conducting financial activities in such way addresses the affiliation between the three intersects of (i) Man and God, (ii) Man and Man, and (iii) Man and Nature. Based on such understanding, the material, moral and spiritual aspects are considered in the financial activities. According to Haniffa (2001), there should be a difference between the Islamic social responsibility disclosure practice and conventional social reporting as the underlying principles they operate based. However, both the systems address the basic social responsibility and accountability concepts. Furthermore, the author suggests the two broad objectives of the Islamic CSR disclosure, which includes, (i) Prove accountability to God as well as the community, and (ii) Prove transparency in the business activities and transactions. However, Haniffa (2001) fails to provide an empirical investigation into the impact of Islamic values with specific context of Islamic banks.

According to Suliman and Willett (2003), it is pertinent that the Islamic financial reports account for the issues revolving around social responsibility and environmental accounting. The Global Reporting Initiative (GRI), has released a very comprehensive list of issues pertaining to the society and environment, which the firm mandatorily should declare. It highlights that sustainability constitutes the foundation for providing performance indicators for social and environmental values in an Islamic corporate reporting model. However, they do not fail to emphasize the fact that in this particular scenario of Islamic social reporting, the GRI cannot be used as an appropriate guideline. Hence, further studies refer to the SSB related variables to measure the practice of CSR disclosure as evident in sampled Islamic banks.

Furthermore, some studies examine the determinants that affect the CSR disclosure level with the review of Islamic banks’ annual reports (for example, Anuar et al., 2004; Yahya et al., 2005; Maali et al., 2006 Haniffa and Hudaib, 2007). Anuar et al. (2004) found a positive impact of the Islamic financial principles on the corporate environment reports. Correspondingly, content analysis, the results, and the evidence collected suggest that in comparison to the non-Shari‘ah compliant companies, the Shari‘ah compliant companies provide higher environmental reporting. This pattern indicates that the Shari‘ah complaint
companies make sincere attempts to observe corporate reporting which are in alignment with the Islamic principles regarding social accountability and full disclosure.

In a similar manner, Farook and Lanis (2005) aim at measuring the CSR disclosure level of 47 Islamic Financial Institutions working in 14 countries and examine the key factors that affect the disclosure. By developing an index based on Islamic ethical standards by following Maali et al. (2003), the authors measured the CSR disclosure in Islamic Financial Institutions and further built a model that linked CSR disclosure to socio-political factors as well as corporate governance influences. Within the sample, their results show variations in the disclosure levels due to socio-political contexts.

Yahya et al., (2005) studied the CSR disclosure levels in the Shari’ah compliant companies of Malaysia. In their annual reports, out of the 194 companies studied in the research only 102 companies provided discussions on their social relations. Furthermore, they explored intersect between the CSR disclosure level and the quantity of Islamic equity fund holders’ shares in the studied companies. Wherein, the study outcomes also show that the proportion of the Islamic equity funds issuing assets in any firm is directly proportional to the social events level revealed by that company. In this context, notably, the study conducted by Maali et al. (2003) constitutes an earlier scientific study, which attempts investigating Islam’s influence on social reporting.

Kamla et al. (2006), in their research, given the Islamic text in combination with the relevant prior studies, elaborately deliberated on some of the main Islamic principles. In conclusion, they assert that Islam focuses excessively on the environment from a holistic perspective. Furthermore, they argue that the Islamic financial statutes present a much-generalised poignancy with regards to governing the environment in the context of the accounting implications. Although, since the mentioned studies mainly follow a theoretical construct, it becomes imperative to make an empirical investigation about how religion affects the practical implication of CSR disclosure. This can be achieved by measuring the environmental information provided in their CSR disclosure.

Maali et al. (2006) conducted an investigation to study the extent to which 29 Islamic banks from different countries disclosed their social activities. They drew comparisons between the disclosures of social practices of Islamic banks. The anticipated social practices were then put together to constitute an example for identifying social reporting patterns as demonstrated by
the Islamic banks. The content analysis revealed the vast disparity between the corporate social disclosure practices and the ideal practices of disclosure levels, as per the Shari’ah principles. In conclusion, they suggest that the banks which complied with the authorized issues such as offering the Zakat and adopting AAOIFI standards were also more inclined to provide higher disclosures as compared to non-compliant banks. It was also concluded that most banks disclosed their CSR information to positively enhance perceptions about themselves among the public.

In addition, Haniffa and Hudaib (2007) studied seven Islamic banks’ annual reports of the GCC countries to investigate the ethical identity based on an idyllic Islamic business framework for moralities. Using the five distinguishing features that segregate the Islamic banks from the traditional banks, they constructed an ideal ethical disclosure yardstick. They used the content analysis for determination of the CSR disclosure extent in the annual reports. Additionally, the study revealed a major gap between the ideal and communicated ethical disclosure. In conclusion, they stated that for Islamic banks to sustain relevantly in the current market they need to relay in a more efficient manner and eventually augment their image and status in the society.

Rahman et al. (2010) studied CSR disclosure practices followed by the Bank Islam Malaysia Berhad (BIMB) and focused on the themes, locations, extent and trends of the for a period covering 1992 to 2005. Based on the number of sentences as well as the extent of such disclosures, the disclosure level was measured. The study findings indicate that BIMB demonstrated an inclination towards disclosing themes connected with personnel, outfit, service contributions as well as social involvement. The most obvious places wherein such information can be disclosed include the statements issued from Chairman Office, finance department and/or the Director Office. The results also reveal the improvement of the bank where of the magnitude and the method of presentation or disclosure of the CSR. However, since a longitudinal approach is used to conduct this study on a single bank from a specific industry in Malaysia, the outcomes of the study could conclusively be generalised according to the tendencies and on-goings of CSR disclosure in the Islamic banking industry in Malaysia.

In this regard, Hassan and Harahap (2010) investigated issues which were similar to the ones explored by Haniffa and Hudaib (2007). They got results that pointed a vast breach between the ideals and the practices of CSR. They inferred that minimal focus was lent to disclosing
their social activities by some of the Islamic banks and therefore, argued that a standard need to be established for the disclosure of CSR, relevant to the Islamic financial institutions. Moreover, Zubairu et al. (2011) concurrent to Haniffa and Hudaib’s (2007) in their study in the kingdom of Saudi Arabia assessed the CSR disclosure of four Islamic banks. The results of their study denote a low CSR disclosure practice level in the Islamic banks in the kingdom of Saudi Arabia. They constructed the ethical identity index for the Islamic banks based on ten dimensions, among those dimensions ‘commitment to debtors’ resulted in being the most highly disclosed dimension, while the ‘environment’ dimension scored the lowest level of disclosure.

Farook et al. (2011) through developing a measurement for the disclosure of CSR in Islamic banks, they studied the extent as well as the determinants of CSR disclosure through content analysis of the annual reports. Their sample size included the participation of 47 Islamic banks across 14 countries. Wherein, they quantifiably examined the level of social disclosure in annual reports issued by 47 Islamic banks, in accordance with the CSR benchmark developed by Maali et al. (2006). This study concluded that to objectify the CSR disclosure by Islamic banks, it is essential to assess the level of social and political independence as well as how investment accounts fair in proportion to total assets. Through conducting a descriptive analysis, the scholars assessed substantial variation in the CSR disclosure among the banks. They found that the SSB’s governance and the domination of Muslims in the countries studied under the research constitutes a substantial aspect that best elucidates this kind of variation. In conclusion, they stated that the regulatory bodies which govern the Islamic banking ought to consider the SSB and its rules mandatory for all Islamic banks.

In order to examine the power of Islamic financial principles on CSR and CSR disclosure in Islamic Financial Institutions, Aribi and Gao (2012) conducted a CSR disclosures analysis in 21 Islamic financial institutions that were based and functioned in the GCC countries. The scholars observed that the primary CSR disclosures had been stored away in the SSB reports. Also, other items such as Zakat, loans sans interest and altruistic donations were relatively less disclosure in the annual reports. In addition, by studying a sample of 53 Islamic banks that operated in the GCC in 2008, Rahman and Bukair (2013) used a disclosure index derived from the Islamic perspectives to empirically examine the effect of the SSB and its features on the CSR disclosure level. Through content analysis, the descriptive statistics reveals a gradual rise in the CSR information released by Islamic banks in their annual reports. Additionally,
after using multiple regression analyses, the findings suggest that by grouping the SSB attributes, there is a substantial confident effect on the CSR disclosure. Thus, it is evident that the features of SSB constitute substantial reasons for concluding the CSR disclosure level.

Accordingly, it is possible to say that the SSB may largely factor in determining the CSR disclosures in the Islamic banks. Additionally, Rahman and Bukair (2013) conducted a study, which revealed that the SSB characteristics’ amalgamation positively impacted the CSR disclosures of the Islamic financial institutions. A study conducted by El-Halaby and Hussainey (2015), which aimed at studying the CSR elements among Islamic banks across 25 countries, observed an affirmative association connecting the accounting standards with the CSR disclosure levels and as well as the presence of a Shari’ah audit department and the auditor size.

By analysing the CSR disclosure of Islamic banks and its impact on their economic fairing, the research findings of Platonova (2014), are inconclusive in reassuring any results concerning the CSR or alternatively the social product of Islamic banks practices are concerned in the GCC region. Since the CSR disclosure indices measurement and assessment for all the Islamic banks reveals a consistent below the line presence in comparison to the general score, and as regards each CSR dimensions as mentioned in the indices, most of the GCC Islamic banks have the tendency to disclose a lot less than what is mandated. While conducting an assessment of CSR disclosure practices’ impact on the GCC Islamic banks’ economic performance, it can be observed that the results indicate a positive relationship. In a similar manner, Mallin, et al., (2014) study the affiliation of CSR with financial performances of Islamic banks. The study analysed 90 Islamic banks across 13 countries for CSR disclosure and the CSR disclosure index reveals that Islamic banks get involved with a variety of vivid social activities. However, they observed that while Islamic banks are better committed to what they envisage and their goals, the top management and governing boards as well as the financial product-services dimensions, they accord relatively less consideration to the environmental dimension. In this regard, it is important to state that they found that Islamic banks also display a substantial awareness about the disclosure recommendations made compulsory by the AAOIFI. Nevertheless, they do not focus much on the voluntary CSR disclosure. Moreover, they found that Islamic banks have a pronounced emphasis on more universal disclosures, which suggests that the banks’ lawfulness is affirmed by the release of information to the larger stakeholder community. The observed analysis stresses a
positive association between the CSR disclosure and financial performance. They found that the SSB size significantly affects the CSR disclosure index. Based on the inferences drawn from the estimation of the least square sourced from the three stages, they represent that the intersect evident between the two endogenous factors is sourced right from financial performance to CSR disclosure, thus, in conclusion, the CSR disclosure is determined mainly by economical stability.

Furthermore, Belal et al. (2015), studied the same for a longer time frame, i.e., 28 years, the CSR disclosure trends as demonstrated by the Bangladeshi Islamic banks over three distinct phases as the Islamic banking industry, namely pre-1990, 1990-2001 and post-2001. Then, the ethical reporting necessities were divided into two different constituents, namely, Particular Reporting Practices, relevant to the behaviour of Islamic banks and particularly to the Shari’ah compliance issues, and the Universal Reporting Practices, which seemed additionally pertinent to a broader stakeholder group such as the customers, community and employees. Scholars found an all-round rise in both the Particular and Universal disclosures covering the study period with an inclination in the direction of Universal disclosures post 2006. The interpretation of these findings, according to them, can be stated as the bank’s observance to the discreet approach, without outwardly offending the larger outlook of the Shari’ah.

In this context, it can be argued that the most important factor in the governance structure, which can ensure the adoption and implementation of ethics of Islam toward the CSR activities, is the organisation team of the Islamic banks. Hence, Aribi and Arun (2015) conducted a study focused on the various ways in which Islamic financial institutions, in Bahrain, respond to the society’s CSR needs. With the help of 18 in-depth, semi-structured interviews with nine Islamic financial institutions bosses and analysing the content of disclosure of six Islamic financial institutions from 2006-2010, this study tries to evaluate the CSR management perceptions in Islamic financial institutions. The findings, therefore, revealed that, based on thorough understanding on the foundation of a clear conception of CSR as demonstrated by the managers, which was apparent in the interviews, institutions have not wholesomely integrated CSR into their regular practices. Hence, it can be argued that the partial utility of the potential role that Islamic financial institution play in social welfare is likely to add more challenges to the era of Islamic banking and finance industry. With the purpose to challenge this problem and make a complete utilisation of the Islamic
Accordingly, Platonova et al. (2016) conducted a study, focusing on the association of CSR with financial performance in the GCC region Islamic banks for the period 2000-2014. Through CSR specific data creation via disclosure analysis of information released in the annual reports and regressing it on the financial performance, they found a significant positive association. Notably, the findings do not display any statistically significant association between the independent factors of the CSR disclosure index and the existing measure of economic performance, except for the ‘mission and vision’ and ‘products and services’ dimensions.

Considering the literature review on CSR disclosure oriented studies, it can be safely stated that the majority of these studies kept their research limited to quantify the level of CSR disclosure in singular sample institutions or countries. The studies showed a pattern of focusing on social disclosure expectations and the comparative difference in actual disclosure practices in Islamic banks. Hence, to clearly understand CSR disclosure practices in Islamic banks, it is of importance to investigate the factors that play in and the impacts of CSR disclosure as evident in Islamic banks. Thus, it can be safely inferred that none of the prior studies focused primarily on the SSB’s impact on CSR disclosure demonstrated by the GCC region Islamic banks except Rahman and Bukair (2013) how investigate that just for one year (2008). As such, this study tries to bridge this gap and to cover the CSR disclosure and its association with SSB in the GCC region.

The previous studies seem to leave scope for further research of CSR disclosure in the particular setting of Islamic Financial Institutions, as well as provide a platform to add to the existing literature of both the CSR and CSR disclosure. Most of these studies lacked an in-depth discussion or examination of the elements pertaining to CSR and were merely cornered with the Islamic interpretations of business practices in general. The researcher aims to follow the already conducted studies and explore as well expand the discussion for a detailed examination of the determinants and impacts of CSR disclosure practice among the sampled GCC region Islamic banks.

Furthermore, it can be argued that the previous CSR literature pertaining to the Islamic banking is largely based on quantitative studies that largely entail measuring the literature
that sets CSR disclosures against a perfect standard, which, in turn, is sourced from the Shari’ah based CSR objectives and AAOIFI standards. Typically, a divide is observed between communicated or authentic disclosures and expected disclosures. However, in order to deduce CSR disclosure, the excessive dependency on acquired data from the annual reports dominates the major limitations of these studies. The annual reports itself failed in showing the true face of CSR disclosure, since Islamic banks may release certain details separately in other reports (for example, corporate governance report, SSB report and on their websites).

Also, the review of the prior studies revealed that the corporate governance mechanism and CSR disclosure practices, particularly among GCC Islamic banks, still lacked comprehensive studies. Prior studies, (for example, Rahman et al., 2010), tended to focus on a single Islamic bank to draw conclusions. Such studies are incapable of representing the complete image of CSR disclosure practices in the Islamic banking industry. The sample size in previous literature was restrictive, as contended by Maali et al. (2006) as well as Haniffa and Hudaib (2007). Therefore, with the help of a complete CSR disclosure index, developed through principles established in prior literature, the present study can be considered an advancement in the literature previously existing in this subject. It tries at fulfilling the gap in examining the factors affecting of CSR disclosure of Islamic banks in the GCC region related to SSB. Drawing inspiration from the previous studies (for example, Farook et al., 2011; Huang and Zhang, 2012; Rahman and Bukair, 2013; Zalata and Roberts, 2016; Mostafa and ElSahn, 2016; Platonova et al., 2016). The current study will focus on the assessment of CSR disclosure, with particular reference to the Islamic banks operating in the GCC region and also on the measurement of the effect of SSB related variables on CSR disclosure in Islamic banks of the GCC region.

Based on the developed arguments from the existing theories and literature and given that Islamic banks operate based on Islamic financial principles that promote the ethical dimensions in their behaviour toward the society and with particular reference to the transparency as a key objective of Islamic financial law, the following hypothesis is developed:

**H1:** Attributed to the unique nature of Islamic financial principles, Islamic banks are expected to positively communicate their CSR disclosure.
4.3. The Association between SSB and CSR Disclosure

According to Rahman and Bukair (2015), a number of factors are expected to drive the differentiation as evident between the Islamic banks and their observances of CSR disclosure. Several previous studies (Jo and Harjoto, 2011; Abdullah, et al., 2014) put forth strong evidence on the corporate governance mechanism, which plays an influential role when financial and non-financial companies disclose their CSR information. While, the mainstream literature emphasised on evaluating the corporate governance as a key element in promoting the level of CSR disclosure (for example, Taylor et al., 2010; Cong and Freedman, 2011; Elzahar and Hussainey, 2012; Bokpin, 2013; Alhazameh et al., 2014), an unrepresentative number of studies attempted to investigate the impact of Islamic corporate governance SSB related variables on CSR activities in Islamic banks (for example see, Rahman and Bukair, 2013; Farook et al., 2011).

Islamic corporation as defined by (Alam Choudhury and Nurul Alam, 2013: 127) is “a legal entity of shareholders with the principal and proportionate ownership of assets according to individual group equity and profit-sharing capabilities”. Bhatti and Bhatti (2010) state that there is a striking similarity between the Islamic corporate governance structure and the conventional structure. In an Islamic context, such a corporate governance model meant specifically for business organisations has been sourced from the Shari’ah rulings that govern the property rights and contracts. As such, they should ensure that the system is designed in alignment with the Shari’ah principles and ensure that the stakeholders are provided with their rights (Bhatti and Bhatti, 2009; Hassan, 2008). Furthermore, Grais and Pellegrini (2006), state that in order to improve corporate governance mechanisms, the unique attributes of Islamic banks need to be clarified. Accordingly, the SSB stands out to be the most significant distinguishing factor between the Islamic and the conventional banks as discussed by several scholars (Farook et al., 2011; Grais and Pellegrini, 2006).

As firms that are morally fortified, Islamic banks are expected to have high regard for their ethics. However, recent years have shown that Islamic financial institutions have failed in optimising their ethical behaviour. Grais and Pellegrini (2006), referred such failure to several reasons, such as the collusion between the board of directors and the management, or, to an audit failure, or due to excessive risk taking by management and nondependent SSB (Dusuki, 2006; Grais and Pellegrini, 2006). This occurred due to the inadequate corporate governance that the institute practiced.
Based on the objectives of Islamic financial law and research aims and objectives, this study uses both stakeholder theory and agency theory in combination with the purpose to explain the Islamic bank's corporate governance disclosure practices (Fama and Jensen, 1983). Accordingly, previous research has utilised the conceptual agency theory framework in order to develop the hypotheses related to the degree of disclosure as regards corporate governance characteristics (Xiao and Yuan, 2007). From the perspective of agency theory, the workings of corporate governance can be measured in terms of essential factors, thus exemplifying of their decisions of corporate disclosure, which are related to the CSR. A very limited research has been carried out in order to examine the association between Islamic corporate governance mechanisms and CSR disclosure practices of Islamic banks (Gul and Leung, 2004).

Based on reviewing the existing literature the theoretical understanding, the likelihood of SSB significantly impacting the CSR activities of Islamic banks becomes significantly evident (Rahman and Bukair, 2013; Farook et al., 2011). Given that the SSB is expected to be well knowledgeable of Islamic financial principles that are derived from Islamic law and the objectives of Islamic law, having SSB auditing and monitoring all business transactions to ensure their compliancy with the Islamic financial principles, it is expected that they will positively influence the ethical performance of Islamic banks. Having such an understanding, it can be stated that SSB will positively affect the level of transparency in corporate reporting as well as will positively promote the socially responsible activities among Islamic banks. Based on such understanding, the following hypothesis is developed:

**H2: The overall score of SSB and the disclosed CSR dimensions demonstrate a positive relationship.**

In order to develop a thorough understanding of the CSR disclosure and SSB intersect, it is important to explore the potential impact that SSB may have on individual dimensions of CSR disclosure, commitment towards employees, mission and vision statement, commitment towards debtors, commitment towards community, products and services, Zakat, charity and benevolent funds, which are detailed below.

**The Vision and Mission Statement:** According to Hadi (2016: 17) “vision [statement] is a series of sentences that express ideals or dreams of an organization or company that wants to achieve in the future”, while “mission is a statement of what should be done by the agency in
its efforts to realize the vision”. For Islamic financial institutions, vision and mission are established entirely as intended and oriented corporations towards improving the welfare of their communities (Hadi, 2016). There should be clarity in the vision and mission statement of Islamic banks to meet their commitments by delivering a transparent message to their stakeholders that they have a plan for their future activities which must be built in accordance with Islamic financial principles. Based on the regulations, Islamic banks need to have in place Shari’ah governance to create and maintain the confidence of all the stakeholders as well as the shareholders in their activities (Farook et al., 2011). Banking requires more corporate governance so that it can afford to avoid past mistakes and improve transparency by putting in place checks and balances on financial activities (Archer et al, 1998). The governance of Islamic banks is largely dependent on ethical values. Ethical identity resonates to the fact that the mission and vision of an organisation should be crystal clear. Some of the factors that fall under this category are Shari’ah principles/ideals adherence, providing assured returns within the confines of Shari’ah principles, placing emphasis on making the most shareholder’s returns, etc. (Haniffa and Hudaib, 2007). The role of SSB is to assure compliance with Shari’ah and to show their legitimate as an Islamic institution. In addition, Islamic banks are financially accountable as they also ethically accountable for their business conducts. Moreover, SSB as part of whom they run and govern the Islamic banks are predicted to be obliged individuals instilled with religiosity and goodness (Hassan and Harahap, 2010: 8). Consequently, Islamic banks are requiring disclosing more information regarding their corporate vision and mission when having an active SSB.

(ii) The Product and Service: The products offered by the Islamic banks must fulfil the conditions of the Islamic Shari’ah and provide the financial needs of Muslims is considered another key dimension of CSR. Contrary to the conventional financial institutions, which provide interest based (Riba) products, Islamic financial institutions, particularly Islamic banks, are expected to avoid such trades since they’re prohibited in Islam (Mohammadi and Mardini, 2014). This dimension includes factors like the evolution and creation of new products, SSB approved new products, ISO and other awards, customer services, and meeting the customers’ needs (Haniffa and Hudaib, 2007). According to Haniffa and Hudaib (2007), Islamic banks have demonstrated a notable and consistent improvement in the quality as well as the development of new products and services in order to ensure the convenience of their customers. They have brought about an expansion in their ATM networks, established new branches, introduced E-banking, and other novel products such as Ijara savings accounts.
Islamic banks also reported product and service contributions in their annual reports and for Islamic banks to maintain a relevant status in the market when offering new products, they are required to be innovative and Shari’ah compliance. The Islamic banks can address more sophisticated markets and fierce competition, through adopting a more transparent approach in reporting all their products and services to all stakeholders and report if Shari’ah supervisory board has validated them. In addition, issuing explanation underpinned with the Shari’ah concept towards legitimising the new products and services is another crucial indicator of a transparent reporting (Hassan and Harahap, 2010). It this regards, it is important to state that reviewing and monitoring the inviolable aspects relevant to transactions in an Islamic bank, and operations involving products and services are the main duty of SSB. Hence, the SSB duty is to make sure that all financial transactions are Shari’ah compliance (Haniffa and Hudaib, 2007). Therefore, the authors can safely contend that Islamic banks present a higher inclination to be encouraged to disclose more CSR information related product and service when having an active SSB.

(iii) The Commitment towards Employee: Employees are considered to be great assets for any corporation, therefore, firms’ commitment towards them is considered another significant dimension of the CSR. Based on the objective of Islamic financial law, it can be stated that it is important to emphasise the importance achieving the social justice as well as fair dealing with the employees (Malli et al., 2006). According to Haniffa and Hudaib, (2007) they should receive a fair treatment in terms of their salary and the workload. Additionally, the Islamic financial institutions should be able to provide adequate training to their staff. In accordance with the concept of transparency, Islamic banks are obligated to disclose information related to their commitments towards employees’ training, assistance, remuneration, and benefits, encouraging talent, a reward for an employee, information about workplace environment, employee benefits, etc. (Haniffa and Hudaib, 2007).

It also keeps a focus on the management style or programme, which is likely to affect the employees in a direct manner. Discrimination and exploitation are forbidden and not acceptable form Islamic finance principles point of view, contrary, it encourages education and training (Maali, et al., 2006).

(iv) The Commitment towards Community: It can be stated that based Islamic financial principles a great emphasis has been made to achieving social justice and requiring the individuals as well as the society to be responsible towards each other so that they can fulfil
their duties towards each other. As discussed earlier, one of the mechanisms that can be used to reach this goal is the redistribution of wealth by paying the Zakat as well as doing other charitable donations. Additionally, the Islamic financial institutions are also expected to get involved in other activities in that help better the welfare of the society in which they are working. Qardul Hassan is another way in which Islamic financial institutions, especially Islamic banks, can contribute to their communities (Mohammadi and Mardini, 2014).

Accordingly, disclosing CSR under this category can cover information such as: having a subdivision dedicated to females; developing employment opportunities; standing behind organisations contribute to the betterment of society; education and health support, community investment, contribution to the national economy, and other ethical activities that may boost the wellbeing of the community. It important to detail that the donations that Islamic banks may make towards the community may include scholarships for students, health activities, and campaigns for blood donation (Haniffa and Hudaib, 2007). Islamic banks beside accountability to God encompass their accountability towards the community, and hence, the adherence to disclose such information is considered as an embedded obligation (Al-Mograbi, 1996; Maali et al., 2006). According to the context of Islamic reporting, social issues are expected to be an important component in the annual reports issued by the Islamic banks regarding disclosure of CSR activities (Cho and Patten, 2007; Hamid, 2004; Haniffa and Cooke, 2005; Patten, 1992). Gambling et al. (1993: 198) argued that through SSB, the customers including borrowers and depositors, obtain a confirmation that banks; ethical commitments toward them expectations are fulfilled. Therefore, we anticipate the Islamic banks which have active SSB are projected to release more information towards their communities.

(v) The Commitment towards Debtors: According to the Islamic financial principles, Islamic banks are encouraged to take into consideration the circumstances that debtors go through, for instance, when they face financial difficulties in honouring their debts, in such case Islamic banks are encouraged to grant additional time to enable them to repay the debt with ease or to settle the debt through charity (Haniffa and Hudaib, 2007). Accordingly, this means that the financial institutions are required to disclose their policies about late payments and how they deal with insolvent clients (Aribi, 2009).

In this regard, according to AAOIFI Shari’ah standards “it is not permitted to stipulate any financial compensation, either in cash or other consideration, as a penalty in respect of a
delay by the debtor in settling his debt, whether or not the amount of such compensation is
predetermined; this applies both to compensation in respect of loss of income (opportunity
loss) and in respect of a loss due to change in the value of the currency of the debt” (AAOIFI,
2005: 35). In fact, the disclosure of such information would attract more clients to the deal
with Islamic banks. Thus, such commitment can help in developing the concept of social
justice in the community. Having active and expert SSB will boost the banks’ commitments
toward the society, including the debtors, which will have a direct positive impact on the
level of CSR information related to their commitments towards debtors.

(vi) The Zakat, Qard Hassan and Benevolent Funds: In the context of Islamic moral
economy, Zakat institutions have been leveraged to neutralise the difference between the
wealthy and poor and offer assistance to the disadvantaged individuals of the community as
also evidenced in the literature (Shanmugam and Zahari, 2009: 77). Zakat is one of the five
pillars of Islam and refers to a compulsory act of charity on the part of those who are above a
particular level of income or wealth, which underpins the main aim of social justice through
taking into consideration the concept of giving back to the society. Given that primarily Zakat
aims to contribute towards the noble path of poverty alleviation within the society while also
ensuring a relatively equitable distribution of wealth by increasing employment and
productivity, the importance of Zakat institutions cannot be underestimated (Afzal, 1980).
Accordingly, Islamic banks relate eliminating poverty by way of developing employment
opportunities and taking an active part in charitable activities, which needs to be fully
disclosed to positively assist the poor and the needy in the society.

Considering that SSB appears to impact Shari’ah compliance, it can also be foreseen that as a
mechanism of Shari’ah governance, SSB would propel the management to divulge
significant information related to Shari’ah matters. Given such characteristics and their
mission in confirming the compliance with the objectives of Islamic financial law (AAOIFI,
1999c), it can be stated that the SSB may have exerted its influence on the CSR information
disclosure related to disclosures of Zakat and disclosures related to calculations of Zakat and
Zakat distributions and other benevolent funds within Islamic banks’ financial documents
(Maali et al., 2006; Farook et al., 2011; Farook and Lanis, 2007). The stakeholder theory
propounds that an establishment makes certain disclosures in order to gain and sustain the
confidence of its vital stakeholders (Deegan, 2002; Islam and Deegan, 2008). Any lack of
disclosure in this context may result in an information asymmetry involving the bank and its
shareholders, which may compel the bank to be exposed to reputational risk. Based on the established arguments, it can be stated that having an active SSB in a place, will positively impact the disclosure of the CSR dimensions on an individual level. This leads to the following hypothesis:

**H3: The overall score of SSB and the disclosed CSR individual dimensions demonstrate a positive relationship.**

With regards to the control variable, the existing literature has consistently emphasised on the important role that bank size (BS) may play in promoting the CSR disclosure (for example, Al-Tuwajri et al., 2004; Brammer et al., 2006; Mallin and Michelon, 2011). According the finding of Roberts (1992) a positive relationship between the size and CSR was reported, which indicates that the bigger and older the company, the more it will be involved in CSR activities, which creates a positive impact on its reputation. According to the agency theory, firms operating on a larger scale must provide more CSR information to an array of user groups, which most likely will cause to a decline in the investment costs and reduces information asymmetric (Inchausti, 1997). However, in the prior disclosure studies, the relation between the size of the firm and the disclosure reporting is varied. For example, positive associations were observed in (for example, Mangena and Pike, 2005 Alsaeed, 2006; Chavent et al., 2006; Kamal Hassan, 2009), and an insignificant relationship was found in (Rajab and Schachler, 2009). Hence, it can be stated that bank size is one of the most significant determinants of disclosure and accounting policy of choice, and for accounting quality (Rahman et al., 2002; Goodwin et al., 2009). Especially, this position could be supported by arguing that the larger banks are seeing a higher demand to showcase information for customers, analysts and the public (Cooke, 1989; Hossain and Taylor, 2007; Hossain and Reaz, 2007). Hence it is expected the bank's size will positively affect the level of CSR disclosure.

In addition, many studies, in reference to the signalling theory, have made an investigation into the relationship between the disclosure levels and liquidity (LIQ) of companies. For instance, Abdelsalam and Weetman, (2007) reported high levels of disclosure in occupancy with high liquidity ratios. In a study conducted on Egyptian firms, it was observed that the companies with higher amounts of liquidity displayed more voluntary information reporting compared to those with lower liquidity ratios (Abd-Elsalam and Weetman, 2003). Yet, there also have been reports claiming that corporate managers of firms having lower liquidity may
choose to voluntarily disclose more information to provide a satisfactory level of communication to meet the demand of their stakeholders. Based on the results of a study conducted by Ezat and El-Masry (2008) a positive association between information disclosure and liquidity. On the other hand, Aly et al. (2010), based on empirical data, reported a negative relationship between liquidity and voluntary disclosure. Samaha and Dahawa (2010) as cited in Hussainy, et al, (2011) discovered that the general level of voluntary disclosure and liquidity had a positive relationship between them. In a more recent study, which aimed at investigating the association between CSR and liquidity, the results found were contradictory.

Based on the literature, it has been argued that the bank leverage (LEV) may have a critical impression on the level of CSR disclosure. Elzahar and Hussainey (2012) state that, as per the agency theory, the agency cost increases with a high leverage ratio. When debtors convert a more precautionous contract into debt contracts, agency and monitoring costs in highly reputable firms are bound to rise. Previous studies that have pursued investigations on the determinants of corporate disclosure have taken the aid of variable of debt to total assets ratio as leverage. Wallace et al. (1994), in their hypothesis, found a positive relationship between leverage and corporate disclosure. Rajab and Handley-Schachler (2009) clarified that voluntary made by the management may impact the mitigation of the concerns of the creditors on matters of firm solvency, along with their forthcoming well-being with respect to cash flow. Moreover, based on the signalling theory, 97 managers voluntarily disclose the information when the leverage ratio is high to attract investors. In such a case, they may also signal the money lenders that their company can handle both, long and short-term requirements (Elzahar and Hussainey, 2012). Numerous studies reported a positive relationship between leverage and voluntary disclosure (Deumes and Knechel, 2008; Kamal Hassan, 2009; Elshandidy et al., 2013). Other studies have failed to identify any major relationship between voluntary disclosure and leverage (Linsley, et al, 2006; Abraham and Cox, 2007; Rajab and Handley-Schachler, 2009; Elshandidy et al., 2013). Hence, based such substantial literature, it is expected that the bank leverage will have a positive impact on the level of CSR disclosure.

Furthermore, although empirical studies have indicated that the company’s performance/return on deposit (ROD) plays a key role in influencing the corporate social disclosure, the results were found to be mixed in the existing literature. Many studies specify that there is a
significant positive association between the firm’s performance and social disclosure (Roberts, 1992; Hackston and Milne, 1996; Gray et al., 2001; Hossain et al., 2006; Othman et al., 2009; Smith, et al., 2007). However, additional studies have failed to find a single connection between the company’s performance and social disclosure (Cowen et al., 1987; Patten, 1991; Hackston and Milne, 1996; Hamid, 2004; Branco and Rodrigues, 2008). A firm should, from an Islamic point of view, provide full disclosure in any circumstance, no matter if it is a profitable one or otherwise (Haniffa, 2002). Given the fact that the teachings of the Shari’ah highly regards and emphasises on the social responsibility, and the wellbeing of the society, the success of the bank will probably distinctly influence the CSR disclosure level, which may lead to more participation in social activities and enhance focus on improving the lives of people. Therefore, an anticipated positive relationship between financial performance and CSR disclosures can be observed.

Economic performance: Gross domestic product (GDP) is employed to measure the economic growth of country (Samuelson and Nordhaus, 1989), and is popularly used as a measure of the quality of the overall institutional environment. Additionally, GDP plays the role of a primary determinant of the national economic performance for any country. In an empirical study conducted among Asian companies from seven different countries, no association was found between the level of a country’s economy measured by the economic performance and CSR disclosure (Chambers et al, 2003). Hence, a conclusion can be reached that there is no relationship between the GDP and CSR disclosure by Islamic banks in the Gulf region.

4.4. Conclusion
As it has been discussed that based on the unique nature of Islamic financial products and operations that are conducted based on Islamic financial principles that are derived from the objectives of Islamic financial business transaction law, Islamic banks are expected that perform positively towards the CSR activities and potentially they are expected to promote the disclosure of such activities that will positively boost the wellbeing of the society. In addition, based on the developed, it is expected that SSB will positively influence the Islamic bank's ethical performance towards the CSR activities and their disclosures. Moreover, it is expected that SSB overall score will also positively impact the individual dimensions of CSR disclosure in the case of GCC Islamic banks.
CHAPTER FIVE

RESEARCH METHODOLOGY
5.1. Introduction

It is crucially relevant to elaborate the workings of this study through framing the detailing of the key methods and approaches that are most fitted with research aims and objective in order to be able to answer research questions. In other words, it is significant to identify the research methodology to enable the researcher to test the developed hypotheses. Saunders et al. (2012: 5), defines research as “Something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge about the phenomenon under study”. Such an understanding suggests that research must be carried out in a systematic manner by implementing specific research philosophies, strategies, methods as well as instruments to lend credence to the research outcomes. Furthermore, these researches are carried out to decipher certain things about the process of addressing the research questions with a broader aim of achieving the research objectives (Saunders et al., 2012). Figure 5.1 illustrates the research methodology framework that is known as the research onion (developed by Saunders et al., 2012).

**Table 5.1. Sanders Research Onion**

![Sanders Research Onion Diagram](image)

*Source: Saunders: 2012*
According to Saunders et al., (2012), to be able to take an informed decision regarding the type of methodology to apply in any research in social science, is crucial to explore various types of research approaches, philosophies, strategies as well as methods that could be used to carry out researches.

As for structure, the current chapter aims to explore the research philosophy and identifies the philosophical position that this study takes. In addition, the chapter will highlight the approach, design and strategy, which the study aims to adopt in order to optimally address the research questions. Furthermore, to rationalise the research sample, the study will describe the case study in depth. Then, the research methods for data collection and data analysis will be thoroughly explained followed by the research methodology limitation.

5.2. Research Philosophy

Research philosophy specifically refers to the manner in which a research develops certain assumptions in a specific field of study that will assist in developing knowledge (Saunders et al., 2009). In order to obtain a more comprehensive understanding of the research philosophy, it is imperative to discuss the two types of research philosophy, namely: ontology and epistemology.

The ontology refers to the researchers’ notions about the reality as well as the nature of actual of the world that is being investigated. It proposes that the knowledge does exist and must be practically found out (Saunders et al., 2012). Although, the ontology entails two viewpoints, the subjectivist and the objectivist. Per the objectivist view, irrespective of the dynamics between the myriad social components - reality exists. In other words, it argues that the reality is self-governing and has its presence as an extraneous factor within society and hence, is outside the purview of the researcher’s influence. Alternatively, the subjectivist view proposes that reality is viscerally moulded in the viewpoints of social actors as they see it (Adams et al., 2007).

The epistemology, on the other hand, unlike ontology which emphasises on the nature and existence of reality, epistemology highlights the mannerisms that allow the researchers to obtain a deeper insight into the essence of reality. Furthermore, the appropriateness and source of knowledge are of primary consideration in the realm of epistemology (Johnson and Duberley, 2000). To have a comprehensive understanding of the epistemology, it is significant to understand three dimensions explain such philosophical position, including
positivism, realism, and interpretivism (Saunders et al., 2009).

Per positive epistemology, phenomena are explained in the context of a casual association between their components. On the contrary, anti-positive epistemology points out that it is possible to extrapolate on social phenomena by considering the perceptions of actors who are parts of the social phenomena (Saunders et al., 2012). Additionally, in their study, Saunders et al. (2012) note that positivism is essentially a research philosophy which lends support to the researcher who is investigating an independent and observable social reality. Positivists opine that reality exists objectively and can be quantified regardless of the researcher's influence or intervention (Collis and Hussey, 2013). It can be stated that positivistic thinkers aim to uncover the truth and make use of scientific methods to develop appropriate knowledge systematically. Accordingly, the positivistic researchers typically rely upon quantification to augment the credibility and accuracy of outcomes and present it by using empirical methods (Johnson and Duberley, 2000). Hence, it can be stated that research can be deemed as positivist if there is a hypothesis about the world’s nature. In such situations, the researcher assesses these hypotheses, basing the evaluation of data collected from a representative sample of a large population. Thus, the hypothesis is not rejected or modified; the results are accordingly generalised to the entire population (Saunders, et al., 2012). Positivist researchers are known to advocate extremely structured methods focusing on measurable observations while making use of statistical analysis (Adams, et al., 2007).

Realism, which is another paradigm of epistemology, in a similar manner with positivism position, it follows a scientific approach to enquiry and knowledge accumulation (Saunders, et al., 2012). Realism can be classified into two types - critical realism and direct realism. Critical realism proposes that the researcher’s experiences are nothing but an impression that is a part of a bigger image and is not the object itself. On the other hand, direct realism points out that the researcher obtains exactly what he/she sees. (Saunders, et al., 2012; Sobh and Perry, 2006).

Per interpretivism, reality exists in myriad forms and is predicated on the role and scope of social actors. It implies that the topic of research is influenced by the researcher wherein the social world is vulnerable to rapid changes, with the researcher being a part of the world (Saunders, et al., 2012). Furthermore, interpretivist researchers are under the assumption that it is only via subjective intervention that reality can be investigated (Scotland, 2012). In other words, interpretivism propounds the idea that reality is not determined objectively and is
socially constructed. The belief that the people’s notions that their activities can be better understood if people conduct themselves appropriately within social contexts underlines the assumption (Collis and Hussey, 2013). This approach also advocates using qualitative data for developing knowledge (Power and Gendron, 2015).

However, when investigating a social phenomenon requires more than one type of approach or multiple paradigms, then pragmatism could be a rational philosophical position to take. Pragmatism supports leveraging mixed methods, by merging qualitative and quantitative research designs. This combination was extensively used back in the 1980s. Subsequently, in the 1990s, a combination of these two approaches within the same research has been explored with taking into consideration that most likely belongs to different stages within the research structure (Joas, 1993). While pragmatists did not overlook the presence of a fundamental relationship, they asserted that the likelihood that most of these associations may not be very strong. The phenomenon of external reality was not unacceptable to pragmatists; they also regarded the effectual components of the beliefs as well as values in expounding on the findings (Creswell, 2014). Nevertheless, they lent support to the possibility of dual viewpoint - objective and subjective. In addition, pragmatists maintain that research gets impacted by several notions including, assumptions, theory, observations, proofs and truths (Johnson and Onwuegbuzie, 2004).

Owing to the fact that this study aims at measuring the Corporate Social Responsibility (CSR) disclosure levels as demonstrated by the Islamic banks and examining Shari‘ah supervisory board’s (SSB) effect on the CSR disclosure level, it can be stated that to meet the research aims and objectives a combination of quantitative and qualitative approaches will be applied to permit the investigator to answer the research questions in which pragmatism is applied as the philosophical stance of this research. Pragmatists emphasise that a dummy separation between the two approaches emerges, and it is left to the scholars to make optimum utilisations of both paradigms, which subsequently results in a heightened understanding about the research problem (Reichardt and Rallis, 1994; Howe, 1988). Therefore, the researcher can apply this pragmatist paradigm to conduct the research under investigation in light of the aforementioned principles. Additionally, given that the paradigm combines the methods of qualitative and quantitative methods, thereby allowing the researcher to preclude the disadvantages of employing any of the other paradigms.
5.3. Research Approach

Research approach refers to the process, which a researcher may develop in order to construct a systematic framework towards rationalising the techniques to be able to fulfil the research aims and objectives (Saunders et al., 2012; Creswell, 2014). To be able to identify and rationalise the adopted research approach in this research, it is vital to elaborate the two key research approaches including, qualitative and quantitative.

While the qualitative research approach, evidently emphasises on the observation quality in exploring the social phenomenon. The qualitative approach usually takes into consideration the nature of the association as apparent involving the researcher and the social event under investigation. The qualitative researcher target to obtain answers to questions that debate the way that a social event occurred and the way that such social event could be interpreted (Saunders et al., 2012). Contrarily, the quantitative approach refers to the way that a researcher could investigate a social event through conducting a statistical analysis between the examined variables to test the developed assumptions. They look at the social phenomenon as a natural science that can be understood and investigated by using a quantitative type of data (Bryman, 2006; Saunders et al., 2012).

Given such understanding and based on the aims and objectives identified in this research, it can be stated that this study will apply both the approaches, the qualitative and quantitative. Hence, it can be stated that this study will use triangulation approach that consists of both qualitative and quantitative approach as following such approach will provide the research with more flexibility in adopting and applying the required tools and techniques to riposte research questions as supported by Bryman (2006) and Saunders et al., (2012).

5.4. Research Design

In social science, the research design is considered one of the major steps that a researcher needs to clearly classify the process of operationalising the research in a practical manner through a clear identification of the tools and techniques that the researcher is capable of answering the research questions (Saunders et al., 2012). Accordingly, it can be stated that the research design guides the researcher to connect the theories with research hypotheses and the required data collection and data analysis methods to achieve the result that may accept or reject the developed hypotheses.

The research design can be categorised into three types, namely: exploratory, descriptive or
explanatory. The exploratory design featured with flexibility patterns and is applied when a researcher does not have a rich knowledge of a social phenomenon and tries to investigate the most possible outcomes that may provide answers of the nature of such event. Therefore, this type of design is known by the most suitable approach when a researcher wishes to discover new events. This design is usually connected to with approaches in investigating, such as reviewing the literature and interviewing the participants to understand the event under investigation (Saunders et al., 2012; Sekaran and Bougie, 2010).

The explanatory design, on the other hand, refers to the approach of studying a social phenomenon by examining the association among the related variables. It mainly deals with the quantitative type of data. However, having such an understanding does not mean that researchers following such design cannot deal with the qualitative type of data (Collis and Hussey, 2009; Saunders et al, 2012). Another label for this design is ‘analytical’ research (Collis and Hussey, 2009). Explanatory designs entail an association between two or more variables with an emphasis on explaining the relationships between variables and considering the potential explanation of the causes that lead to such association (Creswell, 2012).

The third type of research design is the descriptive design which is applied when the situation is clear to the researcher. The descriptive research is aimed at obtaining a precise account of events, participants or circumstances, which could signify an extension of the exploratory research or serve as a forerunner to explanatory research (Saunders et al., 2012). It also describes phenomena as they exist; hence, it is primarily employed for information identification and retrieval, pertaining to a specific problem and this has been highlighted by several scholars (Collis and Hussey, 2009; Saunders et al., 2012; Sekaran and Bougie, 2010).

Considering that the current research focuses on developing the hypotheses underpinned by the existing theories and test them by examining the causal relationship among the assessed variables, this research will adopt the explanatory design to answer the research questions by either accepting the developed hypotheses or rejecting them based on the obtained results. Therefore, this study should be considered as an exploratory study, owing to the fact that it primarily aims at exploring the socially responsible activities and its several categories and ascertain the CSR disclosures extent among the Islamic banks. The paper adopts an explanatory case study methodology, evident in the second chapter that provides an empirical discussion, which is aimed at measuring the effect of SSB/ICG related variables on the CSR disclosures of Islamic banks. With regard to the nature of case study as the paper reviews the
GCC region Islamic banks (for example, banks operating in the region of Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman and Qatar), it is suitable for being termed as an archival case study. Therefore, this research because of the several approaches should be categorised as a multi-design research of exploratory and explanatory wherein each research design reacts constructively to each specific research delineation.

5.5. Research Strategy

Saunders et al. (2012) state that the research strategy refers specifically to developing the knowledge that assists the researcher in identifying appropriate approaches that enable achieving the research aims and objectives. To have a wholesome understanding of the research strategy that will be applied in this study, it is crucial to critically explore two types of approaches, namely: deductive and inductive strategy.

While the researchers applying deductive start with existing theories to construct the research hypotheses then test the developed hypotheses through examining specific observations, whether these observations are qualitative or quantitative or whether they are the primary or secondary type. Based on this approach, the researcher based on the obtained results will either confirm the developed hypotheses or reject them (Saunders et al., 2012; Bryman and Bell, 2015). The deductive strategy is visualised in Figure 5.1.

**Figure 5.2. Deductive Process**

![Deductive Process Diagram](Source: Saunders et al., 2007)

On the hand, the inductive strategy is applied when the researcher starts with a specific observation to generate a general theory. In another word, the researcher begins with data analysis and ends up with producing a new theory in the field of study (Bryman and Bell, 2015). The inductive strategy is visualised in Figure 5.2.

Due to the nature of the aims and objectives of this research, the deductive approach is considered ideal to facilitate addressing the research questions, optimally and in a systematic
manner. Particularly so, as the research is developed on the hypotheses sourced from the existing theories and subsequently examines the relationships between the assessed variables to test the developed hypotheses.

**Figure 5.3 Inductive process**

![Inductive process diagram]

*Source: Saunders et al., 2007*

**5.6. Research Methods**

In conducting research in social sciences, having a well-defined understanding of the research methods provides the researcher with a clear process of identifying the nature of data required and the tools and techniques of collecting and analysing them in a systematic manner (Bryman, 2015). Crotty (1998: 3) defines methods as “the techniques or procedures used to gather and analyse data related to some research questions or hypothesis”. The research method involves with “a specific instrument, such as a self-completion questionnaire or a structured interview schedule, or participant observation whereby the researcher listens to and watches others” (Bryman, 2001: 29). As mentioned earlier, the researchers may adopt research methods based on the research approach they follow. Accordingly, the research methods can be classified into qualitative, quantitative and mixed (Bryman, 2001: 29).

Furthermore, according to Creswell (2013), it can be given three general strategies to inquire about any research study that entails mixed methods, namely: concurrent, transformative and sequential. In a concurrent strategy, the researchers tend to construct and combine and both approaches (qualitative and quantitative), which allows for an all-around evaluation of the research problem. Consequently, this can be accomplished using the practices from both approaches with regards to collecting and interpreting data. Specifically, in transformative strategy, the researcher aims to engage a theoretical perspective that operates as an all-inclusive assessment which incorporates both the approaches. This over-arching
conceptualization equips the study with a singular structure for the data gathering and issues as well as data compiling procedures, and the projected inferences or modifications during the research process (Creswell, 2013). The sequential method is used by researchers in an attempt to augment as well as expand the results of one method over others. Here, the researcher can prioritise one of the two methods or approaches (Creswell and Clark, 2011). Moreover, in a sequential exploratory strategy, the researcher may focus on one particular method and give it the priority (Creswell, 2009: 211). Sequential exploratory entails a mixed method strategy. Herein, the initial commencement stage pertains to qualitative data collection and analysis and is followed by the second phase, which includes quantitative data collection and analysis, thereby improving upon the first phase results. According to Terrell (2012), it is widely used by several researchers, with the concurrent use of quantitative data and supports the qualitative findings’ interpretation.

The first empirical part of the study aims at assessing and analysing the CSR disclosure demonstrated by the GCC countries Islamic banks through formulating the CSR disclosure index using content analysis. Herein, it also utilises the qualitative research approach, which is followed by the measurement and interpretation by quantifying the qualitative data. In the second empirical part, in order to measure the impact of the Islamic SSB on CSR disclosure, this research adopts a quantitative research tool, namely the regressions analysis, therefore, this research utilises the concurrent mixed method.

5.6.1. Research Methods for Data Collection and Analysis

5.6.1.1. Data Collection Methods

In order to evaluate the CSR disclosure as demonstrated by the Islamic banks and compile relevant data in the context of SSB, this research will use content analysis to collect secondary data which would be sourced from annual reports of the sampled banks. In addition, this research will gather the data related to the control variable from the financial statement of the sampled banks from the Bankscope database. With regards to the macroeconomic control variable, such as GDP, this research will obtain from the data World Bank database.

The secondary data are used in this study due to some advantages (Cowton, 1998), such as: (i) the existence of data, (ii) ease of collection through online media, print media, company reports, government publications, public databases, stock exchanges, (iii) data collection not
done directly from the field, (iv) data can be used by the researchers in diverse formats, (v) data collection is less expensive and more efficient, (vi) data representative of international and national scope available, (vii) easy of data collection for longer time periods and software processing.

5.6.1.1. Annual Reports

Given that the key variables, that are used to meet the research aims, are collected from the annual reports, it is crucial to establish a clear understanding of it and the rationale of using them. It can be stated that the annual reports are formal public documents that a company produces in compliance with the compulsory business reporting mandates that exist in the majority of the Western economies, as discussed by several studies (for example, see Santon and Santon, 2002: 478). Furthermore, according to Daub (2007), the annual report can also be called a company business card, which is reflective of the fact that it offers the intended readership base with a wholesome image of the publishing organisation (Daub, 2007: 75). The annual reports, in fact, constitutes a mode, which is used by the companies to keep in touch with their stakeholders; to back up this choice, the literature evidences it as a propeller of disclosure (Malafronte et al., 2013) and acts as an extensive information source owing to the expansive coverage as well as accessibility (Beretta and Bozzolan, 2004). In addition, the annual report’s disclosure levels are interconnected and allied positively with media-driven corporate disclosure (Marston and Shrives, 1991, Lang and Lundholm, 1993).

Commonly, according to Stanton and Stanton (2002), an annual report is structured in two sections (i) statutory financial statements; and (ii) non-statutory matters. It has also been observed that the content changes made be partially mandatory and partially autonomous. Tsang (2001) makes an argument that in comparison to earlier drafted reports, the annual reports produced currently are more qualified with the use of colourful graphs and diagrams as well as elaborate blueprints and interesting papers. A growing acknowledgement has been evidenced concerning that annual reports mandatorily serve disclosure functions, which can be instrumental to public relations function. According to White and Hanson (2002: 455) “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”.

Beretta and Bozzolan (2004) state that companies have begun to progressively distinguish the annual reports as an interaction medium with the stakeholders. Additionally, it has been
evidenced to serve as a platform for disclosing significant positive results, and core values, to comfort the stakeholders in challenging times like financial slowdown; for stakeholders, making sound decisions is imperative, and its content primarily appeals to the shareholders, regulators, and customers (Stanton and Stanton, 2002). The solving of the issue regarding asymmetric information sharing between the principal and the agent is facilitated with the information disclosure in the annual report (Hill and Jones, 1992). Companies are aware that disclosure plays a crucial role; however, while being beneficial, it is not cost effective and does not take the pressure off of investment of shares and proficiency. Therefore, the alternatives do not pertain to disclosing information or not, but to tactically decide when, in what manner and the content to be communicated (Malafronte et al., 2013).

In this study, the focus is on annual reports of the sampled Islamic banks in order to assess their CSR disclosure and identification of annual report as the main dataset source is justified by the following points:

(i) Annual reports provide highly credible information (Tilt, 1994). (ii) the source of one the most easily available information sources regarding companies are annual reports, both in hard copies and electronically (Yusoff and Lehman, 2009). (iii) The annual report follows a statutory compliance, which is updated regularly and is considered effectively the most important document for firms for social image construction (Hines, 1988). (iv). When a company is seen, and judged, its financial image plays a very critical role in this judgement, whereas the social and environmental factors are likely to cause recurrent clashes with the company and its owners’ financial goals. Therefore, when a company, compiles all the information in the same report pertaining to its financial, social as well as environmental aspects, the document emerges as an essential record of company’s approach towards such matters (Gray et al., 1995b: 82).

5.6.2. Data Analysis Methods and Research Instruments

5.6.2.1. Research Instruments for Disclosure Analysis:

The current section presents the CSR disclosure definition and the CSR disclosure index construction approaches.
5.6.2.1.1. Defining the Dimensions and Sub Dimensions of CSR Disclosure Index

The construction of CSR disclosure index’s dimensions and sub-dimensions is underpinned by the developed CSR-related standards of AAIOFI and previous studies. Herein, specifically, the studies addressing the CSR disclosure through an Islamic financial perspective have been used as guides. It should be noted here that choosing dimensions for CSR the same as previous studies are mainly for comparability purpose (Gray et al., 1995a: 80). These previous studies include Haniffa and Hudaib (2007); Aribi and Gao (2012); Aribi and Arun (2015) and Platonova et al. (2016).

Following Platonova et al. (2016) model, this study constructs CSR index based on six dimensions, namely: “mission and vision statement”, ‘products and services’, ‘commitment towards employees’, ‘commitment towards debtors’, ‘commitment towards society’; ‘Zakat (compulsory alms donated by those whose income surpasses a certain threshold level, with a feeling of ‘returning the right of society to society’) charity and benevolent funding”.

It is worth noting that for this study, the cultural dimension is excluded as the GCC region have the same socio-economic structure (the same language, religion, habits and traditions). In addition, following Platonova (2014), the environmental dimension which is suggested and employed in many of CSR disclosure studies also excluded due to the unavailability of the information pertaining environmental factors in the sampled Islamic banks’ annual reports. Table 5.1 presents dimensions and sub-dimensions that are used to measure CSR disclosure practices as demonstrated by the sampled GCC region Islamic banks.

Table 5.1. Dimensions and Sub-Dimensions of the CSR Disclosure

<table>
<thead>
<tr>
<th>Main Dimensions</th>
<th>Sub-Dimensions</th>
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<tbody>
<tr>
<td>Vision and Mission</td>
<td>• Commitments in operating within Shari’a principles/ideals</td>
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<tr>
<td></td>
<td>• Commitments in providing returns within Shari’a principles</td>
</tr>
<tr>
<td></td>
<td>• Current directions in serving the needs of the Muslim community</td>
</tr>
<tr>
<td></td>
<td>• Commitments to fulfil contractual relationships with various stakeholders via</td>
</tr>
<tr>
<td></td>
<td>contract (uqud) statements</td>
</tr>
<tr>
<td></td>
<td>• Future directions in serving the needs of the Muslim community</td>
</tr>
<tr>
<td></td>
<td>• Commitments to engage only in permissible financing activities</td>
</tr>
<tr>
<td></td>
<td>• Commitments to fulfil contracts via contract (uqud) statement</td>
</tr>
<tr>
<td></td>
<td>• Appreciation to customers</td>
</tr>
<tr>
<td></td>
<td>• Focus on maximising stakeholder’s returns</td>
</tr>
<tr>
<td>Product and Service</td>
<td>• No involvement in non-permissible activities</td>
</tr>
<tr>
<td>Commitment towards Employees</td>
<td>Commitment towards Community</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------------------</td>
</tr>
</tbody>
</table>
| • Involvement in non-permissible activities-% of profit  
• Reason for involvement in non-permissible activities  
• Handling of non-permissible activities  
• Introduced new product  
• Approval ex-ante by SSB for new product  
• Basis of Shari’ah concept in approving new product  
• Glossary/definition of products  
• Investment activities–general  
• Financing projects–general | • Employees appreciation  
• Number of employees  
• Equal opportunities policy  
• Competitive salary  
• Employee welfare  
• Training: Shari’ah awareness  
• Training: other  
• Training: student/recruitment scheme  
• Training: monetary  
• Reward for employees | • Women branch  
• Creating job opportunities  
• Support for organisations that provide benefits to society  
• Participation in government social activities  
• Sponsored community activities  
• Commitment to social role  
• Conferences on Islamic economics and other educational areas | • Bank liable for zakat  
• Amount paid for zakat  
• Sources of zakat  
• Uses/beneficiaries of zakat  
• Balance of Zakat not distributed–amount  
• Reasons for balance of zakat  
• SSB attestation that sources and uses of Zakat according to Shari’ah  
• SSB attestation that Zakat has been computed according to Shari’ah  
• Zakat to be paid by individuals-amount  
• Sources of charity (sadaqa)  
• Uses of charity (sadaqa)  
• Sources of qard al-hassan  
• Uses of qard al-hassan  
• Policy for providing qard al-hassan  
• Policy on non-payment of qard al-hassan |

Source: Platonova et al., (2016: 5)
5.6.2.1.2. Defining the Dimensions of SSB Index

Based on the existing literature, the key dimensions of SSB include (i) the existence of SSB (EXSSB), (ii) number of board members (SSBN), (iii) cross membership (SSBCROSS), (iv) secular educational qualifications (SSBPHD), (v) scholars’ reputation (SSBREP) and (vi) SSB expertise (SSBEXP).

Having SSB to audit and ensure that all monetary happenings are in accordance with the Islamic financial principles is crucial to diminish the differences between the interest of the investors and the management of the bank which will positively impact the CSR activities disclosure level. According to the AAOIFI standards, the SSB is supposed to individually direct and guide the transactions of Islamic banks, with the purpose to ensure compliance with the Shari’ah rules and principles. This board is not subordinate to the board of directors and is allowed to participate and deliberate in the meetings of the Board of Directors regarding the religious aspects of their decisions towards an alignment with Islamic financial principles (AAOIFI, 2005). AAOIFI (2006), states that the SSB members are required to be self-regulating and impartial to gain the trust of both the investors and the public in Islamic financial institution operations, through ensuring a transparent Shari’ah compliant picture of the corporation. In addition, the SSB should consist of the following quorum: three members minimum, with one member having sufficient knowledge of Islamic economics issues (AAOIFI, 2005). This is commonly seen in Islamic banks as per the AAOIFI standards. A higher SSB member conglomerate would lead to the provision of more effective monitoring as well as more alignment with the Shari’ah rules and principles. Chen and Jaggi (2000), state that a larger board size of the board would minimise the possibility of information asymmetry. Due to the unique nature of the knowledge that is required from the SSB members, some of the members may sit on different boards simultaneously. Furthermore, cross membership may allow the members of the SSB to optimally utilise their tactic and explicit knowledge in Shari’ah rulings’ application in the Islamic banking. An SSB cross members’ increase may impact knowledge improvement pertaining to the Shari’ah principles enforcement as regards corporate reporting, which, in fact, entails CSR disclosure. Based on the accountability theory, accountability and transparency of the disclosed information may be increased in case of cross membership of SSB (Lorsch and MacIver, 1989; Haniffa and Cooke, 2002; Haat et al., 2008). It is also important that members of the SSB hold a high level of educational degrees, particularly PhD qualification as higher education plays a vital role as a noteworthy established asset, which could influence the values and practices
pertaining to accounting (Gray, 1988). Moreover, education can be utilised as a singular measure for the determination of the professional level (Grace, Ireland and Dunstan, 1995). Wallace and Cooke (1990: 84) argued that “an increase in the level of education in a country may increase political awareness and demand for corporate accountability”. In addition, the reputation of the SSB members as the reputation of Shari‘ah scholars may stems from different aspects including their ethical orientation in auditing and making judgements on the business operations of Islamic banks that directly increase their popularity within the industry as well as the community that may directly have a positive impact on corporate reporting which may boost their disclosure performance. To ensure the compliance of all financial operations with Islamic financial principles, with a particular emphasis on the transparency of corporate reporting of Islamic banks, SSB members are required to have the necessary expertise in Islamic finance (AAOIFI, 2005; Al-Mahmoud, 2007; Al-Qattan and Abdul Sattar, 2007). Given such an understanding of the key issues, this research follows the existing literature in adopting the index below as a measurement of SSB variable.

**Table 5.2 the Dimensions of SSB Index**

<table>
<thead>
<tr>
<th>Dimensions of Shari‘ah Supervisory Board</th>
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<tbody>
<tr>
<td>1 Existence of the SSB</td>
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<tr>
<td>2 Number of board members</td>
<td></td>
</tr>
<tr>
<td>3 Cross membership</td>
<td></td>
</tr>
<tr>
<td>4 Higher Educational qualifications</td>
<td></td>
</tr>
<tr>
<td>5 Reputation of scholars</td>
<td></td>
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<tr>
<td>6 Expertise of the SSB</td>
<td></td>
</tr>
</tbody>
</table>

Source: Rahman and Bukair (2013); Farook et al., (2011).

**5.6.2.1.3. Constructing CSR Disclosure Index**

In order to address the CSR disclosure related research question, it is important to have an in-depth understanding of the process that this study applied. According to Dragomir (2010: 368) the disclosure index “involves classifying text units into categories”. Yusoff et al. (2006: 10) highlights that “using disclosure index as a part of content analysis is considered a most useful technique because 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”. The utility of disclosure index in the form of an optimal research method has been evidenced in several studies (for example, Hossain et al., 2006; Maali et al., 2006; Cheung et al., 2010).
Guthrie and Abeysekera (2006: 11) stated, “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”. The disclosure index is helpful in identification of disclosure levels and presence of particular predefined information from the annual reports. With specific reference to this study, the disclosure index is utilised for measuring the Islamic banks’ CSR disclosure scores. The literature review shows that the previous studies adopted the initial item selection approach as disclosure index representative, which is subsequently utilised in the annual report screening.

Typically, the disclosure index development involved several steps as evidenced in previous research (for example, Maali et al., 2006; Haniffa and Hudaib, 2007; Hassan and Harahap, 2010; Williams and Zinkin, 2010; Kamla and Rammal, 2013; Platonova et al., 2016). This study constructs the CSR disclosure index based AAOIFI (No. 7, 2010) and previous literature (for example, Maali et al., 2006; Haniffa and Hudaib, 2007; Hussainey and Elsayed, 2011; Aribi and Gao, 2012; Platonova, 2014; Mallin, et al., 2014; Platonova et al, 2016). The review of previous research is aimed at developing an improved understanding of the previous developments of CSR disclosure items to construct an optimal disclosure index.

As a next step in constructing the CSR disclosure index, this study follows a very careful process of selecting the items which underpinned by the AAOIFI (No. 7, 2010), in accordance with previously conducted studies, specifically Platonova et al. (2016). In the study of Platonova et al. (2016), six dimensions were described for disclosure volume measurement. These dimensions are aimed at determining the CSR disclosure checklist themes and sub-themes as well as identifying the CSR items location in the annual reports. Correspondingly, for the determination of CSR disclosure magnitude of the sampled Islamic banks annual reports, the current study makes use of previously employed a divided approach (Cooke, 1989; Hossain et al. 1995; Haniffa and Hudaib, 2007; Platonova et al. 2016). Specifically, in order to determine the CSR disclosure extent in the annual reports, this study developed a scoring scheme. However, some studies (Mallin, et al., 2014; Aribi and Arun, 2015 as cited in Platonova et al. 2016: 8) focus on the environmental dimension in evaluating the disclosure of CSR activities in the traditional and Islamic financial institutions and this has not been implemented in this study, as the data collated showed no relevant information on the environmental issues of any of the sampled GCC Islamic banks annual reports.
In addition, in order to conduct the verification of disclosure index, following previous research (for example, Singhvi and Desai, 1971; Hossain et al., 1995; Barako et al., 2006) an external examiner has also been employed in certain studies towards validation of the disclosure index, who are selected from the available pool of experts or authorities in the area of accounting areas for verification of the disclosure index list. The researcher, in the current study, substantiated items which were developed in the index through conducting detailed and in-depth consultation with academic scholars and researchers with a background in accounting and CSR disclosure knowledge.

The fourth step involves the decision to use a disclosure index weighting. This study, for the determination of CSR disclosure level, utilises an un-weighted disclosure index, which as evident from literature review has been widely used to measure the practices followed in CSR disclosure (Haniffa and Hudaib, 2007; Maali et al., 2006; Elzahar and Hussainey, 2012; Platonova et al., 2016). Correspondingly, the current study found it ideal to utilise this method for the measurement of sample GCC Islamic banks CSR disclosure. Gray et al. (1992), states the necessity of an equal treatment of all the index list items, in order to utilise a weighted disclosure index, also the items will be scored using the dichotomous method. During the research analysis, through a careful assessment of each individual CSR dimension and sub-dimension, the statements were systematically identified as being part of the sampled GCC Islamic banks’ annual reports. Correspondingly, for determining the CSR disclosure extent as mentioned in the annual reports - the analysis entailed development of a scoring scheme using the dichotomous technic (Cooke 1989; Hossain et al. 1995; Haniffa and Hudaib 2007). According to the scoring system, a score of (1) was given to sample Islamic GCC bank, if an index item was in the report and (0) otherwise. These scores were then compiled to provide the quantity of complete CSR disclosure extent per Islamic bank. In this ongoing study, with the use of un-weighted dichotomous approach, the constructed CSR disclosure index supposes the equivalent significance of each item (Cooke 1989: 115). The ideal use of un-weighted indices in this study is seconded by previous research, which states that indices targeting all users and not concentrating on a specific group of annual report users (Cooke 1989: 115).

Chow and Wong-Boren (1987), argue the individual strength of the disclosure index, despite its controversial nature, particularly in relation to the subjectivity resulting due to the researchers’ discretionary input in the study analysis. Also, according to Gray et al. (1992),
the CSR disclosure quality and quantity extent can be revealed with the complete disclosure index, as it evaluates and reviews the annual reports. As the disclosure index which has been used in this study is underpinned by accounting standards, past literature, several other sources and reviewed against other disclosure items, with concurrent expert validation and checked for current updates (Maali et al., 2006), it can be stated that following such process makes it extremely robust and comprehensive.

Correspondingly, following Haniffa and Hudaib (2007: 103), CSR disclosure is calculated as the ratio of points awarded over the total number of selected dimensions (Platonova et al., 2016: 5), for index estimation:

$$\text{CSRDI}=\sum_{i=1}^{n} \frac{X_{ijt}}{N}$$

Where:

- $CSR$ disclosure index denotes the CSR disclosure index for dimension $j$ in period $t$;
- $X_{ijt}$ is variable $X$ ($1 \ldots n$) for dimension $j$ and time $t$;
- $N$ is the number of variables/ statements.

Several considerations were weighed prior to designing the CSR disclosure index through content analysis which is the initial research instrument:

(i) Each dimension from the CSR disclosure should be taken into account by the research instrument for measurement;

(ii) The initial checklist should include the six CSR disclosure dimensions;

(iii) Different themes should be established for categorisation of each CSR item, which can aid in subsequent analyses.

The current study uses the content validity assessment in alignment with the existing literature related to CSR disclosure (Hope, 2003; Tsalavoutas and Dionysiou, 2014; Hassan and Marston, 2010) to ensure validity. The instrument is designed and modelled based on the previous literature, which makes certain the inclusion of relevant and adequate items for CSR disclosures measurement. Also, to ensure that the instrument is valid, the checklist design is followed by an independent review by the supervisors and the researcher, which is in
alignment with (for example, Tsalavoutas and Dionysiou, 2014). The suggestions and comments raised by the reviewing members are taken into consideration and discussed in detail towards the improvement of the research instrument’s rationality.

5.6.2.1.4. Content Analysis

Berelson (1952: 18), states that content analysis ensures a methodical, factual and quantitative explanation of the communication content. It can be stated that this definition can be considered as the most popularly accepted definition of content analysis. Krippendorff (1980: 21), described this approach of analysing text as “a research technique for making replicable and valid inferences from data to their context”. Correspondingly, Gray et al. (1995), state that the term content analysis refers to a systematic, objective and quantitative tool for communication measurement. According to Carney (1972: 21), this research technique identifies specific message characteristics to make objective and systematic inferences. Furthermore, Weber (1985) states that content analysis is a methodology to put the content or the text in a code subject to specifically selected criteria. In this regard, Guthrie and Abeysekera (2006) state that content analysis allows for optimal information reporting through collating annual reports data in pre-defined categories to derive patterns.

According to Belkaoui and Kaprik (1989), there are five distinct social disclosure measurement methods. These five measurement methods include (i) Method proposed by Ernst and Ernst (1973), (ii) Social disclosure scale, (iii) Annual report percentage proposal, (iv) CSR disclosure quality in annual report, and (v) CSR disclosure quantity in the annual report.

It is important to state that the content analysis has a whole spectrum of advantages (Hussainey, 2004). It offers is the ease of conducting quantitative and qualitative analysis harmonically. It has also been playing a key role in emphasising on social communication as a central aspect as it takes into direct consideration texts and content. In addition, it can be stated that it is useful in identifying patterns and trends manifested in the document through the historical analytical insight into the study content.

However, the main drawback of this technique is the fact that it can be expensive and time-consuming (Hussainey, 2004), particularly when being employed for analysing large content or data. Hence it can be argued that this is a labour-intensive reading process requiring several hours of commitment (Boesso and Kumar, 2007). Also, as the technique is conducted
manually, the analysis is prone to mistakes committed by human coders (Kim and Kuljis, 2010), as during handling a large data, significant text may be overlooked.

Several scholars (Gray et al., 1995; Milne and Adler, 1999), state the wide employability and content analysis use in previous CSR research. Likewise, Aribi and Gao (2010) evidence the well-established nature of content analysis as the preferred choice in studying CSR reporting. Since 1978, this technique has been proved as robust basis in the social disclosure literature as many studies evidence the wide preference and adoption of content analysis method in social responsibility disclosures (for example, Ingram, 1978; Ingram and Frazier, 1980; Guthrie and Parker, 1989; Gamerschlag et al., 2010; Zainal et al., 2013; Aribi and Arun, 2014; Platonova, 2014; Platonova et al. 2016).

For data recording, towards achieving the objective of current research, the study has employed manual content analysis. This is corroborated by studies (Hussainey, 2004; El-Halaby and Hussainey, 2015) the comparably better efficacy of the traditional content analysis via manual reading in theme identification from study content than computerised.

Furthermore, to confirm the accuracy of the CSR disclosure and SSB related dimensions, the current study crosschecks the disclosure indices with two academic experts to confirm the indices’ reliability and validity. Per Beattie and Thomson (2007), this ensures the overtime consistency of the same coder, during same items coding process according to stability and analogous results according to reproducibility.

5.6.2.1.5 Reliability and Validity of content analysis

As per Milne and Alder (1999), content analysis necessitates a strong focus on the dependability of instruments and data collection. There are two ways of attaining reliability: by using a coder; and employing several coders. Notably, this single coder must be provided with appropriate training time to attain a skill level that is acceptable (Milne and Alder, 1999).

The content analysis comprises two types of reliability: accuracy and stability (Krippendorff, 2004, pp. 130-132). Accuracy gauges the performance of a review of coding using preset standards, whereas stability pertains to a coder’s ability to code data in the exact same way over a period of time, thereby eliminating the requirement of multiple coders.
Based on the research conducted by Guthrie, Cuganesan, and Ward (2008), three ways of boosting the reliability in analysing/recording the data can be applied. To begin with, the disclosure themes were selected from pertinent literature. In addition, dependable coding instruments that involve well-defined rules of the decision have emerged in order to lower discrepancies as well as to meet standards of objectivity. Finally, the coder was given the appropriate time of training to attain reliability through the review of an insignificant sample of yearly reports that were evaluated during the course of pilot study. Such procedures got employed in order to safeguard the robustness of these measurements across different periods.

5.6.2.2. Research Instruments for Examining the Impact of SSB on CSR Disclosure

In order to evaluate the SSB impact on the level of CSR disclosure, following the existing literature (AAOIFI, 2005; Maali et al., 2006; Haniffa and Hudaib, 2007; Farook et al., 2011; Platonova et al., 2016) this research develops three regressions models as below:

Model 1: Examining the Impact of SSB on CSR Disclosure using Panel Data Regressions with Fixed Effect Test:

\[
CSRDI_{bit} = \alpha + \beta_1 SSBSCORE_{bit} + \beta_2 BS_{bit} + \beta_3 LIQ_{it} + \beta_4 LEV_{it} + \beta_5 ROD_{it} + \beta_6 GDP + \epsilon
\]

Model 2: Examining the Impact of SSB on Individual Dimensions of CSR Disclosure using Panel Data Regressions with Fixed Effect Test:

\[
IDCSRDI_{bit} = \alpha + \beta_1 SSBSCORE_{bit} + \beta_2 BS_{bit} + \beta_3 LIQ_{it} + \beta_4 LEV_{it} + \beta_5 ROD_{it} + \beta_6 GDP + \epsilon
\]

Where:

\(CSRDI_{bit}\) is the total CSR disclosure score that bank \(b\) in country \(i\) during the period \(t\) performs;

\(IDCSRDI_{bit}\) is the individual dimensions (mission and vision statement'; 'products and services'; 'commitment towards employees'; 'commitment towards debtors'; 'commitment towards society'; 'Zakat, charity and benevolent funding') of CSR disclosure score that bank \(b\) in country \(i\) during the period \(t\) performs;

\(\alpha\): the intercept;
\( \beta_1 \ldots \beta_n \): the regression coefficients;

\( \hat{\varepsilon} \): the error term;

SSBSCORE: is the SSB overall score that consists of six dimensions;

\( \beta_2 \text{BS} \): log of total assets of bank \( b \) in country \( i \) during the period \( t \);

\( \beta_3 \text{LIQ} \): refers to the liquidity measured by the ratio of current assets to current liabilities of bank \( b \) in country \( i \) during the period \( t \);

\( \beta_4 \text{LEV} \): refers to the leverage measured by the ratio of total liabilities to total assets of bank \( b \) in country \( i \) during the period \( t \);

\( \beta_5 \text{ROD} \): refers to the Financial Performance measured by return on deposits of bank \( b \) in country \( i \) during the period \( t \).

\( \beta_6 \text{GDP} \): refers the Economic Performance measured by the gross domestic product of country \( i \) during the period \( t \).

In order to have a comprehensive understanding of the modelling process, it is important to state that this study will run regressions for the Model 2 for each individual dimension separately, which means that this model will be run six times.

**5.6.2.3. The procedure of data analysis**

The current section extrapolates on the statistical tests which have been utilized as per the second empirical model in order to evaluate the evolved hypotheses as well as to ascertain SSB’s impact on the CSR disclosures made by Islamic banks across the GCC states. The current study applied STATA econometric software package named to carry out statistical analyses, and also used the Pearson correlation matrix test, descriptive statistics, Hausman test, Panel Data with Fixed Effects (multiple regressions) test and Breusch-Pagan/Cook-Weisberg test. In addition, for sensitivity test 2SLS were performed to evaluate the solidity of the empirical results obtained from this study. Next, thirdly, the Durbin-Wu test was applied to ascertain the possibility of endogeneity between dependent (CSR disclosure) and independent (SSBSCORE) variable.
**Descriptive statistics** the descriptive statistics include summaries which are comprehensive in nature for each of the independent, dependent as well as the control variables that collectively formed the period of investigation. Maximum, minimum, mean, as well as standard values of deviation, were calculated for every single variable in this model; an additional data characterisation included the kurtosis and skewness statistics. If the skewness remains within the range of ±1.96 whereas the kurtosis lies in the range of ±3, the data is deemed to be distributed normally (Da et al, 2015: 144) Furthermore, the study also included trend analyses of CSR disclosure and SSB.

**Multicollinearity tests** the Variance Inflation Factor (VIF) and Pearson collinearity tests are conducted to ascertain multicollinearity between the investigated independent variables. Multicollinearity takes place when a direct relationship exists between at least two independent variables (Tabachnick and Fidell, 2007; Gujarati and Porter, 2009). Between the variables sets, the prevalence of multicollinearity impacts the technique’s ability to isolating any single variable, thus eroding the reliability of the interpretations (Gujarati, 2003).

Notably, the VIF value of 10 and commonly accepted threshold of multicollinearity (Field, 2009; Hair et al., 2010: 204; 212). In case the correlation between both the variables is found to be either equal to 0.8 or higher, at that juncture, the variables are deemed to be strongly correlated (Gujarati and Porter, 2009). Highly correlated variables (where the level of correlation is greater than 0.8) and the VIF test’s results exceeding 10 are indicative of the challenge of multicollinearity in the underlying data (Haniffa and Cooke, 2005: 414; Field, 2009).

**Regression analysis** in the case of the second empirical model, panel data set is employed under the multiple regression analysis with the purpose to evaluate the developed hypothesis. The analysis is then carried out to evaluate the effect of SSB on the disclosure of CSR, with regard to LEV, LIQ, ROD, BS and GDP.

Meanwhile, it is also important that the nature of data is identified, given that the study makes use of either panel data, or alternatively the longitudinal data, which pertains to data in situations, wherein, multiple cases have been noted across at least two time periods. The two primary kinds of panel data include (i) balanced and (ii) unbalanced data.

Complete or balanced panels are categorized as panel data in those cases, wherein, the observations or data is readily available across all cross-sectional units for the concerned sample period. On the other hand, data/observations in incomplete or unbalanced panels are
not found for certain cross-sectional units within the period of the sample (Baltagi and Heun Song, 2006).

In case of the first empirical model, an unbalanced panel comprising of 56 items entailing a time series that contains one to eleven observations within each stratum (panel data of eleven years) is developed. This panel is inclusive of variables which are time-varying, such as SSB, CSR disclosure index, and other control variables (ROD, LEV, LIQ, BS and GDP).

In the meantime, for the second empirical model, an individual measure of CSR disclosure replaces a composite CSR measure. Therefore, the linkage between individual corporate CSR disclosure dimensions and the total score of SSB gets evaluated. The control and dependent variables are not observed to undergo any change, as is the case in the first empirical model.

Two commonly-used estimated models in the panel data are utilised to control the omitted variables for example, the random effects and fixed effects models.

**Fixed Effects Model** comprising of the least squares dummy variable entails the domination with regard to excluded variables varying amongst diverse cases, although they stay constant over time, which is its main characteristic. Put simply, the effect of omitted variables on the subject is ‘fixed.’ This allows the use of the alterations in variables taking place over time to evaluate the impacts of independent variables on its dependent counterpart. According to Allison (2006: 2), “in a fixed effects model, the unobserved variables are allowed to have any correlations whatever with the observed variables”. This is equivalent to viewing the unobserved variables in the capacity of fixed parameters. In fact, the use of a fixed effects model is suggested to ascertain the causes of changes taking place in an entity (Snijders, 2011).

**Random effects model** comprising of generalised least squares, a random effects model is commonly utilised in instances when the scholar is of the view that several excluded variables remain unchanged through time, however, present variation between cases; or alternatively, a few of them could be fixed whilst being susceptible to change over time. This model treats unobserved changes which have been sourced randomly from a mathematical function of a probability distribution, as studied by various scholars (Allison, 2006; Wintoki et al., 2008).

While both these models are, similar and try to address the same issue of controlling the variables which were excluded and do not vary over a period of time within an entity, the
variance lies in the correlations’ structure, evident among both unobserved and observed variables. As a matter of fact, the unobserved variables are deemed as being uncorrelated to the entire set of observed variables present in a random effects model (Wintoki et al., 2008).

The selection between both the models is premised on the Hausman test which is mentioned below.

**Hausman Test** the current study adopted the use of the Hausman test for the purpose of identifying the best estimations. The test is premised on the variance between (i) fixed effect estimator, and (ii) random-effect estimator (Park, 2011; Garcia-Castro et al., 2010: 114). Importantly, it gauges the null hypothesis concerning random effects, under the assumption that regressors have no correlation between unobservable variables, as opposed to the hypothesis of fixed effects which does assume such a correlation.

If the null hypothesis is rejected by the Hausman test, the fixed effects estimator needs application. On the other hand, if it does accept the null hypothesis, this indicates that random effects estimator needs to be incorporated (Baltagi et al., 2003: 362).

Whilst seeking the potential relationship between the parameters of SSB and CSR, the Hausman test turns down the random effects’ null hypothesis whereby, the study finds a fixed effects model as most appropriate. The details of this model are explained in Chapter 7.

**Sensitivity Analysis** several tests are carried out to determine the findings’ robustness in terms of the SSB and CSR disclosure relationship. The endeavour of sensitivity analysis is to evaluate how the findings react to making use of different model specifications or making changes in the statistical tests.

For this study Two Stage Least Square (2SLS) test used to assess the robustness of the empirical results of this study for the main regression model. The findings of this test that entails the use of a substitute measure to have generally reported consistency with the findings derived when 2SLS is employed to measure the relationship between ICG/SSB and CSR disclosure.

**The Durbin-Wu test** is also used with the aim to ascertain the potential endogeneity as evident between the entities of CSR disclosure and SSB. In case of a statistical model, it has been researched that endogeneity could occur due to a joint determination between dependent (CSR disclosure) and independent (SSB) variables in case a correlation exists between the error term and explanatory variables (Greene, 2003; Pallant, 2005). The presence of
endogeneity is evidenced in the null hypothesis rejection. Hence, accepting the Durbin-Wu test’s null hypothesis makes it evident that endogeneity does not signify a challenge (Gujarati, 2003; Pallant, 2005).

According to the findings of the Durbin-Wu test within the second empirical model, it is found that the F-test is insignificant, which means that the test’s null hypothesis cannot be rejected and is not indicative of the endogeneity presence.

5.6.2.4. Variable definitions and measurement

Following the identification and description of the empirical procedure in addition to problems relating to modelling, the following section describes the definitions as well as the measurement of the variables used as part of the disclosure analysis. Notably, Chapter 6 expands on CSR dimensions/sub-dimensions definitions employed to structure the CSR disclosure index.

The current section enlists independent, dependent and control variables utilised within the first and second empirical model. Chapter 6 and 7 provides comprehensive information relevant to the definition of independent, dependent and control variables.

Independent Variable: SSB overall score;

Dependent Variable: CSR Disclosure Index;

Control Variables: The second empirical model uses the following control variables: ROD, LEV, LIQ, BS and GDP.

5.7. The Rational of the Sample Selection

The current research sample consists of twenty-eight fully fledged Islamic banks covering the period between 2006 and 2016 in the Gulf co-operation Council (GCC) region, including six countries, namely: Kingdom of Saudi Arabia (KSA), United Arab Emirates (UAE), Kingdom of Bahrain (BN), Sultanate of Oman (ON), State of Qatar (QR) and State of Kuwait (KT). The number of sampled Islamic banks is elaborated based on GCC member countries in Table 5.3. The study focuses particularly on GCC region due to the position that GCC region plays the global hub for Islamic banking and finance (Wilson, 2009: 2, cited in Platonova et al., 2016). According to the Banker (2016), 39.5 per cent of the Shari’ah compliant assets are managed by the GCC Islamic banking industry. In addition, this sample has been chosen to sustain a concept of homogeneity in the analysis as comparable economic conditions govern
the GCC Islamic banks’ operations. As mentioned earlier, the annual reports of the sample Islamic banks are obtained from their websites by following Farook et al. (2011) and Platonova et al. (2016).

With regards to the sample size, given that not all the banks publish their annual reports in the English language, some of the Islamic banks were excluded by the researcher, to ensure a uniformity and consistency the research sample. Consequently, the exclusion process resulted in 28 GCC region Islamic banks being included in the final study sample, which constitutes 95 per cent of the total sample in accordance with the stipulated minimum size for multiple regressions (Green, 1991). It was observed that with the available dataset, for the years 2006-2016, the research was equipped with requisite CSR and SSB disclosure information as regards the Islamic bank’s disclosure practices in the GCC region. Moreover, as much of annual reports prior to the year 2006, were unavailable, arguably, starting the year 2006, the Islamic banks developed professionalism in their operational activities. Thus, the study conferred to initiate the analysis considering the year 2006 as the starting point that will be including 250 observations.

Table 5.3 sample breakdown across countries

<table>
<thead>
<tr>
<th>No</th>
<th>Countries</th>
<th>Sample Islamic Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kingdom of Saudi Arabia</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>UAE</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>QATAR</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Kuwait</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Bahrain</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Oman</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Bank scope Database and Data Stream, June 2017.

The name of the examined banks is detailed below based on country distribution:

**Kingdom of Bahrain**: Al Salam Bank, Al Baraka Islamic Bank, Bahrain Islamic Bank, Ithmaar Bank and Khaleeji Commercial Bank.

**State of Kuwait**: Boubyan Bank, Kuwait Finance House, Kuwait International Bank, Warba Bank and Ahli United Bank.
State of Qatar: Masraf Al Rayan, Qatar International Islamic Bank, Qatar First Bank, Barwa Bank and Qatar Islamic Bank.

Kingdom of Saudi Arabia: Alinma Bank, Al Rajhi Bank, Bank Al Jazeera and Bank Al Bilad.


Sultanate of Oman: Al Izz Islamic Bank and Nizwa Islamic Bank.

5.8. Limitations of Research Methods

Content analysis has been criticised as a method due to certain disadvantages. To illustrate, this approach gathers the requisite data from annual reports and can be extremely time and money-intensive (Hussainey, 2004), particularly when analysing copious volumes of textual data. Moreover, researchers are required to dedicate several hours in reading processes that are labour intensive (Boesso and Kumar, 2007). Furthermore, the possibility of human errors can lead to mistakes during their analyses (Kim and Kuljis, 2010). When handling a large volume of textual data, they could overlook some important text. Furthermore, given that this type of method depends on human understanding in interpreting the qualitative information where the items under investigation may be implicitly disclosed, hence, the judgement of scoring the disclosure level may vary from an individual to another, implementing different outcomes may be achieved for same scanned documents.

5.9. Conclusion

The current chapter brings forth the research methodology and the systemic methodologies applied in the current study analysis towards the achievement of the aims out in the research. In addition, the chapter sheds light on the entire research process and this insight is significantly imperative for making certain the research remains original and the quality is retained. Accordingly, based on the research aims and objectives and due to the nature of the data that requires the qualitative and quantitative type of approaches in order to collect and analyse them to be able to riposte the research questions, this study adopted the pragmatism research philosophy. According to objectives in hypotheses development underpinned by existing theories and tests them by analysing the secondary data, this research applies deductive approach with a utilisation of exploratory and explanatory research strategies as a
way of assessing the association between the CSR disclosure and SSB. Based on such understanding, this research uses mixed methods in collecting and analysing data. With regards to the CSR disclosure analysis, this research develops an index for CSR disclosure level measurement through content analysis to assess the CSR and SSB information from the sampled banks’ annual reports. In addition, the current study will examine the impact of the SSB overall score on CSR disclosure by applying regressions model by using STATA econometric software.
CHAPTER SIX

EMPIRICAL ANALYSIS OF CSR DISCLOSURES DIMENSIONS
CHAPTER SIX

EMPIRICAL ANALYSIS OF CSR DISCLOSURES DIMENSIONS

6.1. Introduction

Based on the existing literature (for example, Hassan and Latiff, 2009; Hassan and Harahap, 2010) it can be argued that the awareness of Corporate Social Responsibility (CSR), on professional as well as academic, has progressively been increased during the latest three decades. Based on the values and axioms that guide them in their financial operations, Islamic banks may play a dominant role in promoting the concept of a moral economy that may directly promote the social wellbeing (Chong and Liu, 2009). Therefore, it can be stated that operating based on Islamic moral values, Islamic banks are expected to offer alternative services to the ones offered by conventional banks that would, as a result, boost the responsibility towards the society by endorsing the concept of fair distribution of income, economic justice as well as efficient capital mobility.

The existing literature identified that the level of the CSR disclosure of Islamic banks is relatively low and that the discrepancy between the ideal ethical and communicated disclosures of Islamic banks is significant (for example see, Maali et al., 2006; Haniffa and Hudaib, 2007; Platonova, et al., 2016). However, it is important to state that a humble attention has been paid by Islamic banks towards their social activities and as a result their disclosure has increased recently (Belal et al., (2014). Therefore, it is crucial to call for a CSR disclosure standard appropriate to Islamic financial institutions (Hassan and Harahap, 2010).

Based on data released by the Islamic Financial Services Board (IFSB) (2015), there has been a 33 per cent increase in the Islamic financial assets from the mid-1995s to 2003, with an 89 per cent jump from 2003 to mid of 2014. In addition, according to the Bank Negara Malaysia (2016) reported an anticipated continual increase at a slower growth in the Islamic financial assets with a 58 per cent increase from 2014 to 2018 with a predicted continuous growth. On a global level. In addition, according to Mohammed (2016), towards the end of the year 2018, the market size is expected to amount 3.4 USD Trillion. Garrido et al., (2016: 35), state that for Islamic financial assets, the major segment, 39.5 per cent, is located in the GCC region, with a market value of 598 USD billion (Mohammed, 2016). However, it can be stated that the potential size of Islamic financial assets can be much higher. Therefore, according to Wilson (2009), in order to expand their market, the ideal situation for Islamic business organisations, and Islamic banks in particular, is to fully adopt the Islamic Shari’ah
principles, rules and regulations. Accordingly, based on such axioms that the Islamic Banking system is derived from, Islamic banks may present their social responsibility and accountability through their CSR activities (Muwazir et al., 2006) that can directly boost the social wellbeing (Usmani and Zubairi, 2002; Khan and Bhatti, 2008; Sairally, 2007).

Islamic banks are considered as innovative and unique financing institutions possessing a particular operational proposition and value and they have started operating in the GCC region since early 1970s.

From early 1990s, Islamic banks started to play a significant role in the international financial market, and, at present, they demonstrated to be sustainable, demonstrated by their growth and resilience, even during the financial crisis. Therefore, they offer alternative financial opportunities to all customers regardless to the religious nature they follow. Based on such background, it can be argued that the GCC’s Islamic financial institutions are important sources of capital contributions to the growth of Islamic financial market globally. At the heart of the Muslim world, the GCC is in a good position to function as a hub of Islamic finance linking Africa, Asia and Europe (Wilson, 2009: 2), which presents rationale for carrying out a study of CSR disclosure in the GCC region, where Islamic banking industry has a positive impact on the financial market growth in the region.

This chapter presents a discussion on the CSR disclosure in the GCC region Islamic banks. It starts with a provision of the conceptual understanding of CSR dimensions that are derived from the ethical and moral values of Islamic law, with particular reference to the GCC region. In order to meet the research aims and objectives, this Chapter uses Islamic bank's annual reports for the period between 2006 and 2016. The sample for this research consists of 28 fully-fledged Islamic banks from the GCC countries. Accordingly, this Chapter includes the following sections: Section 6.2 presents the research sample. Section 6.3 presents the definition of CSR disclosure variables. Section 6.4 presents the empirical analysis and discussion of CSR disclosure practices. Section 6.5 presents a comprehensive conclusion.

6.2. Defining CSR Disclosure Variables

To develop a comprehensive ground for evaluating the CSR disclosure of the Islamic banks, this section presents an in-depth understanding of the dimensions and variables that underpin the measurement process. For study purposes, the ‘best practice’ of the CSR disclosure to be achieved means that banks present all elements categorized under each dimension. Accordingly, the higher scores indicate the better CSR disclosure performance.
6.2.1 The Statement of Mission and Vision

Given that Islamic banks are operating based on Islamic principles and moral values that will lead to the social justice establishment. Correspondingly, Islamic banks can play crucial role on both social as well as the economic level. Such approach also mandates a distinct and clear communication and reporting of the CSR activities by the Islamic banks to their stakeholders. Therefore, consequent to the Islamic financial law that guides all Islamic financial operations, Islamic banks are obligated to be compliant with Shari’ah rules and regulations (presented in Table 5.1). Such commitment is essentially reported and included in the annual reports, typically detailed under the vision and mission statement (Haniffa and Hudaib, 2007; Farook et al., 2011; Platonova et al., 2016). The annual reports of Islamic banks should also incorporate statements, outlining the necessary requisites to meet their vision in terms of their commitment towards the society at large, which may include for instance, community facilities funding plans, strategies, and development policies. Moreover, increase in the access of banking services in rural areas by all consumer through the establishment of new branches with the aim to reduce financial exclusion. Also, the addition of new Islamic financial products to meet the Muslim communities’ future financial needs (Haniffa and Hudaib, 2007; Platonova et al., 2016).

6.2.2 Product and Service Variable

For the Islamic financial institutions, one of primary rules to observe is the prohibition of interest or Riba. According to Islamic law, unjustified enrichment or charging additional return for the mere use money is interest and it is not allowed. Accordingly, Islamic banks distinguished themselves actively or passively in most of their transactions by implementing partnership concept with their clients (Piccinelli, 2010, p. 26). Thus, in Islamic banking there are two fundamental modes of financing essentially regulate the majority of financial instruments, namely: profit-loss-sharing financial products including mudarabah, and musharakah and sale-based modes of financing which includes murabaha, Salam and ijarah (Platonova, 2014 p. 133).

The Islamic banking sector has evidenced a significant change within the few decades in terms of pioneering and authentic financially products as alternative to the ones offered by conventional banking, which subsequently have led to the increased service demands. However, it has been observed that Islamic banks offer financial products that are very
similar to the products offered by their conventional counterparts (Hassan and Harahap, 2010; Platonova et al., 2016). Therefore, it can be argued that Islamic banks appear that they do not promote ethical orientation within mony management as it supposed to be based on the Islamic financial principles, such as profit and loss sharing alternative (Cattelan, 2010: p. 80). Consequently, the fixed-return/sale-based financing modes become the dominant instruments practiced by Islamic banks (Platonova et al., 2014 p. 134).

The Islamic bank’s preference of debt-based financing to the profit and loss sharing based products presents an impending demand more efforts to “reduce the asymmetric information problems faced by bank in their working environment to encourage them to base their operations in optimal PLS (profit and loss sharing) contracts” (Al-Suhaibani, 2007, p. 208, as cited in Platonova, 2014 p. 134). This can be considered as a critical gap that need to be bridged by improving the Islamic banks’ transparency in operations, that will in turn improve the public and investor confidence in the products and operations facilitated by Islamic banks. Based on such argument, the crucial significance of transparency necessitates the obligation of Islamic banks to disclose the investment details and new product in a compliant manner with Shari’ah.

Essentially, Islamic financial transactions are underpinned by the profit and loss sharing method. According to Ariffin et al. (2005, p. 148), this brings to the forefront the pertinent requirement of transparency in Islamic banks and obligated disclosure of detailed investment information to investment account holders.

Furthermore, another major principle in Islamic finance is prohibition of excessive speculation (gharar). Based on this principle, Islamic banks are prohibited from conducting transactions involved with gharar, as these types of transactions lead to precipitate harm to society and the environment (Maali et al., 2006; Platonova et al., 2016). Moreover, all transactions that may harm the society are not permitted by Islamic banks. For example, any form of deal demonstrating intersect with gambling (Maysir), tobacco and/or alcohol production, genetic manipulation, drugs, the arms industry, intensive farming, and several other activities that may harm the society are not allowed to be the subject of sale in Islamic banking. This information, therefore, has to be presented in the annual reports by the Islamic banks as shown in Table 5.1 (Chapter Five).
6.2.3 Commitment towards Employees

In Islamic banks to assess CSR disclosure, another crucial parameter includes that need to be examined is the commitment towards employees. In accordance with the Islamic values, underpinned by the emphasis of Islam on social justice, Islamic banks are obliged to justly deal with their employees in an equal manner. For instance, banks should necessarily expedite employees’ development by ensuring a conducive and stimulating workplace. Moreover, in Islamic teaching, the aspect of prohibited discrimination and exploitation ensures the banks’ commitment to equal employment opportunity and also employee satisfaction. Consequently, extensive wide-ranging training programmed constitute an essential part of employee benefit policies that ensure their development and job excellence. Such values that need to be considered by Islamic banks towards their employees are derived from Tazkiyah (Growth and Purification) and Rububiyyah (God’s Arrangement) axioms as mentioned in the Islamic moral economy (Ismail and Muqorobin, 2017; Platonova, 2013; Ahmad, 1979). Correspondingly to ensure the efficiency and competitiveness, competitive salary and benefits package should form an integral part of employee-related policies in Islamic banks. Accordingly, it can be argued that these values constitute the aspirational objectives outlining the operations in the Islamic banks. Therefore, this information has to be presented in the annual reports by the Islamic banks as shown in Table 5.1 (Chapter Five).

6.2.4 Commitment towards Society

Operating in line with the Islamic ethical values, implies that promoting the wellbeing of the community is one of core duties of Islamic banks, where they can function and serve the population and contributing to community development and well-being. This is, in fact, their social responsibility; thus, in addition to allocating Sadaqa, Zakat and offering Qard al-Hassan, these social activities constitute a vital part of their activities. These are in particular aimed at ensuring advancement and promotion of individual from all strata of society. Besides that, the Islamic law principles govern these Islamic banks, from Islamic moral values affluent classes in the societies are obligated to supply, provide and fund social and charitable works within their communities at large. These are further manifested in the society through certain behavioral practices (Hassan and Harahap, 2010; Platonova et al., 2016), including the following: all-female branches to bridge the challenges faced by women due to imposed gender segregation in some GCC countries; promoting job-creating opportunities; educational conference sponsorship on educational areas including Islamic
economics. Based on such understanding, the information related to their commitments towards the society, therefore, has to be presented in the annual reports by the Islamic banks as shown in Table 5.1 (Chapter Five).

6.2.5 Commitment towards Debtors

Islamic financial principles pay a great attention to wellbeing of debtors and lenders that govern that relationship between them by highlighting their rights as well as their duties. For example, it prohibits the exploitation of debtors by the lenders, who, in fact, are expected to remit their debts (Piccinelli, 2010; Montanaro, 2010), as an example of leniency. Accordingly, as an evidence, in order to illustrate their Islamic obligation towards debtors, the Islamic banks are supposed to draft annual reports containing the disclosure of the following parameters: first, mode of lending undertakings in a detailed manner; second, mode of lending undertakings in general; third, amount of debts written off; fourth, debt policy and type of debt. In other words, based on the concept of transparency, which is one of the key principles in Islamic moral economics, Islamic banks are required to disclose this information in their annual reports.

6.2.6 Zakat, Charity and Benevolent Loans

The Islamic banking system is inherently regulated by the Shari‘ah principles, which impose a necessary operational inclusion of Islamic ethical values and social duties as argued by Dusuki (2011). Consequently, disclosing Zakat related information, which is stands as an “obligatory transfer of alms by the rich to the poor” (Ref), is a fundamental Islamic financial requirement. This constitutes an essential CSR disclosure in Islamic banks (Kamla and Rammal, 2010). According to Lewis and Algaud (2001), the requirement of Zakat is imposed on the reserves and profits, which form the initial capital of Islamic banks. This information, therefore, has to be presented in the annual reports by the Islamic banks, detailing the Zakat source, amount and its beneficiaries; also including the information such as individuals who in the capacity of shareholders are obligated to pay Zakat in accordance to the corresponding governmental regulations.

Islamic banks in addition to the essential religious duty of Zakat, also undertake another distinctive social responsibility which is Sadaqa or voluntary donations. Notably, these two Islamic values constitute elemental social contributions of these financial institutions to the communal harmony and welfare. Hence, such Islamic tradition oriented philanthropic
donations including Waqf or pious foundations (Maali et al., 2006; Platonova et al., 2016). Accordingly, based on the ethical values derived from Islamic moral economy, Islamic banks are obliged to disclose their sources and uses.

Furthermore, as a part of their social responsibility, Islamic banks also provide benevolent or interest-free loans, which are referred to as Qard al-hassan, besides mandatory Zakat and voluntary sadaqa. Consequently, these details, including Qard al-Hassan sources and uses should be disclosed in annual reports along with details of loan provision/loan non-payment policies of Islamic banks. Additionally, Islamic banks also fulfil an imperative community contribution by offering Qard al-Hassan, particularly for public benefit, in their operational region.

Hence, this additional information pertaining to Zakat, charity and benevolent loans, therefore, has to be reported by Islamic banks in their annual reports (Maali et al., 2006; Haniffa and Hudaib, 2007; Platonova et al., 2016) as shown in Table 5.1 (Chapter Five).

6.3 Empirical Analysis and Discussion of CSR Disclosure Practices

The previous section has provided a detailed description of the identified dimensions and sub-elements for CSR disclosure. These elements will underpin the analysis of the empirical study and consequently, the current section puts forth the study findings, in accordance with the empirical method detailed in the Research Methodology Chapter.

Following the literature (Haniffa and Hudaib; Maali et al., 2006; Platonova et al., 2016), this study measured the CSR disclosure in the sampled banks using the following index across dimensions and years.

*CSR Disclosure Index* is:

\[
CSRDI = \sum_{i=1}^{n} \frac{X_{ijt}}{N}
\]

Where:

- *CSR disclosure index* refers to the CSR disclosure index for dimension *j* in period *t*;
- \(N\) = Number of variables/statements;
- \(X_{ijt}\) is variable *X* (1 … *n*) for dimension *j* and time *t*;

As detailed in the previous section, primarily six CSR disclosure dimensions underpin the research and the study data from the sample is sourced for the period between 2006 and 2016.
6.3.1. Results of Vision and Mission Statement

The study findings have been presented in a tabulated format. Specifically, Table 6.3 presents the Dimension one ‘vision and mission statements’ disclosures. Table 6.2 presents the overall score of this dimension, which is valued at 0.61. This score is at the second place in CSR disclosure dimensions’ ranking. Table 6.3 shows region-specific scores: Bahrain scored the first place at 0.73, Qatar scored the second place at 0.70, and Oman scored the third place at 0.66. The fourth and fifth places were occupied by the UAE and Kuwait respectively (provide scores). And the sample analysis results show that Saudi Arabia scored the last place with the minimum overall CSR disclosure at 0.41. Table 6.8 shows bank-specific scores: Among Bahraini Islamic banks, Al-Salam Bank and Al Baraka Islamic bank stood at the first place at 0.80. Thus, while in addition to these two banks, Ithmaar Bank also shows a good stable score, Khaleeji Commercial Bank presents a fluctuating score. As a reflection on the above, among Bahraini sampled Islamic banks, the aggregate disclosure score of CSR of the vision and mission statements ranged between 0.80 and 0.61.

The analysis and subsequent findings reveal a minimal information disclosure by the banks from this dimension, with an exception where, only Al Salam Bank and Al Baraka Islamic bank shared relevant detailed information. Thus, attributing to the highest scoring of their annual reports at 0.61 in maintaining a clear mission and vision statement. Given that the results were the outcome of data from the year 2006 to 2016 and as such, in 2016, Al Baraka Islamic bank’s CSR disclosure index in this dimension showed improvement where 0.89 was achieved, which was maintained constant till 2016. The mission statement of Al Salam Bank as outlined in its annual report is indicative of the bank’s singularly focused description as regards maximizing of the stakeholders’ returns: “Achieve high returns for stakeholders commensurate with the risks undertaken” (Al-Salam Bank, Annual Report 2016, p. 5). Likewise, Al Baraka Islamic bank’s mission statement is also indicative of the same: “Committed to the principles of interest-free banking and in accordance with our corporate values and the ethical principles of banking; to meet the financial needs of society by sharing our common benefits with customers, employees and shareholders who participate in our success” (Al Baraka Islamic Bank, Annual Report 2016, p. 4).

Notably, the findings also revealed that the mandatory obligation of operating strictly under Shari’ah principles is evident as a primary functional requirement of an Islamic bank in all sampled Islamic banks in the Bahrain region. Although, both Ithmar Islamic bank and
Khaleeji Commercial Bank, presented minimal inclination towards an innovative allegiance to *Shari’ah* compliant product and service for Muslim society. Overall, it was observed that the mission and vision statements of the sampled Bahraini Islamic banks highlighted the focus on maximizing shareholders’ return or value, which was stated in their SSB reports and CSR reports. For instance, 2016 SSB annual report of the Bahrain Islamic Bank clearly affirmed the same (Bahraini Islamic Bank, Annual Report 2016, p. 5).

Table 6.3 evidences existence of a minimal difference between Bahrain and Qatar sampled Islamic banks, where their disclosures reached at 0.73 and 0.70, respectively; thereby, among the six GCC countries achieving the first and second place.

In the sampled Qatari Islamic banks, Qatar Islamic Bank showed the maximum score of 0.86 between 2011 and 2016. The Masraf Al Rayan Bank score showed a decline reached a value of 0.56 in 2012 with an improvement in 2014 to score 0.78, which was maintained constant until 2016. Qatar First Bank scored the minimum at 0.58, which could be due the missing data which were available only between the year 2009 and 2016.

Notably, the tested Qatari Islamic banks revealed information related to obligations of providing *Shari’ah* compliance yields, however, their obligations to meet stakeholders’ contractual relationships via *uqud* (contract) statements was negligibly presented. Qatar Islamic Bank and Masraf Al Rayan were consistent in their expression of current and future initiatives for Muslim community needs. For instance, in their annual report Masraf Al Rayan states: "by offering a broad spectrum of *Shari’ah*-compliant products and services, through efficient and reliable channels, to all sectors of the market in which we operate and to maintain our twin objectives of generating a high return on shareholder investment and satisfying our customers' needs” (Masraf Al Rayan, Annual Report 2016, p. 43).

Similarly, a tendency towards negligence in offering information related to *Shari’ah ideals* focused providing of returns and maximizing shareholders’ returns, is evident in the Qatari banks. Corresponding strategy of Qatar International Islamic bank is demonstrated in their statement as: "Developing a model Islamic financial institution based on effective business contributions in accordance with *Shari’ah* principles; exploring opportunities in local and potential markets with the purpose of maximizing returns for shareholders on a sustainable basis” (Qatar International Islamic Bank, Annual Report 2016, p. 43).

Table 6.3 depicts that Oman reached the third rank among the six GCC countries for vision and mission statement dimension and the overall score of this dimension scored a value of
0.66. According to the findings, Alizz Islamic Bank in 2012 had a score of 0.56 and in 2016 had a score of 0.78, evidencing moderate improvement in their overall CSR disclosure. The results show that Nizwa bank scored 0.62. The results show that two Omani Islamic banks since their establishment in 2012, till 2016 showed advanced improvement; notably, the Islamic finance industry has been launched by the Omani Islamic banks recently.

The UAE, as regards to ‘vision and mission’ dimension disclosure score, scored the fourth place. Although, Sharjah Islamic Bank and Dubai Islamic Bank were established earlier in UAE since 1975, 1976 respectively, they have the minimum score of 0.49 and 0.37 among the sampled Islamic banks of UAE. While, among the Emirati banks, the recently launched Al Hilal Bank (2010), gave a maximum score of 0.73. The results show that Emirates Islamic Bank scored 0.72; Ajman reached a score of 0.65; Abu Dhabi Islamic Bank’s disclosure reached to 0.60; and Noor Bank disclosed in their vision and mission statement 0.58. The lowest score of 0.37 was recorded by Sharjah Islamic Bank.

Notwithstanding, other Emirati Islamic Banks failed to state their Islamic oriented commitments in their annual reports, despite declaring their commitment to comply with Shari’ah value related to their operation and products offered, including: Futuristic initiatives to address the Muslim community needs; meet stakeholders’ contractual relationships via uqud (contract) statements; exclusive engagement in permissible financing activities; consumer approval; and fulfil contracts via contract statement. The lack of disclosure can be attributed to the management’s opinion of the established perception of the bank being a Shari’ah compliant institution, which either does not warrant any further validation or the bank wants to dilute its Shari’ah compliant status to suit its business needs. However, the low score of Bank Al Hilal could be due to its intent on sharing maximal possible information relevant to all CSR disclosure categories.

Table 6.3 presents findings for Islamic banks in Kuwait, which highlight that Kuwait scored the fifth rank between the Arab Golf countries for the statement of vision and mission at 0.57 overall CSR disclosure score. The maximum CSR disclosure score at 0.74 was recorded by Warba Bank. Among the sampled Kuwaiti banks, Boubyan Bank and Kuwait International Bank scored the second and third place with a value of 0.64; 0.59 respectively.

According to the results, Boubyan Bank maintained a stable score, while Kuwait Finance House which showed the minimum score at 0.42. In 2006 it was recorded at 0.44, and then it was declined in 2009-2011 to 0.33. However, in 2016, the bank improved its disclosure to
0.56. Moreover, in regard to the commitments towards Future directions in serving the requirements of the Muslim communities, a poor reporting has been presented by Kuwait International Bank as well as by the Kuwait Finance House.

The sampled Saudi Islamic banks have the lowest score in relation to their disclosure in their vision and mission statement with a record of 0.41 among the GCC Islamic banks. Alinma Bank, Al Rajhi Bank and Al Bilad Bank were ranked first, second and third with a score of 0.58, 0.39 and 0.35, respectively. Whereas, Al Jazira Bank scored the minimum value at 0.34 and showed improvement during the period between 2007 and 2016 from 0.11 to 0.44. Analysis showed that in this dimension, Alinma Bank showed a slight improvement at 0.56, which was also evident in Al Rajhi Bank, which moved up from 0.22 in 2006 to 0.56 in 2016. As the first founded Islamic bank in Saudi Arabia, Al Rajhi Bank was expected to show the ‘best practices’ in the disclosure of the ‘mission and vision’ dimension.

Al Rajhi Bank, in 2015, for example, states in their vision and mission statement: “To be most successful bank admired for its innovative service, people, technology and Shari’ah compliant products, both locally and internationally.” (Al Rajhi Bank, Annual Report 2015, p. 10).

Moreover, references to the customers, in the same annual report and in another statement presented, the following sentence was construct: “Everything we do is built around our core values, which puts the customer at the heart of all our activities.” (Al Rajhi Bank, Annual Report 2015, p. 10). Thus, it is clearly explicit in these two statements, that the bank appreciates their customers and the community as a whole.

However, a limited disclosure of substantial information in Al Rajhi Bank annual report for the statement of mission and vision can be attributed to the management’s self-assurance that its mission and vision are public knowledge. Conversely, the recently launched Alinma Bank presents an effective information disclosure: “To provide our partners with total Shari’ah-compliant financial solutions through the best workplace that achieves sustainable development and participates in serving our community.” (Alinma Bank, Annual Report 2016, p. 10). This statement demonstrates an inclusion of the following parameters: using the word ‘partner’ in the direct speech to shareholders and customers, Shari’ah compliant and community service. This vision and mission statement has been maintained in all reports
from 2009 to 2016. However, based on the results, it can be argued that all sampled Saudi Islamic banks present a deficiency in terms of providing a clear mission and vision statement.

The study findings show that the particular parameters commitments to fulfil contractual associations with different stakeholders via contract (uqud) statements and obligations to fulfil contracts through contract (uqud) statement have been summarily neglected by the majority of Emirati Islamic banks, Qatari Islamic banks, as well as Kuwaiti banks. Another parameter of commitments to ‘Future directions in serving the needs of the Muslim community’ was also revealed to missing in the annual reports of the majority sampled Islamic banks.

However, consistent with Platonova (2014, p. 145), there is a clear deficiency in the statement of vision and mission of the sampled Islamic banks in the GCC region. This presents the impending need for the inclusion of the following in the SSB and/or annual reports by the Board of Directors: Futuristic Shari’ah compliant investment engagement fundamentals; contractual relationship fulfilment; and Muslims community service. Although, the words are limited in the ‘vision and mission’ statement, it could explain the evident lack of the essential information, which disabled the disclosure of relevant information under the ‘mission and vision’ dimension by the sampled Islamic banks.

6.3.2. Results of Products and Services

Table 6.3 presents the scores of CSR disclosure for the dimension of ‘product and services’ for the examined Islamic banks in the GCC countries. The findings are for the data collected for the said period of 2006 to 2016, show that Islamic banks disclosure for product and services ranged between 0.35 and 0.64. The results clearly show that Omani Islamic banks recorded first place, followed by Kuwait, UAE, Qatar and Bahrain and the lowest score was recorded by Saudi Islamic banks in the region.

The analysis reveals that Omani Islamic banks, which were established recently in 2012, for the ‘product and services’ dimension Oman (Nizwa Bank) scored maximum level of disclosure at 0.64, and the Al Izz Bank scored 0.62.

Table 6.7 shows that Kuwaiti Islamic banks achieved the second place in the region in product and services dimension. The data revealed that Warba Bank scored 0.77, which was the maximum CSR disclosure index for this dimension. During the period 2007-2016, Kuwait International Islamic bank showed a significant incline starting from 0.40 to 0.70.
While, Ahli United Bank and Kuwait Finance House showed slight improvement, Boubyan Bank showed the lowest score at 0.36 among the sampled Kuwaiti Islamic banks.

The products and services detailed information was provided by all five sampled Kuwaiti Islamic banks, through their annual reports neglected information related to Shari’ah supervisory board’s approval of products.

The investment and financing activities related information was noticeably shared by both KFH and Boubyan Bank in their annual reports, which was not the case for Kuwait International Bank where its annual reports lacked such information. Also, non-permissible activities’ involvement was overlooked by five sampled Kuwaiti Islamic banks. However, as the Arabic language is used in most Islamic banks for the products, a definition list was provided by all Kuwaiti Islamic banks with the purpose to apprise the non-Arabic speakers with the products.

Table 6.9 show that the overall CSR disclosure of UAE Islamic banks scored 0.49, thereby ranking the third positing in disclosing information related to product and services in the GCC region. The Emirati sampled Islamic banks were observed to publish their investment and financing activities details in a similar approach as Bahraini Islamic banks, with one exception for Sharjah Islamic Bank. However, the information related to the new products and services were exclusively disclosed by Sharjah Islamic Bank and Abu Dhabi Islamic Bank. The maximum score was scored by Ajman Bank at 0.69, while Emirates Islamic Bank scored a value of 0.50. The minimum score was recorded by Sharjah Islamic Bank at 0.29. According to this dimension, the maximum score of 0.69 and the minimum score of 0.29 were recorded by Ajman Bank and Sharjah Islamic Bank, respectively.

Table 6.3 also reveals that the 0.44 score which ranked as the fourth place was recorded by Qatari Islamic banks among other GCC countries for the dimension product and services. Qatari Islamic Banks show a slight improvement in the product and services disclosure. The results show that the minimum score was recorded by Qatar International Islamic Bank at 0.21. Masraf Al Rayan Islamic Bank, moreover, in their 2016 annual report, provided relevant details of new product introduction as well as their investment and financing activities. Thus, the 2016 strategy for the bank, is clearly outlined in the report: “Develop new and innovative Shari’ah -compliant products and services” (Masraf Al Rayan Islamic Bank, Annual Report 2016, p. 43).
Table 6.3 demonstrates that Bahraini Islamic banks recorded the fifth place among the sampled countries with a value at 0.38 for ‘product and services’ dimension. For this dimension, both Emirati Islamic banks and Bahraini Islamic banks show a low disclosure level. Accordingly, the analysis shows the maximum score recorded at 0.42 by Al Salam Bank, 0.40 by Bahrain Islamic Bank, and 0.38 by Al Baraka Islamic Bank. However, the lowest score of 0.31 was recorded by Ithmaar Bank and Khaleeji Commercial Bank at second lowest place at 0.35. The analysis revealed an improvement in the scores of Al Baraka Islamic Bank, Ithmaar Bank, and Khaleeji Commercial Bank; and specifically, Bahrain Islamic Bank improved from 0.10 in 2006 to 0.60 in 2016.

Table 6.3 shows that Saudi Arabian Islamic banks recorded a lowest score at 0.35, and thus ranking as the sixth place amongst the sampled Islamic banks in the GCC countries. Among Saudi Islamic banks, Alinma Bank and Al Rajhi Bank show the maximum scores of 0.43 and 0.39, respectively, followed by Bank Al Bilad at 0.32 and Bank Al Jazira at 0.27. The non-involvement in prohibited activities has not been clearly specified by any of the sampled Saudi Islamic banks, though they claim all their activities as Shari’ah compliant. Saudi Arabian Islamic banks mention the introduction of new products and services, and under the Shari’ah board, the reports mention the board’s approval of all business activities. To serve the customers who are not familiar with the Arabic terms like the non-native Arabic speakers, an Arabic definition of the products has been provided by Al Rajhi Bank Al Bilad Bank and Alinma Bank. For instance, the 2015 annual report of Al Rajhi Bank, states this on page 170 and 171. Also, the investment and financing information for projects and activities were detailed in the annual reports of all the Saudi banks.

Overall, the score 0.43 of product and service shows a low level of disclosure. Therefore, it can be argued that it is important to state that reviewing and monitoring the sacred aspects of Islamic banks’ transactions, products and services are the main duty of SSB. Hence, the SSB duty is to make sure that all financial transactions are Shari’ah compliance (Haniffa and Hudaib, 2007). Therefore, it can be stated that Islamic banks are more likely to be encouraged to disclose more CSR information related to product and service.

6.3.3. Results of Commitments towards Employees

The study analysis findings presented in Table 6.3 show that Bahrain scored the maximum level at 0.63, followed by Qatar, Kuwait, Saudi Arabia and Oman scores at 0.52, 0.49, 0.48.
and 0.40, respectively. In the ‘commitments towards employees’ dimension, UAE scored 0.33, which is the lowest level in CSR disclosure of information related to the Islamic banks’ commitments toward the employees.

The results presented in Table 6.3 evidence that Bahrain Islamic banks recorded significant outcomes in relation to this dimension. Table 6.8 shows that Al- Salam Bank scored a maximum level of disclosure at 0.80 while the minimum score was recorded at 0.56 by Khaleeji Commercial Bank. Over the period between 2006 and 2016, Bahrain Islamic Bank showed significant improvement from starting from 0.10 to 0.70. However, Al- Barakah Bank shows a fluctuating score. Despite that Al- Salam Bank scored the highest level of disclosure, the reports of the bank failed to provide a detailed communication of competitive salary package and equal opportunity policy, with an absolute neglect of monetary training. Notably, Shari’ah awareness training was not provided by the Kuwait Finance House to the employees, however, this bank did reveal the employee reward program.

The Islamic banks of Bahrain, in relation to employee welfare, revealed information of offering several training courses and reward systems, which highlight their commitments towards their employees. Accordingly, focusing on Shari’ah -compliant financial activity-based training programmes can lead to an improvement in professional skills and abilities of the employees. Khaleeji Commercial Bank, Ithmaar Bank and Al Baraka Bank show a continual focus on commitment to employees. In addition, these banks provided monetary training to students and undergraduates. Research results show a majority of surveyed Islamic banks in Bahrain presented the ‘best practices’ related to this dimension.

The results presented in Table 6.3 revealed that Qatari Islamic banks recorded the second place at 0.52 in disclosing information related to the ‘commitment to employees’ dimension, among the GCC countries. The sampled Qatari Islamic banks demonstrated different disclosure level for this dimension. For instance, Masraf Al Rayan and Qatar Islamic Bank shared relevant information on the employee training oriented at Shari’ah related understating of Islamic banking transactions, in addition to training of university students in the following statement by Masraf Al Rayan: “in addition to training 30 students from Qatar University and various other universities and schools in Qatar” (Masraf Al Rayan, Annual Report 2016, p. 49).

Table 6.3 reveals that the Kuwait Islamic banks scored 0.49 in CSR disclosure, thus placing it at the third position. As regards the overall CSR disclosure index, Warba Bank, Kuwaiti bank
showed a maximum score of 0.60. While, the rest of the sampled banks, revealed little about relevant information on the ‘commitments to employees’ dimension. This is reflected in their low scores: 0.51 by Kuwait Finance House, 0.47 by Ahli United Bank and Kuwait International Bank, and 0.40 by Boubyan Bank, which is the lowest level of CSR disclosure related to this dimension. For the parameters related competitive salary information, equal opportunity policies and employee welfare, Kuwaiti Islamic banks failed to disclose their information in the annual reports. For the period between 2006 and 2016, Kuwait International Bank presented fluctuating scores. However, the majority of Kuwaiti Islamic banks showed an acknowledgement of employee training for service improvement can be brought about by substantial knowledge of Islamic banking.

Table 6.4 presents the overall adherence to the dimension ‘commitments to employees’ amongst the sampled Bahraini Islamic banks through evidencing employee appreciation in their reports, namely, by mentioning the employee strength. However, the reports did not mention any support for the equal opportunity concept.

Thus, employees’ welfare information disclosure was not very prominent in sampled Islamic Bahraini banks. Nevertheless, with the underlying belief of a positive professional and personal impact attributed to healthy staff, Al Salam Bank, Al Baraka Islamic Bank, Ithmaar Bank, and Bahrain Islamic Bank asserted on the commitments towards their staff. For instance, Al Salam Bank stated: “In particular, providing training and development opportunities for a growing staff population is a fundamental element towards maintaining a corporate culture of performance excellence” (Al Salam Bank, Annual Report 2016, p. 40).

Table 6.3 shows that Saudi Arabia scored the fourth position in disclosing information related to the commitments towards their employees at 0.48. As shown in table 6.6, Alinma Bank maintained a constant score, while the other Saudi Islamic banks show gradual improvement throughout the study period. The sampled Saudi Islamic banks’ disclosure of information related to the commitments towards the employees ranged between 0.80 and a 0.10. The results show that the CEO’s and Chairman’s statement, in fact, depict the employee appreciation in the case of all Saudi Islamic banks.

Table 6.6 presents the parameters of equal opportunity policies, staff welfare programs, competitive salary; a minimum level of disclosure was scored by Saudi Islamic banks’, which is also evident in sampled Qatari and Kuwaiti Islamic banks.
For example, Bank Al Jazira and Al Rajhi Bank reported in their annual reports the provision of compliance and *Shari’ah awareness* training amongst a variety of training courses, in addition to training students and undergraduates. The concept of monetary training for its employees was only mentioned by Al Rajhi Bank. Bank Al Jazira in this regard stated: "... Our community programs have focused upon a range of training activities to refine the skills of male and female youth and to support individuals with special needs" (Bank Al Jazira, annual reports, 2016: 12). In addition, Al Rajhi Bank stated: “in collaboration with the Training Centre, 13 Sharia courses for new employees; and held 19 workshops for branch managers” (Al Rajhi Bank, Annual reports 2016, p. 34).

The results show that Omani Islamic banks scored 0.40, indicating the low attention paid to the dimension ‘commitment to employees’ in the sampled Omani Islamic banks. Alizz Islamic Bank was positioned at first place with 0.44 score, followed by Nizwa Islamic Bank at 0.36.

The results in Table 6.3 lists UAE at the bottom with minimum score at 0.33 in disclosing CSR. Al Hilal Bank is the only Emirati bank with a decent score of 0.71 and rest of the sampled Emirati banks failed to disclose relevant and complete information for the dimension” commitment to employees”. Specifically, 0.32 was scored by Emirates Islamic Bank, 0.39 scored by Abu Dhabi Islamic Bank. Whilst Sharjah Islamic Bank scored 0.26, Dubai Islamic Bank and Noor Islamic bank scored 0.25. While, Ajman Islamic Bank scored 0.20, which among Emirati banks, is the lowest score. Considering the old establishment of Dubai Islamic Bank and Sharjah Islamic Banks in 1975 and 1976, respectively, their disclosure level is quite low and raises the need for improved communication.

Briefly, the GCC Islamic banks showed a low attention to commitment towards their employees. Such a low level of disclosure raises the need for Islamic banks to improve their communication by introducing for example, training courses like providing monetary training to students and undergraduates, Shari’ah -compliant financial activity-based training programs for improvement in professional skills and abilities. However, failed to disclose employee welfare and equal opportunity policies, including competitive salary information, are still ignored. Therefore, the GCC Islamic banks need to make more efforts to offer more information related to these issues such as the reward system and employee’s welfare information. Such conclusions are consistent with Platonova et al., (2016).
6.3.4. Results of Commitments towards Community

The findings for dimension of ‘commitment towards community’, presented in Table 6.2, provide the overall score of this dimension at 0.55 for the GCC Islamic banks. Thus, it ranks the disclosure of this dimension at the third position, amongst the CSR disclosure dimensions. The results in Table 6.3, show that, Omani Islamic banks reached the highest level of disclosure at 0.64 which is the maximum score and so ranked first among six GCC countries, and Kuwait attained the second place with a score of 0.60. Also, with a comparative score of 0.59 and 0.57 respectively, Bahrain and Qatar show very similar scores. The UAE scored 0.52 and the lowest score of 0.44 was recorded by Saudi Arabian Islamic banks. In Omani Islamic Banks, the highest level of disclosure was scored by Al Izz Bank at 0.77 and the lowest was recorded by Nizwa bank at 0.51.

Kuwaiti banks presented their disclosure of the commitment towards community at 0.60, bringing Kuwait at second place. Kuwait International Bank disclosed their social responsibility toward the community at 0.34, which can be seen as the minimum CSR disclosure index. Al Ahli United Bank, likewise, demonstrated a poor performance though, during the years from 2010 to 2016 with a slight and temporary improvement as evidenced by the results. Kuwait Finance House showed a disclosure leveled at 0.82, managing to reach the maximum level. It can be said that the analysis of the examined data highlighted improper communication of the social dimension in the operational framework of these banks. For example, very insignificant evidence was presented by Kuwait International Bank to show an inclination towards socially-driven projects and organization aimed at communal benefits. Kuwait Finance House, for examples, reported the following statement: “We have, during 2016, expanded our programs to participate in local social activities. In this respect, KFH has paid KD 7.5 Million to Zakat House in recognition of the importance of projects that would serve society and accentuate the humane side of our business. Our focus covers other projects and activities aiming to achieve social growth and development at the educational and health sectors, provide environmental care and support youth initiatives and other vital sectors”. (Kuwait Finance House, Annual Report 2016, p. 11)

Table 6.8 highlights the results to mark Bahrain at the third place among the GCC countries with 0.59 score in disclosing their commitment toward the community. The highest level was scored by Al Salam bank at 0.78, while the lowest level was scored by Al Barakah at 0.36. Thus, an insignificant exposure was evident in the sampled Bahraini Islamic banks as regards
their involvement with government-driven social activities. Specifically, Al Salam Bank and Ithmaar Bank demonstrated a clear communication for supporting organizations offering benefit to the society. For example, Ithmaar Bank stated: "...in 2016, it continued to support deserving local charities as well as participate in various community activities" (Ithmaar Bank, Annual Report 2016, p. 15).

Based on the results, it can be stated that recently there has been an increase in the awareness of such issues amongst the Bahraini Islamic banks as regards their commitment to sponsored community activities. In this regard, the annual report 2016 of Al Salam Bank stated: "Al Salam Bank-Bahrain underscore this commitment to our community by supporting initiatives that add value to the Island’s housing, education, and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth". (Al Salam Bank, Annual Report 2016, p. 70). In addition, Al Barakah Bank outlined: "The Bank continues its sponsorship of many important international finance and banking events and conferences held in Bahrain such as the World Islamic Banking Conference, Sharia bodies’ conference, and AAOIFI conference, as being one of the main sponsors of these conferences" (Al Barakah Bank, Annual Report 2016, p. 22).

Table 6.3 shows that Qatari Islamic banks were ranked at the fourth place amongst the GCC countries, with 0.57 score in disclosing their commitments towards community. In this dimension, the highest score was reported by Qatar Islamic Bank at 0.71, followed by Al Rayan Islamic Bank at 0.63. The lowest score was reported by Qatar International Islamic Bank and Qatar First Bank at 0.46. The Qatar Islamic Bank’s CSR report stated their commitment to support and sponsor organizations oriented towards communal benefits: "As a pioneer of Islamic Banking and an active partner providing continuous support to community activities, QIB places social responsibility at the very top of its priorities. This is reflected in substantial contributions for supporting human, health, educational, and sports activities as part of QIB’s social responsibility programs" (Qatar Islamic Bank, Annual Report 2016, p. 29). Moreover, Masraf Al Rayan and Qatar Islamic Bank also shared detailed information related to products and services associated with banking for women; for instance, services such as secluded women bank sections. However, it is observed that Qatar International Islamic Bank failed to provide any such information for women-oriented initiatives. The above disclosures, as such highlight the overall intent of Qatari Islamic banks towards commitment and participation in government social activities at the above the average value in general.
Analysis of this dimension, as regards the Emirati Islamic banks showed a low level of disclosed information associated with their commitments toward the community at 0.52. However, their reported information related to this dimension presents an improvement for the five Emirati Islamic banks. Table 6.9 highlights the poor scores of Emirati Islamic banks: Sharjah Bank at fifth place with an overall score of 0.25, Noor Bank at the sixth place with an overall score of 0.39 and Dubai Islamic Bank at the seventh place with an overall score of 0.48. Abu Dhabi Islamic Bank scored the highest at 0.76. The results show that the disclosure of CSR disclosure related to the commitment towards the community of Emirati Islamic banks ranged between a minimum value of 0.25 and a maximum value of 0.76. Abu Dhabi Islamic Bank only showed a lucid depiction of their commitment towards sharing in governmental social events where it stated: "In 2015, ADIB was also recognized for the government initiative of ‘filling 1,000 jobs in the financial sector in 100 days’ by Emiratis" (Abu Dhabi Islamic Bank, Annual Report 2016, p. 43). The contribution to the Islamic economics conference related information was only provided in the annual reports of Al Hilal Bank and Abu Dhabi Islamic Bank. Additionally, the commitment towards community activities sponsorship were only absent in Sharjah Islamic Bank amongst all surveyed Emirati Islamic banks.

For the dimension ‘commitments towards society’ the minimal level of CSR disclosure index was reported by Saudi Arabian Islamic banks at 0.44. As presented in Table 6.3, the results highlight the low disclosures of social activities level in Saudi Islamic banks. Accordingly, the detailed information related to the investment and funding community activities by all Saudi Islamic banks in their annual reports were disclosed in a humble manner. For example, Bank Al Alinma in its annual report 2016 stated that: "Alinma Bank Social Programs, Activities and Sponsorships: Since its establishment, Alinma Bank has strived to play an active role in community service" (Al Alinma Bank, Annual Report 2016, p. 23).

All Saudi sampled Islamic banks, in the analysis, revealed a disclosure as regards dimension ‘commitments towards community and society’ through sponsoring communal oriented institutions. In the 2016 annual reports of Al Rajhi Bank and Bank Al Jazira, stated their contribution towards the academic conference’s sponsorship. The overall commitment towards their social role, was not evident in sampled Saudi Islamic banks, except Al Rajhi Bank, which reported: "The Bank initiated 42 social responsibility programs in 2016 including 19 volunteer programs carried out by more than 600 employees of various grades who covered more than 1650 hours of work" (Al Rajhi Bank, Annual Report 2016, p. 42).
Overall, the results of this dimension show that the disclosed information by Islamic banks in the GCC region is less than expected level. Given that such information could directly influence the social welfare, paying more attention to importance of their disclosure is crucial. Accordingly, it can be argued that these results are not consistent with the Islamic principles of accountability and justice and therefore more efforts are needed to highlight the significance of such disclosure to promote the social wellbeing.

6.3.5. Results of Commitment towards Debtors

The analysis reveals that Islamic banks in the GCC region scored 0.68 in disclosing CSR information related to the dimension ‘Commitment towards Debtors’ and as a result it ranks at the first position, amongst the other CSR disclosure dimensions. The results revealed that, amongst the sampled regions, UAE scored 0.72 and ranked as the first bank in the disclosure level. Similarly, the data analysis shows that the highest score was achieved by Bank Al Hilal at 0.80 among the seven surveyed Emirati Islamic banks. The data revealed that Abu Dubai Islamic Bank scored the second place with 0.76, followed by Dubai Islamic Bank at 0.75, Emirates Islamic banks at 0.73 and Sharjah Islamic Bank at 0.71. The minimum disclosure score was reported by Noor Bank at 0.45. Thus, excellent disclosure levels presented by all the Emirati Islamic banks for each sub-category within this dimension, except for the debt policy. Moreover, in 2016, the Dubai Islamic Bank, Sharjah Islamic Bank and Al Hilal Bank reported debt products related information in their reports.

The results presented in Table 6.3 depict that Kuwaiti Islamic banks recorded the second place with 0.68 scores. Table 6.7 show a detailed disclosure level amongst all Kuwaiti Islamic banks in relation to type of lending activities, company policies on debt products and debts cleared. Although the reports lacked the primary information on debt policy, for this dimension, the maximum CSR disclosure index was computed for Kuwait International Bank at 0.86, which remained stable through the period between 2011 and 2016. The data revealed the disclosure of the commitments toward employees and showed that Al Ahli United Bank achieved the second position at 0.8 scores among the sampled Kuwaiti Islamic and the minimum score was achieved by Warba Bank at 0.50.

The data revealed that Omani Islamic banks reported the third place at 0.67. It can be argued that despite the obligated mandate of social accountability, Nizwa Islamic Bank had a minimum score of 0.62, and Al Izz Islamic Bank scored 0.69 for this dimension.
Table 6.3 depicts the parallel places of Qatari Islamic banks, Saudi Arabia Islamic banks and Bahraini Islamic Banks have scored an overall value of 0.64 of CSR disclosure and achieved the fourth place among the other GCC countries. To some extent, the data suggest that this can be considered as a good practice as regards the dimension’s disclosure levels. However, the specific report of debt policies was missing in Qatari Islamic banks surveyed annual reports, except for Qatar Islamic Bank and Masraf Al Ryan where they presented an explicit statement of their debt product policies.

As regards the parameter of dissolved debt, Qatar First Bank and Barwa Bank presented a humble level of disclosure. However, Masraf Al Ryan in its annual report clearly stated: "The Bank’s Credit Policy is considered the pillar of the Credit Risk Management’s function” (Al Ryan Islamic Bank, annual report 2016: 36). Moreover, “The amount written off during the year was QAR 1,656 thousand (2015: QAR 240 thousand)” (Al Ryan Islamic Bank, Annual Report 2016, p. 83).

The data analysis depicts that the reduced inclination of Bahraini Islamic banks is similar to other banks in the GCC countries in disclosing their debt policies. Specifically, an increase from 0.20 in 2006 to 1.00 in 2016 was evidenced by Khaleeji Commercial Bank, which achieved the highest score at 0.73 overall. The second highest score was achieved by Al Barakah Bank at 0.69, while Ithmaar Bank did not show any significant improvement and remained constant at same CSR disclosure level for the study period between 2006 –2016. Amongst the Bahraini Islamic banks, the minimum disclosure index was recorded by Al Salam Bank at 0.51.

As regards to Saudi Islamic Banks, Al Rajhi Bank reported the highest score at 0.69 and the lowest was reported by Bank Al Bilad at 0.56. The amounts of dissolved debts were reported by all Saudi Islamic Banks in their annual reports, thereby indicating the institutions perspective as regards debt products. For instance, in its annual report 2016, Al Rajhi Bank stated: "They are derecognized when either borrower repays their obligations, or the financings are sold or written off, or substantially all the risks and rewards of ownership are transferred". (Al Rajhi Bank, Annual Report 2016, p. 72). Moreover, the 2016 annual report of Bank Aljazeera stated: "Loans and advances are written off when they are determined to be uncollectible” (Bank Aljazeera, Annual Report 2016, p. 80). Additionally, the information related to debt products and dissolved debt amounts were reported in detail by the Alinma Bank as well as Bank Al Bilad. Specifically, Bank Al Bilad in 2016 annual report stated: "If
the financial asset is uncollectible, it is written off from the provision for impairment or charged directly on the consolidated income statement. The financial assets are written-off only after exhausting all possible means of collection, and after determining the loss amount” (Bank Al Bilad, Annual Report 2016, p. 84).

From the above interpretation of data, it can be stated that the findings of commitment towards debtor’s dimension is satisfactory on average and ranked the highest score among the other CSR disclosure dimensions. Such finding is consistent with Platonova (2014, p. 161). Thus, it can be understood that the GCC Islamic banks have reported this dimension in a satisfactory manner which can be due to the direct impact of this dimension to the financial position of the banks. However, still, there is a need for more disclosures regarding the sub-dimensions within their commitment towards debtors.

6.3.6. Results of Zakat, Charity and Benevolent Loans

Table 6.2 presents the results for the overall CSR disclosure reported through Zakat, charity and benevolent loans dimension. The results show that the GCC Islamic banks scored an overall value of 0.35 in disclosing information related to Zakat, charity and benevolent loans dimension. Table 6.3 depicts that the Bahraini Islamic banks reported the highest level of CSR disclosure in the region 0.43. Followed by the Islamic banks in UAE and Saudi Arabia which reported the same overall value of 0.36. Islamic banks in Kuwait scored 0.34 and Qatar scored 0.26, Oman at the bottom, with a lowest score of 0.25 in disclosing information related to Zakat, charity and benevolent loans dimension in the GCC region. This may be referring to the fact that, Zakat is considered as a mandatory requirement for shareholders rather than the banks as institutions.

The results in Table 6.8 show that Bahraini Islamic Bank scored the highest level in reporting information on ‘Zakat, charity and benevolent loans’ dimension at 0.77, while the lowest score was reported at 0.17 by the Ithmaar Bank. Moreover, the disclosure by Khaleeji Commercial Bank and Al Barakah Bank of reported information on the Zakat amount, sources, and uses/beneficiaries recorded at 0.51 and 0.39 amongst the sampled Islamic banks in Bahrain. The results suggest that all the sampled Bahraini Islamic banks showed their commitment toward Zakat and disclosed attestation in accordance with the Shari’ah supervisory board. The Islamic principles dictate that Zakat should be computed according to the Shari’ah standards, however, this was not the case with Al Salam Bank and Ithmaar Bank which failed to deliver such information.
Based on the research results, it is suggested that all surveyed Bahraini Islamic banks, moreover, lacked reporting the sources and uses of *Qard al-hassan* except for Bahrain Islamic Bank. Additionally, the banks failed to report *Qard al-hassan* policy and non-payment policy with one exception for Ithmaar Bank. Al Barakah Islamic Bank alongside other three sampled Bahraini Islamic banks made a disclosure of *Shari’ah supervisory* board attestation of *Zakat* calculation in accordance with the Islamic financial principles, however, Al Salam Bank failed to provide this information.

For this dimension, Saudi Arabia and UAE presented the second highest overall score at 0.36. The maximum CSR score for this dimension was revealed for the Emirates Islamic banks at 0.44, and Dubai Islamic Bank recorded the second rank at 0.39. These were followed by Al Hilal Bank and Abu Dhabi Islamic Bank with a CSR disclosure level at 0.36 and 0.35, respectively. Noor Bank recorded the lowest score at 0.27. Amongst the surveyed banks, two out of seven Emirati Islamic banks, specifically, the Noor Bank and Ajman Bank failed to disclose the *Zakat* amount, sources and uses. All surveyed Emirati Islamic banks except Al Hilal Bank, reported explicit statements regarding *Zakat* calculation and the *Shari’ah supervisory* board approval. The data analysis recorded a high level of disclosure of the uses and sources of *Zakat* dimension by most of Emirati Islamic banks in their annual reports. However, the policy of *Qard al-hassan* was still absent.

For ‘*Zakat*, charity and benevolent loans’ dimension, Saudi Arabian Islamic banks recorded an overall score of 0.36 in CSR disclosure index, thereby ranking it at the second place. Among the sampled Saudi Islamic banks, Al Rajhi Bank reported 0.40 score, which is the maximum score. While, the minimum score was reported by Al Bilad Bank and Al Jazira Bank at .34 and 0.31, respectively. Then results recorded a value at 0.39 reported by Al Inmaa bank which achieved the second rank. In addition, a detailed statement was provided by Al Rajhi bank on *Zakat* related issues.

The results presented in Table 6.6 suggest that the sampled Saudi Islamic banks presented in their annual reports a rich disclosure of *Zakat* amount and sources. However, bank Al Bilad presented an exception and failed to declare any *Zakat* amount and moreover, *Zakat* uses were not disclosed in the annual reports of the surveyed Saudi Islamic banks. Such outcome could be attributed to the fact that the Department of Zakat and Income Tax receives the amount which is further utilized as per their rules and regulations. However, the *Zakat* uses and SSB approval on these uses was also not mentioned by any of these banks.
Notably, the annual report of Bank Al Jazira provided an honest account and stated: "The Bank has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2015 and has received the assessments for the years up to 2011 in which the GAZT raised additional demands aggregating to SAR 462.2 million for the years 2006 to 2011". (Bank Al Jazira, Annual Report 2016, p. 110). Such statement suggests that a Bank Aljazeera provided information related to their commitments towards the shareholders as well as the stakeholders, in addition to the annual report readers in a transparent manner.

Amongst the surveyed Saudi Islamic banks three out of four did not disclose information related to Qard al-hassan sources and uses, with an exception in the case of Bank Al Jazira. The data suggest that these banks restricted themselves from offering benevolent loans.

For dimension ‘Zakat, charity and benevolent loans’ Kuwaiti Islamic banks reported a score of 0.34. The data revealed that from 2006 to 2016, Boubyan Bank demonstrated an improvement from 0.33 to 0.47. Also, as regards to Al Ahli United Bank and Warba Bank, the score remained constant and did not illustrate any considerable improvement. Warba Bank presented a minimum 0.13 score which thus showed the low awareness of the importance of such dimension for the bank.

The financial reports as obtained for all the Kuwaiti Islamic banks reveal a compliance of Zakat calculation as per SSB approval, in addition to the disclosure of Zakat sources and amount, except for Warba Bank. In addition, Warba Bank failed to disclose Zakat beneficiaries, which was also evident in Al Ahli United Bank. Likewise, surveyed Kuwaiti Islamic banks showed a minimal disclosure of charity sources and use, except Al Ahli United Bank and Kuwait Finance House, no other bank provided details of Qard al-hassan uses.

Qatar as per the study results is ranked at the fifth position with 0.26 score in the GCC region for dimension ‘Zakat, charity and benevolent loans. Accordingly, Barwa bank demonstrated a low score indicating the low awareness of the significance of this dimension. Qatar Islamic Bank showed a maximum score at 0.36, with the lower scores by Masraf Al Rayan at 0.23 and Qatar International Islamic Bank at 0.24. Moreover, Warba Bank demonstrated the lowest score of 0.17.

Thus, at 0.25, Oman showed minimum overall CSR disclosure score, thus highlighting the low awareness of the significance of this dimension in Omani Islamic banks. Alizz Islamic
Bank showed a maximum score of 0.40 and Nizwa Islamic Bank showed the lowest score at 0.11.

To sum up, Islamic banks as a part of their social responsibility are expected to disclose Zakat, benevolent (interest-free) loans, as fundamental Islamic financial requirement, they did not disclose enough detailed information about Zakat in their annual reports, such information as, detailing the Zakat sources, amounts and its beneficiaries, also including the information such as individuals who in the capacity of shareholders are obligated to pay Zakat in accordance to the corresponding governmental regulations. Thus, this dimension has the lowest score between the GCC sampled Islamic banks, this can be justified according to AAOIFI, (2010) by the fact that, Zakat is considered as a mandatory requirement for shareholders rather than the banks as institutions. Other justification, according to some scholars Zakat consider as an obligation between man and God.

6.4. Conclusion

Based on the developed arguments and research outcome, it can be stated that this Chapter measured the CSR disclosure level based on the foundations of Islamic moral economy and Islamic finance principles in the case of GCC Islamic banks. The research developed an understanding of CSR disclosure index, based on an extensive literature review and using content analysis to extract the information of CSR disclosure from 250 observations of 28 fully-fledged Islamic banks, in the GCC region, covering the period from 2006-2016.

The conducted analysis shows that the level of the CSR disclosure is relatively low at 52 per cent among the sampled Islamic banks comparing to Rahman and Bukair (2013) where they revealed a good level of CSR disclosures by Islamic banks in the GCC region with an overall value of 83.30 per cent. This can be explained by the size of their sample (53 Islamic banks) whereas, the size for this studied sample is 28 Islamic banks. It can be stated that the results of this study are consistent with Platonova et al., (2016) where a value of 49.56 per cent was obtained. However, the outcome obtained by this research was in a better position compared to El-Halaby and Hussainey (2015), Hassan et al., (2012), Haniffa and Hudaib (2007), and Maali et al. (2006), where the achieved levels of CSR disclosure were in the range of 30 per cent. In 2018, El Hussain conducted a review study of SSB and CSR disclosure around the world that shows, disclosure levels are in the range of 13.3 per cent to 49 per cent.

Accordingly, it can be argued that this study contributes in delivering an in-depth understanding of the GCC Islamic banks during the period 2006 to 2016 in measuring their
CSR disclosure. Table 6.1 presented empirical results for the data collected and maximum overall CSR disclosure index (0.56) was demonstrated by Oman and Bahrain, with the minimum overall CSR disclosure index (0.45) demonstrated by Saudi Arabia. For the remaining three GCC countries included in the survey, the index resulting from the analysis presented an overall mean range of 0.49 to 0.53. This indicated the evident wide disparity of the ‘real’ or disclosed from the ‘ideal’ CSR disclosure index. Kuwait stands at the third rank with an overall value of 0.53 CSR score and Qatar at fifth with an overall value of 0.52 score, while UAE at the sixth rank with an overall value of 0.49 score. Comparing these results to results in the prior studies such as, Platonova et al., (2016) El-Halaby and Hussainey (2015), Platonova, (2014), Rahman and Bukair, (2013), Hassan et al., (2012), Haniffa and Hudaib (2007), and Maali et al. (2006), it shows a slight improvement in the levels of CSR disclosures in the Islamic banks.

Notably, Bahrain and Oman ranked first when it comes to the CSR disclosure index. For Bahrain, this could be specific to their role as the country represents a proactive model in Islamic finance, implying that they have a regulatory body (AAOIFI) that organise and legitimise the Islamic finance industry. Meanwhile Oman recently launched Islamic finance premised on AAOIFI that was replicated by Bahrain and the UAE as well.

It is noteworthy that the rank of State of Qatar is one of the highest in terms of countries related to GDP. However, it is ranked among the GCC countries, which may be indicative of the existence of non-profit organisations across Qatar, such as Hamad Foundation and Qatar Foundation. Moreover, the absence of such a regulatory entity in both Qatar and Saudi Arabia, which signifies a passive model in the realm of Islamic finance, implies that each Islamic bank comprises of its own regulatory body (SSB) - which could be attributed to the low rank of both countries.
Table 6.1. Overall Score and Rank of CSR Disclosure Index for the GCC Countries.

<table>
<thead>
<tr>
<th>Dimensions of CSR Disclosure Index</th>
<th>Overall Score</th>
<th>Overall Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oman</td>
<td>0.56</td>
<td>1</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.56</td>
<td>1</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.53</td>
<td>2</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.52</td>
<td>3</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>0.49</td>
<td>4</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.45</td>
<td>5</td>
</tr>
</tbody>
</table>

Data Source: Annual reports of the examined bank during the period 2006-2016.

Table 6.2 presents the overall ranking for each dimension level of CSR disclosure. The cross analysis between CSR disclosure dimensions shows that commitment towards debtors ranked first with an overall value of 0.68 followed by the statement of vision and mission, commitments towards community, commitments towards employees, Product and Service and finally the minimum score (0.35) for Zakat, charity and benevolent loans.

To this end, it is important to mention that the minimum score of Zakat is justified in accordance with the AAOIFI (2010), which regards Zakat as a mandatory requirement for shareholders as opposed to the banks as institutions. Meanwhile the other justification is that some scholars consider Zakat to be an obligation between man and God. Moreover, according to Platonova et al. (2018, p. 14), “the distribution of such social giving mostly takes place in an unstructured manner implying that in distribution of such funds informal giving is more common. Other justification could be by Islamic ethics, which discourages individuals and institution in revealing their socially responsible activities and social giving, as such a revelation is considered against the dignity of those who receive and also is considered harming the initial intention of giving”.

It is possible to justify the first rank of debtor’s dimension with the fact that Islamic banks function from a regulatory viewpoint on the basis of conventional banks, wherein the
relationship between those banks and their customers is essentially that of debit and credit. Thus, it accords more attention to this particular relationship by disclosing additional information in general and CSR in particular.

Table 6.2 Overall Score and Ranking of CSR Disclosure Dimensions.

<table>
<thead>
<tr>
<th>Dimensions of CSR Disclosure Index</th>
<th>Overall Score</th>
<th>Overall Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor</td>
<td>0.68</td>
<td>1</td>
</tr>
<tr>
<td>Vision and Mission</td>
<td>0.61</td>
<td>2</td>
</tr>
<tr>
<td>Community</td>
<td>0.55</td>
<td>3</td>
</tr>
<tr>
<td>Employees</td>
<td>0.48</td>
<td>4</td>
</tr>
<tr>
<td>Product and Service</td>
<td>0.43</td>
<td>5</td>
</tr>
<tr>
<td>Zakat, charity and benevolent loans</td>
<td>0.35</td>
<td>6</td>
</tr>
</tbody>
</table>

Data Source: Annual reports of the examined bank during the period 2006-2016

Based on the results of this empirical analysis, the Islamic banks required to give more attention to the meaningful effect of CSR disclosure activities on their performance, either socially or financially. Consequently, it is clearly more beneficial to build up and increase consistent knowledge on CSR disclosure practices than focus on maximizing profits. Moreover, the findings revealed that the information related to the CSR disclosure is missing in several reports of the sampled Islamic banks. Subsequently, policymakers and regulators may direct the Islamic banks' towards issuing and determining a bottom line index for CSR disclosure practices in their websites and their annual reports.
Table 6.3 CSR of Disclosure Index

<table>
<thead>
<tr>
<th>CSR DISCLOSURE INDEX</th>
<th>QATAR</th>
<th>OMAN</th>
<th>SAUDI ARABIA</th>
<th>KUWAIT</th>
<th>BAHRAIN</th>
<th>UNITED ARAB EMIRATES</th>
<th>OVERALL CSR INDEX</th>
<th>OVERALL RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>VISION AND MISSION</td>
<td>0.70</td>
<td>0.66</td>
<td>0.41</td>
<td>0.57</td>
<td>0.73</td>
<td>0.59</td>
<td>0.61</td>
<td>(2)</td>
</tr>
<tr>
<td>RANKING</td>
<td>(2)</td>
<td>(3)</td>
<td>(6)</td>
<td>(5)</td>
<td>(1)</td>
<td>(4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRODUCT AND SERVICE</td>
<td>0.44</td>
<td>0.64</td>
<td>0.35</td>
<td>0.49</td>
<td>0.38</td>
<td>0.45</td>
<td>0.43</td>
<td>(5)</td>
</tr>
<tr>
<td>RANKING</td>
<td>(4)</td>
<td>(1)</td>
<td>(6)</td>
<td>(2)</td>
<td>(5)</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMPLOYEES</td>
<td>0.52</td>
<td>0.40</td>
<td>0.48</td>
<td>0.49</td>
<td>0.63</td>
<td>0.33</td>
<td>0.48</td>
<td>(4)</td>
</tr>
<tr>
<td>RANKING</td>
<td>(2)</td>
<td>(5)</td>
<td>(4)</td>
<td>(3)</td>
<td>(1)</td>
<td>(6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMMUNITY</td>
<td>0.57</td>
<td>0.64</td>
<td>0.44</td>
<td>0.60</td>
<td>0.59</td>
<td>0.52</td>
<td>0.55</td>
<td>(3)</td>
</tr>
<tr>
<td>RANKING</td>
<td>(4)</td>
<td>(1)</td>
<td>(6)</td>
<td>(2)</td>
<td>(3)</td>
<td>(5)</td>
<td></td>
<td></td>
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<tr>
<td>DEBTOR</td>
<td>0.64</td>
<td>0.67</td>
<td>0.64</td>
<td>0.68</td>
<td>0.64</td>
<td>0.72</td>
<td>0.68</td>
<td>(1)</td>
</tr>
<tr>
<td>RANKING</td>
<td>(4)</td>
<td>(3)</td>
<td>(4)</td>
<td>(2)</td>
<td>(4)</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZAKAT</td>
<td>0.26</td>
<td>0.25</td>
<td>0.36</td>
<td>0.34</td>
<td>0.43</td>
<td>0.36</td>
<td>0.35</td>
<td>(6)</td>
</tr>
<tr>
<td>RANKING</td>
<td>(4)</td>
<td>(5)</td>
<td>(2)</td>
<td>(3)</td>
<td>(1)</td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OVERALL YEARLY AVERAGE</td>
<td>0.52</td>
<td>0.56</td>
<td>0.45</td>
<td>0.53</td>
<td>0.56</td>
<td>0.49</td>
<td>0.52</td>
<td></td>
</tr>
<tr>
<td>(INDIVIDUAL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RANKING</td>
<td>(3)</td>
<td>(1)</td>
<td>(5)</td>
<td>(2)</td>
<td>(1)</td>
<td>(4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data Source: Annual reports of the examined bank during the period 2006-2016.
CHAPTER SEVEN
THE IMPACT OF SSB ON CSR DISCLOSURE
CHAPTER SEVEN

THE IMPACT OF SSB ON CSR DISCLOSURE

7.1. Introduction
This chapter is aimed at addressing the research question through the lens of empirical research which explores, examines and discusses the interaction between the collective characteristics of Shari’ah supervisory board (SSB) as well as Corporate Social Responsibility (CSR) disclosure both at the aggregate and dimension levels. Accordingly, this empirical study restricts its focus on the sample of 28 Islamic banks during period between 2006 and 2016 in GCC countries, which contains the largest share of assets in Islamic banks globally and exist in a stable social/economic structure (Rahman and Bukair, 2013). The focus of this empirical Chapter is to test the hypothesis that a positive associating is expected between the level of CSR disclosure and role of SSB in Islamic banks in the GCC region. As such, the findings of this work assume great significance not only for the GCC banking industry but also to any regulators, governors, policy makers and shareholders in the Islamic/global banking industry.

The structure of this chapter is as follows. This chapter starts with an introduction, followed by a background of the research area in relation to SSB, corporate social responsibility disclosure, and the association between them, in addition to succinct views on researches carried out on this academic area. The third section of this chapter examines the effect of SSB on the disclosure of CSR. Meanwhile, the fourth section discusses several hypotheses in order to investigate the effect of SSB on various determinants of CSR disclosure in addition to introducing/defining the statistical model to conduct the empirical research. Finally, the fifth section presents the interpretation of analysis and discusses the gathered information and concludes the chapter.

7.2 Background
The quality of financial product and the efficiency of operational services at any financial organisation, as well as the productivity of the banks, are determined largely by the corporate governance mechanism of the financial institutions (Andrés and Vallelado, 2008; Adams and
Mehran, 2012; Haan and Vlahu, 2016). In turn, this has impelled organisations to develop quality systems incorporating standards to implement that would shape the governance role, structure and duties of Islamic financial institutions (IFI), of which Islamic banks are the most significant segments (Kumar and Aljifri, 2016). The Islamic bank governance consists of two parts: corporate board and SSB, which have played a crucial role in maintaining the growth of the Islamic banking industry over the past two decades (Saeed and Saeed, 2018). The role of the corporate board concerns in the supervision and compliance with Islamic law and to set the direction and guidance for the organisation (Coleman and Biekpe, 2007) which significantly influence the determinants and levels of corporate social responsibility disclosure (Allayat, 2006; DeLorenzo, 2012).

In the recent past, there has been an increased public interest in the activities of CSR disclosure (Reverte, 2009), which is considered as a success factor in maximising the profit of Islamic banks and for the continuation of their success (Gustafson, 2002). According to studies by Farook et al (2011), the formation of SSB, as well as its’ entities, have enhanced CSR disclosure level in Islamic banks. In this regard, Rahman and Bukair (2013) pinpointed the significance of the association between CSR disclosure and SSB on financial performance. Accordingly, the focus of Islamic Banks has placed on the wellbeing and social obligations toward society that stresses upon sustained contributions for social activities. As a result, the quality of people’s lives is enhanced, which explains the rationale behind the proportional relationship between CSR disclosure and financial performance.

Therefore, the impact of relationship between CSR disclosure and SSB is clearly realised by Islamic institutions in the financial sectors. The corporate governance is significant factor in achieving successful organisations. Therefore, the lack of success in these institutions is attributed to issues related to directors at the level of governance (Grais and Pellegrini, 2006). According to Dusuki (2006), the reason for the fall of the Turkey Finance House Ihlas in 2001 was due to fragile governance at a corporate level resulting in defragmented vision, tangled operation and lack of control.

This has raised substantial attentiveness in CSR disclosure and SSB within Islamic financial industry, in particular, the banking sector that has motivated academics to scrutinise the entity and structure of SSB and CSR disclosure and their impact on the financial performance of
Islamic banks (El Hussein, 2018). Many research were published on the level of CSR disclosure, its’ determinants and the construction entity of SSB, however, only a few of them such as El Hussein (2018), Rahman and Bukair (2013) and Farook et al. (2011) paid particular attention to the role and influence of SSB index and its attributes on the level of CSR disclosure and its’ dimensions thus their effects on the financial performance of Islamic banks. This study addresses this gap in the literature and provides significant contributions to the body of knowledge through a thorough empirical examination of the relationship between SSB and CSR disclosure in Islamic banks in the GCC region.

7.3 Theoretical Background of the relationship between SSB and CSR Disclosure

The background of the relationship between SSB (Shari’ah Supervisory Board) and CSR disclosure is highlighted in this section. It also touches upon the nature, trend and the influence of SSB on CSR disclosure.

El Hussein (2018) had assessed to some extant studies which evaluated the association between CSR disclosure and SSB related variables. El Hussein (2018) pointed out that the Islamic banks attach great significance on the moral/ethical identity as well as the objective of promulgating various aspects of social welfare. However, according to his study, the focus on reporting socially responsible activities is not excessive, in accordance with the CSR disclosure norms. The studies reviewed by El Hussein (2018) were carried out across different Islamic countries over fifteen years from 2000 to 2014. The CSR disclosure levels were measured using content analysis whilst developing benchmarks or indexes. Some of these studies also employed certain statistical methods to analyse/empirically evaluate the influence of several variables that determine the CSR disclosure levels. They indicated that Islamic banks fared below average in terms of CSR disclosure whilst identifying a substantial gap between the ideal disclosure levels mandated by CSR guidelines and actual disclosure. These disclosure levels indicated themes ranged from a lowest level at 13.3 per cent to a highest level at 49 per cent. Large samples studied over an extended period of time (so as to increase the reliability of inferences) reported low disclosure levels. Comprehensive information related to Shari’ah-compliant corporate governance was found to be disclosed by the banks. These disclosures mainly pertained to topics of products, debtors and services, and employees, concerning which the banks appear to be more
committed to. Although these banks reinforce their commitment to Sharia teachings, they do not reflect this in their disclosure of the socially related undertakings. The lowest levels of disclosure are reflected by *quard al-hassan*, unlawful transactions, social and charitable activities.

El Hussain (2018) also asserts that priority is accorded by Islamic banks to the CSR disclosure primarily for the shareholders’ obligations as opposed to the interest of the society at large. Notably, the SSB Board positively influences the CSR disclosure, as evidenced by the existing literature. CSR activities reported in the corporate annual reports are positively correlated with the composite governance score of SSB, as found by the correlation/regression analysis. The board is subject to greater monitoring, which in turn results in greater compliance with *Shari'ah* principles/rules; this, in turn, results in a heightened level of disclosure, including the one relating to social activities.

According to existing literature (for example, Haniffa and Cooke, 2002; Ho and Wong, 2001; and Farook et al., 2011; Rahman and Bukair, 2013), the improvement in the quality of monitoring and a greater disclosure level by Islamic banks is a consequence of the corporate governance mechanism that employs SSB along with its other elements. There are a lot of dimensions that the improvements relate and are associated with SSB features which influence its role in addition to the dimensions of CSR disclosure across Islamic banks (Grais and Pellegrini 2006; Nathan and Pierce, 2009). Rahman and Bukair (2013), and El-Halaby and Hussainey (2015) conducted more studies and found a positive association between the SSB dimensions and CSR disclosure. There are five dimensions of SSB that are known to impact this trend of CSR disclosure. According to Rahman (2014), there is a significant influence on the overall score of Islamic corporate governance of SSB related variables on CSR disclosure. Correspondingly, El-Halaby and Hussainey (2016) pointed out that social disclosure variations were more influenced by the high explanatory power of corporate governance mechanisms related to SSB compared those related to Board of directors (BOD).

**7.4. Hypothesis Construction and Modelling**

The following section presents the theoretical understanding of hypotheses development. Furthermore, it provides an explanation of the variable’s measurements and modelling.
7.4.1. Hypothesis Construction

The agency theory considers the mechanism of corporate governance as paramount factors in decisions relating to the CSR disclosure of businesses. It can be stated that the existing literature is lacking research that assessed the association between mechanisms of Islamic corporate governance and Islamic banks’ CSR disclosure practices (Gul and Leung, 2004).

Based on the theoretical understanding it is argued that the impact of SSB on Islamic banks’ CSR activities is expected to be significant (Farook et al., 2011; Rahman and Bukair, 2015). The SSB is supposed to possess a sound knowledge of Islamic financial principles derived from Islamic law as well as the objectives of Islamic law. Therefore, it can be assumed that SSB is likely to have a positive influence on Islamic banks’ ethical performance by monitoring and auditing all possible business transactions to ensure their compliance with the Islamic financial principles. Based on this understanding, it can also be expected that SSB will positively affect the level of transparency in corporate reporting and positively promote the socially responsible activities among Islamic banks. On the basis of the above points, this study tests the following hypothesis.

**H2: A positive correlation exists between SSB overall score and CSR disclosure level in the Islamic banks’ annual reports in the GCC region.**

It is also important to explore the potential impact that SSB may have on individual dimensions of SCR disclosure, the vision/mission statement, dedication and commitment to debtors, employees, services/products, charity, community and benevolent funds. This is intended to obtain a detailed understanding of the relationship discussed above.

From the stakeholder theory point of view, an institution is required to make certain disclosures to sustain the trust and confidence of its vital stakeholders (Deegan, 2002; Islam and Deegan, 2008). In this context, the bank may be exposed to reputational risk in case there is a lack of transparency. This is because it could lead to non-symmetrical information involving the bank and its shareholders. These established arguments confirm that having an active SSB in a place will positively impact the disclosure of the CSR dimensions on an individual level. Hence, the following hypothesis will be tested:
H3: A positive correlation exists between the total SSB score and disclosed individual CSR disclosure dimensions.

7.4.2. Measuring the Dependent Variable (CSR Disclosure)

The current study utilises content analysis to measure the CSR disclosure level. This has also been discussed extensively in the literature related to disclosure of CSR (Abdul Rahman et al., 2010; Maali et al., 2006; Platonova et al., 2016).

7.4.3. Defining and measuring the Independent Variable (SSB)

The Sharia supervisory board characteristic is the Islamic corporate governance related variables that are used as an independent variable in this study. The study is an extension of the work undertaken by Rahman and Bukair (2013), who had formulated the score of Islamic governance concerning Islamic banks in order to derive the overall impact of its traits. The measure employed by SSB attributes for the Islamic banking industry in the GCC nations is the SSB index. It was constructed in the empirical model premised on the content analysis that has assessed the Islamic banks’ annual report. This score provides the total values of the board’s dichotomous characteristics.

Previous research work carried out by Farook et al (2011), Haniffa and Cooke (2002) and Ho and Wong (2001) have shown that corporate governance mechanism that employs SSB and its elements have improved the monitoring quality and provided greater level of CSR disclosure within the Islamic Banking sector. These improvements relate to a number of dimensions that linked to the features of SSB’s which affect the performance of SSB’s role and subsequently influence the dimensions of CSR disclosure across Islamic banks (Grais and Pellegrini, 2006; Haniffa and Cooke, 2005; Nathan and Pierce, 2009). The results of further investigation conducted by Rahman and Bukair (2013) and El-Halaby and Hussainey (2015) find a positive association between the SSB dimensions and CSR. Table 7.1 shows the descriptions of the independent variable (SSB) dimensions.
Table 7.1 Summary of Independent Variable descriptions.

<table>
<thead>
<tr>
<th>Abbreviations</th>
<th>Independent Variables</th>
<th>Description</th>
<th>Source of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSBSCORE</td>
<td>SSB overall Score</td>
<td>The summation of: SSBEX + NSSB + CRSSB + PHDSSB + REPSSB + EXPSSB.</td>
<td>Derived from sub-variables below</td>
</tr>
<tr>
<td>SSBEX</td>
<td>SSB Existence</td>
<td>Dichotomous; yes/no</td>
<td>Bank annual report</td>
</tr>
<tr>
<td>NSSB</td>
<td>Number of SSB</td>
<td>Dichotomous; 1 for banks with 7 or more members and 0 otherwise</td>
<td>Bank annual report</td>
</tr>
<tr>
<td>CRSSB</td>
<td>Cross-membership</td>
<td>Dichotomous; if any SSB member with cross directorship: 1, otherwise: 0</td>
<td>Bank annual report</td>
</tr>
<tr>
<td>PHDSSB</td>
<td>Doctoral qualification of SSB member</td>
<td>Dichotomous: if any SSB member with doctorate qualification: 1, otherwise: 0</td>
<td>Bank annual report and web site</td>
</tr>
<tr>
<td>REPSSB</td>
<td>Reputable scholars on SSB</td>
<td>Dichotomous: if any reputable SSB member: 1; otherwise: 0. Reputable scholar is one that has a position in the SSB of the AAOIFI and at least two Shari’ah board memberships</td>
<td>AAOIFI standards and bank annual report</td>
</tr>
<tr>
<td>EXPSSB</td>
<td>Experience of SSB</td>
<td>Dichotomous: if any of SSB member have an economic or accounting knowledge : 1; otherwise: 0.</td>
<td>Bank annual report and web site</td>
</tr>
</tbody>
</table>

7.4.4. Defining Control Variables

flowing the literature, in order to examine the relationship CSR and SSB, this control for other variables that may have an impact, such as the bank size, industry specification and their extent of interaction (Farook et al., 2011; Platonova et al., 2016; Rahman and Bukair, 2013; Rahman and Bukair, 2015). This is premised on empirical and theoretical research that have been
conducted previously and stressed on the significance of mediators between Islamic banks’ corporate governance and social performance. Accordingly, this study adopted a model that taken into consideration the size of the bank, Leverage, Liquidity ratios, return on deposits and GDP (gross domestic product) as the key control variables. This is because, as suggested by the existing literature, they are deemed to be the most significant elements that need to be controlled for when measuring the relationship between CSR disclosure and SSB attributes.

7.4.4.1. Bank Size (BSIZE)

With regards to the control variable, the existing literature has consistently emphasised on the important role that bank size may play in promoting the CSR disclosure (for example, Al-Brammer et al., 2006; Mallin and Michelon, 2011). According to Roberts (1992), a positive relationship exists between the size of bank and CSR, pointing out that the older and bigger a company is, the greater the extent of its involvement in CSR activities, thereby positively influencing its reputation. Agency theory posits that bigger companies need to disclose additional information to several user groups; this, in turn, is likely to result in reduced agency costs and information asymmetry (Inchausti, 1997). However, in prior studies on disclosure, the linkage of a firm’s size and reporting of disclosure reporting has been rather mixed. Whilst a few have studies established a positive linkage (Alsaeed, 2006; Chavent et al., 2006; Kamal Hassan, 2009), other researchers (Rajab and Schachler, 2009) have opined that the relationship is insignificant. Therefore, it can be inferred that the bank size remains one of the most vital characteristics of disclosure, preferred accounting policy, as well as the quality of accounting (Rahman et al., 2002; Goodwin et al., 2009). Especially, this position could be solidified by arguing that the larger banks are witnessing a stronger demand to showcase information for analysts, customers as well as the public at large (Cooke, 1989; Hossain and Reaz, 2007). Hence, the bank's size is expected to positively affect the level of CSR disclosure.

7.4.4.2 Liquidity Ratio (LIQ)

In addition, a number of studies by referring to the signalling theory have made an investigation into the linkage between companies’ liquidity and their disclosure levels. In this regard, Abdelsalam and Weetman, (2007) observed that ratios of high liquidity can pave the way for additional information disclosure. In a study that concentrated on Egyptian companies, the
conclusion was that firms with higher amounts of liquidity displayed greater voluntary information than with the ones who had lower ratios of liquidity (Abd-Elsalam and Weetman, 2003). With that being said, it has been observed that such firms’ (with lower liquidity) corporate managers could choose to disclose additional information voluntarily in order to comply with their stakeholders’ requirements. Unlike Ezat and El-Masry (2008), who identified a positive correlation between liquidity and the extent of web-based reporting, Aly et al., (2010) actually found a negative linkage between the two. As cited in Hussainy et al., (2011), Samaha and Dahawa (2010) observed that the overall levels of voluntary disclosure and liquidity did share a positive relationship.

7.4.4.3 Leverage Ratio: (LEV)

Based on the literature, it can be argued that the bank leverage may have a critical impact on the level of CSRD. To that end, Elzahar and Hussainey (2012) posit that in accordance with the agency theory, the cost of agency goes up when the leverage ratio is high. Costs associated with monitoring and agency is bound to increase when debt holders decide to turn a covenant that is of preventive nature into debt contracts. In their research, Wallace et al. (1994), found a positive relationship between corporate disclosure and leverage. Correspondingly, Rajab and Handley-Schachler (2009) discussed the potential role of management on voluntary disclosures. Premised on the signalling theory, ninety-seven managers voluntarily divulged the information when it was found that the ratio of leverage is high enough for attracting investors. They also provide a hint to creditors about their firm’s ability to meet short-term and long term needs (Elzahar and Hussainey, 2012). To that end, several studies have found a positive association between voluntary disclosure and leverage (Deumes and Knechel, 2008; Elshandidy et al., 2013). Hence, based on such substantial literature, the bank leverage is expected to yield a positive effect on CSR disclosure levels.

7.4.4.4. Bank Performance: Return on Deposit (ROD)

Many studies in the past have indicated a significantly positive linkage between a firm’s social disclosure and its performance (Roberts, 1992; Hackston and Milne, 1996; Smith, et al., 2007). However, other research studies have failed to find any relationship between the company’s performance and social disclosure (Cowen et al., 1987; Hackston and Milne, 1996; Hamid, 2004;
Branco and Rodrigues, 2008). From an Islamic standpoint, a firm would do well to provide complete disclosure in all possible cases, regardless of whether it is making a profit (Haniffa, 2002). Since Shari’ah’s teachings strongly focus on societal wellbeing and social responsibilities, in particular, a bank’s profitability is likely to have a major effect on CSR disclosure levels, which may result in additional contributions (financial and otherwise) towards social activities and bringing about improvement in the lives of people. Therefore, a positive linkage between CSR disclosure and financial performance has been observed in previous studies.

7.4.4.5. Economic Performance: Gross Domestic Product (GDP)

A country’s economic development is generally measured by considering its GDP (Samuelson and Nordhaus, 1989), which is broadly used to gauge the quality of institutional environment at large. Additionally, GDP is a primary determinant in terms of any nation’s economic performance. In an empirical study conducted among Asian companies from seven countries, no linkage was found between measured a nation’s economic prowess assessed by CSR disclosure and economic performance (Chambers et al, 2003). Hence, a conclusion can be reached that no linkage exists between countries’ GDP CSR disclosure levels of Islamic banks within the GCC region.

7.4.5. Regression Models

This study, following the literature related to CSR and SSB, applies the following models to measure the relationship between the SSB forms and CSR disclosure:

Model (1):

\[ \text{CSRDI}_{bit} = \alpha + \beta_1 \text{SSBScore}_{bit} + \beta_2 \text{BS}_{bit} + \beta_3 \text{LIQ}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{ROD}_{it} + \beta_6 \text{GDP}_{it} + \epsilon \]

Model (2):

\[ \text{IDCSRDI}_{bit} = \alpha + \beta_1 \text{SSBScore}_{bit} + \beta_2 \text{BS}_{bit} + \beta_3 \text{LIQ}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{ROD}_{it} + \beta_6 \text{GDP}_{it} + \epsilon \]

Where:

\( \text{CSRDI}_{bit} \) denotes the total score of CSR disclosure that bank \( b \) in country \( i \) during the period \( t \).
performs;

$IDCSRDI_{bit}$; is the CSRD score’s individual dimensions (vision and mission statement’; ‘commitment for employees and debtors’; products and services’ ‘commitment for the society’; ‘zakat and benevolent funding’) performed by bank $b$ in country $i$ during the period $t$;

$\alpha$: represents the intercept;

$\beta_1...\beta_n$ denotes the coefficients of regression;

$\epsilon$: signifies the term of error;

SSBScore: represents the overall score of SSB comprising of six dimensions;

BS: log of total assets of bank $b$ in country $i$ during the period $t$;

LIQ: refers to the amount of liquidity calculated by current assets’ ratio to bank $b$’s current liabilities during the period $t$ in country $i$;

LEV: refers to the leverage measured by the ratio of total liabilities to total assets of bank $b$ in country $i$ during period $t$;

ROD: refers to the Financial Performance measured by return on deposits of bank $b$ in country $i$ during the period $t$.

GDP: refers to the Economic Performance measured by the gross domestic product of country $i$ during the period $t$. The description of the examined variables is presented in Table 7.1.
Table 7.2. Independent and Control Variables – Definition

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Variable Abbreviation</th>
<th>Variable description</th>
<th>Predicted sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shari’ah Supervisory Board Overall Score</td>
<td>SSBSCORE</td>
<td>measured by the overall score that consists of six dimensions</td>
<td>+</td>
</tr>
<tr>
<td>Bank size</td>
<td>BS</td>
<td>log of total assets</td>
<td>+</td>
</tr>
<tr>
<td>Liquidity</td>
<td>LIQ</td>
<td>current assets as well as liabilities</td>
<td>+</td>
</tr>
<tr>
<td>Leverage</td>
<td>LEV</td>
<td>total liabilities/total asset</td>
<td>+</td>
</tr>
<tr>
<td>Bank Performance</td>
<td>ROD</td>
<td>return on deposits</td>
<td>+</td>
</tr>
<tr>
<td>Country Performance</td>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td>0</td>
</tr>
</tbody>
</table>

7.4.6. Data Sources

It is important to note that the data includes twenty-eight Islamic banks from six countries of the GCC region: The United Arab Emirates (seven banks), Bahrain (five banks), Saudi Arabia (four banks), Qatar (five banks), Oman (two banks) and Kuwait (five banks). As discussed and presented in Chapter 6, the annual reports of all these 28 Islamic banks, for the period between 2006 and 2016 were analysed to measure the CSR disclosure. The textual content of CSR disclosure is based on the annual reports of the examined banks other variables included in this research is collected from the financial statements obtained from the Bankscope database and the banks web sites for the examined period.

7.5. Empirical Analysis and Interpretation

The current section provides an analysis of findings as per the identified models.

7.5.1. Descriptive Statistics

This section presents the data descriptive statistics of the dependent variable CSR disclosure index and the independent variables SSBSCORE as well as the control variables across the 250 examined observations.

Based on the skewness and kurtosis standards, the data is found to be normally distributed as they are within the range of ±1.96 for skewness and ±3 for kurtosis (Haniffa and Hudaib, 2006).
Amongst collected data, there are some extreme outliers that may lead to some errors and inaccurate outcomes. Therefore, Charles P. Winsor’s technics (1895–1951) is used to limit those extreme values by reducing their effects of possibly outliers. Hence, in the current study the original data were normalised through winsorising process (Artiach et al. 2010, p. 40; Platonova et al, 2016, p. 462). Winsorising distributes the assessed data normally, by making the skewness scores in the range of ±1.96; meanwhile, the kurtosis coefficients lie in the following range: ±3. The results that showcase normal data distribution are illustrated in Table 7.2.

### Table 7.3. Descriptive Statistics

<table>
<thead>
<tr>
<th>Description</th>
<th>CSRD</th>
<th>SSBSCORE</th>
<th>BS</th>
<th>LIQ</th>
<th>LEV</th>
<th>ROD</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>.55</td>
<td>.83</td>
<td>7.14</td>
<td>2.60</td>
<td>.62</td>
<td>0.056</td>
<td>240.63</td>
</tr>
<tr>
<td>Maximum</td>
<td>.82</td>
<td>1</td>
<td>8.74</td>
<td>7.16</td>
<td>1</td>
<td>0.32</td>
<td>756.35</td>
</tr>
<tr>
<td>Minimum</td>
<td>.34</td>
<td>.43</td>
<td>5.08</td>
<td>1.12</td>
<td>.01</td>
<td>-0.06</td>
<td>18.51</td>
</tr>
<tr>
<td>Skewness</td>
<td>.07</td>
<td>-.50</td>
<td>-.37</td>
<td>1.16</td>
<td>-.59</td>
<td>1.61</td>
<td>1.00</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.56</td>
<td>2.16</td>
<td>2.07</td>
<td>2.97</td>
<td>1.69</td>
<td>2.95</td>
<td>3.0</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>.091</td>
<td>.15</td>
<td>.84</td>
<td>2.02</td>
<td>.29</td>
<td>0.10</td>
<td>205.55</td>
</tr>
</tbody>
</table>

Data Source: Bank scope Database.

As the results of normalised data presented in Table 7.2, there was a slight variation in the CSRD Index during the period between 2006 and 2016. The highest CSR disclosure was found to be 0.82 and the lowest was 0.34 with a 0.55 being the mean and 0.091 as the standard deviation.

The annual reports of all twenty-eight Islamic banks during 2006-2016 were coded and reviewed to evaluate the CSR disclosure index. As presented the results in Table 7.2 the annual reports contained different levels of concentrations and information. Across the sixth dimension of CSR disclosure index, the peak score of CSR disclosure was 0.56, while the minimum score was found to be 0.45. In all the years covered for the banks in the sample, the mean of CSR disclosure was 0.55, which is indicative of a comparatively low CSR disclosure level. This variable also has the lowest deviation standard of 0.092, which reflects the dispersion level (which is from the mean).
The results show that the size ranged between 8.74 and 5.08 and the mean was found to be equal to 7.14. The examined model also utilises liquidity and leverage ratios as effective control variables. Table 7.2 shows that the liquidity ratio to be between 7.16 and 1.12, and the mean is 2.60. Meanwhile, the largest Leverage ratio stood at 1, with the lowest being .01; the mean was recorded at 0.62. Return on deposits fluctuated extensively from -0.6 to 0.32, during the period between 2006 and 2016 and the mean was recorded at 0.0565. GDP as a control variable was recorded with a range between 756.35 and 18.51, respectively, with a mean being 240.63, with a standard deviation at 205.55.

7.5.2. Testing the Hypothesis

In order to test the developed hypotheses to examine the relationship between the CSR disclosure and SSB, this study uses the panel regression analysis applying the fixed effects. As mentioned earlier, this study uses the data collected from GCC region over the period the period between 2006 and 2016. It is important to highlight that the number of the observations were analysed reached 240. With regards to the omitted observation by using the different econometric approaches. Such as, Pearson correlation matrix, VIF for multicollinearity test and Hausman test to choose between the fixed or random effects to run the regressions analysis. Furthermore, this study applies the Durbin-Wu to examine the endogeneity issue among the examined variables.

In order to evaluate the degree of multicollinearity between examined variables, this study uses the VIF test and Pearson matrix. During the employment of several explanatory variables, multicollinearity is known to pose a challenge. Consequently, it becomes challenging to identify the impact of all independent variables on their dependent counterpart (Naser and Al-Khatib, 2000). In addition, multicollinearity deemed serious especially when the correlation exceeds 0.80, or when the VIF (variance inflation factor) is more than 10 (Haniffa and Cooke, 2005; Acock, 2008). The computation of VIF was undertaken to identify a multicollinearity problem. Table 7.3 illustrates the statistics of collinearity concerning all variables.

The results presented in Table 7.3 shows that the VIF coefficient ranged between 1.28 and 4.52. Based on the econometric characteristics of VIF test, the obtained coefficient values are with the range of 10, which indicates no threat of multicollinearity among the examined variable (Haniffa and Hudaib, 2007; Platonova et al., 2016).
The results in Table 7.3 presents the coefficient values of the Pearson matrix for correlation. The presented results show that no threat of high correlation among variable as all Pearson matrix coefficient values are not below 0.80 (Haniffa and Cooke, 2005; Acock, 2008).

Table 7.4. VIF Test and Pearson Correlations Matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>VIF</th>
<th>CSRD</th>
<th>SSBSCORE</th>
<th>BS</th>
<th>LIQ</th>
<th>LEV</th>
<th>ROD</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSRD</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSBSCORE</td>
<td>1.03</td>
<td>0.3394</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BS</td>
<td>1.34</td>
<td>0.0587</td>
<td>-0.1006</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQ</td>
<td>4.04</td>
<td>0.1525</td>
<td>0.1013</td>
<td>-0.1167</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>4.52</td>
<td>-0.1433</td>
<td>-0.1148</td>
<td>0.1748</td>
<td>-0.8643</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROD</td>
<td>1.28</td>
<td>0.1612</td>
<td>-0.0155</td>
<td>-0.0336</td>
<td>0.4453</td>
<td>-0.4485</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>1.75</td>
<td>-0.0405</td>
<td>-0.0854</td>
<td>0.4855</td>
<td>-0.4267</td>
<td>0.5181</td>
<td>-0.2233</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Data Source: Banks Annual Reports and Financial Statement.

As part of the econometric process of running regression analysis, this study applies Hausman test to check the suitable tool (either fixed or random). As evidenced in Tables 7.4, the result show that the fixed effect the most suitable for running regression analysis as the Hausman coefficient is significant at 5 per cent.

Table 7.5. Examining the association between CSR disclosure and SSB through Panel Data Regression Analysis

<table>
<thead>
<tr>
<th></th>
<th>Coef.</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSRD</td>
<td>0.186596</td>
<td>7.99***</td>
</tr>
<tr>
<td>SSBSCORE</td>
<td>0.0068955</td>
<td>1.21</td>
</tr>
<tr>
<td>BS</td>
<td>0.0028788</td>
<td>0.38</td>
</tr>
<tr>
<td>LIQ</td>
<td>-0.004229</td>
<td>-0.13</td>
</tr>
<tr>
<td>LEV</td>
<td>0.124589</td>
<td>2.45**</td>
</tr>
<tr>
<td>ROD</td>
<td>4.82006</td>
<td>0.13</td>
</tr>
<tr>
<td>GDP</td>
<td>0.3344452</td>
<td>7.71</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>0.403</td>
<td></td>
</tr>
<tr>
<td>R-Squared</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Hausman</td>
<td>13.09**</td>
<td></td>
</tr>
</tbody>
</table>
Table 7.4 depicts the results of the regression of examining the association between the CSR disclosure and SSB overall score. In other words, the results present the regression analysis of measuring the impact of SSB overall score on CSR disclosure level of Islamic banks in the GCC region over the period between 2006 and 2016. The fitness of the model is reported significant at Prob>F = 0.000, which means that the examined variables are well fitted into the model and well represent the examined association. Moreover, the R-squared value is reported at 0.403, which can be considered another indication of the good fitness of the model. With regards to the Hausman test, as mentioned earlier it is significant which indicates the suitability of the fixed effect rather than random effect to the examined model.

As shown in Table 7.4, the regression analysis reported a significant positive association between SSB and CSR disclosure at t=7.99 and p<0.01 with coefficient value of 0.18. This means that an increase of the SSB functions by 1 per cent will positively lead to an increase in CSR disclosure level of the Islamic banks in the GCC region by 0.18.

Based on the results, it can be stated that SSB overall score has a significant effect on these Islamic banks’ CSR activities. Therefore, the findings of the regression results are consistent with the second hypothesis that suggests a positive significant relationship is expected between the SSBSCORE functions and CSR disclosure level in the case of the examined banks. This outcome has been supported by the existing literature (for example, Farook et al., 2011; Rahman and Bukair, 2013). It can be said, therefore, that the level of SSBSCORE score is directly proportional to the CSR disclosure. In other words, a higher SSB score augurs well for the level of CSR disclosure. Thus, it can be inferred that Islamic banks with more active SSB members, will be able to provide more information regarding CSR activities. This is also true for SSB members that possess additional experience and knowledge in the banking industry.

It is worth mentioning that this study’s findings are consistent with agency, stakeholder and accountability theories. On the basis of reviewing extant literature, it can be stated that SSB is likely to have a significant effect on Islamic banks’ CSR activities (Farook et al., 2011; Rahman and Bukair, 2013). The significance of SSB score suggests that SSB, along with its attributes, is
an influential factor in determining disclosure levels of CSR. According to researchers (Farook et al., 2011; Rahman and Bukair, 2013), the SSB overall score was found to be a key determinant to affect the CSR disclosure level. For this reason, it can be stated that the result obtained by this study is in line with the findings of these studies. As another implication, that SSB composites of number of variables, including the number of members as well as cross-memberships, good reputation, PhD qualifications, deep knowledge, and good expertise are found to be effective on individual level in controlling these banks’ activities.

With regard to control variables, empirical results suggest that the bank size has a positive yet insignificant linkage with the disclosure of CSR. This finding is consistent with the evaluation of earlier studies, which includes the ones conducted by Rajab and Schachler (2009). Such positive relationship suggests that the Islamic banks’ (in the GCC region) size does impact their social performance. It can be stated, therefore, as per the Shari’ah rules of accountability as well as transparency, the bigger sized Islamic banks could be inclined to make more significant contributions to community activities. In turn, this could result in the availability of additional information in annual reports that will demonstrate an increase in their commitment towards accountable and transparent activities that will promote their potential in contributing in social wellbeing (Williams, 1999; Farook et al., 2011; Nomran et al., 2018; and Rahman and Bukair (2013).

The results indicated a positive yet weak relationship between the CSR disclosure level, the ratio of liquidity, GDP and bank size. This was premised on the values of complete disclosure. The return on deposit, on the other hand, is both positive and significant at t=2.45 and p<0.05, respectively. The leverage ratio was found to negative as well as insignificant, indicating the reliability of the equation. The significant linkage of CSR disclosure and overall SSB score is congruent with the findings mentioned in previous studies (Rahman and Bukair, 2013).

The results presented in Table 7.4 that a positive relationship is found between GDP and CSR disclosure, however, not significant at t-value 0.13. This result is consistent with previous studies Chambers et al. (2003) and Rahman and Bukair (2013) who found in their study that the GDP has no significant effect on banks’ CSR disclosure.

In addition, the results presented in Table 7.4 show that the return on deposit ratio has a positive and significant relationship with the CSR disclosure of Islamic banks in the GCC region. The
association is reported positive and significant at (t-value 2.45, p<0.05). Such reported result is consistent with the findings of several studies (for example, Hackston and Milne, 1996; Othman et al., 2009; Smith, Yahya, and Amiruddin, 2007). This study also supports the findings of Rahman and Bukair (2013).

Furthermore, this study control for impact of leverage ratio on CSR disclosure. As it can be seen from the results presented in Table 7.4, a negative, however, insignificant relationship between leverage ratio and contents of CSR disclosure. This outcome is consistent with the findings of some previous studies (for example, Waddock and Graves, 1997; Barnett and Salomon, 2012; Elshandidy et al., 2013; Harun, 2016). It can be stated that this is primarily due to the fact that debt tends to negatively impact profit, lowers managerial freedom that may negatively influence the banks’ CSR activities (Barnett and Salomon, 2012).

Liquidity ratio, which is measured by the ratio of current assets to current liabilities, is another important variable that has been controlled for in this study. The results, as presented in Table 7.4, show that a positive relationship between liquidity ratio and CSR, however, insignificant that indicates it lacks a statistically significant impact on the CSR disclosure of Islamic banks. In addition, many studies, in reference to the signalling theory, have made an investigation into the relationship between the disclosure levels and liquidity of companies. For instance, Abdelsalam and Weetman, (2007) reported high levels of disclosure in occupancy with high liquidity ratios. However, this finding is inconsistent with empirical evidence provided by Aly et al. (2010), although it is consistent with the empirical evidence provided by Ezat and El-Masry (2008) and Samaha and Dahawa (2010), who identified a positive linkage between the liquidity of a company and online reporting levels.

7.5.3 Results of the Relationship between Individual Dimensions of CSR and SSBSCORE

In the earlier sections, the results as presented in Table 7.4 show that SSB has a significant positive impact on CSR disclosure of the Islamic banks in the GCC region. Furthermore, in order to have an in-depth understanding of the relationship between the SSB and CSR, this study conducts further analysis to examine the relationship between the SSB and individual CSR dimensions. The outcome of previous research was taken into account to highlight the effect of
SSB related variables on the multidimensional nature of the CSR disclosure performance on individual dimensions level.

As shown in table 7.5, the regression model 2 substitutes the composite measure of CSR disclosure with the individual measure of each dimension of CSR disclosure. This study had operated the regressions for model 2 for each individual dimension in separate models.
Table 7.6 Panel data regression analysis with fixed effects—testing the relationship between SSBSCORE and individual CSR dimensions.

<table>
<thead>
<tr>
<th>Model 2</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IDCSR D</td>
<td>Mission and vision (M&amp;V)</td>
<td>Products and services (P&amp;S)</td>
<td>Employees (EMPLYS)</td>
<td>Community (COMUNITY)</td>
<td>Debtors (DEBTS)</td>
<td>Zakat, charity and benevolent funds (ZC&amp;BF)</td>
</tr>
<tr>
<td></td>
<td>Coef.</td>
<td>t value</td>
<td>Coef.</td>
<td>t value</td>
<td>Coef.</td>
<td>t value</td>
<td>Coef.</td>
</tr>
<tr>
<td>SSB</td>
<td>0.1494</td>
<td>2.78**</td>
<td>0.20018</td>
<td>4.44***</td>
<td>0.1404572</td>
<td>1.92*</td>
<td>0.23167</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.0184</td>
<td>1.57*</td>
<td>0.05707</td>
<td>3.90***</td>
<td>0.0199856</td>
<td>1.18</td>
<td>0.03078</td>
</tr>
<tr>
<td>LIQ</td>
<td>-0.0020</td>
<td>-0.20</td>
<td>0.01119</td>
<td>1.69*</td>
<td>-0.014654</td>
<td>-1.86*</td>
<td>0.00818</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.0461</td>
<td>0.73</td>
<td>0.08467</td>
<td>1.73*</td>
<td>-0.175098</td>
<td>-3.94***</td>
<td>0.10048</td>
</tr>
<tr>
<td>ROD</td>
<td>0.04862</td>
<td>0.83</td>
<td>-0.05690</td>
<td>-0.62</td>
<td>0.074424</td>
<td>0.57</td>
<td>0.11210</td>
</tr>
<tr>
<td>GDP</td>
<td>-0.0003</td>
<td>-7.95***</td>
<td>-0.00003</td>
<td>-0.43</td>
<td>-0.00039</td>
<td>-7.29***</td>
<td>-0.00023</td>
</tr>
<tr>
<td>CONS</td>
<td>0.4967</td>
<td>4.37***</td>
<td>-0.18797</td>
<td>-1.33</td>
<td>0.473578</td>
<td>4.74***</td>
<td>0.13026</td>
</tr>
<tr>
<td>R square</td>
<td>0.2963</td>
<td>0.5588</td>
<td>0.2643</td>
<td>0.2095</td>
<td>0.582</td>
<td>0.2531</td>
<td></td>
</tr>
<tr>
<td>Prob[F]</td>
<td>0.000</td>
<td>0.0007</td>
<td>0.000</td>
<td>0.0006</td>
<td>0.0013</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Groups</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>240</td>
<td>240</td>
<td>240</td>
<td>240</td>
<td>240</td>
<td>240</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *P < 0.1, **P < 0.05, ***P < 0.01
Table 7.5 shows that there is a positive and significant association between the overall score of SSB and the vision/mission aspect of CSR disclosure. Such outcome is consistent with the results of other studies (Rahman and Bukair, 2013; Nomran et al., 2018). It is important to state that the dimension of ‘mission and vision’ encompasses some vital elements of Islamic finance that highlight some key indications of the ethical activities of the banks (Hadi, 2016). As mentioned earlier, this positive relationship could be attributed to a serious commitment made by Islamic banks towards adherence to Shari’ah rules. Notably, the dimension of mission and vision is consistent with the values of an institution; additionally, it also aligns with the bank’s core philosophy and values. This dimension is visible and comprises of the core principles of Islamic finance, which reflect their commitment towards Shari’ah compliance through their commitments toward the society. As a result of such high level of disclosure in their vision and mission statement, customers’ trust in the bank may increase which may encourage them to deposit their funds/investments. The adherence to Shari’ah compliance as well as Islamic principles as defined in the statement of mission and vision is a key motive for investors that affect their decisions. Therefore, this dimension has a high disclosure score of 0.61 when compared to the scores of other dimensions.

As shown in Table 7.5, a positive and significant (p<1 per cent) relationship does exist between ‘products and services’ as well as overall SSB score. This implies that the more commitments toward the implementation of the SSB, the higher the banks will disclose information related to ‘products and services’ dimensions. This finding is in line with the results of existing studies conducted by Hassan et al., 2011; Rahman and Bukair, 2013; Grassa et al., 2018. The results, further, confirmed a positive and significant association between SSB and ‘commitments towards employees’ dimension. According to such results, it can be stated that when a bank provides more support in promoting the role of SSB, the greater their disclosure towards their commitments towards employees.

As presented in Table 7.5, the association between SSB and ‘commitment towards employees’ dimension is positive and significant at t=1.92 and p<0.10. Notably, this finding is consistent with earlier past studies, such as the research conducted by Maali, et al., (2006) and Haniffa and Hudaib, (2007). The results also confirmed a positive and significant relationship between the SSB and bank’s commitment toward community dimension. As presented in Table 7.5, the association is positively significant at 1 per cent (t=4.89 and p<0.01). This suggests that when banks show more commitments towards the Islamic financial principles through their implementation via paying more attention in promoting the
role of SSB, the high the level of disclosure of information related to their commitments towards community. This is in line with the findings of previous research (Farook et al., 2011; Mohammadi and Mardini, 2014; Maali et al., 2006).

The results suggest that SSB positively and significantly impact the banks’ disclosure level related to ‘commitments towards debtors’ dimension. The results presented in Table 7.5 show that SSB has positive impact on banks’ commitment towards community which is significant at 5 per cent (t=2.59 and P< 0.05). This finding is consistent with the AAOIFI point of view, where they assert that an active and expert SSB will increase the commitment of these banks toward the society, including the debtors. There is a direct as well as positive impact of SSB on the level of CSR information related to their commitments towards debtors. Table 7.5 show that the relationship between SSB and commitments towards debtor’s disclosure is significant and positive at (t=2.59, P<0.05). Such results are consistent with other existing research (Farook et al., 2011). On the other hand, Maali, et al., (2006) found a low commitment regarding this dimension in the GCC Islamic banks.

Regarding the Zakat, charity and benevolent fund, the results in Table 7.5 show that the SSB has a significant on the disclosure level of the information related to this dimension and positive at 1 per cent (t=4.99 and P<0.01). Such outcome was also evident by literature related to disclosure (for example, Farook et al., 2011; Rahman and Bukair, 2013; Grassa, R., 2013).

It is worth noting that the significance of the relationship between all CSR disclosure’s individual dimensions and overall SSB score is consistent with the third hypothesis which predicted that there is a positive association between the overall score of SSB and the individual dimension of CSR disclosure of the sampled Islamic banks. This is consistent with the stakeholder, accountability and agency theories as higher level of compliance of Islamic banks with Islamic financial principles and their implementation through an active SSB. Based on such understanding, having an active SSB will positively encourage all stakeholders to deal with such socially active banks as argued by El Hussain (2018).

7.5.4. Sensitivity Tests

In order to assess the accuracy of the achieved results, this study conducts two tests. Accordingly, in order to control for possible endogeneity problems, this research applies the 2SLS. Table 7.6 depicts the regression findings estimated through 2SLS test. The results
presented in Table 7.6 estimate the relationship between SSB and the content of the CSR disclosure index. An overall consistency was observed with the findings that were obtained by running model 1 presented in Table 7.4. The result of regression results using 2SLS show that the SSB is still found significant at 1 per cent (t=4.62 and p<0.01). With regard to the control variables, the results show that the relationship between the return on deposit and CSR disclosure is also significant at 10 per cent (t=1.62 and p<0.10). Meanwhile, the bank size and the bank’s Liquidity ratio was found to be positive, albeit insignificant. The Leverage ratio and GDP are negatively associated with the disclosure of CSR, however, do not indicate any significant relationship with the level of disclosure index. Notably, such findings are consistent with the results presented in Table 7.4 that deliver the outcomes of the Model 1.

In addition, this study applied the Durbin-Wu test to examine the issue of potential indigeneity between SSB and CSR disclosure. As mentioned earlier, due to omitted variable, the statistical assessment may be affected in the estimation process of the relationship between the SSB and CSR. Furthermore, as per a statistical model, it is possible for indigeneity to take place between the error term and explanatory variables (Greene, 2003). Accordingly, this study applies the Durbin-Wu test. The result present that coefficient of Durbin-Wu is not significant as presented in Table 7.6. This means that the null hypothesis is reject. Such results indicate that no threat of indigeneity is exists in the examined model (Gujarati, 2003) to this study.

Table 7.7. Panel Data using 2SLS Regression Analysis Measuring the Linkage between CSR disclosure and SSBSCOR:

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Coef.</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSRD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.0078169</td>
<td>0.93</td>
</tr>
<tr>
<td>SSBS</td>
<td>0.1659013</td>
<td>4.62***</td>
</tr>
<tr>
<td>LIQ</td>
<td>0.0050612</td>
<td>0.93**</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.0014955</td>
<td>-0.04</td>
</tr>
<tr>
<td>ROD</td>
<td>0.109195</td>
<td>1.62*</td>
</tr>
<tr>
<td>GDP</td>
<td>-0.890006</td>
<td>-0.05</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>0.3432597</td>
<td>4.52***</td>
</tr>
</tbody>
</table>

157
7.6. Conclusion

The key objective of this Chapter is to evaluate the impact of SSB overall score in the form of a main governance traits on CSR disclosure through panel data regression using fixed effect. As mentioned earlier, the findings of regression analysis identified a significant positive relationship between CSR disclosure and overall SSB score which is consistent with existing literature (for example, Farook et al., 2011 and Rahman and Bukair, 2013). Based on such outcome, it can be stated that, Shari‘ah Supervisory Board act as a key body within the Islamic banking in promoting the disclosure of CSR activities. The same outcome was also obtained statistically between the SSB and individual dimensions of CSR. Such outcome can be due to the positive impact of number/size of the SSB, their in-depth knowledge in Islamic banking and finance field. For instance, having a well-knowledgeable member in the SSB will increase the SSB capacity in understanding the moral and ethical values derived from the authentic Islamic law sources and apply them into the modern applications within the industry. This, of course, will increase the potential social wellbeing that Islamic banks may offer. As a result, an increase in the social activities by Islamic banks means an increase in their CSR disclosure. Therefore, it can be stated that this study demonstrates statistically the existence of a positive and significant correlation between SSB and overall CSR as well as individual CSR dimensions. It can be argued that the research outcome of this study are consistent with both agency and stakeholder theory as described in section 4.3 (literature) of the fourth chapter. Therefore, as regression analysis suggest, the SSB is extremely an important player in Islamic banking industry in promoting the social activities of the banks delivered through CSR activities. These outcomes highlight the importance of the SSB in guiding Islamic banks toward their core mission in promoting the social wellbeing of all stakeholders. Therefore, it is important to have SSB members with sufficient skills and knowledge about the Islamic banking sector. Most importantly, it is crucial maintaining the independency of SSB to enable them to take their role in a full capacity guiding towards and promoting the social wellbeing of the stakeholders.
CHAPTER EIGHT

CONCLUSIONS
CHAPTER EIGHT

CONCLUSIONS

8.1 Introduction

Despite that the interests in the Corporate Social Responsibility (CSR) disclosure have increased in recent year, the previous studies related to Islamic accounting and disclosure have been very limited. Such understanding has been the key motivation to undertake this study which has helped in addressing the five research questions and achieving the research objectives statistically. Therefore, this research concentrates on measuring the CSR practices as well as the influence of the Shari’ah supervisory board (SSB) on such practices. Accordingly, the current research aims to analytically explore and examined the practices of CSR disclosure and the extent to which the Islamic banks in GCC region disclose the information related to their CSR activities. Furthermore, this study also examines the impact of SSB related variables on CSR disclosure practices of the GCC Islamic banks aggregately and individually.

The concluding remarks of this thesis are provided in this chapter. Accordingly, this chapter is presented through the following sections: Section 8.2 includes a summary of findings of this research, Section 8.3 includes the contributions of research, and Section 8.4 provides the limitation and suggestions for future research. At the end, the research epilogue is covered in Section 8.5.

8.2 Summary of Research

This research primarily aims to evaluate the social practices of the GCC-based Islamic banks their disclosure of CSR practices. This research conducted this examination through content analysis of the annual reports of the examined banks. The content analysis is carried out by developing an index to represent the CSR dimensions based on Islamic moral values and accounting standards. Having constructed such index following the existing theories and literature in the field of CSR within Islamic finance, this study quantifies the qualitative information to present a quantitative measurement for CSR practices of Islamic banks in the GCC region. Furthermore, this research also aims to assess the effect of SSB variables on the CSR disclosure practices across these banks.

For the purpose of an empirical analysis this study has two empirical chapters. The first investigations entailed an analysis of the gap between realities and ideals of adhering to CSR
disclosure norms across the Islamic banking industry by studying the banks’ annual reports, leveraging content analysis and preparing the CSR disclosure index. Notably, the dimensions as well as sub-dimensions of CSR disclosure were selected on the basis of the Islamic finance principle that are delivered from the authentic sources of Islamic law. It included six content categories, which comprised ‘vision/mission statement’; ‘commitment toward the cause of employees’; ‘products and services’; ‘commitment to society’; ‘commitment to debtors’; and ‘Zakat, charity and benevolent fund.’ In order to display their sense of societal accountability as well as their adherence to religious principles, it is expected that Islamic banks will live up to their reputation of being responsible by adequately divulging CSR activities-related information. These banks are also expected to reveal in-depth information which is indicative of their commitment towards social responsibility activities as well as they are required to meet the expectations of Islamic ethical norms.

The empirical results of this research show that the overall score of CSR disclosure indices of Islamic banks continues to be relatively low for all the categories. Thus, the results of this research pertaining to the Islamic banks’ (within the GCC region) social activities outcomes revealed through CSR disclosure are not very promising. According to the study, such banks exhibit hesitance in revealing detailed CSR information. On countries level, Bahrain and Oman were found to report the highest score in CSR disclosure index (0.56) while Saudi Arabia stood at the bottom of this index of 0.45. As a best practice, full CSR disclosure compliance requires a score of at least 1.00. In light of this, a score of 0.56 as the best result is rather disappointing. Meanwhile, Kuwait claimed the third rank (0.53), while Qatar and the UAE occupied the subsequent two ranks with a score of 0.52 and 0.49, respectively.

In a similar manner, the overall ranking shows that these Islamic banks do not exhibit satisfactory commitments towards revealing information related to CSR disclosure. On dimensions level, their commitment toward debtors was found to be the topmost priority of all six countries in the GCC with a score of 0.68. Meanwhile the next two priorities were claimed by ‘vision/mission statement’ and ‘commitment to community’ with scores of 0.61 and 0.55, respectively. The rest of dimensions were reported at the following levels: ‘employee’ with 0.44, ‘products and services’ with 0.43 and ‘Zakat, charity and benevolent loans’ with 0.35 scores. Considering that the three dimensions scoring higher assume significance in the context of Islamic banking, the minimum scores do indicate a cause of major concern. As an implication, the Islamic finance industry would do well to reconsider its seriousness about its ethical legitimacy concerning Islamic principles.
Based on the nature of Islamic financial products and system, it can be argued that the GCC Islamic banks are expected to demonstrate great accountability in sharing information on CSR. However, as per the findings, the extent of disclosure of most of these banks is considerably less than the expectations. Such underperformance is attributed to insufficient accountability and transparency practices within Islamic banking industry. Therefore, the Islamic banks are obliged to integrate the social dimensions within their system. Doing so will help them improve their contribution towards human empowerment across these societies. Importantly, Islamic economy is required to integrate moral and social dimensions in its financial practices.

Meanwhile, this research in the second empirical chapter aimed at evaluating the effect of SSB attributes on the Islamic banks’ CSR disclosure practices. This study included the CSR disclosure index and SSB in order to assess the influence of having a proper application of Islamic financial principles on the social activities practiced by Islamic banks and deliver through their CSR disclosure practices. This investigation is conducted using regression analysis applying fixed effect. Furthermore, in order to reach accurate outcome, this study applied related control variables, including: bank size, liquidity ratio, leverage ratio, return on deposit and gross domestic product.

From stakeholder, accountability and agency theories perspectives, it can be suggested that a positive correlation between CSR disclosure and variables related to SSB is expected. Based on these arguments, this study developed research hypotheses of this relationship. The empirical results of the first regression model suggest that SSB has positive and significant impact of the level of CSR disclosure of the GCC Islamic banks which is consistent with the second hypothesis. Therefore, it can be stated that Islamic banks that have a strong commitment toward their compliance with Shari’ah through their SSB attributes will have a high level of CSR disclosure.

Moreover, the results demonstrate a positive linkage between the CSR disclosure’s individual dimensions and SSB related variables. Therefore, the impact of SSB overall score on individual dimensions of CSR disclosure was examined in order to strengthen the understanding of such correlation. The result of the second regression model suggested a positive relationship between the SSB and the individual dimensions of CSR disclosure. Overall, the results of this study can be said to be consistent with stakeholder, accountability and agency theories.
8.3. Research Contribution and Implication

Based on the theoretical and empirical Chapters, it can be stated that this study has successfully answered the research questions and fulfilled research aims and objective in a systematic manner. Therefore, it can be argued that this research has contributed on both theoretical as well as practical level, which are elaborated below.

8.3.1. Contribution to knowledge and Research Implications

The contributions of the current study toward extending the existing literature related to CSR disclosure and SSB can presented as following:

First, the study has introduced a new theoretical model for hypothesising the relationship between the SSB and CSR individual dimensions and assessing the effect of SSB related variables on each individual of CSR disclosure dimensions which, as per the best of the researcher’s knowledge, has not been examined before in previous studies in the existing literature in Islamic finance. In addition, it examines the association of Islamic corporate governance of SSB characteristics with Islamic banks’ CSR disclosure. Hence, this study makes an important contribution to the evolving literature related to ICG related to SSB and CSR disclosure in Islamic banks.

Second, the study provides a clear understanding of the philosophical foundations of the importance of CSR disclosure from the perspective of Islamic finance. Developing an index to measure the CSR practices based on the Islamic teachings directly derived from Islamic moral values and its role in within the Islamic ethics in promoting CSR disclosure among Islamic banks is important, which has been discussed in the current study, has highlighted another approach of looking into this matter within accounting and disclosure related literature in Islamic banking. Therefore, it can be argued that this study provides a well-defined understanding concerning CSR disclosure from the lens of Islamic teachings.

Third, this research makes significant contributions to extant literature in terms of CSR disclosure practice in GCC Islamic banks. In particular, it focuses on evaluating CSR disclosure of 28 GCC Islamic banks over a period of eleven years between 2006 and 2016. An index was derived and adapted from previous studies, based on Islamic moral economy and Islamic financial principles, which was the basis for this evaluation. Content analysis technique was applied in this study that was adapted from the index of CSR disclosure developed previously by Farook et al., (2011) and Platonova et al., (2016). As an aspiration
to reflect the nature of disclosure items, this index ensures compliance with Islamic financial and moral framework. The constructed index included some dimensions and sub dimensions that were derived for the moral values of Islamic finance. This attempt was intended to help gauge the extent of their CSR disclosure practices across the GCC region.

Fourth, in relation the research sampling, the previous studies related to the CSR and SSB (Rahman and Bukair, 2013) used data for one year only (for the year 2008) covering 53 Islamic banks in the GCC region. This means that they cover most of the operated Islamic banks regardless their shape or the way they operate; whether they are listed Islamic banks or non-listed, Islamic window or fully-fledged Islamic banks, local GCC bank or foreign bank operating in the region. Moreover, their sample covers just five countries excluded Oman. In contrast, this study contains a sample size of 28 fully fledged Islamic banks spread across the six GCC countries, including Oman, covering the period of eleven years between 2006 and 2016 and assessing 250 observations. Hence, it can be argued that the current study provides a comprehensive analysis of CSR disclosure practices among GCC countries and its relation to SSB related variables.

Fifth, the key contribution of this research is delivered through bridging a critical gap in the literature by conducting an empirical investigation of the impact of the SSB practices on the CSR disclosure which has been quantitatively assessed. In other words, this research contributed in providing empirical quantitative examination in evaluating the effect of SSB variables, which is a proxy of Islamic corporate governance (ICG) on CSR disclosure practices, which is used as a proxy of social performance of Islamic banks. The research outcome suggests a high level of CSR disclosure performance is assumed with strong ICG related to SSB attributes. This, in turn, establishes trust in financial institutions that are socially active and as a result, it plays a key role in expanding the customer base. Having such understanding, it can be stated that this research has contributed in knowledge body of sustainable development.

Furthermore, the research would also be of significance to regulators, policy makers, researchers, analysts, creditors and investors by presenting a new facer that must be considered whilst evaluating the quality and scope of Islamic banks’ accounting information.
8.3.2 Practical Contributions and Implications

The results of this research can impart benefits to the Islamic banks, and GCC banking sector at large, through the following contributions and implications:

First, the findings of this study provide an empirical evidence for managers, investors, regulators, and policy makers in the GCC region Islamic banks to understand how to enhance the performance of IBs using ICG with qualified SSB. Accordingly, the decision makers of the GCC region Islamic banks should focus on SSB practices as an important element for attracting customers, especially as there is a lack in this aspect.

Second, the research results show low level of CSR disclosure among GCC Islamic banks, which provides a contribution in identifying the underperformed banks in the region. In other words, it highlights the CSR awareness and importance within Islamic banks that as a result can create a competition in the market towards the social activities that would promote the social wellbeing in the community. As an implication, investors are given the impression that there is a positive ramification of CSR disclosure on their banks’ market value on the basis of proxies for market capitalization. With that being said, managers engaging in best practices concerning information sharing would do well to maintain their position in a competitive manner. Furthermore, the results of the current study encourage those who are hesitant to disclose relevant information to their stakeholders by demonstrating greater transparency of CSR so as to strengthen their reputation. Therefore, policy makers as well as regulatory bodies are recommended to focus their attention on such a key issue.

Third, the research results provided empirical evidences of the low disclosure of information related to CSR practices of the sampled Islamic banks in their annual report. For this reason, policymakers and regulators are required to pay a special attention to set standards related to CSR disclosure; and the banks must publish this on their website or in their yearly reports. Furthermore, Islamic banks must understand that there is a significant effect on CSR disclosure on the image of their company. Thus, they would do well to increase their awareness on these matters as opposed to myopically concentrating on their objective of maximising profit generation.

Fourth, according to the findings, Islamic banks only divulge positive information which complies with Sharia principles. In their attempt to do so, they end up neglecting the disclosure of other important information including poverty as well as the environment at
large (Rahman and Bukair, 2013). Therefore, these findings require Islamic banks to increase their investments in promoting the Sharia governance. This includes providing more training to SSB members in order to enhance the confidence of all stakeholders and investors at large (Bakar, 2002). Additionally, these findings suggest that GCC Islamic banks’ policymakers must adhere to similar accounting standards to ensure that the extent of CSR disclosure of banks remains consistent (Karim, 2001; Dudley, 2004).

8.4. Limitations and Future Research

Besides the contributions that this research makes and provides, this study, as any other research within social sciences, may suffer from some limitations. As mentioned earlier, this study, following the literature, constructed disclosure indices to investigate disclosure levels of CSR disclosure. The potential limitations of this research can be highlighted as below, that can provide opportunities for future research.

First, the current study narrows its focus on CSR disclosure via annual reports despite the fact that management of firms are known to leverage other mechanisms of disclosing their information to the public. To that end, future research studies may also accommodate disclosures in in-house magazines, newspapers, company websites as well as press releases. Additionally, future studies may consider survey methods involving more detailed interviews with management and relevant stakeholders that may increase the level of CSR disclosure understanding within Islamic banking sector. Moreover, further research may utilise questioner, semi structural interviews or interviews with SSB members in order to investigate their awareness about how to deal with the CSR activities in the Islamic banks.

Second, the present study solely concentrated on variables related to SSB. Therefore, only a restricted number of variables have been gauged by this study. Other mechanisms such as BOD, AC, and ownership structure or other related variables may be considered by any future research. Researchers may also explore variables pertaining to SSB on CSR disclosure across other Islamic institutions; for example, the listed GCC Islamic banks could be compared with unlisted GCC Islamic banks, or Islamic banks could be compared with their conventional counterparts as this current study examined just fully-fledged Islamic banks.

Third, the extent of CSR disclosure indices as well as content analysis is unlikely to do fairly address the magnitude of matters related to SSB attributes and CSR disclosures. Thus, additional research methods, including surveys and interviews will be required to underpin the significance of these disclosures amongst GCC Islamic banks. Meanwhile the sample is
restricted only to GCC-based Islamic banks and has been evaluated for the period between 2006 and 2016. Therefore, further research conducted in the future can extend the sample to cover the whole IFIs in the GCC region. These include the likes of Takaful and other companies on Islamic investment. Recent longitudinal of recent data can also be used to evaluate the CSR disclosure trends and the growing effect of SSB when it comes to CSR reporting.

Fourth, since the existing studies (for example, Farook et al., 2011; Rahman and Bukair, 2013) restricted the importance of SSB in the parlance of CSR disclosure or corporate governance, future investigations should include other aspects, such as the quality of audit committee and board of director along with an assessment of prevailing ownership structure.

Fifth, this study incorporates the quantitative research method, namely regression analysis, in order to evaluate the impact of SSB related variables on CSR disclosure concerning Islamic banks in the GCC region. Future studies could make use of qualitative methods in order to investigate this relationship, by involving questionnaires, interviews or semi structural interviews.

Sixth, this study incorporates the quantitative research method, namely regression analysis, in order to evaluate the impact of SSB related variables on CSR disclosure concerning Islamic banks in the GCC region. Future studies could make use of qualitative methods in order to investigate this relationship, by involving questionnaires, interviews or semi structural interviews.

Despite the achieved positive and significant association between SSB and CSR disclosure, it can be argued that this remains as a statistical correlation rather than an actual impact as it can be stated that SSB member are relatively not actively engaged in taking decisions related to ethical activities. Therefore, it can be argued that such obtained results remain under a ‘question’ mark. Hence, in order to have more insights into this investigation, further research are required to adopt different approaches in undertaking this research question through conducting interviews or semi-structured interviews or questionnaires with SSB members to develop a comprehensive understanding of their perceptions in this area to identify the key limitations and challenges of promoting their role in the management of their financial institutions, among which they may be active in promoting CSR activities.
8.5. Research Epilogue

Based on the findings of this research which have been presented in Chapters Six and Seven, it can be said that this research achieved its aims of measuring the CSR disclosure based on Islamic financial principles and the foundations of Islamic ethics and assessing the influence of the Sharia supervisory board on the content of CSR disclosure level of the sampled Islamic banks in the GCC region. Accordingly, it can be argued that in order to boost social and economic justice, the Islamic banks have to imbed Maqasid al Shari’ah (objectives of Islamic law) in their transactions by applying Shari’ah principles in its essence, form and substance.
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Nichols, D. C., & Wieland, M. M. (2009). Do firms’ nonfinancial disclosures enhance the value of analyst services?


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### Table 6.4. CSR of Disclosure Index of Qatar (1)

<table>
<thead>
<tr>
<th>Qatar</th>
<th>QATAR ISLAMIC BANK</th>
<th>QATAR INTERNATIONAL ISLAMIC BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision and Mission Statements</td>
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<td>0.89</td>
</tr>
<tr>
<td>Yearly Average</td>
<td>0.86</td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Product and Service</td>
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<tr>
<td>Yearly Average</td>
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<tr>
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<td></td>
</tr>
<tr>
<td>Employees</td>
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<td>0.60</td>
</tr>
<tr>
<td>Yearly Average</td>
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</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
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</tr>
<tr>
<td>Community</td>
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<td>0.71</td>
</tr>
<tr>
<td>Yearly Average</td>
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</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
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<td></td>
</tr>
<tr>
<td>Debtor</td>
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<td>0.40</td>
</tr>
<tr>
<td>Yearly Average</td>
<td>0.65</td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>Zakat</td>
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<td>0.27</td>
</tr>
<tr>
<td>Yearly Average</td>
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</tr>
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</tr>
<tr>
<td>Yearly Average (Individual)</td>
<td>0.57</td>
<td>0.58</td>
</tr>
</tbody>
</table>

Data Source: Annual reports of the examined bank during the period 2006-2016.
<table>
<thead>
<tr>
<th>Year</th>
<th>AL RAYAN ISLAMIC BANK</th>
<th>QATAR FIRST BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vision and Mission Statements</td>
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<td>0.78</td>
</tr>
<tr>
<td>Yearly Average</td>
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<td>Ranking (based on Yearly Avg.)</td>
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<tr>
<td>Product and Service</td>
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<td>0.30</td>
</tr>
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<td>Yearly Average</td>
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<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td>(4)</td>
<td></td>
</tr>
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<td>Employees</td>
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<td>Yearly Average</td>
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<tr>
<td>Community</td>
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<td>0.57</td>
</tr>
<tr>
<td>Yearly Average</td>
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<td>Ranking (based on Yearly Avg.)</td>
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<td>Yearly Average</td>
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<td>Zakat</td>
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</tr>
<tr>
<td>Total Average (2006-2016)</td>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
Table 6.4. CSR of Disclosure Index of Qatar (3)

<table>
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<th>Qatar</th>
<th>BARWA BANK</th>
<th>CSR INDEX</th>
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<td>Vision and Mission Statements</td>
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<td>0.67</td>
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<tr>
<td>Yearly Average</td>
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<tr>
<td>Ranking (based on Yearly Avg.)</td>
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<td></td>
</tr>
<tr>
<td>Product and Service</td>
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<td>0.50</td>
</tr>
<tr>
<td>Yearly Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>0.50</td>
<td>0.40</td>
</tr>
<tr>
<td>Yearly Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td>0.43</td>
<td>0.43</td>
</tr>
<tr>
<td>Yearly Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtor</td>
<td>0.60</td>
<td>0.60</td>
</tr>
<tr>
<td>Yearly Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zakat</td>
<td>0.13</td>
<td>0.13</td>
</tr>
<tr>
<td>Yearly Average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
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</tr>
<tr>
<td>Yearly Average (Individual)</td>
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<tr>
<td>Total Average (2006-2016)</td>
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<td></td>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
### Table 6.5. CSR of Disclosure Index of Oman

<table>
<thead>
<tr>
<th>Oman</th>
<th>ALIZZ ISLAMIC BANK</th>
<th>NIZWA ISLAMIC BANK</th>
<th>CSR INDEX</th>
</tr>
</thead>
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<tr>
<td>Vision and Mission Statements</td>
<td>0.56</td>
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<td>0.78</td>
</tr>
<tr>
<td>Yearly Average</td>
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<td>Product and Service</td>
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<td>Yearly Average</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
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<td>0.40</td>
<td>0.50</td>
</tr>
<tr>
<td>Yearly Average</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td>0.57</td>
<td>0.71</td>
<td>0.86</td>
</tr>
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<td>Yearly Average</td>
<td>0.77</td>
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<td></td>
</tr>
<tr>
<td>Ranking (based on Yearly Avg.)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Debtor</td>
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<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Yearly Average</td>
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<tr>
<td>Ranking (based on Yearly Avg.)</td>
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<td></td>
</tr>
<tr>
<td>Zakat</td>
<td>0.27</td>
<td>0.33</td>
<td>0.53</td>
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<tr>
<td>Yearly Average</td>
<td>0.40</td>
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<td></td>
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<tr>
<td>Ranking (based on Yearly Avg.)</td>
<td>(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yearly Average (Individual)</td>
<td>0.55</td>
<td>0.60</td>
<td>0.71</td>
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<td>Total Average (2006-2016)</td>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
<table>
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<tbody>
<tr>
<td><strong>Saudi Arabia</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
Table 6.6. CSR of Disclosure Index of Saudi Arabia (2)

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<th>CSR INDEX</th>
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<td>0.30</td>
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<tr>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
Table 6.7. CSR of Disclosure Index of Kuwait (1)

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<th>BOBYAN BANK</th>
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<td>0.43</td>
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<tr>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
Table 6.7. CSR of Disclosure Index of Kuwait (2)

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<td>(5)</td>
<td>(3)</td>
</tr>
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<td>(3)</td>
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<td>0.47</td>
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<tr>
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<td>(2)</td>
<td>(3)</td>
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<td>(1)</td>
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<tr>
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Data Source: Annual reports of the examined bank during the period 2006-2016.
Table 6.7. CSR of Disclosure Index of Kuwait (3)

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Data Source: Annual reports of the examined bank during the period 2006-2016.
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Data Source: Annual reports of the examined bank during the period 2006-2016.
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<th>DUBAI ISLAMIC BANK</th>
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</table>

Data Source: Annual reports of the examined bank during the period 2006-2016.
Table 6.9. CSR of Disclosure Index of United Arab Emirates (2)

| Year | Vision and Mission Statements | Yearly Average | Ranking (based on Yearly Avg.) | Product and Service | Yearly Average | Ranking (based on Yearly Avg.) | Employees | Yearly Average | Ranking (based on Yearly Avg.) | Community | Yearly Average | Ranking (based on Yearly Avg.) | Debtor | Yearly Average | Ranking (based on Yearly Avg.) | Zakat | Yearly Average | Ranking (based on Yearly Avg.) | Yearly Average (Individual) | Total Average (2006-2016) |
|------|-------------------------------|----------------|--------------------------------|---------------------|----------------|--------------------------------|-----------|----------------|--------------------------------|-----------|----------------|--------------------------------|--------|----------------|-------------------------------|-------|----------------|---------------------------|----------------|----------------|------------------------|---------------------|
|      | 0.67                          | 0.67           | 0.67                           | 0.78                | 0.78           | 0.78                           | 0.22      | 0.22           | 0.22                           | 0.22      | 0.33           | 0.44                           | 0.44    | 0.56           | 0.56                           | 0.67    | 0.56                          | 0.44 | 0.67 | 0.67 | 0.67 |
| UAE  | BANK AL HILAL                |                |                               |                     |                |                               |           |                |                               |           |                |                               |         |                |                               |             |                               |     |      |      |      |
|      | SHARJAH ISLAMIC BANK         |                |                               |                     |                |                               |           |                |                               |           |                |                               |         |                |                               |             |                               |     |      |      |      |
|      | NOOR BANK                    |                |                               |                     |                |                               |           |                |                               |           |                |                               |         |                |                               |             |                               |     |      |      |      |
| Data Source: Annual reports of the examined bank during the period 2006-2016 | | | | | | | | | | | | | | | | | | | | | |
Table 6.9. CSR of Disclosure Index of United Arab Emirates (3)

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<th>Ranking (based on Yearly Avg.)</th>
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<td>(3)</td>
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<td>(2)</td>
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<td>Employees</td>
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<td>(3)</td>
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<td>(1)</td>
</tr>
<tr>
<td>Debtor</td>
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<td>(4)</td>
</tr>
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<td>(4)</td>
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<td>(6)</td>
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<td>Yearly Average</td>
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<td>0.73</td>
<td>(6)</td>
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<tr>
<td>Yearly Average</td>
<td>0.44</td>
<td>(6)</td>
</tr>
<tr>
<td>Yearly Average (Individual)</td>
<td>0.49</td>
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| CSR INDEX |
|-----------|-----------|
| 0.59      | 0.65      |
| 0.45      | 0.33      |
| 0.52      | 0.72      |
| 0.36      | 0.49      |
| 0.55      | 0.52      |

Data Source: Annual reports of the examined bank during the period 2006-2016