

AL QASIMIA UNIVERSITY JOURNAL OF ISLAMIC ECONOMICS

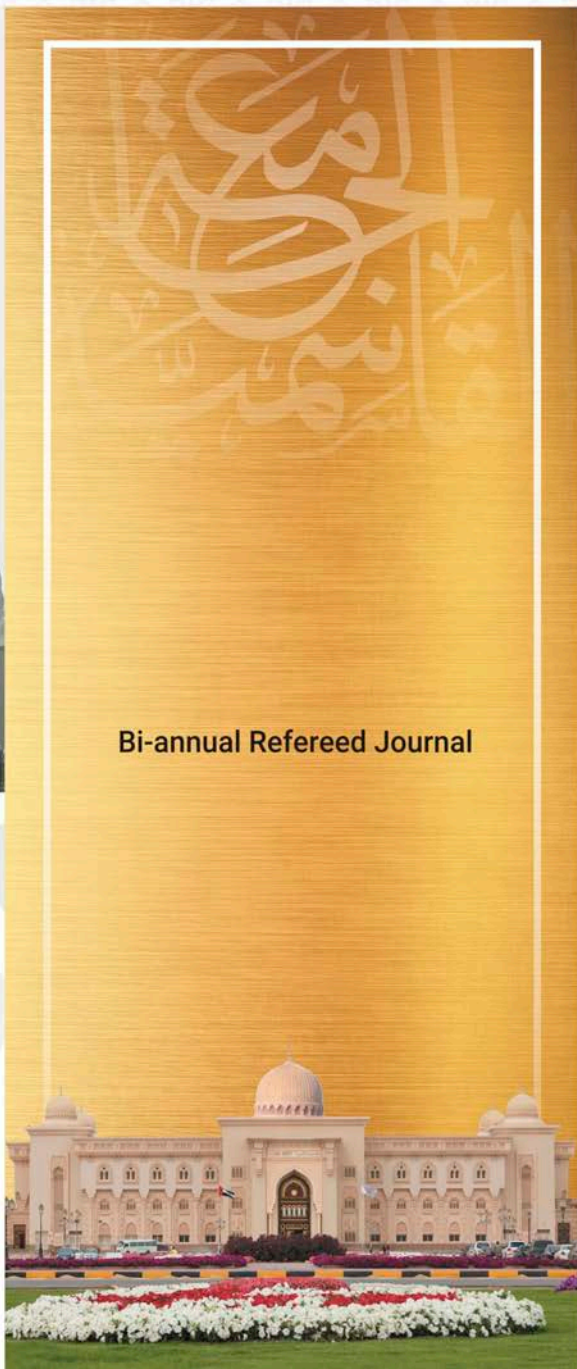


Bi-annual Refereed Journal

Vol.5, No. 1

Dhu al-Hijjah 1446 A.H. / June 2025 A.D.

ISSN: 2788-5542



هل لخصائص أعضاء هيئة الرقابة الشرعية أهمية؟ كشف أثر الإفصاح عن
المسؤولية المجتمعية للشركات في دول مجلس التعاون الخليجي وماليزيا

DO *SHARI'AH* SUPERVISORY BOARD MEMBERS'
CHARACTERISTICS MATTER? UNVEILING THE
IMPACT ON CSR DISCLOSURE IN GCC COUNTRIES
AND MALAYSIA¹

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¹ Article received: Feb. 2025; article accepted: May 2025

الملخص

تستخدم هذه الدراسة بحثًا تجريبيًا لدراسة تأثير خصائص هيئة الرقابة الشرعية على الإفصاح عن المسؤولية المجتمعية للبنوك الإسلامية في دول مجلس التعاون الخليجي وماليزيا. وتلقي الدراسة الضوء على الاختلافات التي قد توجد بين البنوك الإسلامية داخل الدولة الواحدة وفيما بين الدول المختلفة. وتستخدم الدراسة 36 مؤشرًا للمسؤولية المجتمعية للشركات مشتقة من معيار هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية رقم سبعة. وقد تم استخدام الانحدار الخطي المتعدد لطريقة المربعات الصغرى العادية للتحقيق في العلاقة بين خصائص هيئة الرقابة الشرعية على الإفصاح عن المسؤولية المجتمعية لدى البنوك الإسلامية. وتشير نتائج الدراسة إلى وجود صلة إيجابية وهامة بين إفصاح المسؤولية المجتمعية للشركات وبعض خصائص هيئة الرقابة الشرعية مثل حجم مجلس الإدارة وعدد العلماء الحاصلين على مؤهلات الدكتوراه في الشريعة/الفقه والخلفية الشرعية لأعضاء هيئة الرقابة الشرعية. وعلاوة على ذلك، لا تُظهر مقارنة تحليل التباين بين البنوك الإسلامية في دول مجلس التعاون الخليجي وماليزيا أي فرق كبير في مستويات الإفصاح عن المسؤولية المجتمعية للشركات بين المنطقتين. وقد لوحظ وجود فرق في مستويات الإفصاح فيما بين البنوك الإسلامية في دول مجلس التعاون الخليجي. تُفيد نتائج هذه الدراسة الجهات التنظيمية الوطنية، وصانعي السياسات الدوليين، وهيئات وضع المعايير، بهدف تحسين الإفصاح عن المسؤولية المجتمعية بين هيئات الوساطة الاستثمارية. وتشمل التحسينات المقترحة تطوير ممارسات موحدة للخطابات وإعداد التقارير، وتنظيم خصائص هيئات الوساطة الاستثمارية، مثل حجم مجلس الإدارة، ومراعاة الخلفية الأكاديمية أو الخبرة العملية لأعضاء مجلس الإدارة.

Abstract

This study uses empirical research to examine the impact of *Shari'ah* Supervisory board (SSB) characteristics on CSR disclosures of Islamic banks (IBs) in GCC countries and Malaysia. It sheds light on the differences that may exist between IBs within and across regions. The study uses 36 CSR indicators as derived from AAOIFI standard number seven for Islamic financial institutions (IFIs). Ordinary least squares linear multiple regression has been employed to investigate the relationship between SSB characteristics on CSR disclosures in IBs. The results of the study indicate a positive and significant link between CSR disclosure and some SSB characteristics such as the larger board size, number of scholars with doctoral qualifications in *Shari'ah/fiqh* and SSB members' *Shari'ah* background. Moreover, an ANOVA comparison between Islamic banks in the GCC and Malaysia shows no significant difference in CSR disclosure levels between the two regions. An intraregional difference in disclosure levels among IBs in the GCC has been observed. The findings of this study are beneficial to national regulators, international policymakers and standard-setting bodies in order to improve CSR disclosure among IBs. Suggested improvements include developing uniform discursive and reporting practices, regulating characteristics of SSBs such as board size; also considering directors' academic background or working experience.

الكلمات الدالة: الإفصاح عن المسؤولية المجتمعية للشركات، هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية (AAOIFI)، هيئة الرقابة الشرعية.

Keywords: CSR disclosure, AAOIFI, *Shari'ah* supervisory board.

1.0 Introduction

In recent times, global attention has increasingly focused on Corporate Social Responsibility (CSR), spurred by growing awareness of environmental and community-related issues (Miniaoui et al, 2022). CSR is usually understood as “the integration of an enterprise's social,

environmental, ethical, and philanthropic responsibilities into its operations and core business strategy, in collaboration with relevant stakeholders” (Rasche et al., 2017:6). It encompasses a wide array of matters, such as business ethics, community and environmental considerations, consumer rights, waste management, greenhouse gas emissions, biodiversity protection, human rights, and employee rights (Koh et al., 2022).

As a result, numerous firms have begun to actively report their CSR activities. For instance, the Governance & Accountability Institute (G&A Institute) reported a significant rise in the percentage of S&P 500 firms voluntarily issuing stand-alone CSR reports—from 20 percent in 2011 to 85 percent in 2017 (G&A Institute Inc., 2018). The inclination for companies to follow this path is propelled by a perfect storm of stakeholder pressure, economic opportunity, and environmental urgency (Koh et al., 2022; Kim, 2011), along with growing evidence of the positive impact of CSR disclosure on the financial performance of firms (Budiharjo, 2019).

In parallel, the Islamic finance sector has experienced remarkable growth since its inception in the early 1970s, with average cumulative growth exceeding 28% from the year 2008 to 12.71% in 2020 (Cambridge Institute of Islamic Finance, 2021). Currently, total Islamic finance asset stand at approximately five trillion with Islamic banks (IBs) command a substantial 72% share of this industry (ICD-LSG Islamic Finance Development Repoert, 2024). This significant financial intermediary role places them in a position to effect positive societal changes, underscoring the importance of responsible actions. Despite this stellar performance, the attainment of the ideal purpose of ensuring equity and justice through Shariah-compliant capital channeling has, until now, eluded Islamic Banks (Zaman, 2019). Islamic economic principles form the core of Islamic finance, emphasizing justice, equity, Zakah (mandatory wealth tax), Sadaqah (charity), prohibition of interest, and the finally, the principle of profit and loss sharing (Abdul-Rahman et al., 2014; Maali et al., 2006; Uppal & Mangla, 2014). Rigorous adherence to these principles is paramount for any Islamic financial institution (IFI).

A distinctive feature that sets IBs apart from their conventional contemporaries is the existence of Shariah supervisory boards (SSBs)

within their corporate governance systems. Depending on the country's corporate governance system for the IB sector, SSBs can be centralized, laissez-faire, or hybridized (Noordin & Kassim, 2019). The SSB's primary role is to advise and supervise IBs, providing guidelines on permissible and impermissible activities in line with Shariah teachings. Given their crucial role as guardians of Shariah in IBs, investigating the characteristics that enable SSB members to execute their duties becomes imperative (Nugraheni, 2018).

This study aims to investigate the potential impact of SSB characteristics on the CSR disclosure of IBs. Despite being a debated topic in literature, this niche research area remains understudied in the context of Islamic financial institutions and corporate governance. Thus, this paper contributes to the existing literature in two ways: firstly, by seeking to establish a relationship between SSB characteristics, including personal characteristics of SSB members, and CSR disclosure; and secondly, by empirically examining differences in CSR disclosure across and within the two examined regions.

The subsequent sections of the study are organized as follows: Section 2 provides the theoretical background, Section 3 reviews existing literature on CSR disclosure and SSB characteristics, leading to the development of research hypotheses. Section 4 outlines the data and research methodology, followed by empirical findings in Section 5. The final section offers a discussion and conclusions.

2.0 Theoretical Background

2.1 CSR and Disclosure by IBs

Elms and Westermann-Behaylo (2012) define Corporate Social Responsibility (CSR) as the concept that corporations bear responsibilities to the entire society, extending beyond their legal obligations to stockholders, as mandated by law. The roots of CSR can be traced back to the 1950s (Carroll, 1999). Over the years, CSR has experienced notable transformations in both its practice and reporting. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) introduced a novel standard, Standard No. 7, focusing on Corporate Social Responsibility (CSR) among Islamic Financial Institutions (IFIs) in the year 2010. Within this standard, the

AAOIFI defined CSR as "all activities carried out by an Islamic financial institution to fulfill its religious, economic, legal, ethical, and discretionary responsibilities as financial intermediaries for individuals and institutions" (AAOIFI, 2015). Several prior studies have identified parallels in the disclosure of CSR by Islamic Banks - a disturbing trend of consistently low levels of disclosure, often in areas that are quite critical. (Mohammed, Nugraheni & Khasanah, 2019; Al-Sulaiti et al., 2018; El-Halaby & Hussainey, 2015, 2016).

For instance, in the case of Vinnicombe (2010), even though the study on Islamic Banks (IBs) in Bahrain revealed exceptionally high compliance in areas related to in-house supervisory boards and the reporting of the Islamic murabahah contracts, the study also found compliance with AAOIFI's stipulations concerning some foundational matters such as *Zakah* (obligatory Muslim wealth tax) and the mudharabah contract to be relatively lower. El-Halaby and Hussainey (2015) similarly found a mere 27% compliance with AAOIFI's CSR Standard No. 7 among banks that asserted widespread adoption of AAOIFI reporting standards in their in their rhetoric. However, the study underscored that, on average, the surveyed banks exhibited robust adherence to Standard No.1, which concerns governance and accounting.

2.2 Unique Characteristics of Shari'ah Supervisory Boards (SSBs) and their Impact on CSR Disclosure

SSBs play a crucial role in Islamic banks, but their characteristics differ from traditional boards of directors. One area of growing interest is how these differences impact a bank's commitment to Corporate Social Responsibility (CSR) disclosure. Several studies have explored this link, with mixed results. Some, like those by Ibrahim et al. (2015) and Mallin et al. (2014), found a positive correlation between SSB size and CSR performance. Others, like Al Abbad et al. (2019) and Nomran et al. (2017), linked larger SSBs to improved overall bank performance rather than specifically CSR. Additionally, Wan Abdullah et al. (2013) argued that SSBs with members holding professional qualifications in fields like economics and finance tend to excel in CSR disclosure. Al Abbad et al. (2019) examined the impact of international board members on compliance, finding that SSBs with foreign members displayed stronger monitoring abilities. Finally, Noordin and Kassim

(2019) highlighted the positive contribution of members with strong Shariah knowledge and supervision skills.

3.0 Literature Review

3.1 Independent Control Variables

Table 1 summarizes the literature of the elements employed in the context of their effect on CSR disclosure / performance. The table contains a list of the variables, the author(s), their main findings, and the sample size. Table 1 reveals that past research explored nine variables for their potential impact on CSR performance. Notably, no study to date has investigated the "PhD Shariah" variable in relation to either CSR disclosure or performance. This opens up an exciting avenue for further research, as it delves into uncharted territory within the field, examining the extent of the impact of the highest-level education in Shariah or Fiqh on CSR disclosure / performance. In the case of IBs, as previously discussed under the literature review, authors are simply looking at whether SSB members attaining the highest level of education in their main field has any effect on the IBs actually performing their day-to-day tasks.

Table 1: Summary of Literature

| Variable | Author(s) and Year | Main Findings | Country/SS |
|----------|--------------------------|---|--------------------------|
| SSB Size | Nugraheni (2018) | Positively and significantly affects the social performance of IBs. | Indonesia (34 banks) |
| SSB Size | AlAbb ad et al. (2019) | Positively and significantly affects financial performance | 70 banks in 18 countries |
| SSB Size | (Nomran et al., 2017) | SSB size of IBs significantly affects performance | 15 Malaysian IBs |
| SSB Size | (Saeed & Saeed, 2018) | Positively correlated IBs' efficiency | 30 Listed Asian IBs |
| SSB Size | (Alman, 2012) | Encourages risk-taking in loan portfolios | 82 IBs in 13 countries |
| SSB Size | (Noordin & Kassim, 2019) | Positively linked to Shariah disclosure | 16 Malaysian IBs |

| | | | |
|-------------------------------------|---|---|--|
| SSB Size | (Ibrahim et al., 2015) | May influence social disclosure | All Sudanese IBs |
| SSB Size | (Mallin et al., 2014) | Positively correlated with CSR disclosure | 90 IBs across 13 countries |
| PhD Qualification | Nugraheni (2018) | Positive, but not significant impact on CSR | 34 Indonesian Banks |
| Internationality | AlAbbad et al. (2019) | Enhances proficiency in overseeing Shariah compliance | 25 IBs from Malaysia and Indonesia |
| Qualification in Sharia/Fiqh | Ramly & Nordin (2018) | SSBs with expertise in Shariah reduce credit risk. | 16 IBs in Malaysia |
| Qualification in Sharia/Fiqh | Noordin & Kassim (2019) | Positively associated with proper supervision and Shariah disclosure | 16 Malaysian IBs |
| Professional Qualification | Amalina Wan Abdullah et al. (2013) | Improves CSR disclosure | 19 Malaysian IBs |
| CONTROL VARIABLES | | | |
| Bank Size | AlAbbad et al. (2019) | Larger banks see stronger effects of SSB characteristics on performance | 25 IBs from Malaysia and Indonesia |
| Financial Performance | Ibrahim et al. (2015), Mallin et al. (2014) | IBs' profitability influences social disclosure and CSR | 90 IBs from 13 countries |
| BOD Size | Frias-Aceituno et al. (2013), Jizi et al. (2014), WEBB (2004) | Larger boards are linked to better CSR disclosure | 568 companies from multiple countries, 98 banks from the USA, 394 firms from the USA |

Before moving to the research hypotheses, one important question has been repeatedly implied by this research and needs to be addressed, is related to the growing need for standardisation of practices in the industry of Islamic finance. Not only in CSR disclosure requirements and practices, but also in SSB characteristics and the characteristics of SSB members. In fact, this is one of the most serious hindrances to the development of the whole industry of Islamic finance

(ISRA, 2013). Despite the wide adoption of AAOIFI standard on CSR disclosure, many IFIs in many countries do not follow AAOIFI standards as they are not binding. Accordingly, in some cases the practices may considerably vary across the industry in IFIs. This applies to the size of SSBs, the qualifications of SSB members, and most importantly the CSR disclosure practices (Kachkar and Yilmaz, 2022).

3.2 Research Hypothesis

Based on the literature above, the following hypotheses are proposed:

- H1: SSB size has a positive relationship with CSR disclosure levels*
- H2: SSB background in Shariah has a positive relationship with CSR disclosure levels*
- H3: Internationality of the SSB positively influences CSR disclosure levels*
- H4: PhD. qualification in Shariah/fiqh has a positive relationship with CSR disclosure levels of IBs*
- H5: Professional qualification of the SSB has a positive relationship with CSR disclosure*

4.0 Data and Research Methodology

In order to gather and analyse data, a multifaceted approach has been employed by combining two distinct methods. For the dependent variables, content analysis is used to help provide a rigorous technique for collecting the relevant information for our analysis. This allowed for a closer examination of the content of the texts and its impact on the variables of interest. Ordinary least squares (OLS) regression then served as the primary tool for analysing the data collected. This quantitative method helped to identify and understand the relationships between the variables. Further details about the study population can be found in Appendix A. In this study, Malaysia and the GCC were selected for the following reasons; firstly, these countries are the most developed states in the industry Islamic finance (Reuters, 2018a). Secondly, these seven countries together control up 59% of the global Islamic banking assets as of the year 2021 (Refinitiv, 2021). Their share in this sector only increases (85%) if to consider countries that allow internal SSBs – which is the focus of our study. For example, IBs in Iran are wholly excluded due to the absence of internal SSBs

(Noordin & Kassim, 2019a). Secondly, they are selected because they have very similar and favourable legal systems, which makes them the ideal candidates for this study. Secondary sources were used for the collection of data on both the dependent and independent variables. Sources included annual reports, CSR reports and other circulars and publication of IBs. Specialized databases and platforms were also consulted for some of the independent and control variables on SSB members and IBs such as bank size, BOD size. The platforms include: EIKON database, Islamic Markets website and IFSB list of associate IBs. In addition to these data sources, relevant publications, IBs websites, and any other professional platforms (e.g., LinkedIn) were also carefully referred to.

4.1 Research Variables

a) Dependent Variables

The dependent variables entail 36 distinct disclosure items, sourced directly from AAOIFI's standard number 7 to measure the CSR disclosure of the IBs under study. Appendix B provides the 36 items as highlighted in the AAOIFI CSR disclosure requirements stipulated AAOIFI standard No. 7. This standard is used as the reference for the CSR disclosure items in this study mainly due to the role of AAOIFI and its presence in the international IF industry (Nugraheni & Khasanah, 2019). Furthermore, AAOIFI standards are the most extensively accepted amongst IFIs in the world (Reuters, 2018). Of the 36 disclosure items, 24 are mandatory and unnegotiable. Which means, failure to implement any of those items would have very serious consequences on the Shariah compliance of the IFI. The other 12 items are voluntary and are highly recommended for IFIs that have the ability to carry them out to do so.

b) Independent and Control Variables

The study delves into several key independent variables, namely the size of the *Shari'ah* Supervisory Board (SSB) and the Board of Directors (BOD), measured by enumerating their respective memberships. "*Shari'ah* background" is used as a control for the proportion of scholars possessing a minimum of university degree in *Shari'ah* or *fiqh*, as advocated by the central bank of Malaysia (BNM) (Noordin & Kassim, 2019), encompassing scholars with a Master's or

PhD in these domains. Further disaggregation within the "*Shari'ah* background" construct includes the quantification of scholars holding a PhD in *Shari'ah* or *fiqh* vis-à-vis the total SSB membership, constituting a subset within the broader construct. Concurrently, the variable "PhD qualification" delineates the proportion of scholars holding doctoral degrees across the entirety of the SSB. Additionally, a binary variable denoting "professional qualification" signifies the presence of at least one scholar on the SSB with expertise in any related fields of economics and finance or Islamic economics, abaning and finance. Moreover, "internationality" is represented by a dichotomous indicator, taking a value of "1" if the SSB comprises scholars from divergent national backgrounds, and "0" otherwise. Financial performance is quantified through the metric of return on assets (ROA), signifying the ratio of a bank's net profit to its total assets. Finally, "bank size" is measured by the total assets of an IB in the year 2018. Concurrently, all bank assets are standardized in terms of 2018 USD for comparative analysis.

Table 2: Construct of Independent and Control Variables

| Variable name | Description |
|--|--|
| <i>Dependent Variables</i> | |
| SSB size (SSBsize) | The number of scholars on the Shariah supervisory/advisory board |
| Shariah qualification (Shariah) | the proportion of scholars who have at least a four-year diploma in sharia or Fiqh |
| Doctoral qualification in Shariah (PhDShariah) | the proportion of scholars who have a PhD in Shariah/Fiqh to the total number of scholars on the board |
| Doctoral qualification (PhD) | the proportion of scholars with a PhD. qualification to the total number of scholars on the SSB |
| Professional qualification (Profquali) | 1 = at least one member of the SSB has a qualification in the following areas: economics, Islamic economics, finance, Islamic banking and finance, law, and banking and finance and = 0 if otherwise |
| Internationality (Inter) | 1 = at least two of the SSB members are from different countries and = if all SSB members are from the same country |
| <i>Control variables</i> | |
| Financial performance (ROA) | Return on assets of an IB in the year 2018 |
| Bank's size (lnTA) | Natural logarithm of the total assets of an IB in the year 2018 |
| Board of directors (BOD) | The total number of the members of an IB's board of directors |

Source: Developed by Authors

4.2 Ordinary Least Squares (OLS)

The variable ‘Shari’ah’ also contains all items under the variable ‘PhDShariah.’ The former is already shown in the literature to significantly influence CSR disclosure, while the latter’s effect on CSR disclosure has yet to be investigated to the best of our knowledge. Two distinct, mutually exclusive models are run - the first containing all the variables except for the variable PhDShariah and the second containing all the variables except for the variable ‘Shari’ah’.

The empirical investigation of the relationship between Corporate Social Responsibility (CSR) and the characteristics of Shariah Supervisory Boards (SSB) in selected Islamic banks is conducted through the application of the following Ordinary Least Squares (OLS) regressions:

$$CSR_i = \alpha_i + \beta_1 SSB.Size_i + \beta_2 Shariah_i + \beta_3 PhD_i + \beta_4 ProfQuali_i + \beta_5 Inter_i + \beta_6 FP_i + \beta_7 BOD.Size_i + \beta_8 lnTA_i + \varepsilon \quad (\text{model 1})$$

$$CSR_i = \alpha_i + \beta_1 SSB.Size_i + \beta_2 PhDshariah_i + \beta_3 PhD_i + \beta_4 ProfQuali_i + \beta_5 Inter_i + \beta_6 FP_i + \beta_7 BOD.Size_i + \beta_8 lnTA_i + \varepsilon \quad (\text{model 2})$$

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

4.3 Results and Analysis

4.3.1 Descriptive Analysis

As illustrated in table 3 below, the average level of CSR disclosure for the 30 banks covered by this study was around 55%, that is similar to the (54%) found by Reuters (2018) albeit with different sample space and the disclosure indices. This suggests that, on average, Islamic banks partially adhere to the CSR disclosure guidelines set by AAOIFI. On average, SSBs had 4 members, which is just short of the minimum of 5 that the central bank of Malaysia recommends. Unsurprisingly, it is noticed from Table 3 that SSB members generally possess strong *Shari'ah* expertise.

Table 3: Summary Statistics

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

Strikingly, 55% of SSB members held Ph.D.s in *Shari'ah*, while the average of percentage of PhD holders stood at around 82%, with some boards boasting all members holding this highest level of education. This makes Islamic bank's SSBs stand out as having one of the highest concentrations of Ph.D. holders in the business world. Approximately 70% of the Islamic Banks (IBs) included in the sample possessed at least one scholar with a qualification in fields such as finance, economics, accounting, law, and Islamic economics and finance. Notably, approximately 50% in accounting that is around 15 out of the total sampled IBs, featured the presence of at least two scholars

originating from distinct countries on their Shariah supervisory boards. This is because Ibs in countries like Malaysia, Saudi Arabia, and Kuwait had very little to no international diversity on their SSBs. The average board size was 9 members, ranging from 4 to 13. The measurement of financial performance in this study is operationalized by the metric of Return on Assets (ROA). Average profitability amongst Ibs was around 2% in 2018, indicating an overall positive performance across Malaysian and GCC Islamic banks. Notably, ROA ranged from -6.53% to 12.6%, highlighting some variation in individual bank performance.

4.3.2 Correlation Matrix

Looking at Table 4, most variables do reveal predictable correlation, with no unusual correlations beyond the expected one between "PhD Shariah" and "Shariah" qualifications. This confirms that holding a Ph.D. in Shariah is, unsurprisingly, strongly associated with possessing a more general background in Shariah law and principles

Table 4: Correlation Matrix of Independent Variables

| Variables | CSR | SSBsize | Shariah | PhDShariah | PhD | Profquali | Inter | BOD | lnTA | ROA |
|------------|-------|---------|---------|------------|-------|-----------|-------|-------|-------|------|
| CSR | 1.000 | | | | | | | | | |
| SSBsize | 0.092 | 1.000 | | | | | | | | |
| Shariah | 0.460 | 0.224 | 1.000 | | | | | | | |
| PhDShariah | 0.409 | -0.384 | 0.607 | 1.000 | | | | | | |
| PhD | -0.07 | -0.176 | -0.007 | 0.280 | 1.000 | | | | | |
| Profquali | -0.12 | 0.347 | -0.317 | -0.688 | - | 1.000 | | | | |
| Inter | 0.000 | -0.100 | -0.139 | 0.051 | 0.109 | -0.073 | 1.000 | | | |
| BOD | 0.372 | -0.167 | -0.045 | 0.239 | 0.132 | -0.170 | 0.094 | 1.000 | | |
| lnTA | - | 0.306 | -0.137 | -0.068 | 0.499 | -0.359 | 0.128 | 0.053 | 1.000 | |
| ROA | 0.030 | -0.086 | 0.159 | -0.007 | -0.24 | -0.012 | -0.20 | -0.10 | -0.17 | 1.00 |

Our diagnostic tests do confirm the absence of multicollinearity in our independent variables, eventhough it is noticed that an unusually high level of correlation between the variables “Shariah” and “PhDShariah”. The high correlation between "PhD Shariah" and "Shariah" qualifications arises from their natural relationship. By definition, our "Shariah" variable encompasses all scholars with any Shariah background, including those with PhDs in Shariah ("PhD Shariah"). So, banks with a higher proportion of scholars with PhD in

Shari'ah naturally tend to have higher overall Shariah concentration on their boards too, and vice versa. This connection explains the strong correlation observed in Table 4.

4.4 Model Selection

4.4.1 General-To-Specific Modelling and Gretl's Omit Command

The stepwise elimination may help us get the best model for our study. However, this process is tedious and typically requires one to run hundreds of models to arrive at the parsimonious model. With 8 explained variables and two distinct models, it would be required to run $(2^k - 1) * 2$ models, where k denotes the number of independent variables. In this study, that will be 510 models! Instead of the computationally intensive stepwise elimination method, authors pursued a less complicated human-guided general-to-specific methodological approach. The method has 3 main advantages over the stepwise elimination method, namely:

- **Increased transparency:** This method allows for the conscious selection of variables based on theoretical grounding and p-value considerations, providing a clear rationale for each inclusion or exclusion of dependent variables.
- **Efficiency:** Compared to stepwise elimination, this method can deliver results more swiftly and is less prone to issues like multicollinearity.
- **Flexibility:** It helps evade the potential traps of rigid algorithms, thus, enabling adjustments based on domain knowledge and emerging insights during the analysis.

Gretl's 'omit' command is used in this study to activate the 'sequential elimination of variables using two-sided p-values,'.

The approach utilised for the excluding of insignificant variables is employed according to the following method: this study started with the elimination of the most statistically insignificant variable, then followed by the next most insignificant variable, and then the next, and works its way till it gets to a point where all remaining variables are statistically significant. eventually, the excluded variables have been analysed to ascertain their collective significance. The reduced model will pass the test only when the null hypothesis is not rejected, which posits that the regression parameters pertaining to the eliminated variables are zero.

Table 5: GeTS Approach Using Model 1

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

** at 0.05

The model proposed as the most suitable, derived from Model 1, is as follows:

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

$$CSR_i = 5.26884 + 0.339829 Shariah_i + 2.72965 BOD_i \text{ (model 1)}$$

The coefficient associated with *Shari'ah* implies that a 1% increase in the *Shari'ah* background of a *Shari'ah* Supervisory Board (SSB) is anticipated to lead to a 0.34 % increase in the Corporate Social Responsibility (CSR) disclosure level of an Islamic Bank (IB). To illustrate this effect, let's consider Bank X, which currently has 4 members on its SSB, with 3 of them possessing a background in *Shari'ah*. According to this model, if the fourth member acquires a background in *Shari'ah* or is replaced by someone with such qualifications, Bank X's CSR disclosure level could potentially rise by 8.5% ($0.339829 * 25$), representing a substantial enhancement. Similarly, the coefficient corresponding to BOD suggests that the addition of one more director to a bank's Board of Directors (BOD) is projected to result in an approximate 2.72965% increase in CSR disclosure for an Islamic Bank (IB).

Table 6: GeTS Approach Based on Model 2

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

Significance of SSB size at ** at 0.05

With three explanatory variables remaining after the elimination process in this trial, the resulting parsimonious model is as follows:

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

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

The coefficient associated with SSBsize suggests that adding one more scholar to a bank's Shariah Supervisory Board (SSB) is anticipated to result in a 3.5% increase in CSR disclosure levels. Moving on to the coefficient of PhDShariah, when the proportion of scholars with a doctoral qualification in Shariah within an IB's SSB increases by 1%, there is an expected rise of 0.24% in the CSR disclosure level of that Islamic bank.

Expanding upon our previous example with Bank X, let's consider a scenario where its SSB already comprises 3 members holding Ph.Ds. in *Shari'ah*, constituting 75% of their scholars. Our findings suggest that if the fourth member were to also possess a Ph.D. in *Shari'ah*, or if replaced by someone with such qualifications, Bank X's CSR disclosure level could witness a significant increase of 6.1%. This enhancement translates to an additional 6.1% transparency in their social responsibility endeavors, reflecting a notable improvement.

Furthermore, the results from Model 2 indicate that adding one more director to Bank X's board is predicted to increase CSR disclosure by a modest 2.2%.

The adjusted R-squared value signifies that approximately 26% of the variation in an IB's CSR disclosure can be attributed to the number of SSB members, doctoral qualifications in Shariah among the SSB members, and the size of the Board of Directors (BOD). Despite its relatively modest magnitude, this adjusted R-squared value represents one of the more robust findings in comparison to similar studies with analogous variables. It's worth noting that the relatively lower level of adjusted R-squared can be attributed to the presence of multiple variables influencing CSR disclosure levels, of which we've only addressed the most relevant and significant ones based on existing literature.

Table 7: Summary of Findings Per Hypotheses

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

4.5 Anova: Investigating Inter- and Intra- Regional Variances in CSR Disclosure

Table 8 presents the summary statistics of CSR disclosure levels across the two regions under examination. Specifically, the average CSR disclosure level among Islamic Banks (IBs) in Malaysia is reported as 52%, while for the Gulf Cooperation Council (GCC) region, the average CSR disclosure stands at 56%.

Furthermore, Bartlett's test for equal variances yields a p-value of 0.56, indicating that the variances of CSR disclosure levels in both regions are statistically equal. This finding supports the rationale behind selecting Malaysia and the GCC for this study, as it suggests a comparable variability in CSR disclosure practices between the two regions.

Table 8: Summary Statistic of CSR

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

With regard to the CSR disclosure level, the p-value of the F-statistic presented in Table 9 indicates that there are no statistically significant differences between the two regions.

Table 9: Analysis of Variance

| Source | SS | df | MS | F | Prob > F |
|---|------------|----|------------|------|----------|
| Between groups | 82.2753936 | 1 | 82.2753936 | 0.36 | 0.5561 |
| Within groups | 6489.31994 | 28 | 231.761426 | | |
| Total | 6571.59533 | 29 | 226.606735 | | |
| Bartlett's test for equal variances: chi2(1) = 0.4002 Prob>chi2 = 0.527 | | | | | |

This outcome validates the assertion that adhering to different standard-setting bodies does not exert a significant impact on the CSR disclosure levels of Islamic Banks (IBs) across distinct regions. This finding aligns with expectations, considering the universality of the maqasid (objectives) of Shariah. In essence, the standard-setting and regulatory bodies merely serve as facilitators in implementing these universal principles.

The results of this test offer insight into the first aspect of the second research question addressed in this study. Accordingly, it can be concluded that there are no discernible inter-regional discrepancies among IBs concerning CSR disclosure practices.

A. Intra-Regional Differences in CSR Disclosure

Table 10 shows the summary statistics pertaining to CSR disclosure across the five Gulf Cooperation Council (GCC) countries examined in this study. The first column enumerates the countries, listed alphabetically.

Table 10: ANOVA Summary Statistics for GCC

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

In summary, among the Gulf Cooperation Council (GCC) countries examined, Qatar's Islamic Banks (IBs) lead in CSR disclosure with an average of 72%, while the United Arab Emirates (UAE) trails behind with 42%. Saudi Arabia's IBs hover around the regional average at 54%, while Kuwait ranks second with 63%, albeit still falling short of Qatar's top position. Notably, Saudi Arabia and the UAE are known for their limited CSR disclosure practices (Reuters, 2018), a trend further confirmed by this study's findings

B. Pair-Wise Anova Comparison of GCC Countries

Table 11 shows the t-statistics and corresponding p-values indicating the differences between countries within the Gulf Cooperation Council (GCC). When considering the collective results, as demonstrated in Table 11, it becomes evident that there are indeed variations in CSR disclosure among the GCC countries.

Table 11: ANOVA for GCC as a Region

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

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

5.0 Discussion and Findings

This research investigates two major questions. The first, pertaining to the impact of SSB characteristics on the CSR disclosure of IBs in Malaysia and GCC countries involves five hypotheses. Three of the hypotheses are supported by our data while the other two hypothesis are rejected. Our finding on the positive relationship between SSB size and CSR disclosure is in line with the overall positive impact of SSB on CSR disclosure found in studies like Nugraheni (2018). Likewise, Mallin et al., (2014) analyzed the CSR disclosures in a sample of 90 IBs across 13 countries and found a positive and highly significant association between the SSB size and CSR disclosure index. Background in Shariah through a degree and PhD in particular is highly important for greater CSR compliance. This conforms with the findings of Ramly and Nordin, (2018) and Noordin and Kassim (2019)

via measurements of the relationship between PhD qualifications in Shariah and CSR disclosure of IBs. This is one of the key contributions of this paper. In contrast to the three supported hypotheses, our study found that internationality of SSB and the professional qualification of SSB members have insignificant impact on CSR disclosure of the IBs. In extant literature, results on the impact of internationality on the performance of firms are far from conclusive and vary increasingly (Masulis, Wang, & Xie, 2012; Miletkov et al., 2017). Hooghiemstra et al., (2019) examined the impact of board internationalization on earnings management of Nordic 3249 firm during 2001–2008 and asserted a significant and positive relationship between the presence of at least one non-Nordic foreign director on the board and levels of earnings management. In the context of SSBs and IBs, Al Abbad et al., (2019) observed the effect of “internationality” on the SSBs of 70 Islamic banks from 18 countries and found that foreign SSB members are more effective in monitoring banks’ *Shari’ah* compliance.

This study is one of the very rare studies, that investigate the effect of “internationality” on CSR disclosure / performance. Thus, it remains to further investigate the impact of foreign SSB members for CSR disclosures in IBs. Concerning the profession qualification of the SSB members, our study found it has insignificant role for CSR disclosure in IBs. As highlighted earlier, professional qualification in this study refers to SSB members who have a background in law, islamic economics, finance, economics, banking and finance, and islamic banking and finance. Abdullah, et al., (2013) argued that SSBs composed of members with professional qualifications in fields such as economics, finance, and law are more likely to perform better at CSR disclosure. A contrary result is reported by Khalil and Taktak (2020) who found no impact of the Shariah scholar with knowledge in finance/accounting. These contrasting results open the door for further research on the effect of foreign SSB members and their know-how on various aspects of IBs including CSR disclosure, financial performance, efficiency and other aspects.

Our second research question investigated the existence of inter-intra-regional differences in CSR disclosure among the IBs. As a whole, our study did not capture any differences in CSR disclosure

between the main two regions, i.e. Malaysia and GCC. However, a significant difference within GCC countries has been found. For instance, Qatar had the highest score of 72% and UAE the lowest of 42%. The average of 55% CSR disclosure reveals reasons for optimism in relation to greater compliance with AAOIFI standards in the future. It starkly contrasts the rather pessimistic and discouraging findings of El-Halaby and Hussainey (2015). They found that the level of CSR compliance with AAOIFI standards is only 27% among 43 IBs across eight countries.

5.1 Implications

This study suggests practical measures to enhance Corporate Social Responsibility (CSR) reporting in Islamic Banks (IBs). It emphasizes the importance of optimizing the composition of *Shari'ah* Supervisory Boards (SSB), particularly in terms of board size and the educational background of its members in *Shari'ah* studies.

To address these findings, policymakers and standard-setting bodies like the AAOIFI and IFSB are recommended to implement specific criteria for SSB composition and address regional differences across IB operations. Standardizing SSB criteria and addressing regional disparities can foster improved CSR practices and transparency within the Islamic banking sector. Below are some of the recommendations that this study will make in lieu of the findings:

- The Shariah board's size should be expanded to grasp more nuances of IFIs activities and review standard setting bodies regulations in greater detail.
- The educational background of SSB members should play pivotal role in expansion with particular focus on Shariah expertise which involves not only fiqh but also *usul al-fiqh*, Qur'an and Sunnah, Arabic, *maqasid al-Shari'ah*.
- The educational background of SSB members in areas other than earlier mentioned should include expertise in banking, finance, economics, public policy, environmentalism, management and other relevant disciplines based on circumstantial needs.
- The educational background of SSB members should also make up experts of Islamic economics, banking and finance philosophical foundations, i.e. ontology, epistemology, axiology and methodology, because the recurrent Shari'ah compliance

requires a greater focus on philosophical foundations in order to ensure a higher level Shari'ah compliance (see Omercic, Haneef & Mohammed, 2020; Omercic, 2021; Furqani, 2012). The standard setting bodies could play a pivotal role in that regard.

- PhD level of education of SSB members greatly influences the CSR reporting levels and compliance with standard setting bodies regulations. While educational qualifications should primarily focus on Shariah, fiqh, *usul* al-fiqh based on the findings of our study, there is equal need to inquire whether equal level of economic, financial and banking expertise characterizes those scholars.
- PhD level education in areas other than pure Shariah, fiqh etc. such as Islamic economics, banking and finance, particularly its philosophical foundations may be more significant factors determining the CSR level compliance due to distinct importance of SSB members understanding of the industrial landscape compared to Shariah, fiqh etc. educational levels. Hence, the know-how and familiarity needs to be reviewed accordingly with greater insight into academic study structure of potential SSB members with PhD.
- SSB scholars of different regions could be involved as members of IBs to ensure greater international representation,
- Greater recognition of SSB members from different regions would elevate and enable studies for foreign SSB member impact on its compliance with CSR standards of regulators,
- Expansion of SSBs with educational profiles from different regions would facilitate greater standardization and universalization of the industry's operations globally.
- All the above would facilitate elimination of pressing misunderstandings over Shari'ah compliance among IBs in different regions and enable greater convergence of the industry towards genuine Islamic economics, banking and finance philosophical foundations.

5.2 Limitations and Future Research Avenue

One main limitation of this research stems from the evident lack of comprehensive information on Shariah board members in many

Islamic bans, which significantly constrained the selection of Islamic Banks (IBs) for the study.

Additionally, in this study, a special emphasis has been given to the disclosure of CSR. Future studies may explore the CSR performance of IBs by using the same AAOIFI's standard no. 7. These limitations highlight areas for further research refinement and underscore the need for continued investigation into CSR practices within the Islamic banking sector.

Future studies could also incorporate greater multidisciplinary efforts to review modalities of improving application of AAOIFI and IFSB standards industry wide. Moreover, greater reflection upon the genuine Islamic philosophical foundations of the industry would spark innovation and creation of newer or refurbished standards setting bodies and ways of measuring IBs compliance. That would ensure greater convergence of the industry in different regions towards Shariah of which CSR is an integral part.

6.0 Conclusion and Recommendations

This study undertook an empirical examination of certain characteristics of Shariah Supervisory Boards (SSB) and their impact on CSR disclosure levels of IBs. Our analysis revealed a positive and statistically significant association between CSR disclosure and several SSB attributes, including larger board size and a greater proportion of SSB members holding a PhD qualification in Shariah/fiqh, or possessing enhanced Shariah knowledge. These findings are consistent with prior research documented in the existing literature (Ibrahim et al., 2015; Mallin et al., 2014; Noordin & Kassim, 2019; Nugraheni, 2018), thus reinforcing the validity and relevance of our study's conclusions.

Another significant discovery of our study is the discrepancy in CSR reporting between mandatory and voluntary disclosure requirements among Islamic Banks (IBs). On average, IBs demonstrated relatively strong compliance with mandatory disclosure requirements, reporting approximately 69% of the mandated items. However, they significantly lagged behind in addressing voluntary disclosure aspects, with only around 26% of the voluntary items being reported.

Additionally, none of the IBs included in our study had a formal waqf scheme, highlighting a notable gap in their CSR initiatives. Furthermore, it was observed that a majority of IBs failed to state their Shariah Supervisory Board's (SSB) views on the issue of late payment, nor did they report it in their annual reports, despite the requirement to do so according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. Only a few Malaysian banks made mention of late payments, indicating a widespread oversight across the industry.

The findings show that mandatory CSR compliance requirements increased significantly over the years since. Maali et al., (2006) reported similar findings in an earlier study. However, voluntary disclosure requirements reflected bleak indicators of improvement in the future.

Finally, our analysis on the intra-regional differences in CSR disclosure revealed no differences between Malaysia and GCC region but showed a significant difference within GCC countries.

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Appendix A

List of Islamic Banks and their Country of Operation

| | Islamic Banks |
|---------------------|--|
| Bahrain | <ol style="list-style-type: none"> 1. Ahli United Bank Alhilmal Islamic Banking Services 2. Al Salam Bank 3. Albaraka Banking Group 4. Bank ABC Islamic 5. Gulf Finance House 6. Ibdar Bank BSCC 7. International Investment Bank BSCC 8. Ithmar Bank 9. Khaleeji Commercial Bank BSC |
| Kuwait | <ol style="list-style-type: none"> 1. Kuwait Finance House 2. Warba Bank Kuwait 3. Boubyan Bank 4. Ahli United Bank |
| Malaysia | <ol style="list-style-type: none"> 1. Bank Islam Malaysia Berhad 2. Bank Muamalat Malaysia Berhad 3. Kuwait finance house Malaysia 4. Alrajihi bank Malaysia 5. Bank Rakyat 6. Agro bank 7. MBSB Bank |
| Qatar | <ol style="list-style-type: none"> 1. Qatar Islamic Bank- Qatar 2. Qatar First Bank LLC |
| Saudi Arabia | <ol style="list-style-type: none"> 1. Al Rajhi Banking & Investment Corporation- Saudi Arabia 2. Alawwal Bank |
| The UAE | <ol style="list-style-type: none"> 1. Dubai Islamic Bank 2. Abu Dhabi Islamic Bank 3. Emirates Islamic Bank 4. Noor Islamic Bank 5. Al Hilal Bank 6. Sharja Islamic bank |

Source: Developed by Authors

Appendix B

CSR Disclosure Requirements of the AAOIFI Standard No.7

| Mandatory disclosure requirements | Voluntary disclosure |
|---|---|
| Disclosure of policy for screening clients | Disclosure of policy for Qard Hasan |
| the specific provisions of the screening policy including the benchmarks and/or criterion utilized to measure compliance with Islamic law | Whether there is a formal scheme operated by the bank for depositors, shareholders and other parties to place their funds for the use of Qard Hasan borrowers |
| Whether these have been approved by the Shariah supervisory board | Provisions of the policy/scheme including conditions for those unable to repay the loans |
| Disclosure of policy for dealing with clients | Sources of funding for Qard Hasan loans |
| The defined procedure of the IFI on avoiding the imposition of onerous contractual terms on clients who are in a weaker bargaining position relative to the IFI | Aggregate purposes for which the Qard Hasan loans have been made |
| The provisions ensuring that marketing campaigns and documents are ethically balanced | Quotas/targets to increase internal and external Qard Hasan funding and achievements for the year in this regard |
| The obligation and rights of both parties | Reasons for upward and downward revisions in quotas/ target |
| The due process and responsible terms and conditions under which credit is extended to clients including the process by which the client's ability to repay and the effect on the client's financial and overall well-being is assessed | Disclosure of policy for charitable activities |
| The remedies available in the event that one or both parties violate their contractual terms | Provisions of the policy |
| The Shariah supervisory board's opinion on the permissibility of charging late payment charges | Aggregate classes of charitable activities by ultimate beneficiary and amounts distributed to each aggregate class |
| Late payment charges levied on clients | Quotas/targets and achievements for the year |
| How the IFI allocates the late payment charges in its accounts (allocation to revenue or charity) | Reasons for upward and downward revisions in quotas/ target |
| The conditions under which the IFI will defer collection of debt from insolvent clients | Disclosure of policy for Waqf management |

| | |
|---|--|
| Disclosure of earnings and expenditure prohibited by Shariah | Types of Waqf managed by the IFI |
| Aggregate descriptions of earnings and expenditures prohibited by Sharath | Financial and other services offered to the Awqaf by the IFI |
| Amount of earnings and expenditures prohibited by Sharath | |
| Account classification (revenue, expense, liability, or asset) of earnings and expenditures prohibited by Shariah | |
| Reasons for undertaking these types of transactions | |
| The SSB's verdict on the necessity of these transactions | |
| How the IFI intends to dispose of such amounts | |
| The IFIs strategy to find viable permissible or halal alternatives, if any, for similar impermissible transactions in the future | |
| Disclosure of policy for Zakah | |
| The method used for determining the zakah base | |
| The rulings of the Shari'ah Supervisory Board (SSB) concerning the method used for determining the Zakah base | |
| Whether or not the Islamic bank as a holding company pays its share of zakah obligations in its subsidiaries | |
| Whether or not the Islamic bank collects and pays Zakah on behalf of holders of investment accounts and other accounts | |
| The restrictions imposed by the Shari'ah supervisory board of the Islamic bank in determining the Zakah base | |
| disclosure of the notes accompanying the financial statements of the restrictions imposed by the Shari'ah Supervisory Board of the Islamic bank in determining the zakah base | |

Source: AAOIFI Governance Standard (GS) No.7

Source: Developed by Authors