Comparative analysis of QISMUT13’s Islamic corporate social responsibility

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Comparative analysis of QISMUT+3's Islamic corporate social responsibility

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Received 16 May 2020
Revised 6 December 2020
Accepted 12 January 2021

Abstract

Purpose – The purpose of this study is to analyze the impact of corporate social responsibility (CSR) disclosure on the financial performance of Islamic banks across nine countries as major markets that contribute to international Islamic bank assets (Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan or further will be called QISMUT + 3 countries).

Design/methodology/approach – Islamic Social Reporting Disclosure Index (ISRDI) is being used as a benchmark for Islamic bank CSR performance that contains a compilation of CSR standard items specified by the Accounting and Auditing Organization for Islamic Financial Institutions. The secondary data is collected from the respective bank's annual reports and it used the regression analysis techniques for statistical testing.

Findings – This study found that CSR disclosure measured by ISRDI has a positive effect on financial performance. Almost all ISRDI sub-major categories have a positive effect on financial performance except the "environment" subcategory. The highest major subcategory for ISRDI is the "corporate governance" category (82%) and the "environment" category (13%) is the lowest. For the UAE, Kuwait and Turkey, the ISRDI is positively affected by financial performance and the other countries on this research are not.

Originality/value – This study highlighted the economic benefits of social responsibility practices as a part of business ethics in nine countries that uphold the value of religiosity. Thus, the development of the results of this research for subsequent research is very wide open.

Keywords Islamic business ethics, Islamic bank, Corporate social responsibility, Financial performance, Islamic countries, Islamic Social Reporting Disclosure Index

Paper type Research paper

1. Introduction

Over the past four decades, Islamic banking is growing rapidly across the globe with some concentration in few countries in terms of Islamic banks being established all over the world. Islamic banking has mushroomed into a growing global financial market segment and has been recognized as a viable and competitive form of financial intermediation, not only in Muslim countries but also outside the Muslim world (Dusuki, 2008). Islamic banking service is one of the two important parts of Islamic finance as it accounts for about 95% of Islamic financial assets worth US$1.8tn by the end of 2013 (Hirst, 2015). Ernst and Young's (2016) study shows that about 93% of international Islamic banking assets in 2016 were donated by nine major markets; Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan. Furthermore, the members of the Gulf Cooperation Council are still the most important players, especially Saudi Arabia that continues to dominate the market share of the Islamic banking market strongly.

Unlike a conventional bank, Islamic bank has different principles because it is based on Islamic principles and religious norms to bring prosperity and justice in society. From a theoretical perspective, an Islamic bank is based on the profit-sharing principle and not based on interest as a result of lending or deposit funds like in conventional banks (Mallin *et al.*, 2014).

Journal of Islamic Marketing
Vol. 13 No. 7, 2022
pp. 1436-1456

1759-0833
DOI 10.1108/JIMA-05-2020-0146

Dusuki (2008) explains that Islam has a strong commitment to fraternity and justice for human welfare. Islamic bank also has functions and roles as stated in the preamble of accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). One of its functions is the implementation of social activities. Based on the AAOIFI standard, an Islamic bank is obliged to issue and manage (collect, administer and distribute) zakat, as well as other social funds. These principles are similar to those of corporate social responsibility (CSR), which is the bank's obligation to manage their social, economic and environmental activities at the local and global levels.

CSR principles can follow the rules in Islam as they both aim to provide social independence of the general public (Abbasi, 2012). Even within the Islamic state, the government supports the implementation of CSR (Sharani, 2004). This is interesting, as an Islamic bank and the conventional bank has different stakeholder needs (Mallin *et al.*, 2014). Unlike a conventional bank, the implementation of CSR in Islamic Financial Institutions (IFI's) is unique because it is implemented based on Shariah laws (Menne, 2016). As a result, Islamic bank has virtue in CSR practice and disclosure from a conventional bank, and it should be different in general.

CSR practice in Islam emphasizes on Islamic business ethics. Furthermore, Azhar Rosly (2010) explains that CSR should be performed based on the Shariah law, such as zakat, infaq, alms and waqf and not through activities that contain elements of *riba* (which is also in conventional bank known as interest rates), *gharar* (uncertainty), *maisir* (speculation) and several other types of financial transactions, such as buying and selling liquor and pork. Moreover, in the Qur'an letter of *Al Baqarah* verse 177, which relates to the verse fragment, [. . .] *and gives his beloved treasure* [. . .], explained by Ibnu-Katsir (2015) that gives the wealth we are loved to the others is an obligation after zakat in the Muslim wealth. So, it can be concluded that the faith of a Muslim will not be perfect if it is not in common with good deeds in the context of *muamalah* (social activities) in the form of care and service to relatives, orphans, the poor and traveler or people who are traveling far (*Musafir*), the welfare of those in need.

However, some studies revealed that Islamic bank has failed to implement the *profit-loss principle* (Dar and Presley, 2000; Chong and Liu, 2009) which is the primary of Islamic bank principles. Their researches also emphasize the similarity between the practice of Islamic bank and conventional bank, even the benefit of Islamic bank only exists in the theory. Some research mentioned in the research of Farook *et al.* (2011) revealed that Islamic bank does not fully fulfill their social role based on Shariah law (Metwally, 1992; Aggarwal and Yousef, 2000). This is contrary to the social role of the Islamic bank to provide social and economic benefits especially to carrying out CSR practice based on Shariah law.

IFIs may not disclose all of their CSR activities publicly even though the majority has performed their social activities. Alchaar (2007) stated that there should be a standard development on CSR disclosure that is applicable to IFIs, so they can communicate their CSR activities well. Therefore, CSR disclosure can bring their stakeholders, the public and other parties to be more confident and increase their trust. To increase the rate of CSR disclosure, international regulatory authorities, such as the AAOIFI, developed a special reporting standard for Islamic banking. The standard is published in Standard No.7 on "Governance Standards for Islamic banks concerning CSR conduct and disclosure in 2010". In this standard, CSR for IFIs is defined as all activities organized by IFIs to fulfill their religious, economic, legal, ethical and policy responsibilities as financial intermediaries for individuals and institutions. Therefore, to meet these standards, the aspect of CSR reporting in Islamic banks and the results of their business activities should be different from conventional banks (Mallin *et al.*, 2014).

Given that CSR disclosure for Islamic banks is very important, further research is needed. Previously, there has been a lot of researches on CSR disclosure, but only a few are investigating on companies that perform their business based on Shariah law (Anuar, 2004; Haniffa and Hudaib, 2007; Aribi and Gao, 2010; Hassan and Harahap, 2010; Farook *et al.*, 2011; Sairally, 2013; Mallin *et al.*, 2014; Nobanee and Ellili, 2016). Although many previous studies have shown that CSR disclosure of Shariah-based companies is higher than conventional firms, Hassan and Harahap (2010) in their research indicate that CSR disclosure is not the main concern of seven Islamic bank research in seven countries. It is also similar to the results of Haniffa and Hudaib (2007) which founds that Islamic banks have less effort to communicate their Shariah value and assure harmony between what is in the annual report and the code of ethics of Shariah. In short, the CSR literature on Islamic banks is still a qualitative-based study that measures the volume of narrative CSR disclosure according to the ideal benchmark taken from Shariah-based CSR based on AAOIFI standards. There is little research that examines what is the impact of CSR disclosure in an Islamic bank.

In contrast to previous researches, this research focuses on Islamic bank in nine countries (Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan) which have the largest Islamic banking financial assets in the world based on Ernst and Young (2016) research. Based on previous research, Mallin *et al.* (2014) in his research with a sample of 90 Islamic banks from 13 countries showed that CSR disclosure has a positive effect on the company's financial performance measured by return on assets (ROA). With a sample of nine countries that have the largest Islamic financial assets, this research examined the effect of CSR disclosure on the financial performance of Islamic banks as measured by ROA. Also, this research analyzed comparatively the effect of CSR disclosure on financial performance in Islamic banking based on the index category, based on CSR disclosure year and based on country, to find further levels of CSR disclosure in the nine countries over three years study. This research used the Islamic Social Reporting Disclosure Index (ISRDI) as a benchmark for Islamic bank's performance that contains a compilation of CSR standard items specified by AAOIFI.

2. Theoretical framework and hypothesis development

2.1 Stakeholder theory

Freeman (1984) defines stakeholders in two points of view, first is which groups or individuals are affected by organizational goals and second, if both groups or individuals can influence organizational goals. This stakeholder theory by Freeman (1984) is classified into various groups in the social environment that can be influenced by an organization, and these groups have a legitimate claim to the organization because of the concept of agency theory and property theory. Then Donaldson (1995) refined the definition of stakeholders, stating that to be identified as stakeholders, groups or individuals must have a legitimate interest in an organization. Stakeholders also provide the resources that companies need to perform their businesses, such as capital, customers, employees, materials and legitimacy (Deegan, 2002). Thus, such a relation creates a shared obligation whereby stakeholders provide "licenses to operate" to the organization in return for the social provision received (Suchman, 1995).

The discussion of CSR practice from a stakeholder management perspective has been widely considered by the public and CSR researchers in recent years (Lim and Greenwood, 2017). CSR emphasizes the important role of corporate communications in establishing and maintaining an open dialogue with multiple stakeholders to encourage ethical and socially responsible actions for various issues (Golob and Bartlett, 2007). The relation between the company and its stakeholders through CSR relies on its communication strategy considering the impact of CSR on the well-being of its stakeholders (Kirat, 2015). Reporting is an important communication tool that can ensure greater corporate transparency and better engagement with multiple stakeholders (Golob and Bartlett, 2007). Arshad *et al.* (2012) also stated that CSR disclosure is a management tool for influencing the perceptions of various stakeholders.

CSR is influenced by how businesses adjust their values and behaviors to the stakeholder's needs, not only customers and investors, but also employees, suppliers, communities, regulators, special interest groups and the community (Islam *et al.*, 2012). Stakeholder needs as reasons for assessing different public interactions and engaging in reporting practices (Whetten *et al.*, 2002). CSR reporting is a way for organizations to provide stakeholder information on social and environmental issues (Golob and Bartlett, 2007). Furthermore, disclosure of information about risks will increase the broader stakeholder understanding: the company (using internal data) can directly communicate the level or various risks it faces (Probohudono, 2012).

2.2 Islamic banking

Dusuki (2008) mentions many prominent Islamic economists, such as Chapra (1985), Chapra (2000), Ahmad (2000), Siddiqui (2001) and Naqvi (2016), who assert that Islamic banking is a part of the whole Islamic economic system that seeks to realize justice and balanced society as envisioned and written in the purpose of Shariah (also known as *maqahsid as*-Shariah). Thus, many restrictions (such as interest, gambling or speculation and excessive risks) are applied to protect the interests and benefits of all members in market transactions and to promote social harmony (Ahmad, 2000; Chapra, 1985; Chapra, 2000; Naqvi, 2016; Siddiqui, 2001). Islamic banking is also characterized by ethical norms and social commitment (Ahmad, 2000; Mirakhor, 2000; Warde, 2000).

Islamic banking is more than just refraining from burdening the interest and adjusting to the technicalities of the law and the terms of offering Islamic financial products (Dusuki, 2008). But Islamic banking is a system that aims to contribute to the fulfillment of socioeconomic goals and the creation of a just society (Siddiqui, 2001; Haron and Hisham, 2003). In the process of operating business, Islamic banking seeks to balance the income and expenditure to achieve better progress across society (Haron, 1995; Al-Omar and Abdel-Haq, 1996).

2.3 Corporate social responsibility

Although there is no single definition that generally accepted, CSR generally refers to business decisions that make connections to ethical values, compliance with legal requirements, respect for human beings, involvement in social, community and environmental activities (Hassan and Harahap, 2010). Theoretically, the relation and impacts of business into society will become stronger if people have a close relation or are involved with the core business of an organization. Currently, CSR has become a very important thing for a business and can be the main reason for a company's competition and ability to survive and has produced the best success in business after being adopted by the company (Mustafa *et al.*, 2012). Islam *et al.* (2012) also argue that CSR can improve long-term profitability and corporate sustainability, such as enhancing the organization's reputation. Moreover, CSR is an important part of business strategy from many companies around the world, because the performance of business organizations is influenced by their strategy in the market, as well as the nonmarket environment (Baron, 2007). Furthermore, CSR also makes the standard of living remain high by maintaining the profitability of the organization to the public (Hopkins, 2004). Every day more companies are implementing initiatives to improve public health, safety, environment or community welfare, with examples of well-known companies, such as Primark, Ikea or Coca-Cola Company (García-Jiménez *et al.*, 2017).

Haniffa and Hudaib (2007) concluded that to remain competitive, Islamic banks need to communicate more effectively to improve their public image and reputation. Islamic perspective on CSR disclosure is an understanding of responsibility, social justice and ownership concepts that are important for social relations (Hassan and Harahap, 2010). Hassan and Harahap (2010) stated that Islamic banks should disclose information to ensure the stakeholders know that Islamic banks have committed: to invest in activities under Shariah principles; to fulfill contractual relations with various stakeholders, including customer relation through contractual declarations. This is because Islamic banks operate their activities under Shariah law; of course, they have different stakeholders from the conventional banks. Stakeholders and depositors of Islamic bank funds would ideally want to assess their trust that has been given with their funds from how Islamic banks operate their business based on Shariah law.

2.4 Islamic social reporting disclosure index

Given that there are more than 40 definitions of CSR, Dahlsrud (2008) proves a lack of consistency in conceptualization and measurement of CSR (García-Jiménez *et al.*, 2017). Establishing a global framework for CSR reporting is an aim that desired generally, and there have been several attempts that have been made (Owen, 2003). So far, the measurement of CSR disclosure in Islamic banking still refers to the Global Reporting Initiative Index. This is interesting, as Islamic banking has different stakeholder needs (Mallin *et al.*, 2014). Unlike conventional banks, the implementation of CSR in IFIs is unique because it is implemented based on Shariah law (Menne, 2016). Therefore, a Shariah-based CSR disclosure guideline is required.

ISRDI is a benchmark for the implementation of Islamic banking performance which contains a compilation of CSR standard items set by AAOIFI. Furthermore, it is developed by researchers to add the CSR items which should be disclosed by an Islamic entity (Sofyani and Setiawan, 2015). ISRDI becomes relevant for the measurement of CSR disclosure of Islamic banking because it uses standards that also pay attention to every Islamic responsibility. The standard is published in Standard No. 7 on *Governance Standards for Islamic banks concerning Corporate Social Responsibility (CSR) conduct and disclosure in 2010*. Within these standards, CSR for IFIs in all activities organized by IFIs not only to fulfill their economic, legal, ethical and policy responsibilities but also to religious responsibilities.

2.5 Financial performance

Financial performance can be used as a measuring tool for the company's achievement to make a profit. Financial performance is an illustration of a company's financial condition that is analyzed by a financial analysis tool, so it can be known the work achieved at a certain time. The financial performance is also defined as financial feasibility to measure the extent of how the company achieves its economic goals (Fischer and Sawczyn, 2013). Moreover, profitability (measured by financial performance) is the most important aspect affecting the company growth and survival (Lyon, 2007).

The most widely used variables to measure financial performance include profit (operational and net), cash flow, EPS, ROA, return on equity (ROE), sales growth, return on sales, contribution margin, Tobin's Q, market share, corporate risk and return On capital employed (Boaventura *et al.*, 2012). Regarding company social performance, two primary measuring tools in investigating the relationship between social performance and financial performance are market base variable and accounting base variable; however, the most widely used are ROE and ROA (Boaventura *et al.*, 2012).

Some theoretical and empirical studies have studied the impact of CSR as measured by social performance and its relation to financial performance (Mallin *et al.*, 2014). Simpson and Kohers (2002) in his research found a consistent result with the theoretical constructs of corporate social performance, predicting a positive relationship between corporate social performance and corporate financial performance. However, some studies indicate a negative relation between CSR and financial performance, because CSR will be paid only after certain investment threshold amount and the achievement of CSP has been done, before this point is reached, CSR spending will decrease CFP (Nollet *et al.*, 2016).

2.6 Hypothesis development

2.6.1 Influence of corporate social responsibility disclosures on financial performance. The companies that have good management and attention to social responsibility activities are expected to have a positive impact from their stakeholders so it can improve their financial performance. Chen and Wang (2011) in his research stated that CSR activities can improve their financial performance in the current year, have a significant impact on financial performance next year and vice versa, variations of CSR and financial performance can influence each other significantly. Comparing the performance implications of CSR practices that targeting different stakeholders, empirical results indicate that different types of CSR have various influences on the financial performance of firms from different industrial sectors (Feng *et al.*, 2017).

Many studies have shown that CSR activities have a positive effect on company performance (Mustafa *et al.*, 2012). One of them is Islam *et al.* (2012) who found that a bank with high CSR performance has a higher average return on assets than a bank with low CSR performance. A comprehensive study has examined the relation between CSR and financial performance (Margolis and Walsh, 2001). Margolis and Walsh (2001) stated that when used as an independent variable, corporate social performance has a positive relationship with financial performance in 53% of the researches, 5% found a negative relation, 19% found both of positive and negative relation, whereas 24% found there is no relation between of them. Although CSR is used as a dependent variable, 68% of the researches found there is a positive relation between CSR and the company's financial performance. The majority of these studies conclude that companies that disclose CSR will improve their financial performance. Mallin *et al.* (2014) in his research with a sample of 90 Islamic banks from 13 countries indicate that there is a positive relation between CSR disclosure with the company's financial performance calculated by measuring instrument one of which is ROA. With good CSR disclosure, it will increase customers' trust to save and invest in an Islamic bank, so it can improve the company's financial performance through asset turnover. Hereby, we draw the conceptual framework (Figure 1).

From the hypotheses development that has been described previously then, we obtained the formulation of hypotheses to be used in this research are as follows:

H1. ISRDI has a positive effect on ROA in overall.

ISRDI has six themes of index categories consisting of 69 items. Each IRSDI index category has its functions and values for companies and their stakeholders, especially index categories that directly relate to stakeholder needs based on the type of company. In contrast to the types of companies in general, Islamic banking is a system that aims to contribute to

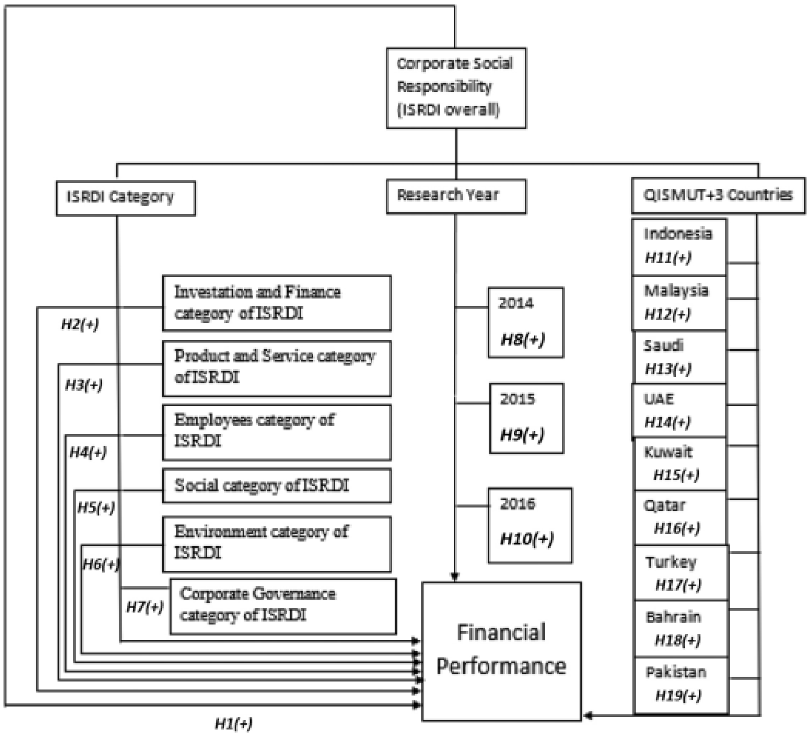

Figure 1.
Conceptual framework

the fulfillment of socioeconomic goals and the creation of a just society (Siddiqui, 2001; Haron and Hisham, 2003). That way, Islamic banking is expected to run all aspects of its social responsibility to be able to support the sustainability of their company, in this case, is the financial performance of the company. To examine how ISRDI Islamic bank discloses in the nine largest Islamic financial assets countries, comparation is needed to examine the effect of ISRDI on ROA based on the theme of each index, so it will be known whether all aspects of ISRDI have a positive effect on the company's ROA. Then some hypothesis developed as follows:

H2. Investation and finance category of ISRDI has a positive effect on ROA.

H3. Product and service category of ISRDI has a positive effect on ROA.

H4. Employees category of ISRDI has a positive effect on ROA.

H5. Social category of ISRDI has a positive effect on ROA.

H6. Environment category of ISRDI has a positive effect on ROA.

H7. Corporate governance category of ISRDI has a positive effect on ROA.

This research is a cross-country study; Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan, with the timeframe used in this research is for three years: 2014, 2015 and 2016. In the range of such studies, ISRDI by Islamic banking may experience a change in both increase and decrease in their disclosure level each year.

Therefore, to know how the influence of ISRDI on Islamic banking's ROA every year, then some of the following hypotheses are developed:

H8. ISRDI has a positive effect on ROA in 2014.

H9. ISRDI has a positive effect on ROA in 2015.

H10. ISRDI has a positive effect on ROA in 2016.

Although nine study sample countries are the countries with the largest Islamic financial assets in the world, many factors, such as the characteristics of the country and politics, can influence the level of Islamic bank's financial performance, so that one country with another country is not the same in ISRDI's influence on their financial performance. To investigate more deeply, comparations will be made in testing the effect of ISRDI on ROA based on each country. Here, are some of the hypotheses developed:

H11. ISRDI has a positive effect on ROA in Indonesia.

H12. ISRDI has a positive effect on ROA in Malaysia.

H13. ISRDI has a positive effect on ROA in Saudi Arabia.

H14. ISRDI has a positive effect on ROA in UAE.

H15. ISRDI has a positive effect on ROA in Kuwait.

H16. ISRDI has a positive effect on ROA in Qatar.

H17. ISRDI has a positive effect on ROA in Turkey.

H18. ISRDI has a positive effect on ROA in Bahrain.

H19. ISRDI has a positive effect on ROA in Pakistan.

3. Research methodology

3.1 Research design and data collection method

This research is classified as explanatory research which aims to explain the relationship between the variables through testing a hypothesis that has been formulated in the study. This research is quantitative in nature so it used in the numerical or statements form that being scored in number, then are analyzed by using the statistic. In this research, the data are secondary data obtained from the annual reports and financial statements of the Islamic Bank in nine countries in 2014–2016. The secondary data were collected from the respective websites of Islamic banking samples through the documentary collection method. The data needed for this research were those related to the CSR disclosure and ROA. The data of this research were analyzed by SPSS 21.

3.2 Population, sample and sampling technique

The population of this research is the Islamic banks in nine countries in 2014, 2015 and 2016. The sample was selected to observe the relation between CSR disclosure and financial performance in the Islamic banking sector. The sample was selected using a purposive sampling technique. It uses certain criteria according to the purpose of the study. The final list of the sample is attached after the reference. The criteria that the sample should meet in this research:

- An Islamic bank that is operating its business in nine countries (Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan).
- An Islamic bank that issued annual reports and financial reports for the period 2014, 2015 and 2016.
- An Islamic bank that issues a complete data needed for the research.

3.3 Operational definition and variable measurement

3.3.1 Dependent variable. The dependent variable used in this research is the financial performance measured by ROA. ROA is a ratio that explains how much net profit earned by the company is measured by the value of its assets (El Mousaid and Boutti, 2012).

$$ROA = \frac{Income\ Before\ Tax\ and\ Zakat}{Total\ Asset} \times 100\%$$

3.3.2 Independent variable. The independent variable in this research is the ISRDI. ISRDI is an index made by the AAOIFI consisting of six categories and 69 items. It measured by using the unweighted index or dummy variable. An undisclosed item is symbolized by 1 and disclosed item symbolized by 0:

$$ISRDIbt = \frac{\sum_{i=1}^{n} xibt}{n}$$

Explanation:

ISRDIbt = Islamic Social Reporting Index for Bank b and time t (year);
Xibt = Equal to 1 if item 1 is disclosed for bank b and Tim 1 (year); and
n = A total of items.

3.4 Data analysis method

In this research, the data were analyzed by the following method:

- Descriptive analysis was done to discover the characteristics of the research variable to be tested.
- Descriptive of ISRDI result was done to observe the level of CSR disclosure for Islamic banking samples.
- Simple regression analysis was used to see the test result of the impact of the ISRDI on the Islamic banks' financial performance and to make a comparative analysis. The equation of the current research' regression is as follows:

$$\text{ROA} = \alpha + \beta\ \text{ISRDIcnt} + \varepsilon$$

Explanation:

ROA = *return on asset* at a certain time;
α = the constant of the regression;
β = the coefficient of regression;
ISRDIcnt = *Islamic Social Reporting Index* for category c, country *n*, time *t* (year); and
ε = the score of error for each individual.

4. Result and discussion

4.1 Descriptive statistic

The descriptive statistic aims to discover the character of the research variables. The sample of this research is the Islamic banks in nine countries; Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan in 2014, 2015 and 2016. From the data collection process, there are 32 Islamic banks that fulfilled the criteria to be included as the sample of the research. However, there are seven data included as outliers data so that they are excluded from the sample. Thus, the sample that will be used in this research is 25 Islamic banks in three periods of data. According to the criteria above then we obtained a sample of 75 years of Islamic banks.

Table 1 presents the results of the descriptive statistics of all data. Table 1 shows that the variable ROA has an average value (mean) of 10.89%, whereas the median value (median) of 1.15%. The lowest ROE value of 0.15% is owned by Bank Muamalat Indonesia in the country in Indonesia in 2014. Whereas the highest ROA is 2.36% owned by Qatar Islamic Bank in Qatar in 2014. The standard deviation of ROA shows the overall data is 0.55%. The ISRDI variable shows the mean value is 51.23%, whereas the median value is 49.28%. The lowest ISRDI value of 20.29% is owned by the United Bank of the USA of Saudi Arabia by 2014. Whereas the highest ISRD value is 82.61% owned by Bank Muamalat Indonesia in Indonesia in 2014. The standard deviation of ISRDI is 15.13%.

4.2 Level of corporate social responsibility disclosure based on Islamic Social Reporting Disclosure Index

CSR disclosure based on the ISRDI is classified into six theme categories. The level of ISRDI for each item in each year is presented in Table 2.

Table 2 shows that CSR disclosure of Islamic banks overall is quite good (more than 50%). Disclosure of the corporate governance category has the highest level of disclosure (82%), and the disclosure of the environment category has the lowest disclosure rate (13%). This could be due to the lack of concern of Islamic banking to the environment. Besides, environment category disclosure is still voluntary in some countries.

According to Table 2, the disclosure of the investment and finance category is still very low (39%). Some items indicate the level of disclosure of 0% or there was no Islamic banking that discloses the activity, i.e., item percentage of *riba* from profit, percentage of *gharar* from profit and opinion of Sharia Supervisory Board related to permitting regarding additional fee charged as a consequence of late payment by an insolvent client, current value balance sheet and value-added statement. While activity identification items containing *riba* and identification of activities containing *gharar* still had low disclosure rates, i.e., 36% and 35%. This indicates there is still low attention to financial disclosures under Shariah principles in the Islamic banking sector.

Disclosure of product and service category and employee category shows a medium level of disclosure. Islamic banking is necessary to increase the disclosure of both categories, especially for items related to customer service management, customers and working hours or holidays, composition info and percentage of employees. Besides, most Islamic banks have disclosed their responsibilities to the community by conducting social category activities (above 52%). However, for the endowment items, the establishment of schools and the care of orphans is still a little level of disclosure.

Table 2 shows that more than 80% of Islamic banks have disclosed information about their corporate governance's category well. This is also supported by the existence of a good corporate governance program from each Islamic bank. However, not all Islamic banks have

Data	N	Minimum (%)	Maximum (%)	Mean (%)	Median (%)	SD (%)
ROA (pooled)	75	0.15	2.36	1.13	1.15	0.55
Year						
ROA2014	25	0.15	2.36	1.11	1.13	0.59
ROA2015	25	0.19	2.04	1.13	1.18	0.54
ROA2016	25	0.19	2.04	1.13	1.18	0.54
Country						
ROASaudi	6	0.86	2.04	1.84	2.03	0.48
ROAMalaysia	12	2.04	2.04	2.04	2.04	0.00
ROAUAE	6	0.85	1.64	1.21	1.38	0.32
ROAKuwait	6	1.13	1.79	1.29	1.46	0.34
ROAQatar	6	1.61	2.36	1.52	1.65	0.29
ROAIndonesia	24	0.15	1.58	0.63	0.55	0.43
ROABahrain	6	1.06	1.49	1.25	1.16	0.19
ROAPakistan	3	1.15	1.40	1.32	1.40	0.14
ROATurkey	6	0.68	1.65	1.16	1.24	0.43
ISRDI (pooled)	75	20.29	82.61	51.23	49.28	15.13
Category						
ISRDI1	75	0.00	64.29	38.95	42.86	20.21
ISRDI2	75	14.29	100.00	50.86	42.86	16.65
ISRDI3	75	0.00	91.67	40.33	41.67	23.65
ISRDI4	75	0	92.86	58.07	64.29	30.09
ISRDI5	75	0.00	85.71	12.76	0.00	17.19
ISRDI6	75	46.67	100.00	81.69	86.67	15.43
Tahun						
ISRDI2014	75	20.29	82.61	50.67	49.28	15.25
ISRDI2015	75	23.19	78.26	52.87	52.17	16.20
ISRDI2016	75	27.54	73.91	50.15	46.38	14.37
Negara						
ISRDISAUDI	6	39.13	50.72	46.38	49.28	5.10
ISRDIMALAYSIA	12	42.03	68.12	53.14	54.35	9.21
ISRDIUAE	6	27.54	63.77	42.27	36.23	16.96
ISRDIKUWAIT	6	20.29	47.83	33.34	34.06	11.15
ISRDIQATAR	6	40.58	46.38	43.48	43.48	2.25
ISRDIINDONESIA	24	49.28	82.61	66.79	68.12	8.70
ISRDIBAHRAIN	6	37.68	55.07	47.83	49.28	6.28
ISRDIPAKISTAN	3	39.13	55.07	48.31	50.72	8.24
ISRDITURKEY	6	27.54	31.88	29.47	28.99	2.18

Table 1.
Descriptive statistic

Notes: ISRDI = Islamic Social Reporting Disclosure Index (dummy variable of Islamic social reporting disclosure), ROA = Return on assets (income before tax and zakat/total assets)

disclosed the activities of Sharia Supervisory Board duties and responsibilities and the implementation of Shariah principles in the collection and distribution of funds and services.

4.3 Relation between Islamic Social Reporting Disclosure Index to financial performance

Table 3 presents the results of statistical tests to see the influence of the ISRDI on financial performance (ROA).

Table 3 presents the results of regression analysis between ISRDI as an independent variable and ROA as a dependent variable in the pooled data. It is shown that there is a statistically significant variable (p-value < 0.01) in 2014, 2015, 2016 and data pooled (2014–2016). So, it can be concluded that ISRDI has a highly positive significance related to ROA (financial performance).

Islamic social reporting disclosure *item*	Pooled (%)	2014 (%)	2015 (%)	2016 (%)
Total of Islamic Social Reporting Disclosure Index (ISRDI)	*51*	*50.03*	*52.52*	*50.14*
Investment and finance	*39*	*38*	*41*	*39*
Identification of activities that contain of *riba*	36	28	36	44
% *riba* from profit	0	0	0	0
Identification of activities that contain of *gharar*	35	24	36	44
% *gharar* from profit	0	0	0	0
Zakat methods that used	68	76	72	56
Zakat sources	68	72	72	60
Zakat total	75	76	80	68
Zakat recipients	51	40	52	60
Shariah Supervisory Board's opinion related to zakat collection and distribution	76	76	72	80
Identification of the policy to resolve insolvent clients.	99	100	100	96
The amount of additional fees (fines) charged as a consequence of late payment	39	36	48	32
Shariah Supervisory Board's opinion related to the permit regarding additional fees charged as a consequence of late payment by the insolvent client	0	0	0	0
Current value balance sheet	0	0	0	0
Value added statement	0	0	0	0
Product and service	*51*	*49*	*55*	*49*
Halal and Shariah labels on the product	92	92	92	92
Product development	97	92	100	100
Service improvement	96	88	100	100
Total consumer complaints	13	12	24	4
Handling consumer complaints	43	36	44	48
Fines both money and nonmoney related violations of regulations	5	4	12	0
Survey of customer decisions	9	16	12	0
Employee	*40*	*45*	*38*	*38*
The number of working hours and holidays	3	0	8	0
Remuneration	84	88	80	84
Salary ratio	39	56	32	28
Composition of employees based on specific performance	16	40	8	0
Education and training programs for employees	92	88	92	96
Establish development programs and employee career path	39	48	52	16
Employee retention strategy	19	24	12	20
Percentage of employees receiving	12	20	8	8
The same opportunity	41	40	44	40
Occupational health and safety	52	44	48	64
Work environment	53	56	44	60
Special recruitment	35	32	32	40
Social	*58*	*53*	*61*	*60*
Shaddaqah/donation	65	60	64	72
Waqf	44	32	52	48
Qard Hasan	57	48	60	64
Zakat or donations from employees or clients	67	60	76	64
Establishment of school	3	4	0	4
Assistance at school in financial or nonfinancial	56	64	72	32
Scholarship	73	64	76	80

(*continued*)

Table 2.
Level of Islamic Social Reporting Disclosure Index (in 2014–2016)

Islamic social reporting disclosure *item*	Pooled (%)	2014 (%)	2015 (%)	2016 (%)
Health assistance	68	60	71	72
Economic empowerment	76	80	72	76
Concern for orphans	45	32	52	52
Construction or renovation mosque	37	24	44	44
Youth activities	67	72	60	68
Other social activities	83	80	80	88
Sponsor of health events, sports and education	72	64	72	80
Environment	*13*	*11*	*15*	*13*
Go green campaign	12	12	16	8
Environmental conversion	33	28	40	32
Protection of wild or endangered fauna and flora	4	0	8	4
Pollution	15	8	16	20
Repairment and construction of public facilities	23	28	16	24
Environmental audit	1	0	4	0
Environmental management policies	1	0	4	0
Corporate governance	*82*	*82*	*84*	*79*
Organizational profit and strategy	95	84	100	100
Organizational structure	97	92	100	100
Implementation of the board of commissioners' duties and responsibilities	96	100	100	88
Implementation of board of director's duties and responsibilities	100	100	100	100
Completeness and execution of the committee's duties	85	80	92	84
Implementation of Sharia Supervisory Board's duties and responsibilities	85	88	80	88
Implementation of Shariah principles in the collection and distribution of funds and service	91	88	92	92
Handling of conflict of interest	47	52	36	52
Implementation of bank's compliance function	93	92	92	96
Implementation of internal audit function	97	100	96	96
Implementation of external audit function	97	100	96	96
Maximum limit of fund disbursement	45	56	52	28
Transparency of financial and nonfinancial condition	47	44	68	28
Antimoney laundering and other deviant policies	67	76	56	68
Company ethics	83	76	100	72

Source: Data that had been processed

Table 2.

	2014	2015	2016	Pooled
N	25	25	25	*75*
Durbin–Watson	1.916	1.687	1.688	*1.847*
Adjusted R^2	0.223	0.179	0.188	*0.228*
F statistic	7.899	6.249	6.545	*21.506*
Significance	0.010*	0.020**	0.018**	*0.000**

Notes: *Highly significant at 1% level; **significant at 5% level; ***moderately significant at 10% level

Table 3.
Regression result data pooled

4.4 Comparative analysis based on Islamic Social Reporting Disclosure Index category index

ISRDI has six themes of index categories consist of 69 items. Furthermore, we made comparations in testing the influence of ISRDI on ROA based on the index categories. Table 4 and Figure 2 presents the ISRDI levels that have been classified according to the index category themes. It is shown that corporate governance's category has the highest average disclosure level of other disclosure themes (82%), whereas the lowest category disclosure is environment (13%).

Table 5 presents the results of regression analysis between ISRDI as an independent variable and ROA as a dependent variable based on ISRD category in data pooled (2014–2016).

	Mean			
ISRDI category	Pooled (%)	2014 (%)	2015 (%)	2016 (%)
Total ISRDI	*51*	*50*	*53*	*50*
Investation and finance	*39*	38	41	39
Product and service	*51*	49	55	49
Employee	*40*	45	38	38
Social	*58*	53	61	60
Environment	*13*	11	15	13
Corporate governance	*82*	82	84	79

Source: The secondary data that had been processed

Table 4. Level of *Islamic Social Reporting Disclosure Index* based on category (2014-2016)

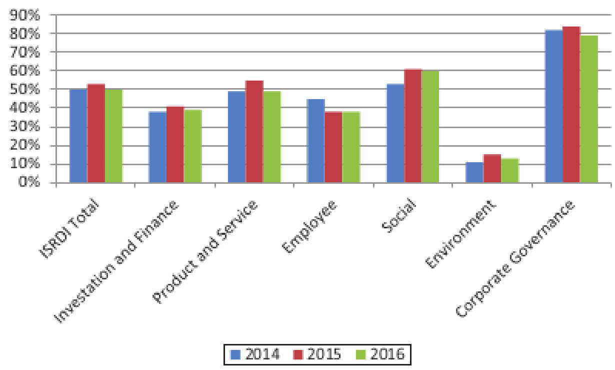

Figure 2. Level of *Islamic Social Reporting Disclosure Index* based on category (2014–2016)

ISRDI Category	*N*	Adjusted R^2	*F* statistic	Significance
1. Investation and finance	75	0.122	11.278	*0.001**
2. Product and service	75	0.052	5.039	*0.028***
3. Employee	75	0.063	5.938	*0.017***
4. Social	75	0.170	16.149	*0.000**
5. Environment	75	−0.010	0.242	*0.625****
6. Corporate governance	75	0.205	20.086	*0.000**

Notes: *Highly significant at 1% level; **significant at 5% level; ***moderately significant at 10% level

Table 5. Regression result of comparative analysis based on *Islamic Social Reporting Disclosure Index* category (data pooled)

It is shown that there is statistically significant variable (p-value < 0.05) in almost all of categories except for the "environment" category (p-value > 0.05). So, it can be concluded that category disclosure of investation and finance, product and service, employee and corporate governance has positively significantly related to ROA (financial performance). Whereas environment category disclosure is not significantly related to ROA.

4.5 Comparative analysis based on year

Table 6 presents the results of regression analysis between ISRDI as an independent variable and ROA based on the year in 2014, 2015 and 2016. It is shown that there is a statistically significant variable (p-value < 0.05) in all of the years. So, it can be concluded that ISRDI has positively significantly related to ROA (financial performance) in ranging from 2014 to 2016.

4.6 Comparative analysis based on country

Table 7 presents the results of regression analysis between ISRDI as an independent variable and ROA based on country (Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan). It is shown that there is a statistically significant variable (p-value < 0.05) in UAE, Kuwait and Turkey and not statistically significant variables (p-value > 0.05) in Indonesia, Malaysia, Saudi Arabia, Qatar, Bahrain and Pakistan. So, it can be concluded that ISRDI has positively significantly related to ROA (financial performance) in UAE, Kuwait and Turkey but has not significantly related to Indonesia, Malaysia, Saudi Arabia, Qatar, Bahrain and Pakistan.

5. Discussion

The hypothesis test result shows that the effect of the ISRDI toward financial performance measured by ROA has positively significant relation. So, ISRDI can be used to predicting

Table 6. Regression result of comparative analysis based on year (data pooled)

Year	N	Adjusted R^2	F statistic	Significance
2014	25	0.223	7.899	*0.010**
2015	25	0.179	6.249	*0.020***
2016	25	0.188	6.545	*0.018***

Notes: *Highly significant at 1% level; **significant at 5% level; ***moderately significant at 10% level

Table 7. Regression result of comparative analysis based on country (data pooled)

Country	N	Adjusted R^2	F statistic	Significance
Indonesia	24	−0.031	0.316	*0.580****
Malaysia	12	−0.027	0.709	*0.419****
Saudi Arabia	6	−0.143	0.373	*0.574****
UAE	6	0.684	11.821	*0.026***
Kuwait	6	0.87 9	37.16	*0.004**
Qatar	6	0.088	1.484	*0.290****
Turkey	6	0.727	14.31	*0.019***
Bahrain	6	−0.157	0.321	*0.601****
Pakistan	3	−0.871	0.069	*0.837****

Notes: *Highly significant at 1% level; **significant at 5% level; ***moderately significant at 10% level

ROA in the Islamic banking sector. Based on the research result, *H1* is accepted. The results of this research support the research of Mallin *et al.* (2014) which has the result of a positive and significant relation between CSR disclosure and financial performance measured by ROA. Positive results between ISRDI and ROA mean that if ISRDI is good then ROA will increase. The results of this research reject the research from El Mousaid and Boutti (2012) who found that there is no significant relation between CSR disclosure and ROA within Islamic banking. The different results of researches are due to the difference between samples and the range of research is quite long.

Almost all theme categories of ISRDI have a significant positive relation on Islamic banking ROA, except on the theme of environmental disclosure, so *H2*, *H3*, *H4*, *H5* and *H7* are accepted but *H6* is rejected. The majority of Islamic banks still have less attention to the disclosure of their environment and also the disclosure of the percentage of activities of *riba* and *gharar*. This may be because there is no detailed regulation regarding these items. For three consecutive years (2014, 2015 and 2016) ISRDI proved to have a positively significant related toROA, so *H8*, *H9* and *H10* are accepted. Furthermore, ISRDI has positively significant related to ROA (financial performance) in UAE, Kuwait and Turkey but has not significantly related in Indonesia, Malaysia, Saudi Arabia, Qatar, Bahrain and Pakistan, so *H14*, *H15* and *H17* are accepted and *H11*, *H12*, *H13*, *H16*, *H18* and *H19* are rejected. This means that multiple disclosures over time and across countries may be influenced by firm characteristics (Probohudono, 2012) and the characteristics of stakeholders of each country.

6. Summary, implication and limitation

6.1 Summary

This research discusses the influence of CSR disclosure based on the ISRDI on financial performance in Islamic banking that measured by ROA. The samples used in this research are 25 Islamic banks in nine countries (Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan) in the period 2014, 2015 and 2016. The research finding is Islamic banks have disclosed CSR based on ISRDI well, 50% in 2014, 53% in 2015 and 50% by 2016. The top category disclosure for ISRDI is the "corporate governance" category of 82%, whereas the category "environment" is the lowest disclosed of 13%. Furthermore, the lowest ISRDI level in data pooled is 20.29% owned by the United Bank of the USA of Saudi Arabia in 2014. While the highest ISRD level is 82.61%, owned by Bank Muamalat Indonesia in Indonesia in 2014.

The results showed that a simple regression analysis provides evidence that the disclosure of CSR is positively related to financial performance. The results of comparative analysis for each year show that there is a positive relation between ISRDI and financial performance each year. Almost all the major categories of ISRDI have a positive relationship with financial performance except for the environmental subcategory. For the UAE, Kuwait and Turkey, ISRDI has positively significantly related to financial performance but has not significantly related to Indonesia, Malaysia, Saudi Arabia, Qatar, Bahrain and Pakistan.

6.2 Implication

CSR disclosure is essential for Islamic banking to increase stakeholder trust. The results of this research indicate that CSR disclosure has positively related to financial performance especially for ROA. Besides, the results of this research also show that the lack of CSR disclosure in the category of the environment and some important items, such as special items, exist only in IFIs (activity and percentage of *riba*, *gharar*, Sharia Supervisory Board's opinion, religious social activities, such as zakat, *shadaqah*, *qard hasan*, concern for orphans and mosque construction). This has implications for the future Islamic banking to pay more attention related to their CSR disclosure to improve financial performance, so that the asset turnover becomes better. Besides, the results of this research could be a consideration for AAOIFI to develop a more appropriate standard of CSR reporting for Islamic banking.

6.3 Limitation

This research focuses on Islamic banks in nine countries that have the largest Islamic banking assets in the world; Indonesia, Malaysia, Saudi Arabia, UAE, Kuwait, Qatar, Turkey, Bahrain and Pakistan. The number of samples of each country may be too small and uneven in number. The suggestions for further research can add research samples apart from the nine countries.

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Appendix

LIST OF SAMPLE BANK

NO.	BANK
1	BANK AL JAZIRA SAUDI ARABIA (JZR)
2	NATIONAL COMMERCIAL BANK SAUDIA ARABIA (NCB)
3	BANK ISLAM MALAYSIA (BIM)
4	BANK MUAMALAT MALAYSIA (MMLTMLY)
5	AFFIN ISLAMIC BANK MALAYSIA (AFFN)
6	HONG LEONG ISLAMIC BANK MALAYSIA (HGLNG)
7	ABU DHABI ISLAMIC BANK UAE (ABDB)
8	EMIRATES ISLAMIC BANK UAE (EMRI)
9	AL HILAL BANK UAE (AHLI)
10	BOUBYAN BANK KUWAIT (BBYN)
11	QATAR ISLAMIC BANK (QIB)
12	DOHA BANK OF QATAR (DOHA)
13	BCA SYARIAH INDONESIA (BCAS)
14	BANK BJB SYARIAH INDONESIA (BJBS)
15	BANK BNI SYARIAH INDONESIA (BNIS)
16	BANK SYAIRAH BUKOPIN INDONESIA (BKPNS)
17	MEGA BANK SYARIAH INDONESIA (MGBS)
18	BANK MUAMALAT INDONESIA (MMLTIND)
19	BANK PANIN SYARIAH INDONESIA (PNNS)
20	BANK SYARIAH MANDIRI INDONESIA (BSM)
21	BAHRAIN ISLAMIC BANK (BIB)
22	ABC ISLAMIC BANK BAHRAIN (ABCI)
23	FAISAL BANK (FLAH)
24	TURKIYE FINANS BANK TURKEY
25	KUVEYT TURK BANK TURKEY (KUVEYTRK)

Figure A1.
Attachment

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Comparative analysis of QISMUT13’s Islamic corporate social responsibility

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