

The Determinants of Social Accountability Disclosure: Evidence from Islamic Banks around the World

Sherif El-Halaby^a and Khaled Hussainey^b

^a *Researcher, Plymouth Business School, University of Plymouth Mast House
Plymouth PL4 8AA, United Kingdom
sberif.ismail@plymouth.ac.uk*

^b *Professor of Accounting, Plymouth Business School, University of Plymouth
405H Cook worthy Building, Plymouth PL4 8AA, United Kingdom
khaled.hussainey@plymouth.ac.uk*

ABSTRACT

We examine the determinants of Corporate Social Responsibility Disclosure (CSR) in Islamic Banks (IBs). We content-analyse annual reports of 138 IBs across 25 countries to identify levels of CSR. We use a regression analysis to identify the factors affecting CSR in IBs. We find a very low disclosure level for CSR (26%). We also find a positive association between CSR levels and accounting standards; auditor type; bank size and the existence of a Sharia auditing department. We offer an original contribution to Islamic accounting literature by being the first to investigate CSR in IBs around the world. We are the first to link CSR based on AAOIFI standards with bank –specific and country-specific characteristics.

JEL Classification: M4

Keywords: Islamic banks; CSR; social accountability; AAOIFI

I. INTRODUCTION

Islamic Banks (IBs) are predicted in principle to embed ethics and social responsibility in their business model. From an Islamic business approach, everyone is accountable in front of Allah about his responsibility towards society (Haniffa and Cooke, 2002). CSR practices are mainly introduced to provide the social justices to the society (Gray et al., 1987). All Islamic values related to human life either individual or business are defined in Qur'an and Sunna (Rice, 1999). Therefore, IBs are anticipated to disclose more information to their customers about their activities and their compliance with Sharia (e.g., Baydoun and Willett, 2000; Lewis, 2001; Maali et al., 2006).

Farook (2008) argues that disclosure provides evidence about contribution in social activities through IBs. Consequently, to encourage IBs to disclose more information related to CSR activities, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued Standard No.7 on Governance Standards in concerning with CSR disclosure in 2010. AAOIFI (2010) defines CSR as "all activities carried out by an IFI to fulfil its religious, economic, legal, ethical and discretionary accountabilities as financial intermediaries for individuals and institutions". Consequently, in complying with this standard, IBs can achieve their social accountability towards Allah then towards all stakeholders.

The existing body of CSR literature in IBs focuses on either the level of CSRD (e.g., Maali et al., 2006; Haniffa and Hudaib, 2007; Abdul Rahman et al., 2010; Hassan and Harahap, 2010; Aribi and Gao, 2012) or the determinants of CSRD (e.g., Farook et al., 2011). Most of the previous studies that explore CSRD conducted before the issuance of AAOIFI governance standard No.7 which represents a benchmark of CSRD in IBs. Thus, we are motivated to explore the compliance levels of this standard by IBs and their potential determinants.

Our paper offers several contributions. We are the first to study CSRD in IBs around the world for a large number of countries. We are also the first to consider a comprehensive number of bank-specific and country-specific characteristics in the analysis.

We found that bank size; accounting standards, the existence of Sharia auditing department and auditor type are positively associated with CSRD. We also find that GDP growth factor is positively associated with CSRD, while uncertainty avoidance and corruption are negatively associated.

The paper is structured as follows. Section II explores accountability and disclosure concepts from an Islamic approach. Section III presents theoretical framework of CSR from an Islamic approach. Section IV reviews the relevant literature for CSRD and develops the research hypotheses. Section V discusses the research design. Section VI reports the findings. Section VII concludes.

II. DISCLOSURE AND ACCOUNTABILITY FROM AN ISLAMIC CONTEXT

In an Islamic context, the key purpose of corporate reporting is to allow Islamic enterprises to show their compliance with Sharia as well as serving the society (Baydoun and Willett, 2000). The concept of disclosure is thus related to the concept of accountability. In an Islamic context, the society has the right to know how firms that are part of the Umma (Muslim society) affect its well-being. The duty to disclose the

truth is a very significant issue in the Islamic context, and this duty applies to businesses as well as to individuals. This duty is highlighted in Qur'an when Allah says "and covers not truth with falsehood, nor conceals the truth when you know" (Qur'an, 2:42). As accountability to Allah includes accountability to community, the duty to disclose is owed mainly to Allah as well as to society (Maali et al., 2006). Allah says "I know what ye reveal and what ye hide" (Qur'an, 4:33) and also 'he (Allah) knows what is manifest and what is hidden' (Qur'an, 87:7). Islamic businesses are required to undertake charitable activities and to support poor and needy people. This is highlighted in many verses in Quran. Allah says "of their goods take alms that so thou mightiest purify and sanctify them" (Qur'an, 9:103).

In the Islamic reporting context, it is expected that social issues would be an important component of disclosure in annual reports. Thus businesses are obligatory to be more transparent in their disclosure practices (Cho and Patten, 2007; Haniffa and Cooke, 2002). This would lead to attaining the concept of Islamic social reporting, that contains social accountability and full disclosure (Anuar et al., 2009; Baydoun and Willet, 2000).

From the Islamic viewpoint, the perceived relationship of individuals and companies with Allah affects the model of accountability. The accountability concept flows from the basic of Tawhid (the unity of Allah). Based on this concept, the Creator is one, and everything originates from this one source. All created things are thus elements of a single set and the full world is one unit with a single goal, which is Allah's will. Baydoun and Willett (2000) claims that the concept of Tawhid gives rise to a diverse and broader concept of accountability than that implied by Western models. The notion that everyone is accountable to Allah provides a different dimension to the concept of accountability beyond what has been reflected in Western theories of social reporting. Based on Islamic philosophy, Muslims undertake social activities not for pure financial reward, but rather to gain Allah's praise and avoid Allah's anger on the Day of Judgment 'Then shall anyone who does an atom's weight of good see it and anyone who can atom's weights of evil see it' (Qur'an, 99:7, 8). Therefore, accountability to Allah includes accountability to society. Businesses are accountable for their activities both inside and outside their companies; accountability in this context means accountability to the community' (Lewis, 2001).

From an Islamic perspective, CSR circles on the concept of ultimate accountability to Allah where human beings are stated as 'khalifah' (vicegerent on earth) and are expectable to relate with additional humans to take care of the natural environment entrusted to them (e.g., Hassan and Harahap, 2010; Maali et al., 2006; Haniffa and Hudaib, 2007; Aribi and Gao, 2010; Farook et al., 2011). Siwar and Hossain (2009) argue that Islam is not just a religion; it is a holistic way of life. In the context of accountability, one of the major goals of accounting is to provide a fair information flow between the accountant and the accountee (Anuar et al., 2009). Based on this concept, accounting plays an important role in providing information to stakeholders and the community at large, and to fill any religious duty as stated by Adnan and Gaffikin (1997): "the orientation of accounting towards fulfilling the accountability of human being to Allah implies that the accounting information enables individuals to account for their zakat" (p. 33).

III. THEORETICAL FRAMEWORK OF SOCIAL REPORTING FROM AN ISLAMIC APPROACH

CSR for Muslims has a broader and more holistic significance. Obviously, the concept is not merely perceived as a strategic or instrumental initiative, which the firms undertake for enhancing goodwill or boosting long-term financial performance as advocated by Greenfield (2004). It is also not just an act to legitimize the existence of companies in society as advocated by Deegan (2002). Instead, the concept of CSR in Islam comprehends a broader meaning embracing the taqwa dimension (Allah-consciousness) by which companies as groups of individuals, assume the roles and responsibilities as servants and vicegerents in all situations. By so doing, they are ultimately accountable to Allah, the Owner of their selves as well as the resources they are utilizing and managing. This accountability to Allah is a function of the intrinsic quality of the Muslims' lives as a trust from Allah. Consequently, CSR from an Islamic approach is a way to worship of Allah through serving his society and satisfying him as Qur'an explain us that all our activities as CSR towards the society should to be for Allah as he saying "Indeed, my prayer, my rites of sacrifice, my living and my dying are for Allah, Lord of the worlds" (Qur'an, 6:162). Moreover, CSR is a way to get success in this life as well as in the hereafter as Allah saying "whatever good you put forward for yourselves - you will find it with Allah. Indeed, Allah of what you do, is seeing" (Qur'an, 2:110). Furthermore; serving society from an Islamic approach is the basis of Islam belief as the prophet Mohammad (PBUH) saying "I have been sent only for the purpose of perfecting good morals" (Sahih Bukhari, 1:56).

IV. LITERATURE REVIEW OF CSR

A. The Practice of CSR

A number of studies have surveyed CSR reporting of IBs (e.g., Maali et al., 2006; Haniffa and Hudaib, 2007; Hassan and Harahap, 2010). Gray and Balmer (2001) and Haniffa and Hudaib (2007) open up further research interest into this area by presenting an ethical identity index. For instance, Maali et al. (2006) investigate the influence of Islam on social reporting. Using the content analysis method, they measure the levels of CSR of 29 IBs in 16 countries. Their results recommend that the extent of social disclosure by IBs falls far short of their expectation (13.3%). Hassan and Harahap (2010) content analyse the annual reports of 7 IBs and found that CSR for their sample is 38% that is relatively low comparing with its expectations as well as values and basics of IBs.

Abdul Rahman et al. (2010) investigate CSR by Bank Islam Malaysia Berhad and indicated that the highest cause of disclosure is the SSB, followed by employees. Moreover, the most common locations for CSR are the chairman's statement. There are number of other studies on Islamic business practice discussing various social and ethical philosophies from an Islamic perspective (e.g. Al-Qaradawi, 2002). All of these studies deal with the issues from a religious perspective within a theological context and fail to adopt and promulgate their application in a wider socio-economic environment and fail to investigate CSR from holistic Islamic view (Mohammed, 2007).

In addition, Hassan et al., (2011) use a sample of 16 IBs from 3 different regions and compare CSR disclosure to a pragmatic benchmark based on Islamic values. They find that IBs are disclosing CSR information far below the expected level (49%). Aribi and Gao (2010) investigate the extent of CSR by 21 IBs operating in the Gulf region. They found that the level of social disclosure (30%) was well below their benchmark index. Haniffa and Hudaib (2007) investigate the disclosure of information deemed crucial to Islamic ethics in business. They find a significant gap (48%) between the communicated and ideal ethical disclosure of 7 IBs. They conclude that for IBs to remain competitive, they need to communicate more efficiently to enhance their image and reputation in society.

Farook et al. (2011) examine the extent and determinants of CSR in the annual reports of 47 IBs from 14 countries. They find that CSR is 16.8%. Furthermore, Belal et al., 2014 explore CSR in IBs at Bangladesh from 1983 until 2010 to exploring the perspectives of IBs' performance related to CSR. They find that CSR level for the bank is 42%. This result is supporting from different studies that concluded a low CSR for IBs (e.g., Kamla and Rammal, 2013). Recently, Farag et al. (2014) examine the relationship between CSR and financial performance. They found a low level for CSR (44%).

None of the above studies particularly focused on IBs around the world as well as little effort has been done to explore the main factors behind the CSR. Accordingly, this paper tries to fill this gap in Islamic accounting literature. Table 1 summarizes relevant literature. It shows that the average disclosure level is 35%. The highest disclosure level is 83%, as reported in Abdul Rahman and Bukair (2013), and the lowest disclosure level is 8%, as reported in Abdul Rahman et al. (2010). Moreover, the table shows that; only 2 studies exploring the determinants of CSR which are Farag et al. (2014) and Farook et al. (2011), and other studies focus on measuring levels of CSR.

B. The Determinants of CSR

Prior research use firm-specific characteristics and country attributes as potential drivers for disclosure. Thus, in our paper, we consider firm characteristics (profitability, gearing; accounting standards; age; size of auditor; ownership and size) as potential determinants of CSR. We also consider control variables (legal system; corruption; GDP Growth; literacy rate and Culture based on Hofstede model). We review the studies that have examined the relationship between CSR and the above explanatory variables.

Healy and Palepu (2001) argue that financial reporting is a method of mitigating agency problems. Accounting standards are used to produce comparable and dependable accounting information to support investors, creditors and all stakeholders to make investment decisions. Hameed (2001) claims that, IFRS unsuitable for IBs as well as Muslim users. Consequently, we suppose that adopting AAOIFI enhancing disclosure level about bank' social accountability. Ariss and Sariaeddine (2007) debate that the adoption of financial accounting standards through IBs will enhance their reliability as well as the level of disclosure. Besar et al. (2009) claim that one of the key method to enhance the Islamic banking industry is adopting Islamic standards as

Table 1
CSR studies in Islamic banks

Authors	Method	Sample	Period	Dimensions	Main Focus	CSRD%
Favaga et al., 2014	Content Analysis	90 Islamic banks across 13 countries	2010-2011	10	Determinants of CSR	44%
Belal et al., 2014	Content Analysis/in-depth Interview	1 Islamic Bank in Bangladesh	1983-2010	16	Measuring CSR	42%
Kamla and Rammal, 2013	Content Analysis	19 Islamic Banks	2008	5	Measuring CSR	39%
Hassan et al., 2013	Content Analysis	16IFIs from 3 regions	2001-2008	8	Measuring CSR	49%
Abdul Rahman and Bukair, 2013	Content Analysis	53 Islamic banks in GCC	2008	13	Measuring CSR and impact of SSB	83%
Al-Oadietal, 2012	Questionnaire	50 individuals from the IFIs in Jordan	2012	4	Stockholders' opinion regarding CSR
Hasan, 2012	Content Analysis	10 Islamic Banks	2011	8	Measuring CSR	23%
Basah, 2012	Questionnaire	55 IFI in Malaysia	2011	7	Measuring CSR
Sobhani et al., 2012	Content Analysis	29 banks listed on the Dhaka	2009	8	Measuring	33%
Aribietal, 2012	Content Analysis	21 IFIs operating in the Gulf region	2004	7	Measuring	30%
Zubairu et al., 2011	Content Analysis	4 Islamic banks in Saudi Arabia	2008-2009	9	Measuring CSR	40%
Farook et al., 2011	Content Analysis	47 bank banks from 14 countries	2007	3	Determinants of CSR	16.8%
Abdul Rahman et al., 2010	Content analysis	1 Islamic bank in Malaysia	1992-2005	9	Measuring CSR	8%
Hassan and Harahap, 2010	Content Analysis	7 Islamic banks	2006	8	Measuring CSR	38%
Stwar and Hossain, 2009	Questionnaire	50 listed organization in Malaysia	2008	5	Managers' opinion regarding CSR

Aribi, 2009	Content Analysis/Interview	42 IFIs	2004	8	Measuring CSR	35%
Haniffa and Hudaib, 2007	Content Analysis	7 Islamic banks in 6 countries	2002-2004	8	Measuring CSR	48%
Maali et al., 2006	Content Analysis	29 Islamic banks at 16 countries	2000	9	Measuring CSR	13.3%
Sairally, 2006	Content Analysis/Questionnaire	46 Islamic banks	2004	7	Measuring CSR	20%
Dusukt, 2003	Content Analysis/Questionnaire	21 Islamic Banks in Malaysia and 1789 Questionnaire	2004	8	Measuring CSR
<u>Average disclosure level for CSR based on these studies</u>						33%

The table shows main limitations which can categorise into three group which are related to country; number of banks and dimensions limitations. First group is limited through focusing on one country as Belal et al, 2014; Sallehuddin et al, 2013 and Al-Qadi et al, 2012. The second group from limitations is concerned with number of banks as sample. These limitations can review through Dusuki 2005; Mohammed, 2007; Haniffa et al, 2007 and Aribi et, al, 2010 who applied their studied in limited sample. The last group related to limitations of CSR is concerned with dimensions of CSR. Farool et al, 2011; Mohammed, 2007; Dar et al, 2010; Daru et al, 2013 and Sallehuddin et al, 2013 used one of Maximum four dimensions related to CSR. Even studies as Faraga et al, 2014 which overcome all of these limitations through conducted AAOIFI CSR standard for 90 Islamic banks cross 13 countries based on 10 Dimensions but he ignores the impact of culture which is limited his results. Consequently, in our study; we try to filling all these gaps through using AAOIFI standard as an index for CSR and apply our index which contains 12 dimensions related to CSR and based on Islamic Sharia basis for 117 cross 23 countries.

AAOIFI. Therefore; we suppose variances in disclosure level based on adopted accounting standards and we expect also banks that adopt AAOIFI' is higher related to CSRD than banks that adopt IFRS. Thus, the first hypothesis is:

H1: There is an association between levels of CSRD and the adopted accounting standards.

Support for investigating audit firm size as a determinant of disclosure level has come from numerous studies (Firth, 1979). Most studies have found that large audit firms show a significant relationship with higher disclosure levels (e.g., Haniffa and Cooke, 2002) support a positive association between audit firm size and corporate disclosure. The largest auditing firms may motivate corporations to disclose more information than required to reserve their reputations (Firth, 1979). He claimed that largest auditing firms can force firms to disclose comprehensive relevant information, about firm's decisions to maintain their reputations. Hence; the second hypothesis of the study is:

H2: IBs that audited by the Big 4 are more likely to disclose more information about CSR.

The existing literature claims that the size of a business influences its social disclosures (e.g., Aras et al., 2010; Gray et al., 2001). It is clear that larger corporations make more disclosure because they tend to receive more attention from the general public and they are under greater pressure to exhibit social responsibility. Furthermore, these corporations are likely to have more shareholders, who are concerned with the social programmes undertaken by the company (Cowen et al., 2005). Large firms use CSR disclosure to demonstrate that their actions are legitimate and consistent with good citizenship (Brammer and Pavelin, 2006). We develop the following hypothesis:

H3: There is an association between bank size and CSRD.

The literature suggests profitability as a determinant of CSRD. Some researchers did not find any association between profitability and CSRD (Aras et al., 2010). Other researchers found a positive relationship between profitability and CSRD (e.g., Gray et al., 2001). Agency theory advocates that business managers of profitable corporations have an incentive to disclose more information to increase their compensation (Abd El-Salam, 1999). Haniffa and Cooke (2002) find a positive relationship between the firm's profitability and the extent of voluntary disclosure in IBs as the higher profitability motivates management to provide superior information as it increases investors' confidence. From an Islamic perspective, a company should provide full disclosure in any situation whether it is achieving a profit or otherwise (Haniffa, 2001). Thus, the fourth hypothesis is:

H4: There is no association between profitability and CSRD in IBs.

Prior research found an association between company age and voluntary disclosure (e.g., Akhtaruddin, 2005; Haniffa and Cooke, 2002). Furthermore, previous

research has argued that the age of corporation effects on CSR involvement of the firm and that long-established firms are likely to make greater voluntary social disclosures. For example, Roberts (1992) reported a positive relationship between CSR and age of firms. This relationship may exist because long-established companies have received more benefits from society than newly established firms and the link matures and the firm undertakes a greater leadership role, developing an increased sense of social responsibility. Hossain and Hammami (2009) find that old companies tend to disclose more information than young companies. The fifth hypothesis is:

H5: Long-established banks disclose more CSR information than newly established banks.

A number of IBs employ a special form of monitoring to limit the divergence of interest between investors and the management of IBs. Sharia auditing department (SAD) assures investors of the compliance of IBs with Islamic principles. The demand for the services of an SAD arises out of a “perceived need to constantly check innovations in banking practice as well as in accounting against the principles of Islamic orthodoxy” (Karim, 1995, p. 287). The activities of SAD involve ensuring that the operations of the banks do not involve any dealings in prohibited industries and that the banks follow the ideals of equality and social justice (Choudhury and Hoque, 2006). Besar et al., (2009) reveal that the sharia committee are only satisfying a minimum requirement of the report with recommend for SAD inside the bank to enhance compliance with Sharia and support social accountability for IBs. Epstein and Pava (1993) indicate that investors generally find audited information to be more reliable than unaudited information.

The impact of internal governance mechanisms on corporate disclosures may be complementary or substitutive (Ho and Wong, 2001). A greater magnitude of disclosures would be expected if it is complementary as “more governance mechanisms will strengthen the internal control of companies and provide an intensive monitoring package for a firm to reduce opportunistic behaviour and information asymmetry” (Ho and Wong, 2001, p. 143). IBs would thereby be under greater pressure from the SAD as well as SSB to disclose more CSR information. Hence, it is expected that the existence of an SAD in IBs would lead to greater levels of CSR disclosures. Hence; the sixth hypothesis of the study is:

H6: CSRD levels are associated with the existing Sharia auditing in IBs.

Prior research also shows a significant association between CSRD and risk (e.g., Khlif and Souissi, 2010). Agency theory suggests that managers may publish risk information in order to reduce information asymmetry between insiders and outsiders (Elshandidy et al, 2013). In addition, signalling theory proposes that managers signal their ability in identifying, measuring and managing risk through reporting more risk information. Elshandidy et al. (2013) find a positive association between risk reporting and disclosure level. Therefore, our seventh hypothesis is:

H7: IBs with higher risk ratio disclose more CSR information than IBs with lower risk ratio.

Prior research shows an association between financial leverage and level of disclosure (e.g., Jaggi and Low, 2000). Based on the agency theory, Xiao et al., 2004 argue that increased disclosure can reduce debt holders' inclinations to price-protect against transfers from themselves to shareholders. A number of studies find a positive association between leverage and corporate disclosure (e.g., Elshandidy et al. 20113). Jensen and Meckling (1976) argue that because more highly leveraged firms incur more monitoring costs, they seek to reduce these costs by disclosing more information in annual reports. Therefore, we hypothesise that:

H8: IBs with higher leverage disclose more CSR information than IBs with lower leverage.

Ownership structure is a mechanism that aligns the interest of shareholders and managers (e.g., Haniffa and Cooke, 2002). The structure of ownership also determines the level of monitoring and level of disclosure (Jensen and Meckling, 1976). A number of prior studies look at the effect of ownership structure on voluntary disclosure (Eng and Mak, 2003). The agency theory suggests that where there is a separation of ownership and control of a firm, the potential for agency costs arises because of conflicts of interest between contracting parties. Peek et al. (2010) support greater disclosure in public compared to private firms. They argue that shareholders of public firms are further removed from management and therefore demand more accounting information. We hypothesise that:

H9: The extent of CSR is positively associated with public bank' ownership Country-specific characteristics.

As the sample contains 25 different countries; the study controls some variables to consider the differences between countries as GDP growth; culture and corruption. Ahmed and Courtis (1999) argue that the variances in disclosure levels could be due to differences in socio economic and political environments between countries. Zarzeski (1996) finds that all Hofstede's dimensions have a significant impact on disclosure. Wong (2012) proposes that uncertainty avoidance is the most influential cultural dimensions that may affect corporate disclosure. Furthermore, we use the legal system for the accountability disclosure reporting-country characteristics association by considering Sharia and other law as civil and common law countries. Dobler et al. (2011) and Jaggi and Low (2000) suggest that legal system may affect disclosure quality and its determinants in common and civil law systems or other law. We also control for the macro-economic factors by using the GDP Growth; corruption index and literacy rate (Andres and Vallelado, 2008).

V. RESEARCH DESIGN

Our analysis is based on 138 IBs across 25 countries. Using the content analysis approach, we examine the compliance with social disclosure accountability based on AAOIFI governance standard No.7. A pilot study is conducted on a sample of 40 IBs for the year 2011, 2012 and 2013. The disclosure score is calculated as a ratio of the total items disclosed to 95 (maximum score for social). This methodology is adopted by

Cooke (1989). The findings show very low disclosure for social accountability. Based on t-test; the finding shows insignificant differences between the three years (sig 0.367 which is < 0.05). Based on this outcome; we focus on the most recent year at the time of the analysis (2013).

We use Bankers database in addition to central banks' database for countries that provide Islamic banking services to collect data. The Bankers magazine published a survey in November 2013 of the top IFIs. There are 160 IBs with 100% Sharia compliant assets listed in this study. For the sake of consistency in our sample, we excluded IBs subsidiaries and banks based on availability of annual reports or languages used. Therefore, we exclude 22 banks. Therefore, we collect data for 138 IBs from 25 countries namely Bahrain, Bangladesh, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Qatar, KSA, Sudan, Syria, UAE, Egypt; Yemen; Brunei; Lebanon; Iraq; Philippines; Kenya; Palestine; Thailand; Srilanka; Iran; Turkey and UK. We took precautionary measures to enhance the validity and the reliability of our analysis. We checked that the index items generated from the classification procedures represented what we intended to represent. We examined the items of the index and decided what that specific item was intended to measure (Beattie and Thomson, 2007). We developed the dimensions of our CSR index based on governance standard No.7 that issued through AAOIFI and the previous literature. To enhance the reliability, the index items are coded and checked twice and we discussed any potential discrepancies. We made sure that the same coder is consistent overtime when coding the same item of the indices (stability), the coders produce the same results when coding the same item (reproducibility) and accuracy as well (Beattie and Thomson, 2007).

Following the approach used by Haniffa and Cooke (2002) and Haniffa and Hudaib (2007), items specifically disclosed have been given a score 1, and 0 if it is not. To ensure that the judgement of relevance is not biased, the entire annual report was read before any decision is made. Thus, the unweight disclosure method measures the CSR scores of a bank as additive (Cooke, 1991).

We validate our measure by [1] Reviewing the Islamic sharia basics based on Qur'an and Sunna to observe the main themes for compliance with social accountability. Based on this, we get some items that the annual report for IFIs should contains and disclose as Zakat and Qard Hassan; [2] adopting the disclosure requirements of AAOIFI governance standard No. 7 that guides IFI for social accountability. We review the latest available edition in 2010; [3] making modifications to the disclosure index developed based on relevant literature (e.g., Farag et al., 2014; Aribi and Gao, 2010; Maali et al., 2006; Haniffa and Hudaib, 2007; Besar et al., 2009); [4] reviewing the index with 3 academics and 2 professionals who are specialize in the area of disclosure to enhance the validity for the index and results.

To empirically investigate the relationship between CSR and firm-specific characteristics, we use the following OLS regressions:

$$\begin{aligned} \text{CSR}_{it} = & a + b_1\text{STA}_{it} + b_2\text{AUD}_{it} + b_3\text{AGE}_{it} + b_4\text{SIZE}_{it} + b_5\text{ROA}_{it} + b_6\text{RISK}_{it} \\ & + b_7\text{LEV}_{it} + b_8\text{SDEP}_{it} + b_9\text{OWN}_{it} + b_{10}\text{POW}_{it} + b_{11}\text{IND}_{it} + b_{12}\text{MAS}_{it} + b_{13}\text{UNC}_{it} \quad (1) \\ & + b_{14}\text{GDP}_{it} + b_{15}\text{CORR}_{it} + b_{16}\text{LEG}_{it} + b_{17}\text{LIT}_{it} + e \end{aligned}$$

where CSR disclosure_{it} is the total disclosure provided by Disclosure Index, which measures the level of disclosure CSR in Islamic bank *i* at year *t* (2013). Each of the terms denoting the variables is described in Table 2.

VI. FINDINGS

A. Disclosure Level of CSR

Table 3 presents the weighted average CSR index scores in 2013. The average CSR level is 28%. We find that the social responsibility in screening its investments dimension generally scores highly across all banks whilst the social responsibility in its relationship with customers and clients generally scores the lowest. The highest disclosure score related to whole CSR index is Charitable activities which is 44% followed by Micro and small business (40%). The lowest disclosure score relates to CSR index is Waqf management and late repayments and insolvent clients (1% for both). Our findings are consistent with Kamla (2007) who finds very low levels of CSR disclosures by IBs. We notice that the weighted average index scores indicate that Jordan has the highest score of 47% followed by Bangladesh and Kuwait 43% and 38% respectively. On the other hand, Iraq and Philippines located in the lowest table (15% and 16% respectively). Table 4 presents the descriptive statistics of the accountabilities index score across 25 countries in additional aggregate disclosure that contain all sections in the annual report.

Table 2
Variables (dependents and independents for CSR model)

CSR _{it}	Disclosure level	Social disclosure accountability level based on CSR report
Firm-Level Independent variables:		
STA _{it}	Standards	1=Bank that use AAOIFI; 0=Bank that use IFRS or Local standards
AUD _{it}	Auditor	1=Bank's financial statements were audited by Big 4 auditor; 0=for other auditors
AGE _{it}	Age	Age of bank from the foundation data
SIZE _{it}	Size	The natural log of total assets
ROA _{it}	Profitability	Return on assets (ROA)
RISK _{it}	Risk Adequacy	Tier 1 capital
LEV _{it}	Leverage	Total liabilities(Debts)/Total assets
SDEP _{it}	Sharia Auditing Department	1=Bank that has Sharia auditing department; 0=Bank that has not Sharia auditing department
OWN _{it}	Ownership	1=Publicly-held Islamic bank;0=Privately-owned Islamic bank
Country-Level Independent variables:		
POW _{it}	Hofstede Culture dimensions	Power distance
IND _{it}		Individualism
MAS _{it}		Masculinity
UNC _{it}		Uncertainty avoidance
GDP _{it}	GDP	GDP growth rate
CORP _{it}	Corruption Index	% of Corruption level for each country
LEG _{it}	Country legal system	1=Sharia law; 0=Other non-Sharia Law(e.g. Civil Law, Common Law, or Hybrid Law)
LIT _{it}	Literacy rate	% of Literacy level for each country

Table 3
The compliance level for each item in the CSR index

Dimensions of Holistic Islamic CSR	Disclosure %
A. Social responsibility within the organization	26%
A1. Employee welfare	33%
A2. Internal environment preservation policy	26%
A3. Earning and expenditure prohibited by Sharia	26%
B. Social responsibility in its relationship	16%
B4. Par Excellence customers services	40%
B5. Late repayments and insolvent clients and avoiding onerous terms	1%
B6. Qard Hasan	8%
C. Social responsibility in screening its investments	43%
C7. Micro and small business and social saving and investments and development	40%
C8. Screening and informing clients for compliance with Islamic principles	34%
D. Social responsibility in its relationship with greater society	27%
D9. Zakat	26%
D10. Charitable activates	44%
D11. Waqf management	1%
D12. Social responsibility	35%
Average over all disclosure level	26%

*The un-weighted approach attaches equal weights to all disclosed items within the checklist. Therefore, if the item is disclosed in the annual report it takes "1" otherwise it takes "0". The disclosure score for each accountability level is calculated as ratio of the total items disclosed to 33. The level of disclosure (%) is measured for each banks as the ratio of the score obtained to the maximum possible score (33) relevant for that company (this methodology was first proposed by Cooke (1989))

Table 4
Final disclosure levels for countries related to social accountability

Country	N. of banks	CSR Index %	Country	N. of banks	CSR Index %
UK	4	19%	KSA	5	31%
UAE	8	21%	Thailand	1	45%
Pakistan	9	31%	Bangladesh	9	43%
Yemen	3	20%	Syria	2	22%
Egypt	2	29%	Brunei	1	38%
Bahrain	15	22%	Lebanon	2	21%
Qatar	6	20%	Palestine	2	42%
Sudan	11	21%	Kenya	2	20%
Kuwait	5	38%	Oman	3	20%
Srilanka	1	43%	Iraq	5	15%
Jordan	4	47%	Philippine	1	16%
Malaysia	16	33%	Turkey	4	38%
Iran	17	14%	Average		26%

B. The Holistic Social Accountability Disclosure in the Annual Report

The study investigates the social accountability disclosure in five sections in the annual report. The main aim is to see for what extent the whole annual report reflects the social

accountability. Table 5 summarizes the disclosure level for the main five sections. These sections contain vision, mission and objectives; CEO' statement; directors' report; strategy report and finally, corporate governance report. Our analysis investigates any statements; words; number and any guidance for social activities in these sections. Concerning with vision, mission and objectives, it reflects 45% disclosure level about social accountability based on serving the society, environment and charity. The table also shows that CG report is 40% and followed by CEO statement (38%). The table displays that the average of disclosure about the five sections is 28% that is very low based on expectations of stockholders and basis of Islam that gives significant consideration for serving society. This result is matching with the disclosure level for CSR report in the annual report. The two results support the unexpected social performance for IBs.

Table 5
Disclosure levels for different sections in the annual report

Vision; Mission; Values & Objectives	45%	Strategy Report	35%
Chairman's Statement & CEO's Statement	38%	Corporate Governance Report	40%
Directors' Report	22%	Average 28%	28%

Hence, we present two sampled groups from selected IBs to shows for what extent Vision and mission reflect social accountability. The first group shows banks that highly reflectance its social accountabilities in their vision; mission and objectives. For example, Social Islamic bank at Bangladesh stated two objectives that are "Ensure best CSR practices and ensure Green Banking". Cihan Bank in Iraq states in his vision that "To contribute in the development of the society" and states "To translate Islamic financial principles into practical solutions that serve the human community". The second group indicates IBs' that not reflect the social accountability in their vision and mission. All banks reflect financial accountability as Alliance Islamic Bank at Malaysia that focus on customer services as a main vision and build sustainable financial performance as a main mission without mention any statement about social accountability. Islamic bank of Britain mentioned that "Our main Vision is to be the UK' first choice Islamic bank". Abu Dhabi Islamic bank state that "To become a top tier regional bank". This vision is does not contain any guide for bank' social accountability.

C. Descriptive Statistics of Continuous Variables

Table 6 presents the descriptive statistics of the Index scores and results related to independents variables. It shows clearly that the extent of social disclosure by our selected IBs falls far short of our benchmark. The average of CSR level is 26% that is out of our expectations regarding with corporations that reflecting social face for any IFI as well as it raise flag of Islam and social activities is one of the main basis for IBs and basis for Sharia (e.g., El-Gamal, 2006). Our result is higher than other studies that explore CSR for IBs. For example; Farook et al. (2011) find that the mean CSR for the 47 banks is 17%. Maali et al. (2006) report a mean disclosure of 13%. Table 6 also reports that the average leverage ratio is 23% whereas the Risk adequacy is 29%. The average age of IBs is 21 years. The percentage of public IBs is 80%.

Table 6
Descriptive statistics of continuous variables

	N	Minimum	Maximum	Mean	Std. Deviation
CSR Index	138	0.08	0.60	0.26	0.13
Standards	138	0.00	1.00	0.32	0.46
Size. Auditor	138	0.00	1.00	0.54	0.50
Age	138	2.00	86.00	20.58	13.72
Size	138	1.17	4.984	3.27	0.87
ROA	138	-13.39	21.57	1.11	3.23
Risk adequacy	138	-0.38	1.73	0.29	0.26
Leverage	138	0.02	94.70	2.31	11.46
Sharia department	138	0.00	1.00	0.51	0.50
Ownership	138	0.00	1.00	0.80	0.40
Power distance	138	35.00	100.00	78.93	16.00
Individualism	138	14.00	89.00	32.16	12.74
Masculinity	138	34.00	66.00	51.46	6.96
Uncertainty avoidance	138	35.00	85.00	64.41	15.17
GDP growth	138	-6.00	7.30	2.46	4.45
Corruption perception index	138	1.10	7.70	3.82	1.76
Country legal system	138	0.00	1.00	0.70	0.46
Literacy rate	139	0.43	0.99	0.77	0.15

The table presents the descriptive statistics of the sample in 2013. CSR Index; Corporate Social Responsibility Index; Standard; Financial standard (AAOIFI or IFRS) (1 if the bank is adopted AAOIFI and 0 otherwise); Size. Auditor; Size of auditor (Big-4 firms) (1 if the bank is audited by one of the big- 4 firms and 0 otherwise); Age: bank age since foundation: Size: Bank size (natural logarithm of bank's total assets in US \$ as a proxy for bank size); ROA: Return of Asset (Profitability); Riskiness: Risk adequacy(The 1 Capital); Leverage: Gearing (TD/TA); Sharia Department: Existing Sharia department (1 if the bank has Sharia auditing department inside the bank and 0 otherwise); Ownership: Public or Private ownership (1 if the bank is Public and 0 otherwise); Hofstede Model for culture(Power distance; Individualism; Masculinity and Uncertainty avoidance); GDP: GDP growth (natural logarithm of the gross domestic product of country (i as a proxy for country macroeconomic factors); Corruption: Corruption perception index; Legal: Country legal system (1 if the bank in country that adopted Sharia law and 0 otherwise as common and code) and Literacy: Literacy rate for country.

D. Regression Analysis

Table 7 presents our regression analysis. It shows – as expected- that STA_{it} (our proxy for accounting standards) is positively associated with CSR. This result reflects the impact of AAOIFI adoption on enhance disclosure level related to social activities. This result is consistent with Ariss and Sarriddine, (2007) who argued that the adoption of accounting standards by IBs would help to enhance their credibility and disclosure level. This result is also consistent with Besar et al., (2009) who argue that one of the main tools to enhance the Islamic banking industry is adopting Islamic standards Therefore H1 is accepted.

Our analysis shows that size of auditor has a positive impact on levels of social disclosure reporting. Therefore, H2 is accepted. This result is consistent with different studies that argue a positive association between disclosure and size of auditor (Haniffa and Cooke, 2002; Eng and Mak, 2003).

Table 7
Determinants of social accountability disclosure

Variables	Expected sign	Actual sign	Standardized Coefficients/Beta	t	sig	VIF
CSR				3.18	0.00	
STAND it	+	+	0.21*	1.79	0.08	2.77
AUDI it	+	+	0.27*	2.38	0.02	2.67
AGE it	+	0	-0.09	1.06	0.29	1.48
SIZE it	+	+	0.26*	2.50	0.01	2.11
PROF it	+	0	-0.10	-1.25	0.21	1.17
RISK it	+	0	-0.03	-0.32	0.75	1.55
LEVERG it	+	0	-0.01	-1.54	0.13	1.23
OWNER it	+	0	0.03	0.31	0.76	1.39
H1 Power distance it			-0.07	-0.62	0.54	2.43
H2 Individualism it			0.03	0.16	0.88	6.17
H3 Masculinity it			-0.20	-1.60	0.11	3.20
H4 Uncertainty avoidance it			-0.33**	-2.99	0.00	2.54
GDP it			0.58***	3.66	0.00	5.07
CORR it			-0.50**	-3.18	0.00	4.99
LEGAL it			-0.08	-0.62	0.54	2.99
LITR it			-0.72	-0.51	6.12	4.09
Model Summary:						
R2	0.42					
F	4.91					
Sig	0.00					

This table presents the regression analysis for the CSR model in 2013. STAND_{it}: Financial standard (AAOIFI or IFRS); AUDI_{it}: Size of auditor (4 Big firms); AGE_{it}: bank age since foundation; SIZE_{it}: Bank size(natural logarithm of bank's total assets in US \$ as a proxy for bank size); ROAF_{it}: Return of Assest (Profitability); RISK_{it}: Risk adequacy (Tier 1 Captial); LEVERG_{it}: Gearing (TD/TA); SHARIA_{it}: Existing Sharia department; OWNER_{it}: Public or Private Ownership; Hofstede Model for culture(H1: Power distance: POW_{it}; H2: Individualism: IND_{it}; H3: Masculinity: MAS_{it} and H4: Uncertainty avoidance: UNC_{it}); GDP_{it}: GDP growth (natural logarithm of the gross domestic product of country i as a proxy for country macroeconomic factors); CORR_{it}: Corruption perception index; LEGAL_{it}: Country legal system (Sharia law and other as common and code) LITR_{it}: Literacy rate for country; ***, **, * indicates significance at the 1%, 5% and 10% level. Note that '+' indicates that a positive and significant correlation or proof for the influence of the respective factor was found, '-' indicates a negative and significant correlation or proof, and '0' no correlation or proof. Multicollinearity is viewed as a serious problem when the variance inflation factor (VIF) exceeds 10 (Naser et al., 2006). The results show that none of the VIF was greater than 10.

The table shows that SIZE_{it} (our proxy for bank size) is positive and marginally significant. This result is consistent with Al-Tuwaijri et al. (2004), who argue that large banks are more likely to monitor their activities towards wider society. Therefore H3 is accepted.

Table 7 also reports that ROA_{it} (our proxy for profitability) is insignificant; this suggests that there is no any relationship between profitability and CSR. Our result is consistent with Haniffa (2002) who argues that from an Islamic perspective, a firm should provide full disclosure about social accountability whether it is making a profit or otherwise. Therefore H4 is accepted. Similarly, the analysis shows no association between bank age and CSR. Therefore H5 is rejected. This result is consistent with (Akhtaruddin, 2005).

In line with our expectation, we find that $SDEP_{it}$ is significant. The results suggest that CSRD is affected by the existing Sharia auditing department inside bank. Therefore H6 is accepted. This result is consistent with studies that show significant association between disclosure and internal auditing department such as Archambeault et al. (2008). We also find no association between $RISK_{it}$ (our proxy for risk adequacy) and CSRD. This result is consistent with Dobler et al. (2011) who finds no significant association between the two variables. Therefore H7 is rejected. Similarly, the association between leverage and CSRD is insignificant. Our analysis reports that leverage is insignificant. This result is consistent with Abraham and Cox (2007). Therefore, H8 is rejected. The same insignificance association also is shown between bank ownership and CSRD. Therefore H9 is rejected.

Finally, looking at the coefficients on the country characteristics, our analysis shows that there are three variables influencing CSRD. We find that GDP growth affects CSRD positively, while corruption index and uncertainty avoidance affect CSRD negatively. This is consistent with Wong (2012).

VII. CONCLUSION

In line with Islamic principles, IBs should fulfil a social role inherent in their character as an “Islamic” bank. This paper aims to explore the disclosure level of CSRD for IBs in addition to determine the determinants of CSRD. Manual content analysis is employed to identify the disclosure level of IBs in the annual report and websites. Our sample is 138 IBs based on data of 2013 cross 25 countries. Based on our study; we explore social accountability through two stages. The first stage is to focus on CSR report or sustainability report in the annual report based on our disclosure index. For this stage, The CSR index scores show that the extent of disclosure is 26% that is out of our expectations. However; our result for CSRD (26%) is higher than results for Maali et al. (2006). In the other side; our results is consistent with Haniffa and Hudaib (2007) and Hassan and Harahap (2010) who found a gap between expectations and actual disclosure about CSR and conclude that CSRD for IBs is very low. Several studies indicate that IBs are not completely fulfilling their social role in accordance with the prescriptions of Islam (Aggarwal and Yousef, 2000; Maali et al., 2006). Our CSRD level is lower than the average (Benchmark of CSRD based on 19 studies in Table 1) which is 35%. Based on our result; we conclude that IBs are mainly shaped and focused on economic incentives more so than religious and social norms. This conclusion is consistent with Aggarwal and Yousef, (2000).

The second stage is extending the investigation about social accountability to covers the whole annual report sections as vision and CEO statement. Based on this stage; the average disclosure level for the five sections is 28% which is also out of our expectations. We find that the vision and mission section generally scores highly across (45%). Our result is consist with Faraga et al. (2014) who find that vision and mission is the highest section that reflect the social accountability for 90 IBs. Jordan has the highest CSR index score of 47% and Iran is the lowest country with 14%. Related to send objective of this research, the empirical analysis highlighted a positive association between CSRD and financial standards that adopted by IBs as well as size of auditor. Our results are consisting with Besar et al. (2009) for role of standards to enhance the

disclosure level and consist with Haniffa and Cooke (2002). Our analysis also found positive association between CSR and size as well existing sharia auditing department.

The findings have a number of policy implications. Firstly, the empirical evidence indicates that the level of CSR was relatively low (26%) even though AAOIFI Standard No.7 provides a template for IBs to adopt in terms of CSR conduct and disclosure. Therefore, policymakers might be more active in encouraging IBs to adopt AAOIFI Standard No.7 as a benchmark particularly as the analysis found a positive association with accounting standards adopted from banks. Secondly, our empirical evidence suggests that IBs' contribution in CSR tends to support as its sharia auditing department inside the bank grows larger. Therefore, policymakers should be encouraged to introduce policies to help exist Sharia auditing and increase the members in this department which may encourage disclosure of the IBs' CSR and such disclosure provides evidence to the public that it is pursuing its social goals.

There are limitations inherent in this study. This study used only IBs. Therefore, the results may not applicable to other IFIs such as insurance companies (Takaful). Future research may consider other factors such as corporate governance mechanisms (i.e., the number of block holders; institutional ownership; foreign ownership family ownership; listed share; duality in position; CEO founder; board size and board independence). Future research may also study the determinants on social activities through qualitative methods as interview or questionnaire with management board and other stakeholders. This might substantiate the findings from the CSR disclosure studies. Finally, our analysis is limited to one year only. Further research might consider a undertaking the analysis for a longer period to measure the determinants and consequences of change in disclosure over time.

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