Volume: 8 Issues: 56 [September, 2023] pp. 695 - 714
Journal of Islamic, Social, Economics and Development (JISED)
eISSN: 0128-1755
Journal website: www.jised.com
DOI: 10.55573/JISED.085656

CSR DISCLOSURE AND FIRM VALUE: A STUDY ON GCC ISLAMIC BANKS

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Article history

Received date	:	15-8-2022
Revised date	:	16-8-2022
Accepted date	:	7-9-2023
Published date	:	15-10-2023

To cite this document:
Harun, M. S., Aziz, M. F., & Ramli, R. (2023). CSR disclosure and firm value: A study on GCC Islamic Banks. *Journal of Islamic, Social, Economics and Development (JISED)*, 8 (56), 695 – 714.

Abstract: *This study explores the CSR disclosure practices of the Islamic banks in the Gulf Cooperation Council (GCC) countries during the period 2016 - 2020 and examines its effects on firm value. Based on Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Governance Standard No. 7 guidelines and using content analysis, the paper develops a comprehensive CSR Disclosure index for GCC Islamic banks. The study applies the ordinary least squares regression analysis for the hypothesis testing and for finding its effect of respective dependent variables. The results show a very low level of CSR disclosure among the sample Islamic banks in GCC countries. For the economic consequences of CSR disclosure, the study documents an inverse performance effect of CSR Disclosure while board size, board composition and CEO duality indicate significant positive effects on firm value. The relatively small sample size of GCC Islamic banks may limit the application of the findings to other Islamic Financial Institutions such as Takaful and the Islamic Unit Trust Company. The findings of this study initiate the global debate on the need for corporate governance reform in Islamic banks by providing insights on the role played by corporate governance mechanisms in encouraging and enhancing CSR disclosure practices among Islamic banks. The findings also have important implications for investors, managers, regulatory bodies, policy makers and Islamic banks in the GCC countries. The results of the study do not support the idea that Islamic banks operating on Islamic principles can meet their social responsibilities through promoting CSR activities and by differentiating themselves from non-Islamic banks. This is the first study to examine the CSR disclosure in GCC Islamic banks using comprehensive CSR disclosure and corporate governance variables and, therefore, adds value to the existing CSR literature in banking.*

Keywords: *CSR Disclosure, Firm Value, AAOIFI, Gulf Cooperation Council, Islamic Banks*

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Introduction

The recent development of corporate social responsibility (CSR) has had an enormous impact on the role of business and resulted in the change of accounting practices (Aribi and Gao, 2010). CSR disclosure plays a significant role in business including enhancing corporate transparency, developing corporate image, and providing useful information for investment decision-making (Gray et al., 1996; Friedman and Miles, 2001). The rising importance of CSR has also been reflected in academic research (Liu and Lee, 2019; Plumlee et al., 2015; Johansen and Nielsen, 2012). Nowadays, companies are seen as organisations that operate within society and having responsibility to ensure socio-economic justice and, at the same time, extending benefits to the stakeholders including shareholders consistent with stakeholder theory perspectives (Mohammed, 2007). As the banks realise the significance of financial wellbeing of stakeholders, the role of CSR disclosure has become more important as a means of discharging accountability (Gray et al., 1996; Park and Ghauri, 2014).

The pressure on companies to be accountable to a wider audience of stakeholders comes from several sources such as ethical investors, consumer associations, a growing number of pressure groups and from the United Nations and European Community Directives (Gray et al., 1996). When firms disclose CSR activities, they discharge accountability to a broader spectrum of stakeholders rather than just shareholders alone. Such disclosures provide insights beyond those conveyed in financial disclosures and can help diminish the information gap, enhance the credibility of corporate reporting, and improve the role of accounting information in firm's valuation.

The existing body of the CSR literature on Islamic banks focuses on either the level of CSR disclosure (Hassan and Harahap, 2010; Aribi and Gao, 2012) or the determinants of CSR disclosure (Farook et al., 2011; Amin et al., 2011; Rahman and Bukair, 2013). There is scant research examining this relationship in Islamic financial institutions (see Hassan et al., 2010; Arshad et al., 2012; Mallin et al., 2014) and there is no evidence from prior studies on the factors determining CSR disclosure for Islamic banks in the Gulf Cooperation Council (GCC) countries. Most previous studies were conducted before the issuance of an updated AAOIFI (2010 edition) Governance Standard No. 7 (i.e. CSR) and, thus, did not represent a clear benchmark of CSR disclosure practice in Islamic banks. The motivation behind this study derives from the dearth of research on CSR disclosure in Islamic banks in GCC countries after the issuance of AAOIFI's Governance Standards No. 7 in 2010. In fact, only a handful of studies adopted AAOIFI as a best practice for CSR reporting for Islamic Banks based on the latest AAOIFI governance standards versions 2010[i], which provides variations of CSR disclosure practices between banks and countries. It is noted, here, that AAOIFI standards (2010 edition) contains 48 Shari'a standards, 26 accounting standards and 5 auditing standards, 7 governance standards and 2 codes of ethics for Islamic Banks, where overall disclosure practice of banks including CSR disclosure predominantly depends on accounting standards (FAS) and auditing standards (AS).

Other streams of research also show that disclosure reporting plays an important role in improving communication with stakeholders along with a positive impact on firm value (Uyar and Kilic, 2012; Anam et al., 2011; Wang et al., 2008; Schwaiger, 2004; Hassan et al., 2009; Servaes and Tamayo, 2013). Nonetheless, prior studies (Al-Qadi, 2012; Maali et al., 2006) have not clearly examined how CSR reporting could influence a firm's value for GCC Islamic banks. Even the findings on the impact of disclosure on firm value are generally inconclusive (Vogel, 2005; Hassan et al., 2009; Al-Akra et al, 2010) and the issue remains as an open empirical

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question for Islamic banks in particular. To the best of our knowledge, there is only one study by Platonova et al. (2018) which examined the relationship between CSR and financial performance of Islamic banks in GCC. Using a sample of 24 GCC Islamic banks during the period 2016 to 2020 and based on six dimensions of the CSRD index, the study documented that CSR disclosure practices by Islamic banks are positively linked to the bank's past and future financial performance. Nonetheless, their study did not provide evidence of the factors determining CSR disclosure in these Islamic banks and its effect on firm value.

Our study develops a more comprehensive CSRD composite measure consisting of 11 dimensions based on the AAOIFI Governance Standards No. 7 (2010 edition) and to understand the factors explaining the cross-sectional variation in the quantity of the information disclosed by Islamic banks and, therefore, provides an insight on CSR disclosure practice among Islamic banks in the GCC region. This study focuses on Islamic banks in the GCC which provides a unique empirical setting to investigate economic consequences of CSR disclosure using alternative measures of firm value. Specifically, our study extends the work of Platonova et al. (2018) by employing a larger sample of GCC Islamic banks, and a more comprehensive dimension of the CSRD index, alternative proxies for firm value, and jointly examines the effect of corporate governance on CSR disclosure as well as firm value. The findings generate incremental insights to managers who seek to enhance the firm value of Islamic banks.

Theoretical Framework, Literature and Hypotheses Development

Theoretical framework

The accounting literature explores the effectiveness of disclosure to diverse stakeholders, organisations, and society where the practice of voluntary disclosure is a strategic behaviour of a firm conveying signals to stakeholders, the markets and to society (Bae et al., 2018). Generally, various theories have been developed to explain the variation between entities in terms of their level of disclosure. While there is no comprehensive disclosure theory that can be applied, it is argued that several theories such as agency theory, stakeholder theory and signaling theory (Al-Htaybat, 2005) which could be used in an integrated framework to provide an explanation for managerial incentives that affect CSR disclosure.

The value of the firm as reflected in terms of stock prices are the economic consequences of business activity in the marketplace. Given the information asymmetry problem and agency conflict between the managers and stakeholders, signalling theory posits that investors rely on the information delivered by firms (Abhayawansa and Abeysekera, 2009), highlighting that the credibility of information is crucial in ensuring less information asymmetry (Hughes, 1986). Signalling theory can be applied in the event of information asymmetry where outsiders usually do not have access to the internal information about the company which is only available to the managers. Rhodes and Soobaroyen (2010) argue that disclosure can curtail agency problems by decreasing information asymmetry and thus enhancing firm value. According to signalling theory, managers disclose information to reduce information asymmetry and to signal to outsiders that firms are performing better than their peers (Álvarez et al., 2008). Signalling theory explains the economic consequences of disclosure through measuring the association between CSR disclosure and the value of the firm. Based on this theory, enhanced corporate disclosure signals, better governance mechanisms, lower asymmetry problems and agency conflicts (Lambert et al., 2007), therefore lead to higher firm value (Sheu et al., 2010: Curado et al., 2011; Gallego-Alvarez et al., 2010). It is argued that improved corporate disclosure may increase the market value for firms (Elzahar et al., 2015) and voluntary disclosures in the annual report send signals to the marketplace that are expected to increase a company's net present value and, consequently, its stock market value (Gordon et al., 2010). Thus, signalling theory becomes closely linked to the CSR disclosure determinants as well as leading to a growing firm value.

Apart from the above discussion on the theoretical framework, the legitimacy theory remains at the core of Islamic bank business models. Patten (2005) suggests that the theory is based upon the notion that the business of Islamic banks operates in society via a social contract and, as such, is monitored through the public-policy arena rather than the marketplace. According to legitimacy theory, a firm operating in society - Islamic banks - has a social contract whereby it agrees to carry out various socially desired actions in return for the approval of its objectives, other rewards, and its ultimate survival (Guthrie and Parker, 1990). Deegan (2002) argues that the social contract is not easy to define but the concept is used to represent the multitude of implicit and explicit expectations that society has about how the organisation should conduct its operations. Using legitimacy theory, the interpretation of these studies suggests that the disclosure of social information seems to be proof for Islamic banks to provide information on their activities to legitimize their behaviours. They must disclose enough information to assess whether they represent a good corporate citizen (Maali et al., 2003).

Several studies have sought to employ legitimacy theory as a drive for disclosure (e.g., Deegan and Rankin, 1996; O'Dwyer, 2002; Campbell et al., 2003; Staden, 2003; Ahmad and Sulaiman, 2004; Ogden and Clark, 2005; De Villiers and Staden, 2006; Branco and Rodrigues, 2008). Concerned with the economic consequences for social disclosure, legitimacy theory also argues that corporations may be enthusiastic to disclose social information to legitimize their position within society (Deegan et al., 2002). McDonald and Rundle-Thiele (2008) find influences of CSR on corporate profitability through the creation of intangible assets such as good reputation, trust, and commitment, which drive the long-term success of the business. This improves the firm's ability to attract resources, enhance performance, build competitive advantages, and enhancing firm value (Fombrun et al., 2000). Numerous studies propose that disclosure reporting can influence positively stakeholders' perceptions of firm performance and, thereby, on a firm profitability and share price (Lourenco et al., 2012).

To sum up, it can be argued that in respect to CSR disclosure, Islamic theories such as legitimacy theory are highly linked to the Western-based theories such as agency theory, stakeholder theory and signalling theory. These theories are the most relevant theories that are overlapping, to some extent, for testing both the determinants of CSR and their consequences on firm value.

Literature and Hypothesis for The Effect of CSR on Firm Value

In the literature, the impact of CSR disclosure on firm value is limited in GCC Islamic banks. Sheu et al. (2010) contend that the market only provides a higher valuation to those corporations that elect to disclose inclusive information. Cormier et al. (2011) claim that disclosure delivers value-relevant information to stock markets. Anam et al. (2011), Dhaliwal et al. (2011), Gordon et al. (2010) and Garay et al. (2013) report that the extent of disclosure has a significantly positive effect on firm value. The consequences of increasing disclosure levels are often discussed in terms of reduced mispricing, cumulative profitability, and growing firm value (Botosan and Plumlee, 2002).

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Empirical studies provide supporting evidence about the association between disclosure and firm value. For instance, Healy et al. (1999) find that firms with expanded disclosure levels experience substantial corresponding increases in firm value. The direct effects of the corporate disclosures could change the firm value by affecting managers' decisions and, hence, varying the distribution of future cash flows (Lambert et al., 2007). Further, Villiers (2013) examines the effect of a firm's governance measures on the relationship between CSR disclosure and firm value and reveals a stronger link between CSR disclosures and firm value in stronger governance countries. Omair Alotaibi and Hussainey (2016) find a positive relationship between CSR disclosure quality and market capitalization of Saudi non-financial listed companies. However, the direction and magnitude of the relationship is associated with the type of disclosure (Hassan et al., 2009) and the proxy that is used for firm value (Uyar and Kiliç, 2012). Omair Alotaibi and Hussainey (2016) argued that both CSR disclosure quantity and quality have the same impact on firm value but the significance of this impact depends on the proxy used in measuring the firm value.

Platonova et al. (2018) examined the relationship between CSR and the GCC Islamic bank financial performance using 2000-2014 data. Based on the six dimensions of CSRD composite measures developed, the study reported a significantly positive relationship between CSR disclosures with the Islamic banks as well as their future financial performance, suggesting that current CSR activities carried out by Islamic banks in the GCC could have a long-term impact on the financial performance of these banks. The influence of CSR disclosure on firm value can be understood based on agency theory. Most prior studies (Rhodes and Soobaroyen, 2010; Al-Akra et al., 2010; Sheu et al., 2010; Gordon et al., 2010; Anam et al., 2011; Dhaliwal et al., 2011; Garay et al., 2013; Omair Alotaibi and Hussainey, 2016) find a positive relationship between the level of disclosure and firm value. Therefore, the following hypothesis is formulated:

Hypothesis 1: CSR Disclosure has a positive effect on firm value.

Research methodology and data

Sample and data

The current study uses secondary data relating to CSR disclosure, and its consequences. The data is collected from annual reports, Bank Scope, data stream databases and company web sites. The study adopted 'purposive sampling technique' for data collection. The sample banks are selected based on a criterion of full-fledged Islamic banks or banks that are complying 100% with *Shariah*. According to Bank Scope database, there are 62 fully-fledged licensed Islamic banks in GCC. For the sake of consistency in the research sample, Islamic bank subsidiaries and banks that have not published an English version of their annual report are excluded. Accordingly, 23 banks are excluded, leaving the final sample of this study with 39 Islamic banks which represents 63% of the population. Therefore, the dataset is designed for 5 years (2016-2020) with 39 Islamic banks (195 observations), providing sufficient information of disclosure practices across Islamic banks operating in the GCC countries.

Further, the 11 dimensions of the CSR disclosure index (CSRD) used in our study is developed based on the updated AAOIFI Governance Standard No. 7 issued in 2010 which provides a clear benchmark for CSR disclosure requirements and practices in Islamic banks, covering both mandatory and voluntary disclosure. Although the main focus is on AAOIFI Governance Standard No.7 relating to CSR disclosure, as mentioned earlier that the overall disclosure

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practice (financial, non-financial, economic, social, and environmental) of Islamic Bank predominantly depends on 'accounting standards' (FAS) and 'auditing standards' (AS), alongside with Shari'a standards and codes of ethics. The AAOIFI standards (2010 edition) contains 26 'accounting standards' and 5 'auditing standards', 7 'governance standards', 48 Shari'a standards and two codes of ethics. However, at the end of 2014, AAOIFI updates and replaces a few AAOIFI's previous 'accounting standards' (FAS), such as FAS 27 has replaced FAS 5 and FAS 6, among others. This is the main reason of focusing on the study period 2016-2020 during the conduction of this study, so that the effects of new or updated/revised 'accounting standards' (FAS) can be excluded from the overall disclosure vis-à-vis CSR disclosure practice of GCC Islamic banks., The analysis performed during the 2016-2020 period will provide evidence on the practicality of the standards application and the disclosure behaviour of Islamic banks.

Research methods

This study adopts a quantitative research approach. Yearly financial reports of the sample Islamic banks are gathered from the Bank Scope database and their websites. Other data, such as charitable activities and social responsibility in the index and details of their data which are not available in the financial report are collected from the bank's newsletter and website. To measure the CSR disclosure quantity in the study, the un-weighted content analysis method is employed to code and measure CSR disclosures over the annual reports, ensuring the validity and the reliability of the analysis.[ii] Therefore, '1' is given for each CSR disclosed in the annual report, and '0' if not shown in the annual report.[iii] The use of unweighted index and dichotomous methods to measure CSR disclosure used are consistent with other CSR disclosure studies (e.g. Platonova et al., 2018; Haniffa and Hudaib, 2007).

A total of 11 dimensions of the CSR disclosure index are developed based on Governance Standard No.7 issued by AAOIFI, which relate to CSR disclosure requirements for Islamic banks and includes both mandatory and voluntary disclosure. The main dimensions of the index consist of four main aspects which cover the issues of social responsibility within organizations, social responsibility in its relationship with customers and clients, social responsibility in screening its investments, and social responsibility in its relationship with greater society. To enhance the reliability of the instrument, the disclosure items are coded and checked twice to ensure it is free from any potential discrepancies (Taliyang and Jusop, 2011). The quantity of disclosure is measured through the calculation of a Corporate Social Responsibility Disclosure Index (CSRDI) score. As indicated before, the approach to scoring items is essentially dichotomous in that an item in the research instrument scores '1' if communicated and '0' if it is not (Haniffa and Cooke, 2002; Haniffa and Hudaib, 2007), and is additive and equally weighted to avoid potential scoring bias and scaling problems (Cooke, 1989). The method used in measuring the CSR disclosure level of the sample Islamic banks is as follows:

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

Where:
CSRDI = corporate social reporting index score for company *i*. and for the year *t*
N = number of items in the index
j = indicates each item included in the index

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Thus, the value of the index, for each company *i* for the year *t*, is obtained as the sum of the scores assigned to each item in Score (j). It can be standardized as follows:

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

Regression Models

To test hypothesis empirically, the relationship between the CSR disclosure levels and firm value, this study applies the following OLS regression:

$$\begin{aligned} FV_{it} = \ & \alpha + \beta_1 CSRD_{it} + \beta_2 B.Size_{it} + \beta_3 B.Comp_{it} + \beta_4 CEO.Dual_{it} + \beta_5 F.Size_{it} + \\ & \beta_6 F.Profit_{it} + \beta_7 F.Lev_{it} + \beta_8 GDP_{it} + \text{Year Dummy Variable} + \varepsilon \quad \text{----------------} \ (2) \end{aligned}$$

Where:

FV = is the firm value measured using MTBV (market-to-book ratio) or MC (market capitalisation) or TQ (Tobin's Q) as proxy for dependent variable. Variable definitions are set out in Appendix 3.
β1 = Independent variables (CSRD score of the sample Islamic banks).
β2 - β8= Control variables (governance, firm and country specific variables).
Year dummy variables = Year 2016, 2017, 2018, 2019, 2020 as a dummy variable.

Empirical Results

This study conducts the Kolmogorov-Smirnov test to ensure that the data are normally distributed. Based on this test, it finds that all data are normally distributed. Following Aryani (2015), the heteroscedasticity test is also conducted and the un-tabulated result shows that all variables are more than 0.05 indicating no sign of a heteroscedasticity problem. Again, to avoid the multi-collinearity among the independent variables that would affect the reliability of the estimates and may cause a wide inflation in the standard errors for the coefficient, the Pearson correlation matrix is tested. Gujarati (2003) indicates that collinearity among the independent variables is acceptable if the correlation coefficient (r) is a maximum of 0.80. The un-tabulated Pearson correlation matrix results shows that there is no multi-collinearity problem in this study as the association among the variables is below 0.80. In addition, the variance inflation factor (VIF) is calculated. This procedure is an additional step to ensure that explanatory variables are not extremely correlated. The rule that has been applied is that the correlation between independent variables is accepted if VIF is still smaller than 10 (Gujarati, 2003). The un-tabulated VIF results of this study are higher than 0.1 and less than 10, implying that the variables do not have a multi-collinearity/autocorrelation problem.

CSR disclosure in GCC countries

The cross-country analysis and cross-dimensional analysis of CSR disclosure of 195 observations of the GCC Islamic banks between 2016 and 20120 compliant with the AAOIFI's Governance Standard No. 7.

Cross-country analysis shows an improvement of CSR disclosure practice among Oman and KSA banks rather than the other GCC countries. There is no significant difference of CSR disclosure practice among the GCC Islamic banks after issuance of AAOIFI Governance Standards No. 7, suggesting that the AAOIFI has no influence on the GCC Islamic banks. Also, Panel A shows aggregate yearly CSR disclosure score of the GCC countries for the sample period (2016 to 2020). The ranking is done on yearly basis depending on CSR disclosure

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percentage, i.e., the top scorer country in a particular year ranks 1, followed by second scorer country and so on so forth. Since CSR disclosure varies among the GCC countries across the years, the simple yearly ranking also varies.

From the cross dimensional analysis, it appears that the GCC Islamic banks tend to disclose employee-related information and Zakat in their annual report more than other CSR information. Overall, the result shows a low level of disclosure for CSR reporting for the sample Islamic banks. Again, the mean CSR disclosure of the sample Islamic banks is 39.92% which is far short of expectation. This low level of CSR disclosure is consistent with the finding of another study on CSR disclosure of 24 GCC Islamic banks by Platonova et al. (2018), which reported a CSR disclosure mean of 49.56% during the years 2016 to 2020. Although Platonova et al. (2018, p.461) mentioned that "positive improvements in disclosing socially responsible activities of the GCC Islamic banks over the period 2016-2020 can be observed", the paper did not quantify how much is the improved score. Platonova et al. (2018) did provide the detail of the average score for the individual CSR dimensions that they examined but we are unable to provide a descriptive comparison with our CSRD score for the 11 dimensions that we have developed and examined in our paper.[iv] Taken together, these findings imply that Islamic banks are not completely fulfilling their social role in accordance with the Islamic principles. A low level of CSR disclosure score indicates that Islamic bank managers are less accountable in performing their duties and, thus, are expected to be more aware on CSR issues in future.

CSR disclosure and its effect on firm value in GCC countries

The results of the regression analysis of CSR disclosure consequences for Islamic banks in GCC countries. The results show a significant negative relationship between CSR disclosure (CSRD) and firm value proxy of MC, rather than MTBV and TQ, at the 10% significance level. Therefore, the hypothesis is supported only for the MC proxy of firm value. This finding is consistent with prior research such as Hassan et al. (2009) and Elliott et al. (2013), who show that CSR disclosure is negatively associated with firm value as it adversely affects a firm's competitive advantage with rivals and creates more uncertainly for the investors. As argued by Rhodes and Soobaroyen (2010), disclosure cannot reduce the agency cost by decrease in the information asymmetry problem. The finding of our study is contrary to Platonova et al. (2018), Klein et al. (2005), Sheu et al. (2010), Gordon et al. (2010) and Anam et al. (2011) who all point out that social disclosure has a positive impact on firm value. However, it can be said that the direction and magnitude of the relationship is associated with the type of disclosure (Hassan et al., 2009) and the proxy that is used for firm value (Uyar and Kiliç, 2012; Omair Alotaibi and Hussainey, 2016). Furthermore, there is no agreement in the literature on which proxy constitutes an ideal measure for firm value (Mangena et al., 2012; Albassam, 2014). Our finding suggests that conflicting evidence exists for the inverse relationship between CSR disclosure and firm value.

With respect to governance variables, the results indicate that better governance leads to a higher firm value. Both board size and board composition have a significant positive effect on the firm value proxies MTBV and MC respectively. These findings are consistent with the existing literature (Giraldez and Hurtado, 2014; Colombo and Baglioni, 2009). Again, contrary to expectation, CEO duality has shown a significantly positive effect on firm value using the proxies MTBV and MC. This finding can be explained by signalling theory, as CEO duality seems to be perceived by stakeholders as a sign of effective control and leadership. This finding is in line with prior studies, such as Peng et al. (2007) and Yang and Zhao (2014). Further, regarding firm specific variables, profitability appears to have a significantly positive

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association with firm value proxy MTBV, while GDP also reveals a significant positive association with both MTBV and MC. On the other hand, firm size shows a significant negative relationship with MTBV. Finally, it is noted that Tobin's Q (TQ) as a proxy in measuring firm value does not demonstrate any significant relationship with any variables. Dybvig and Warachka (2015) argue that Tobin's Q does not measure firm performance, but rather firm value and growth prospect with respect to efficiency measure and cost discipline.

Discussion and Concluding Remarks

The aim of this research is to examine the level of CSR Disclosure, and its consequences among the sample 39 Islamic banks in the GCC countries with a total of 195 observations for the period 2016 to 2020. Developing a comprehensive CSR Disclosure index based on previous literature and AAOIFI Governance Standard No. 7 guidelines, our research highlights the extent of the effectiveness of wide-ranging corporate governance variables (board, SSB, audit committee and ownership related) in determining CSR Disclosure and their impact on firm value. The study finds that the level of CSR Disclosure among the sample GCC Islamic banks is relatively low, indicating that the issuance of AAOIFI guidelines on CSR Disclosure did not improve the CSR disclosure practice among Islamic banks in GCC countries. The CSR disclosures are still relatively low as compared to studies conducted before the issuance of AAOIFI guidelines. Several studies indicate that Islamic banks are not completely fulfilling their social role in accordance with the prescriptions of Islam. Based on the finding, it appears that Islamic banks are mainly focused on economic incentives more than religious and social norms. Therefore, it is suggested that Islamic banks should enhance their CSR Disclosure practice to ensure that their operations and activities are in line with Islamic banking principles. Therefore, policymakers should be more aggressive in encouraging Islamic banks to adopt AAOIFI Governance Standard No. 7 as a benchmark for CSR Disclosure.

In addition, this study also analyses the impact of CSR disclosure on firm value based on three different proxies, namely market-to-book value (MTBV), market capitalization (MC) and Tobin's Q (TQ). The finding confirms a significant negative association between CSR disclosure and firm value (MC). This negative link between disclosure and firm value can be explained using signaling theory, rather than from an agency theory perspective. Extra information could have a negative effect on firm value in the sense that the excessive CSR information disclosed may cause extra uncertainly for the investors which affects negatively on their valuation of the firm. Further, the negative effect on firm value could be driven by the content of the CSR information disclosed and how investors perceive it. There is a possibility that CSR information itself raises concerns about firm performance which leads investors to lower their valuation. While CSR information could offer positive news to the stakeholders, they might misinterpret the practice that competitor firms would benefit from this excessive information. Nevertheless, this result does not support the idea that Islamic banks can use corporate disclosure to differentiate themselves and enhance their competitive advantage through increasing firm value. Again, the results reveal that board size, board composition and CEO duality have a significantly positive effect on firm value, suggesting the influence of dominant personality or leadership in GCC countries.

This study contributes to existing CSR reporting literature as being the first to examine the consequences of CSR disclosure in GCC Islamic banks for the years 2016-2020 using comprehensive CSR index. Moreover, it provides a valuable contribution to research as it extends the understanding of how the CSR disclosure affects the firm value of GCC Islamic banks. The findings of the study have important implications for investors, managers, regulatory bodies, policy makers and Islamic banks. In an asymmetric information environment, corporate governance mechanisms are not yet as effective as expected for improving CSR disclosure. Islamic banks are expected to fulfil their inherent character as an 'Islamic' bank and distinguish themselves from non-Islamic banks, but the financial incentive is not evident because of the negative performance effect of CSR disclosure.

However, managers who engage in good practices of information disclosure are recommended to continuing doing so. For those who refrain from providing information to the stakeholders, the results call for more CSR transparency if they want their bank to be more valuable in the opinion of their stakeholders. Since there are many annual reports and websites of GCC Islamic banks having no disclosure of CSR information, the regulatory bodies and policy makers may identify a minimum benchmark for CSR disclosure that is published by each bank either in their annual reports or on their website. Further, regulatory bodies such as AAOIFI should be more proactive to guide Islamic banks toward the best practices of disclosures. They play a motivating role in this area of information disclosure. AAOIFI is also expected to have a strong collaboration with regulatory bodies in GCC countries to enhance CSR disclosure practice among Islamic banks. Thus, the findings of this study have important messages for GCC Islamic banks which may need to know that more CSR disclosure might have a significant impact on their firm value. They should be more aware of CSR disclosure issues, rather than focusing only on profit maximising objectives.

There are several limitations inherent in this study. Firstly, the relatively small sample size of 39 GCC Islamic banks (from 2016-2020) may limit the application of the findings to other Islamic financial institutions such as *Takaful* and the Islamic Unit Trust Company. This is a common limitation of labour-intensive types of studies using manual content analysis and manual data collection from annual reports. Further study may be conducted using a larger sample of data over a longer time. Through exploring CSR disclosure using a time series data, future research can contribute clearer information regarding CSR disclosure trends and practices among GCC Islamic banks. Secondly, the study is also limited to discuss the AAOIFI Governance Standards No. 7 (2010 edition) compliance among GCC Islamic banks along with their 'accounting standards' and 'auditing standards' available until 2020. Finally, other studies could explore other measures of firm value such as scale efficiency measures or examine the non-economic consequences of CSR disclosure and firm value such as the image and reputation of the banks.

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eISSN: 0128-1755
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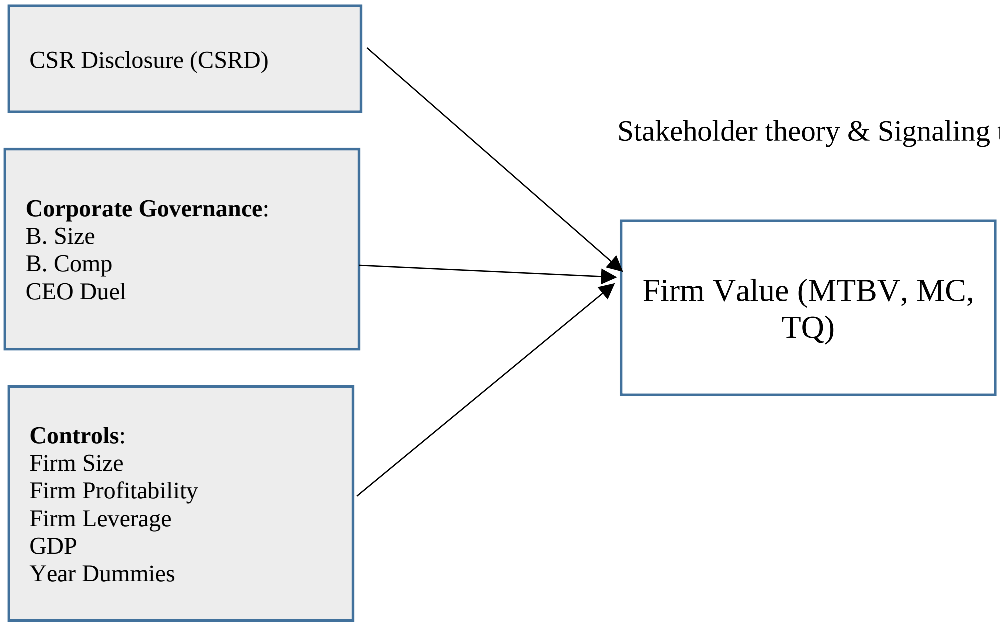
eISSN: 0128-1755
Journal website: www.jised.com
DOI: 10.55573/JISED.085656

Appendix 1: Research framework: Relationship between CSR Disclosure and firm value



Appendix 2: Summary of CSR Disclosure dimensions

Main Dimensions	Sub-Dimensions	Source
Social responsibility within organizations	1. Employee welfare (M)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010
	2. Policy for social development and environment-based investment quotas. (V)	AAOIFI, 2010; Aribi, 2009; Aribi and Gao, 2012
	3. Earning and expenditure prohibited by *Shariah* (M)	AAOIFI, 2010; Maali et al., 2006; Aribi, 2009; Aribi and Gao, 2012
Social responsibility in its relationship with customers and clients	4. Par excellence customer services (V)	AAOIFI, 2010; Vinnicombe 2010; Ullah, 2013; Aribi, 2009; Taha, 2010
	5. Policy for dealing with clients (M)	AAOIFI, 2010; Belal et al., 2014
	6. *Qard-Hassan* (benevolent loan) (V)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010; Haniffa, 1999
Social Responsibility in screening its investments	7. Micro and small business and social savings, investments and development. (V)	AAOIFI, 2010; Maali et al., 2006; Taha, 2010
	8.Policy for screening clients (M)	AAOIFI, 2010; Maali et al., 2006; Aribi, 2009; Aribi and Gao, 2012
Social responsibility in its relationship with greater society	9. *Zakat* (M)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010; Haniffa, 1999
	10.Charitable activities (V)	AAOIFI, 2010; Vinnicombe, 2010; Ullah, 2013; Aribi, 2009; Taha, 2010
	11.*Waqf* (endowment) management (V)	AAOIFI, 2010; Aribi, 2009; Aribi and Gao, 2012
Note: (M) - Mandatory Conduct (V) - Voluntary/Recommended Conduct		

Volume: 8 Issues: 56 [September, 2023] pp. 695 - 714
Journal of Islamic, Social, Economics and Development (JISED)
eISSN: 0128-1755
Journal website: www.jised.com
DOI: 10.55573/JISED.085656

Appendix 3: Summary of variables definitions

Variable	Definition	Measurement	Source
CSRD	Quantity of CSRD score by sample banks	The percentage of CSR information disclosure by Islamic banks	Annual Report
MTBV	Market-to-book value ratio	The natural logarithm of market value of equity to book value of equity ratio.	Data Stream
MC	Firm value based on market capitalization	By multiplying a company's shares outstanding by the current market price of one share	Data Stream
TQ	Tobin's Q	The natural logarithm of: (total assets + market value of equity - total common equity/ total assets	Data Stream

[i] From the researcher knowledge there is no update of governance standards which relate to CSR disclosure practice in AAOIFI (2010 edition).

[ii] If the Cronbach's Alpha shows more than 70%, it means the measurement is reliable (Aryani, 2015). An un-tabulated result shows that Cronbach's alpha is 0.815 (> 0.70), meaning the initial checklist and items used in the study have high reliability.

[iii] According to Gray et al. (1992), those who want to employ an un-weighted disclosure index have to treat all items in the list as equally important and the dichotomous method will be used to score the item.

[iv] Platonova et al. (2018) examined six major dimensions of CSRD which are; 'mission and vision statement', 'products and services', 'commitment towards employees', 'commitment towards debtors', 'commitment towards society'; 'zakah' (compulsory alms giving by those beyond a threshold level of wealth in the sense of 'returning the right of society to society')'; charity and benevolent funding.