

Does the adoption of AAOIFI affect corporate social responsibility disclosure? Evidence from Islamic banks

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Abstract

In this study, we have investigated the impact of the implementation of **AAOIFI** (Accounting and Auditing Organization of Islamic Financial Institutions) on the level of corporate social responsibility disclosures (**CSR**D) within the context of Islamic banks. We measured the level of CSR D in annual reports using a disclosure instrument based on AAOIFI governance standard and other indexes from the previous studies. We have used data of 36 Islamic banks that was located in the Gulf Cooperation Council (**GCC**) between 2012 and 2016. We found out that AAOIFI adoption had a positive effect on CSR D. Furthermore, this paper - is the first one that has investigated to what extent adoption of financial accounting standards as AAOIFI can enhance the level of CSR D in Islamic banks. We contributed for the debate and literature about the economic consequences of adoption financial accounting standards specifically for Islamic standards.

Key Words – Corporate Social Responsibility Disclosures; AAOIFI; Islamic Banks; Gulf Cooperation Council

1. Introduction

This year marks the 27th anniversary since the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) established and issued Islamic accounting; governance and Sharia Standards for all Islamic financial institutions (IFIs). AAOIFI accounting standards serve as a guideline that may reflect the unique characteristics of IFIs and become a useful tool to meet the various needs of IFIs and the needs of its stakeholders (Sarea and Hanefah, 2013). One of its greatest successes has been its global adoption, with tens of hundreds of banks in over 25 countries currently reporting under, or at least closely linking their local accounting standards to, AAOIFI with more than 500 members (AAOIFI, 2017). Over the previous decade; Islamic world has been moving toward adoption of AAOIFI there has also been an increase interest in corporate social Responsibility (CSR), traditionally defined as the information provided on the effects of the firm's operations on employees, suppliers, customers and communities (McVea & Freeman, 2005; Spence & Gray, 2007) in addition to ethics, Sharia as Qard Hassan (Loan with free rate) related to IFIs.

IBs are expected to perform the role of redistributing wealth to selective investments that contributed to the improvement and well-being of society (Farook, 2008). This IBs practiced the ‘moral economy’ philosophy expounded for religious or secular ethical reasons and support the inclusion of social and environmental aims in their investment policies (Belal et al., 2014). IBs should strive to achieve a balance between providing sufficient returns to their shareholders and social responsibilities and commitments to their various stakeholders (Ahmad, 2000). Concerning their social role, IBs are expected to bring economic and social benefits to their stakeholders; and to fulfill their CSR including its disclosure. Farook (2008) argued that disclosure provides evidence of the IBs involvement in social activities and hence earns legitimacy for their existence. IFIs may not be disclosing their social responsibility publicly, even though they are carrying out these activities. Therefore, to encourage disclosure, the international regulatory authorities as AAOIFI developed reporting standards for Islamic banks. In particular, it issued Standard No.7 on Governance Standards in relation to CSR conduct and disclosure in 2010. In the Standard, CSR for IFIs is defined as “all activities carried out by an IFI to fulfillers religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions”.

The increasing interest in CSRD reporting and the move to AAOIFI affect the disclosure demands that IBs face. There is limited empirical evidence on the relationship between firms' disclosure practices and mandatory disclosure requirements by financial standards as AAOIFI. Adding to the literature in this area we attempted to comprehend how firms' CSR policies and level of disclosure are affected by the mandatory or voluntary disclosure requirements of AAOIFI. Ahmad (2004) provided empirical evidence that Islamic financial system is gradually and firmly becoming acceptable beyond political, geographical, and religious boundaries. Therefore, Islamic perspectives of accounting standard, disclosure, and corporate social reporting began to receive substantial attention, especially in the area of Islamic banking and finance. The study of Islamic accounting standards has grown in recent years with substantive contributions from scholars such as Baydoun & Willet (1997), Gambling & Karim (1986) and Lewis & Algaoud (2001). It was notable; , that the focus of most of these studies was descriptive or analytical in nature, emphasizing specially on, the implications of Islam for accounting principles and practices, and the theoretical framework from which accounting standards for Islamic entities could potentially be derived (Baydoun & Willett, 2000; Lewis, 2001). There was little recognition that a practical response to the impacts of adopting Islamic standards as

AAOIFI with the possibility of growing adoption of AAOIFI imminent for the majority of IFIs, this seems a suitable chance to investigate the effects of AAOIFI on various issues. Several researchers have approached this topic from several different perspectives but based on IFRS or GAAP standards, e.g., IFRS's impact on earnings management; the relationship between IFRS and information asymmetry (Leuz, 2003); how IFRS affects the cost of equity capital (Lambert et al., 2007); whether IFRS improves market liquidity and how IFRS affects Tobin's q, which measures effects beyond the cost of capital and market liquidity (Daske et al., 2008).

This study was motivated by different points. First; the statistics approved that; out of 500 IFIs around the world; just only less than 100 (20%) apply AAOIFI. Through which we have investigated the positive consequences for applying these standards; we have also motivate other IFIs to adopt these kinds of standards. Second; there was a huge works related to investigate the outcomes of adopting IFRS and GAAP and approve different results (e.g., Evans et al., 2015; Barth et al., 2012) with rare literature concerning the AAOIFI (e.g., Mohammed et al (2015)). We motivated by a number of papers arguing that there is a need under Islamic teachings for more 'all-embracing criteria of social accountability and full disclosure' (Baydoun & Willett, 2000; Gambling & Karim, 1986; Pomeranz,

2004; Lewis, 2001; Sulaiman & Willett, 2001; Maali et al., 2006). Recently, the academic community has taken great interest in research on CSR (Huang & Watson, 2015). A significant body of evidence across business research disciplines examined questions such as which types of firms were engaged in CSR, and how CSR shaped firm decisions and outcomes. Yet to our knowledge there is no recent, measuring the impacts of financial accounting standards on the CSR disclosure. "Since the 1960s, there has been a growing interest in the economic and social effects of accounting regulations, particularly accounting standards ... accounting standards setting bodies such as ASC and FASB, have been confronted with arguments that particular proposals for accounting, or existing standards, given rise to economic consequences" (Taylor and Turley, 1986). However; there was a very rare focus on economic consequences for Islamic accounting standards (AAOIFI). This was motivating to conduct this research.

We have evaluated the impact of adoption AAOIFI on corporate CSR practices in a sample of 36 IBs in GCC. This empirical context was unique in that despite having developed relatively new market strategies associated with western economies as market diversification, economic deregulation, and reformation of economic life (Anderson, 2000). Corporations in GCC countries are generally considered to operate in an Arab-Islamic

context that is often considered to be opaque in terms of disclosure practices. Notwithstanding this view, investors have become interested in stabilizing the capital markets in an Arab-Islamic context that is the home to many international financial institutions, a center of regional trade, and is integrated into the global economic system with an extraordinary speed (Kamla & Roberts, 2010).

This paper reveals different **incremental contributions** to the literature of AAOIFI; social and ethical reporting practices as well as IBs. Although there is no any empirical studies investigating the link between CSRD and accounting standards as AAOIFI in the banking sector, as far as we are aware, this is the first study to empirically investigate this relationship in IBs. This paper adds value for academic literature that measures the consequences of adopting financial standards as IFRS or GAAP based on two points. We have added a new accounting standard which is AAOIFI in this field; we have added the impact of adopting accounting standards on the disclosure level for other impacts of these standards. We contributed to a rapidly growing literature concerning the impacts of accounting standards based on several aspects of the financial reporting system, as earnings informativeness (Landsman et al., 2011), earnings persistence (Atwood et al., 2011), cost of capital (Li, 2010), and analysts' forecast accuracy (Byard et al., 2011). To the best of our

knowledge, this is the first study in AAOIFI literature that explores AAOIFI effects on CSR disclosure. Our findings suggested that a greater level about CSR activities for IBs, as imposed by AAOIFI adoption.

The **importance of this study has been** approved from the significance of four dimensions concerning the CSRD, AAOIFI, Islamic banking industry and GCC as a hub centre for Islamic banking in MENA area. CSRD plays an important role in society because it provides information in demonstrating the organization's ethical accountability to its stakeholders to aid them in their decision making (Hassan & Harahap, 2010). The financial assets of the Islamic financial sector totaled US \$2.7 trillion in 2017 and grew 50 % faster than the overall banking sector with an average annual growth of 17.6 % from 2013 to 2016 (Young, 2017). Furthermore, Islamic bank assets are expected to reach US \$3.4 trillion by 2018 and US \$6.5 trillion by 2020 (IFSB, 2010). AAOIFI is representing a benchmark for disclosure practices for all IFIs generally and for CSRD specifically. Based on the analysis in this study; **we found that**, adopting an Islamic financial accounting standard (AAOIFI) is considered one of the main determinants behind enhancing level of disclosure about CSR. **In terms of structure**, section 2 outlines the AAOIFI history and the adoption; section 3 discusses the literature review and hypotheses development. The sample

selection and research methodology are presented in sections 4. Section 5 presents the results and discussion of the findings, whilst section 6 summarizes and concludes.

2. AAOIFI' History; Objectives and Adoption

AAOIFI is a standard setting body located in Bahrain and established in 1991 (Maurer, 2002). According to AAOIFI, it is the leading international not-for-profit organization primarily responsible for develop accounting and auditing 'thoughts relevant to Islamic institutions; prepare, promulgate, interpret, review and amend accounting and auditing standards for Islamic financial institutions (IFIs) and to carry out commissioning of research in the area of Islamic accounting and auditing' (AAOIFI, 2017). The organization claims that these objectives are carried out in 'accordance with the precepts of Islamic Sharia'. The objective of the standards is to increase market confidence in the activities of Islamic banks, render them comparable, and facilitate transfer of Islamic banking and finance practices across national and regulatory contexts (Maurer, 2002). AAOIFI's founders aimed to avoid inconsistencies between individual boards and help in developing new products (Lewis, 2001). Despite that for most IFIs; AAOIFI standards are not mandatory; the AAOIFI has been successful in promoting its standards to IFIs globally. Amongst its most remarkable achievements is the issuance of 94 standards, so far, in the areas

of Sharia, accounting, auditing, ethics and governance. Its standards are adopted by central banks and regulatory authorities in a number of countries, either on a mandatory basis or as basis of guidelines. AAOIFI is supported by numbers of institutional members, including central banks, regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. Its standards are currently followed by the leading IFIs across the world and have introduced a progressive degree of harmonization of international Islamic finance practices (AAOIFI, 2017).

AAOIFI Sharia standards have been made part of mandatory regulatory requirement in jurisdictions such as Bahrain, Oman, Pakistan, Sudan and Syria and Islamic Development Bank Group. AAOIFI Sharia standards have also been used as basis of national Sharia guidelines in jurisdictions such as Indonesia and Malaysia. In other jurisdictions including Brunei, Dubai International Financial Centre, France, Jordan, Kuwait, Lebanon, Saudi Arabia, Qatar, Financial Centre, South Africa and United Kingdom as well as in Africa, Central Asia and North America, AAOIFI Sharia standards have been used voluntarily as basis of internal guidelines by leading IFIs. **AAOIFI accounting standards** have been made part of mandatory regulatory requirement in jurisdictions such as Bahrain, Jordan, Oman, Qatar, Sudan, and Syria (AAOIFI, 2017). AAOIFI accounting

standards have also been adopted by Islamic Development Bank Group. It has also been used as basis of national accounting standards in jurisdictions such as Indonesia, Pakistan, Brunei, Dubai International Financial Centre, Egypt, France, Kuwait, Lebanon, Malaysia, Saudi Arabia, South Africa, United Arab Emirates and United Kingdom as well as in Africa and Central Asia. It has been used voluntarily as basis of internal guidelines by leading IFIs. AAOIFI auditing, governance and ethics standards are not part of mandatory regulatory requirement for Islamic finance. Instead, these standards are used voluntarily by leading IFIs across all major Islamic finance jurisdictions (AAOIFI, 2017).

3. Literature review and hypotheses development

The previous studies related to Islamic financial standards (AAOIFI) can be divided into three broad strands. The first strand uses content analysis to measure compliance level with these standards (e.g., Vinnicombe, 2012; Ullah, 2013; Ahmed & Khatun, 2013; Sarea & Hanefah, 2013; Sarea, 2013; Nassr & Abdu Samia, 2015). The second strand investigates the determinants of adoption of these standards (e.g., El-Halaby & Hussainey, 2016). Finally; the third strand investigates the main consequences through adoption these standards. This third strand is in the early research stage as – to the best of our knowledge –

there was no empirical paper exploring to what extent adoption AAOIFI had a positive impacts generally and impact on disclosure particularly and specially CSRD. From the view of the literature concerned with CSRD; it can also be divided into the same three strands that have been before-mentioned. The first one measures level of disclosure about CSR activities in IFIs (e.g., Maali et al., 2006; Ullah & Jamali, 2010; Haniffa & Hudaib, 2007; Hassan et al., 2011; Belal et al., 2014; Aribi & Gao, 2012). The second strand investigates the determinants of CSRD (e.g., Farook et al., 2011; Farag et al., 2014). Finally; the third strand investigates the main consequences for CSRD (e.g., Farag et al., 2014). The second strand– to the best of our knowledge – did not measure the adopting of financial accounting standards as AAOIFI as a factor behind CSRD. However, the impact of adopting AAOIFI on the level of CSR has not yet been investigated empirically in Islamic banks. Our paper is **motivated** to bridge a perceived gap related to the third strand on the impact of AAOIFI and to the second strand of the determinants of CSRD. Although; there are many literatures measuring level of CSR in Islamic banks (e.g., Hassan & Harahap, 2010; Haniffa & Hudaib, 2004; Maali et al., 2006) but rare studies measure for what extent adopting Islamic standards (AAOIFI) may enhance this level of disclosure.

3.1 Previous research on CSR disclosure

A number of previous studies have investigated the level of CSR in IFIs. Maali et al (2006) investigated the extent of social activities disclosed by IBs. They found that the level of social disclosure by the sample banks was well below their benchmark index. They concluded that banks adopting AAOIFI standards tend to provide more disclosures than non-compliant banks. Haniffa & Hudaib (2007) investigated the disclosure of information deemed crucial to Islamic ethics in business. Using content analysis to determine the extent of CSR, they found a significant gap between the communicated and ideal ethical disclosure in the annual reports. They concluded that for IBs to remain competitive, they need to communicate more effectively to enhance their image and reputation in society. Hassan & Harahap (2010) focused on the disclosure of social activities in the annual reports. They found a significant expectations gap in disclosure level, and surmised that CSR issues are not the main concern for most IBs. They concluded that some IBs pay scant attention to disclosing their social activities and thus argued for a standard on CSR relevant to IFIs. Abdul Rahman et al (2010) examined the CSR of a Malaysian Islamic bank. They found that the volume and quality of CSR improved over the 14-year study period. Farook et al (2011) empirically analyzed the level of social disclosure in forty-seven Islamic banks'. They found

substantial variation in CSRD and this variation is best explained by the presence of SSB. Aribi and Gao (2012) analyzed the narrative disclosures of CSR in 21 IFIs operating in the Gulf countries. They found that the main CSRD were contained in SSB reports with less disclosure in the annual reports on other Islamic based information such as Zakah, interest free loans and charitable donations. Belal et al (2014) divided ethical reporting requirements into particular reporting practices and universal reporting practices. They found an overall increase in both disclosures over the study period with a shift towards more universal disclosures after 2006. Farag et al (2014) analyzed CSRD in a sample of 90 Islamic banks across 13 countries. Islamic banks seem to show more commitment to the vision and mission, the board and top management, and the financial product/services dimensions, whilst least attention is paid to the environment dimension. IBs showed a considerable awareness of the mandatory disclosure recommendations of AAOIFI however, they pay less attention to the voluntary CSRD. The CSR literature on IBs is largely qualitative based studies that measure the volume of narrative CSRD against an ideal benchmark drawn from Sharia based CSR objectives and AAOIFI standards. They generally found an expectation gap between actual/communicated disclosures and ideal disclosures. However, the main limitations of these studies are their reliance on

measuring the level of disclosure for CSR activities without measuring the main determinants behind this disclosure level.

3.2 Consequences of adoption financial accounting standards

Gaa (1988) believed that the role of the standard setter is to "act in the interest of users by evaluating the consequences to investors of actions in accordance with financial accounting standards" (p, 34). An espoused benefit of accounting standards as IFRS adoption for some jurisdictions is that financial reporting becomes more transparent because IFRS provides users with additional disclosure requirements and specifies measurement and recognition rules that directly impact the quality of accounting numbers (Daske, 2006). For example, Barth et al (2008) found that firms adopting IFRS engage in less earnings management, exhibit more timely loss recognition and provide more value relevance of earnings. In addition, IFRS adoption is likely to increase market liquidity, decrease the firms' cost of capital, and increase equity valuations (Daske et al., 2008). Studies have also shown IFRS can enhance analysts' information environment (Byard et al., 2011; Stecher & Suijs, 2012). It was also noted that jurisdictional differences influence IFRS implementation, hence the quality of accounting numbers and the information available to markets (e.g., Ball, 2006; Liao et al., 2012). Among the advantages of the adoption of the convergent accounting practices are the high-quality standards of the

information supply and the decreased investment risk and capital cost enabled by transparency, as shown by Martins & Brasil (2008). Oliver & Warsame (2016) provided empirical evidence that value relevance increases in IFRS adoption. These findings are consistent with those of Jermakowicz et al (2007) who investigated firms' adoption of IFRS and find incremental value relevance for firms that adopted either IFRS or US GAAP. Hevas et al (2013) investigated whether the adoption of IFRS affected tax-induced incentives for financial earnings management. IFRS adoption reduced book–tax conformity, thereby releasing financial income from tax implications. There was an empirical literature on IFRS adoption consequences (e.g., Brown, 2011; Houque et al., 2012; Pope & McLeay, 2011; Soderstrom & Sun, 2007), to the best of our knowledge our study was the first attempt to add these consequences based on a different accounting standards which is AAOIFI through measuring its impact on CSR.

3.3 Impact of Financial accounting standards adoption on CSR

Emmanuel et al (2016) based on a holistic review for IFRS adoption' studies found that; the majority of early studies paint IFRS as bringing significant benefits to adopting firms and countries in terms of improved transparency. Hail et al (2010) reviewed IFRS studies to determine the implications of US firms

potentially switching to IFRS. In particular, they have shown the positive effects of potential IFRS adoption by the US on reporting quality and transparency level. Pope & McLeay (2011) reviewed the empirical IFRS studies emerging and discuss implementation of IFRS in the EU. They found a positive implication for adoption IFRS on disclosure level. This result was matching with (Evans et al., 2015; Barth et al., 2012) that showed positive impact of accounting standard on the level of disclosure. Marston & Robson (1997) found that disclosure had increased overtime. They thought that the reasons for improving disclosure in the Indian firms include increased compliance with IFRS.

Smith et al (2014) investigated the impact of the implementation of IFRS on CSR. It measured the level of CSR in annual reports using a disclosure instrument based on the United Nations Conference on Trade and Development report. It revealed that Firms in the stakeholder countries did not have a significant change in the level of CSR following the mandatory adoption of IFRS while firms from the shareholder countries experienced a significant increase over the same period resulting in shareholder countries providing an overall higher level of CSR after IFRS adoption than stakeholder countries. These findings suggested that firms' reactions to the requirements of IFRS and the stakeholder pressure to provide additional CSR are influenced

by institutional environment. Muller et al (2011) evaluated the effects of the increased disclosure of fair values required under IFRS on the degree of information asymmetry faced by investors. Using a sample of European real estate firms, they discovered that firms that did not voluntarily disclose fair values before mandatory IFRS adoption experienced larger improvements in information asymmetry, i.e., larger declines in their bid-ask spreads, upon IFRS adoption. Christensen (2012); Daske et al (2013) discovered that the change in disclosure incentives for adopting firms drives the documented capital market benefits following voluntary IFRS adoption. Oliveira & Lemes (2011) analyzed the financial statements to evaluate the adaptation level to IFRS of the information disclosed in the Brazilian and North-American markets. They suggested that the Brazilian financial statements tend to substantially be modified, increasing the disclosure level. Empirical studies confirmed that disclosure quality tends to improve for European firms after the adoption of IFRS rules (Daske & Gebhardt, 2006).

Based on context of IFIs; Mohammed et al (2015) measured the issue relevant to the need for Islamic accounting standards in reporting IFIs, in the context of Malaysia. With recent rapid growth of IFIs, there was still inconclusive stance regarding the need for specificity accounting standards for IFIs such as the ones issued by AAOIFI. The study offered evidence on the

influence of AAOIFI accounting standards in reporting IFIs. The all previous studies focused on adopting IFRS based on context of EU and USA. While the rare studies that focused on IFIs or even developed country as Malaysia using qualitative methods based on interviews; it investigated the impacts of adoption AAOIFI on reporting generally without study impact on disclosure level as indicated in this paper. This would ask future research about developing countries as well as Islamic standards as AAOIFI. Moreover, it would contribute for academic research concerned with consequences of adopting accounting standards on the CSR level. We based our prediction on the increased disclosure quality after the adoption of financial accounting standards rules (Daske & Gebhardt, 2006). Indeed, the increased level of disclosure required by the new standards with more information to better understand and evaluate a company's accounting policies and reports. In other words, we believed that the higher quality and transparency of the AAOIFI rules will enhance the disclosure level about CSR activities. Therefore, we formulated the following hypotheses

H. There is a positive association between adopting of AAOIFI and level of CSR

4. Methodology

Our dataset was a cross-sectional analysis of the relationship between CSR disclosure and adoption AAOIFI by Islamic banks

over the period 2012–2016. We used Bank-scope, Zawya and Bankers databases for the sample selection. From 200 Islamic banks with 100% Sharia compliant assets around the world; we collected data for 36 Islamic banks that located in Gulf Cooperation Council (GCC) area namely Bahrain, Kuwait, Qatar, Saudi Arabia (KSA), United Arab Emirates (UAE) and Oman. The dataset was hand collected from the annual reports and the websites of the respective banks. Data were collected from Bank-scope, the Banker database, and Zawya database, in addition to the annual reports and websites. Financial information was collected from Thomson One Banker and Bank-scope.

4.1 CSR measurement

CSR was measured using a content analysis technique. Content analysis is a method of codifying text into groups or categories thus allowing the material to be transformed into quantitative scales that permit further analysis. Content analysis has been widely used by researchers trying to obtain reliable and valid information from texts (Boesso & Kumar, 2007). The importance of using this methodology for understanding stakeholder reporting practices was emphasized by Guthrie et al (2004). CSR data was collected from the banks' annual reports of 2012, 2013, 2014, 2015 and 2016. The annual report is recognized as a primary method of communicating with financial and non-financial stakeholders (Neu et al., 1998) as evidenced by research

observing variations in the quality and level of CSD in annual reports (Boesso & Kumar, 2007; Van der Laan Smith et al., 2005). We argued that corporate reporting through the annual report provided a vehicle for examining shifting stakeholder relationships through the choices managers make in the information they disclose. It was a proxy for the stakeholder pressures perceived by company managers. We believed that this argument is consistent with the theoretical origins of stakeholder management which strives to integrate the management of economic and social objectives (Harrison & Freeman, 1999).

Our dependent variable is the CSR index. The CSR disclosure index incorporates items from Maali et al (2006); Haniffa and Hudaib (2007); Farag et al (2014) and El-Halaby and Hussainey (2016) studies. We reclassified the index items into two categories namely universal oriented CSR and Sharia oriented CSR aspects based on Belal et al (2014). The first category consisted of CSR items generally expected in conventional banks. The second category consisted of CSR items relating purely to Sharia principles. The index consisted of 14 dimensions. Our checklist consisted of 95 items and we checked each item across the 36 annual reports and then we dealt with each item as a dummy variable which takes value of one if the item was found in the annual reports/websites and zero otherwise. Our index is equally

weighted to avoid any potential scoring and scaling biases following Haniffa & Hudaib (2007) as shown in Eq. (1).

$$CSRI_i = \frac{\sum_{t=1}^n X_i}{n}$$

Where $CSRI_i$ is corporate social disclosure index $0 \leq CSRI_i \leq 1$, n_i is the number of items expected for bank I $n \leq 95$ and X_i is a dummy variable which takes the value of 1 if the item is disclosed and 0 otherwise. 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. The authors examined the items of the index and decided that specific item was intended to measure (Beattie et al., 2004). In addition, we made sure that each item and the overall index are closely related to CSR in Islamic banks as we have carefully chose and developed the 14 dimensions of our CSR index based on the previous literature and the CSR Conduct and Disclosure for IFIs issued by AAOIFI. To enhance the reliability, the index items are coded and checked three times and we discussed any potential discrepancies. It is worth mentioning that each bank is coded by two different authors to ensure consistency. We made sure that the same coder is consistent overtime when coding the same item

of the index (stability), the coders produce the same results when coding the same item (reproducibility) and accuracy as well.

	Items and corresponding AAOIFI standard	Items
Social disclosure index	<i>Universal-oriented CSR disclosure</i>	
	Employee welfare	12
	Internal environment preservation policy	9
	Par excellence customers services	5
	Micro and small business and social saving and investments and development	10
	Charitable activates	6
	Social responsibility	13
	<i>Sharia-oriented CSR disclosure</i>	
	Late repayments and insolvent clients	10
	Qard Hassan	10
	Zakat	7
	Waqf management	5
	Earning and expenditure prohibited by Sharia	4
	Screening and informing clients for compliance with Sharia	4
	Average compliance level	95

4.2 Independent Variables

We measured our main independent variable which is **adoption accounting standards** as a dummy variable based on 1 if the bank adopts AAOIFI and 0 otherwise. We control for firm characteristics; corporate governance (Universal and Sharia) and country variables. We used **Board size** to capture the effect of board structure on CSR disclosure. Academicians find a significant positive relationship between board size and CSR (Javaid Lone et al., 2016, Majeed et al., 2015, Alotaibi & Hussainey, 2016, Barakat et al., 2015, Samaha et al., 2012).

Return on assets (ROA) is widely used measure of **financial performance (FP)**. Roberts (1992) argued that a level of FP has a direct impact on the decisions by the board of directors and their commitment to future CSR activities and expenditures. We expected an association between CSR and FP (e.g., Mallin & Michelon, 2011). Moreover, we used the natural logarithm of total assets as a proxy for bank size; it was argued that the **bank size** has an impact on the level of corporate social activities. A large strand of the literature on CSR discovered an association between size and CSR activities (e.g., Brammer et al., 2006; Amran et al., 2009).

SSB had social influence and authority in monitoring IB's compliance with Sharia principles, and provided the confidence to stakeholders about the legitimacy of the business transactions. Disclosure by SSB may be seen as a key aspect of accountability by IB to its stakeholders. Moreover, the degree to which the SSB influenced the level of CSR may depend on characteristics as **Sharia board size; Sharia board reputation** (based on its membership in credible Islamic institutions) and **experiences and credibility** (based on its membership in more than one IB). An increase in the number of SSB members may lead also to higher levels of CSR as the capacity for monitoring increases. The greater number of members in SSB, the greater the amount of monitoring, implying a greater level of compliance with

Islamic laws and principles. SSB would be able to allocate its functions across a larger group of members, allowing the SSB to review more aspects of the banks' activities and hence ensure greater compliance. Therefore, Sharia board size was expected to have a positive impact on CSR (Farook et al., 2011; Farag et al., 2014). The governance literature indicated the level of disclosures that could increase or decrease depending on whether mechanisms substitute or complement each other (Ho & Wong, 2001). If the governance mechanisms were complementary as in Islamic banking (BOD and SSB¹), agency theory suggested that a higher level of disclosures was expected as more governance mechanisms will strengthen the monitoring aspect leading to a reduction in information asymmetry and opportunistic behavior. SSB in its role as an additional governance body would pressure IBs to disclose more CSR activities in order to assure its investors that it is following Sharia laws.

Cross-memberships of SSB members may also lead to higher disclosure of CSR information (Dahya et al., 1996). The

¹ *It was expected that Sharia board acts as a complementary mechanism because compliance with Islamic laws and principles should not only be generally inferred within the Sharia report but also reinforced with disclosures of specific CSR activities. Hence, it was generally expected that SSB in an IB would lead to higher disclosure levels of CSR activities (Farag et al., 2014).*

literature suggested that cross-directorships increase transparency as members with cross-directorships can make comparisons from knowledge gained in other firms (Haniffa & Cooke, 2002). Hussain & Mallin (2003) argued that, the factors influencing the appointment of directors in firms are relevant skills, business experience and reputation. It was expected that reputation is a proxy for industry knowledge and hence reputable scholars with relevant degrees in Sharia and business and who were represented in many IFIs Sharia boards, were more likely to understand current implications of Islamic banking, particularly with regards to disclosure. Hence, reputable scholars were more likely to emphasize CSR activities and the subsequent disclosure of CSR information.

We controlled also **board meeting**. There was a positive association between frequency of board meetings and disclosure quality (Anis et al., 2012). The numerous board meeting enabled to give more attention on social related matters (Giannarakis, 2014a). We controlled variables related to **audit committee** (based on existing this committee and its size). We also control for the macro-economic factors by using the **Worldwide Governance Indicators** for countries. These indicators included Voice and Accountability; Regulatory Quality; Rule of Law and Control of Corruption. In addition, we used **leverage** (the ratio of total debts/total assets) to control for the differences in IBs

operating business efficiency (Andres & Vallelado, 2008). Firms with higher levels of debt typically worked to reduce information asymmetry by disclosing more information to their stakeholders (e.g. Abraham & Cox, 2007; Holthausen, 1990; Iatridis, 2008; Linsley & Shrivies, 2006; Lopes & Rodrigues, 2007). We used as well **Tier 1 capital** expressed as a percentage of total risk weighted assets to control for IBs risk (Frag et al., 2014). Finally, **country dummies** as well as **year dummies** are used to capture country and year heterogeneity and to control for country and years specific effects.

4.3 Research model

To empirically investigate the relationship between CSR and adoption AAOIFI in Islamic banks, we use the following OLS regression as in Equation (2):

$$\begin{aligned} CSRDI_{it} = & \beta_0 + \beta_1 STAND_{it} + \beta_2 B.SIZE_{it} + \beta_3 B.MEET_{it} \\ & + \beta_4 SSB.SIZE_{it} + \beta_5 \\ & SSB.R_{it} + \beta_6 SSB.CM_{it} + \beta_7 \\ & AC.E_{it} + \beta_8 AC.SIZE_{it} + \beta_9 VOICE_{it} + \beta_{10} REGUL_{it} + \\ & \beta_{11} LAW_{it} + \beta_{12} CORR_{it} + \beta_{13} SIZE_{it} + \beta_{14} ROA_{it} + \beta_{15} \\ & LEV_{it} + \beta_{16} CAP_{it} + \\ & \beta_{17} CON.DUM_{it} + \beta_{18} YEA.DUM_{it} + \varepsilon_{it} \end{aligned} \quad (2)$$

Where: Variable definition: **CSRDI**= Corporate Social Responsibility disclosure index for bank *i*; **SIZE**= natural logarithm of total assets; **STAND**=dummy code 1 if the banks

adopt AAOIFI/other Islamic standards or 0 otherwise; **LEV**= leverage ratio based on total liabilities for total assets; **ROA**= profitability (return on assets); **CAP**= ratio of actual regulatory capital (Tier 1 capital) to the minimum required regulatory capital; **B.SIZE**= total number board members; **B.MEET**=number of BOD meeting within the year; **SBB.SIZE**= the number of Sharia supervisory board members for bank; **SSB.R**= dummy code 1 if the SSBM are has membership in a credible Islamic institutions as AAOIFI or 0 otherwise; **SSB.CM**= dummy code 1 if SSB member with a cross membership in more than one Islamic bank or 0 otherwise; **AC.E**= dummy code (audit committee exist) 1 if there is audit Committee inside the Islamic banks or 0 otherwise; **AC.SIZE**= total number of audit committee; The Worldwide Governance Indicators: **VOICE**= Voice and Accountability; **REGUL**= Regulatory Quality; **LAW**= Rule of Law; **CORR**= Control of Corruption; and ϵ_i are the white noise error terms associated with the unobservable effects resulting from firm heterogeneity i.e. unobservable features of managerial behavior that explain heterogeneity in CSR and adoption of AAOIFI.

5. Results and Discussion

Table 1 provides the descriptive statistics for the dependent, independent and control variables. The sample size is 36 Islamic banks and the average CSR disclosure index ranges from 12% to

50% with an average of 30%. Of the 36 Islamic banks in the study, 66.6% are adopted AAOIFI and 33.3% adopted other standards such as IFRS and Local standards. The average return on assets (ROA) ranges from -45.31% to 31.95% with a mean of -0.57%. Table 3 also reports that average board size for our Islamic banks is 9 members and they meet 5 times annually. 77% from SSB have membership in AAOIFI committees as well as 87.5% from these members are serving in other Islamic banks. The table reports that SSB size ranges from 3 to 9 members with mean value of 3.64. 82% from our selected banks have audit committee and each committee have an average 3 members. 82% from our selected banks has an audit committee with average 2.5 members in each bank. Finally, the average natural logarithm of bank size is US\$ 3.15 million. Table 6 reports the outputs of the correlation matrix of the covariates used in the analysis. It is clear that there are no significant correlation coefficients greater than 50%, therefore our estimation is not subject to multicollinearity problem².

² It should also be noted that multicollinearity between the variables did not appear to be a problem for the following reasons. First, as can be seen from Table 2, the highest correlation (Pearson or Spearman rank) between any of the independent/control variables was only 0.594. Second, the standardized residuals from the OLS regression analysis appeared to be normally distributed (Kolmogorov-Smirnov Z = 0.563; p = 0.921). Third, the highest VIF value was 6.975 as presented in table 3 (Wu and Tu, 2007)

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Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Dev	Skewness	Kurtosis
CSR	0.12	0.50	0.3032	0.1167	-1.122	1.228
STAND	0.00	1.00	0.6667	0.4727	-0.713	-1.508
SIZE	2.25	4.91	3.1543	1.0629	-1.162	1.512
LEV	34.00	99.27	41.6371	35.3209	0.618	-1.426
ROA	-45.31	31.95	-0.5765	8.9779	-1.544	9.315
CAP	45.22	137.76	26.6340	24.961	2.265	5.386
B.SIZE	6.00	16.00	8.6786	2.6369	-1.209	3.420
B.MEET	5.00	14.00	5.3101	2.0900	0.365	2.847
SSB.R	0.00	1.00	0.7724	0.4207	-1.313	-0.280
SSB.CM	0.00	1.00	0.8759	0.3308	-2.304	3.353
SSB.SIZE	3.00	9.00	3.6481	1.3580	0.180	1.815
AC.E	0.00	1.00	0.8296	0.3773	-1.773	1.162
AC.SIZE	3.00	5.00	2.5407	1.4443	-0.648	-0.675
VOICE	-1.86	-0.51	-1.1783	0.3746	-0.364	-0.718
REGUL	-0.13	0.98	0.4603	0.3169	-0.562	-1.208
LAW	0.05	1.04	0.4673	0.2430	1.031	0.345
CORR	-0.37	1.57	0.4348	0.4819	0.754	-0.458

Variable definition: **CSR**= Corporate Social Responsibility disclosure; **SIZE**= natural logarithm of total assets; **STAND**=dummy code 1 if the banks adopt AAOIFI/other Islamic standards or 0 otherwise; **LEV**= leverage ratio based on total liabilities for total assets; **ROA**= profitability (return on assets); **CAP**= ratio of actual regulatory capital (Tier 1 capital) to the minimum required regulatory capital; **B.SIZE**= total number board members; **B.MEET**=number of BOD meeting within the year; **SSB.SIZE**= total number of SSBM on the board; **SSB.R**= dummy code 1 if the SSBM are has membership in a credible Islamic institutions as AAOIFI or 0 otherwise; **SSB.CM**= dummy code 1 if SSB member with a cross membership in more than one Islamic bank or 0 otherwise; **AC.E**= dummy code (audit committee exist) 1 if there is audit Committee inside the Islamic banks or 0 otherwise; **AC.SIZE**= total number of audit committee; The Worldwide Governance Indicators: **VOICE**= Voice and Accountability; **REGUL**= Regulatory Quality; **LAW**= Rule of Law; **CORR**= Control of Corruption

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Table 2: Pearson and Spearman rank correlation coefficients matrix

	CSR.D	SIZE	STAND	LEV	ROA	CAP	B.SIZE	B.MEET	SSB.R	SSB.CM	SSB.SIZE	AC	AC.SIZE	VOICE	REGUL	LAW	CORR
Pearson correlation coefficients																	
CSR.D	1.000	0.305^{***}	0.258^{**}	0.038	-0.027	0.152	0.501^{***}	0.480^{**}	0.259^{**}	0.354^{**}	0.342^{**}	0.066	-0.033	-0.290^{**}	0.039	-0.225^{**}	-0.095
SIZE		1.000	-0.391 ^{**}	-0.521 ^{**}	0.215	-0.234	0.494 ^{**}	0.532 ^{**}	0.104	0.320 ^{**}	0.353 ^{**}	0.148	0.159	0.209	0.046	0.295 ^{**}	0.517 ^{**}
STAND			1.000	0.430	-0.091	0.273 ^{**}	0.017	-0.045	0.298	0.167	-0.298	0.048	-0.121	-0.097	0.490 ^{**}	0.206	0.112
LEV				1.000	-0.168	0.563 ^{**}	-0.248 ^{**}	-0.473 ^{**}	0.041	-0.271 ^{**}	-0.328 ^{**}	-0.172	-0.203	-0.214 [*]	0.000	-0.348 ^{**}	-0.529 ^{**}
ROA					1.000	0.334 ^{**}	0.190	0.209	0.098	0.181	0.110	-0.253 ^{**}	-0.075	-0.033	0.015	0.072	0.203
CAP						1.000	0.068	0.033	0.182	0.102	-0.120	-0.406 ^{**}	-0.395 ^{**}	-0.018	0.173	-0.076	-0.100
B.SIZE							1.000	0.466 ^{**}	0.364 ^{**}	0.346 ^{**}	0.492 ^{**}	0.191	0.255 ^{**}	-0.252 ^{**}	0.009	-0.117	0.008
B.MEET								1.000	0.143	0.256 ^{**}	0.323 ^{**}	0.095	-0.002	-0.015	0.005	0.087	0.161
SSB.R									1.000	0.594 ^{**}	0.234 ^{**}	0.315 ^{**}	0.175	-0.152	0.123	0.023	0.052
SSB.CM										1.000	0.164	0.066	-0.100	-0.098	0.303 ^{**}	0.058	0.321 ^{**}
SSB.SIZE											1.000	0.069	0.230 ^{**}	-0.288 ^{**}	-0.319 ^{**}	-0.339 ^{**}	-0.244 ^{**}
AC.E												1.000	0.500 ^{**}	-0.070	0.035	0.073	-0.015
AC.SIZE													1.000	-0.288 ^{**}	-0.187 ^{**}	-0.075	-0.087
VOICE														1.000	0.276 ^{**}	0.454 ^{**}	0.370 ^{**}
REGUL															1.000	0.463 ^{**}	0.583 ^{**}
LAW																1.000	0.494 ^{**}
CORR																	1.000
Spearman rank correlation coefficients																	
CSR.D	1.000	-0.070	0.406^{**}	0.107	-0.252^{**}	0.103	0.268^{**}	0.277^{**}	0.188[*]	0.230^{**}	0.173[*]	0.076	-0.042	-0.366^{**}	0.064	-0.324^{**}	-0.114
SIZE		1.000	-.384 ^{**}	-0.519 ^{**}	0.359 ^{**}	-0.199	0.093	.359 ^{**}	-0.009	0.195	0.103	0.071	0.038	0.395 ^{**}	0.096	0.370 ^{**}	0.529 ^{**}
STAND			1.000	.537 ^{**}	0.044	.220 ^{**}	0.091	-0.049	.298 ^{**}	0.167	-0.333 ^{**}	0.048	-0.142	-0.131	.424 ^{**}	.174 ^{**}	.240 ^{**}
LEV				1.000	0.025	.575 ^{**}	-0.048	-.512 ^{**}	0.128	-0.193	-0.347 ^{**}	-0.084	-0.170	-0.182	0.039	-0.154	-.346 ^{**}
ROA					1.000	0.170	0.020	0.097	0.146	0.255 ^{**}	-0.173	-0.079	-0.032	.228 ^{**}	0.134	.314 ^{**}	.538 ^{**}
CAP						1.000	0.127	-0.018	.272 ^{**}	0.164	-0.245 ^{**}	-.259 ^{**}	-.367 ^{**}	0.051	0.160	0.038	0.049
B.SIZE							1.000	.307 ^{**}	.251 ^{**}	0.136	0.404 ^{**}	.216 ^{**}	.289 ^{**}	-.223 ^{**}	0.057	-.202 ^{**}	-0.038
B.MEET								1.000	-0.008	0.067	0.254 ^{**}	0.045	0.017	0.002	0.028	0.015	0.097
SSB.R									1.000	0.594 ^{**}	0.116	.315 ^{**}	0.137	-0.125	0.155	-0.078	0.101
SSB.CM										1.000	0.027	0.066	-0.133	-0.083	.323 ^{**}	0.004	.364 ^{**}
SSB.SIZE											1.000	0.014	.284 ^{**}	-.209 ^{**}	-.293 ^{**}	-.408 ^{**}	-.324 ^{**}
AC.E												1.000	.591 ^{**}	-0.039	0.072	-0.016	-0.046

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AC.SIZE													1.000	-.325*	-.207	-.294	-.196
VOICE														1.000	.161*	.521**	.328*
REGUL															1.000	.524*	.591*
LAW																1.000	.571**
CORR																	1.000

CSR= Corporate Social Responsibility disclosure; SIZE= natural logarithm of total assets; STAND= dummy code (standard) 1 if the banks adopt AAOIFI/other Islamic standards or 0 otherwise; LEV= leverage ratio based on total liabilities for total assets; ROA= profitability (return on assets); CAP= ratio of actual regulatory capital (Tier 1 capital) to the minimum required regulatory capital; B.SIZE= total number board members; B.MEET= number of BOD meeting within the year; SBB.SIZE= total number of SSBM on the board; SSB.R= dummy code 1 if the SSBM are has membership in a credible Islamic institutions as AAOIFI or 0 otherwise; SSB.CM= dummy code 1 if SSB member with a cross membership in more than one Islamic bank or 0 otherwise; AC.E= dummy code (audit committee exist) 1 if there is audit Committee inside the Islamic banks or 0 otherwise; AC.SIZE= total number of audit committee; The Worldwide Governance Indicators: VOICE= Voice and Accountability; REGUL= Regulatory Quality; LAW= Rule of Law; CORR= Control of Corruption; (*) Statistical significance at 10% level; (**) Statistical significance at 5% level; (***) Statistical significance at 1% level

Table 3 reports the multivariate analysis of our CSR model using linear regression. In support of our hypothesis, CSR is significantly positively associated with accounting standards or AAOIFI. This result is matching with Maali et al. (2006) that concluded that banks adopting AAOIFI standards tend to provide more disclosures than non-compliant banks. Related to our control variables; the results indicate that CSR level is significantly positively associated with size; corporate governance of board; AC as well as SSB. In terms of the worldwide governance indicators to control variances between countries, as unexpected, CSR is significantly negatively associated only with Rule of Law. However, the results show no significant association between the level of CSR and other indicators (Regulatory Quality; Control of Corruption and Voice

and Accountability). Using various alternative proxies for the independent and control variables did not improve our results and, therefore, the findings for these alternative proxies are not presented. The level of explained variance in our study (The model shows that adjusted R square is 48.3%) is higher than prior studies (e.g., Chan et al., 2013, were only able to explain 35% and Branco and Rodrigues 2008, were only able to explain 33.5 % of the variance in their study of CSR) which supported our results.

Table 3: Regression results

Model	Coeff	t.stat	Sig	VIF
Constant	-0.078	-1.190	0.236	
STAND	0.111	5.367	0.000	2.409
Control Variables				
SIZE	0.055	4.129	0.000	3.890
ROA	0.001	1.289	0.199	1.294
SSB.SIZE	0.012	1.708	0.090	2.113
B.SIZE	0.001	0.308	0.758	2.389
B.MEET	0.012	2.920	0.004	1.538
SSB.R	-0.039	-1.333	0.184	3.042
SSB.CM	0.045	1.178	0.241	3.222
AC.E	0.089	2.176	0.031	4.480
AC.SIZE	-0.027	-2.537	0.012	4.585
CAP	0.000	0.764	0.446	1.638
LEV	0.000	1.285	0.201	2.118
VOICE	-0.036	-1.390	0.166	2.329
REGUL	-0.011	-0.305	0.760	3.152
LAW	-0.118	-2.031	0.044	5.052
CORR	-0.020	-0.585	0.560	6.975

Year dummy	Included
Country dummy	Included
Model Summary	
Adjusted R Square	0.483
F value	9.364
P value	0.000
<p>CSRD= Corporate Social Responsibility disclosure; SIZE= natural logarithm of total assets; STAND= dummy code (standard) 1 if the banks adopt AAOIFI/other Islamic standards or 0 otherwise; LEV= leverage ratio based on total liabilities for total assets; ROA= profitability (return on assets); CAP= ratio of actual regulatory capital (Tier 1 capital) to the minimum required regulatory capital; B.SIZE= total number board members; B.MEET= number of BOD meeting within the year; SBB.SIZE= total number of SSBM on the board; SSB.R= dummy code 1 if the SSBM are has membership in a credible Islamic institutions as AAOIFI or 0 otherwise; SSB.CM= dummy code 1 if SSB member with a cross membership in more than one Islamic bank or 0 otherwise; AC.E= dummy code (audit committee exist) 1 if there is audit Committee inside the Islamic banks or 0 otherwise; AC.SIZE= total number of audit committee; The Worldwide Governance Indicators: VOICE= Voice and Accountability; REGUL= Regulatory Quality; LAW= Rule of Law; CORR= Control of Corruption; (*) Statistical significance at 10% level; (**) Statistical significance at 5% level; (***) Statistical significance at 1% level</p>	

6. Summary and Conclusions

Adoption of accounting standards and CSR activities and its disclosure are areas which have seen significant growth in recent years. We studied the potential implications of the adoption of AAOIFI on the level of CSR disclosure that made by a sample of 36 Islamic across 6 GCC countries over the period 2010–2016. Our paper adopted a holistic index that included universal as well as Sharia oriented dimensions for CSR activities created from CSR studies of Islamic banks and recommendations from

AAOIFI Standard No.7. Our result showed a low disclosure level about CSR activities as an unexpected result. Based on the results presented in this study the following conclusion can be made. The empirical analysis highlighted a positive association between CSR disclosure index and banks' adoption of AAOIFI. This finding is matching with Hevas et al (2013); Oliver and Warsame (2016); Stecher & Suijs (2012) about the implication of adoption financial accounting standards or the economic consequences of adoption accounting standards. Our finding also is matching with Smith et al (2014); Evans et al (2015) that investigated the implication of adoption accounting standards related to enhancing level of disclosure. The result supports the theoretical framework as adopting credit accounting standards encourages banks to engage more in social activities. This result is consistent with Emmanuel et al (2016) as they argued that adopting accounting standards lead to enhance level of disclosure. Interestingly, related to control variables we discovered a positive and significant association between the SSB size and CSR index, which implies the essential role of the SSB in supporting Islamic banks social activities. The result is consistent with Farook et al (2011); Farag et al (2014) as they argued that larger SSB size may lead to higher levels of CSR as the capacity of the monitoring role of the SSB increases. We also

found a positive and significant association between the size; board meetings; audit committee existing and CSR index.

The findings have a number of **policy implications**. Firstly, the empirical evidence indicates that the level of CSR was relatively low (30%) even though AAOIFI Standard has provided a template for Islamic banks to adopt in terms of CSR conduct and disclosure. Therefore, policymakers might, in future, be more active in encouraging Islamic banks to adopt AAOIFI Standard as a benchmark. Secondly, policy makers should be encouraged to ask IBs for adopting Islamic standards as AAOIFI. Adopting these standards enhances level of CSR which enhance the image of Islamic banks towards all stakeholders as well as firm value. Additionally, our empirical evidence suggested that an Islamic bank's involvement in CSR tends to increase as its SSB size grows larger. Therefore, policymakers should be encouraged to introduce policies to help increase the number of eligible SSB members as a larger SSB may encourage disclosure of the Islamic Bank's CSR and such disclosure provides evidence to the public that it is pursuing its social goals. Such policies might include more professional training programs which will help increase the supply of Sharia scholars. Also; this is the first study that explored CSR and adoption AAOIFI in the context of the GCC countries, an economically important and culturally varied geographic context. The focus is significant in that it sheds light

on the CSR-disclosing practices of IBs that operated in an environment that is often considered to be invariably opaque. **This study may be extended in several ways.** First, future research may explore the determinants on social activities by collecting data through detailed interviews with management and other stakeholders which might substantiate the findings from the CSRD studies. While there are many disclosure channels for CSRD (e.g., standalone corporate sustainability reports, company websites, press releases, and annual financial reports) (KPMG, 2008); the study uses only annual reports to measuring CSRD; thus asking for future researches that uses more than annual report to measure CSRD. Future research may explore other economic consequences for adoption AAOIFI as impacts on cost of capital; firm value and level of earning management.

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