The Effect of Shariah Supervisory Board (SSB) on Corporate Social Responsibility (CSR) Disclosure in MENA Islamic Banks

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Abstract

Based on agency theory, the main aim of this research is to examine the effectiveness of Shariah Supervisory Board (SSB) characteristics on Corporate Social Responsibility (CSR) disclosure depending on the AAOIFI standard no.7. standard. Using unbalanced sampling, the research covered 64 Islamic banks from 13 countries in the Middle East and North Africa (MENA) region for the period 2012–2022. The study applies system generalized method of moments (SGMM) for hypothesis testing to control for potential endogeneity, reverse causality, and dynamic heterogeneity respective dependent variables. The statistical results reveal that SSBI has a significant relationship with CSR disclosure. The findings have important implications for managers, policymakers, and stakeholders' perspectives of MENA IBs. Priority should be given by managers of IBs in MENA countries to CSR activities that are in line with their main business objectives, such as promoting ethical and sustainable financing. This can help improve the bank's reputation and promote customer loyalty, which ultimately contributes to the bank's performance. Future research can examine moderating factors, such as FinTech, in the relationship between CSR and IB's performance, which have not been covered in Islamic banking context, as the FinTech technology is currently a very interesting and growing area in IBs.

Key words: Corporate Social Responsibility, Shariah Supervisory Board, MENA, Islamic Banks, AAOIFI

1. Introduction

Islamic Banks (IBs) are responsible for fulfilling both their social and ethical responsibilities, as well as their financial activities, according to Shariah law. The operations of IBs are explained by the Qur'an and Sunnah, and these prohibit investments in haram or forbidden activities, such as gambling (Ullah, Harwood, & Jamali, 2018). The rapid growth of Islamic banking in the Middle East and North Africa (MENA) region (Hassan & Aliyu, 2018; (Safiullah & Shamsuddin, 2018) has increased focus on their governance structures, particularly the unique role of Shariah Supervisory Boards (SSB) in ensuring compliance with Islamic principles (Grassa & Matoussi, 2014; (Mollah & Zaman, 2015). Moreover, IBs are supposed to meet their financial and social objectives by engaging in Corporate Social Responsibility (CSR) activities that promote social welfare and social justice. The fundamental principles of Islamic finance emphasise ethical business conduct, social welfare, and transparency attributes that align closely with CSR objectives (Farook, Kabir Hassan, & Lanis, 2011); (Haniffa & Hudaib, 2007).

IBs operated by Shariah expose them to a particular set of risks that are linked with Shariah compliance, for example, the prohibition of Riba, excessive uncertainties and gambling (Abdul Rahman & Bukair, 2013; (Abdullah, Percy, & Stewart, 2013); (Noordin & Kassim, 2019). To reduce these risks, IFIs integrate Shariah governance into existing governance forms and support the idea of full disclosure to increase accountability and transparency (Abdullah, Percy, & Stewart, 2013); (Noordin & Kassim, 2019). The SSB is the primary Shariah governance mechanism which helps IBs operate according to Shariah and encourages CSR disclosure (Khir, Gupta, & Shanmugam, 2008); (Ridwan & Mayapada, 2022). In this case, CSR for IBs entails all initiatives undertaken by an IB to follow its religious, financial, legal, moral and contractual obligations as a financial intermediary for both organisations and individuals (AAOIFI, 2005). The effectiveness of SSB characteristics (such as SSB size, the frequency of SSB meetings, cross-membership, doctoral qualifications and expertise) may lessen the imbalance of information., uncertainty and lack of information resulting from different experiences' backgrounds (Birnbaum, 1984); (Farag, Mallin, & Ow-Yong, 2018); (Noordin & Kassim, 2019) and to increase monitoring of IBs' transactions, thus resulting in increased disclosures (e.g., (Elamer, Ntim, & Abdou, 2020); (Farag, Mallin, &

Ow-Yong, 2018); (Farook, Kabir Hassan, & Lanis, 2011); (Safieddine, 2009) and improvement in the overall performance of IBs (Mollah & Zaman, 2015). However, the extent and nature of this influence remain empirically understudied, particularly in the MENA region, where Islamic banking has its strongest presence (El-Halaby & Hussainey, 2016); Nawaz & Haniffa, 2017). Understanding this relationship is crucial as it impacts stakeholder trust, market reputation, and the broader social impact of Islamic financial institutions (Albarrak & El-Halaby, 2019; (Srairi, 2019).

Whilst Islamic banking claims to be ethical and socially responsible corporations, this is not always the practice case; discrepancy exists between the ideological principles of Islamic banking and its practical implementation in terms of fulfilling social responsibilities (Kamla & Rammal, 2013). In order to have a comprehensive understanding of reality, there is a need to assess empirical data. Furthermore, it is essential to acknowledge that perceptions of reality vary across different cultural and geographical contexts, including Malaysia (Abdul Rahman & Bukair, 2013; (Jaiyeoba, Adewale, & Quadry, 2018), Indonesia (Darus, Amran, Nejati, & Yusoff, 2014); Firman Menne et al., 2016; (Nugraheni & Khasanah, 2019); (Ridwan & Mayapada, 2022), Bangladesh (Belal, Abdelsalam, & Nizamee, 2015), and Hassan et al., 2010; (Mahmuda & Muktadir-Al-Mukit, 2023), Bahrain (Aribi & Arun, 2015), Pakistan (Zafar et al., 2022), UAE (Nobanee & Ellil, 2016), the Gulf Cooperation Council (GCC) ((Aribi, Z. A.; Gao, S., 2010); (Haniffa & Hudaib, 2007); (Platonova, Asutay, Dixon, & Mohammad, 2018). Additionally, to this researcher's knowledge, only one study (Brahim & Arab, 2020) has examined IBs' CSR disclosures in the Middle East and North Africa (MENA) region.

Most previous studies were conducted before issuing an updated AAOIFI (2010 edition) Governance Standard No. 7 (on CSR) and, thus, did not represent a clear benchmark of CSR disclosure in IBs. The primary objective of this standard is to ensure that CSR activities and compliance of IBs are revealed truthfully, transparently and comprehensibly to relevant stakeholders (AAOIFI, 2010). The present study follows (Brahim & Arab, 2020) on depending on the CSR index strictly developed by the AAOIFI (2010) Standard No. 7.

Extensive literature exists concerning the relationship between Shariah governance, about the SSB as a distinctive feature of IBs and CSR disclosure, is found to be very limited (e.g.,

Abdul Rahman & Bukair, 2013; (Farook, Kabir Hassan, & Lanis, 2011); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Ineizeh, 2019).; Islam et al., 2021; (Nugraheni & Khasanah, 2019); (Ridwan & Mayapada, 2022). Furthermore, existing literature indicates that numerous variables about the characteristics of the SSB may play crucial roles in determining its efficacy in carrying out its task and how this may impact disclosure issues.

Existent research by (El-Halaby & Hussainey, 2016) only covers a limited time frame of one year (2013), which hinders its ability to provide a representative understanding of the situation. Additionally, their study solely examined specific SSB characteristics and left other relevant aspects unexplored. Given such oversights, this chapter is the first to examine the effects of other SSB characteristics (SSB meetings, doctoral qualification, and expertise, along with considerations of the size of the SSB and cross-membership) on CSR disclosure by IBs within the MENA region over the period from 2012-2022. This chapter starts with the development of CSR disclosure in IBs and the theoretical framework. Then, it undertakes an empirical literature review and develops a hypothesis investigating the impact of SSB characteristics and CSR disclosure.

2. Theoretical framework, literature, and hypotheses development

2.1. Theoretical Framework

Agency theory is a contract between a principal and agent in which the principal employs an agent to perform a service on their behalf (Bae, et al., 2018; De Villiers et al., 2011; Jensen and Meckling, 1979). The agency problem appears when the agent must perform specific tasks that do not serve to meet the principal's goals (Healy and Palepu, 2001; Hossain et al., 1995). Jensen and Meckling (1979) asserted that due to the separation of interest between the principals and the agents, this can result in agents potentially not acting in the principals' best interest and that this may later lead to the appearance of a conflict of interest. It follows, that, the principals will suffer an agency cost to monitor and control the agent. Jensen & Meckling (1979) recognised many categories of agency costs related to agency problems, such as monitoring costs which arise by offering specific incentives to the agent that encourage the agent to work for the principal's benefit. Another category concerns bonding costs: these happen when the agent employs extra resources to make sure that their actions

benefit the principal. Additionally, Kam (1990) mentioned that there are two ways to minimise monitoring costs: disclosing voluntary information (Chow and Wong, 1987) and reporting accounting information reliably to owners (Holthausen & Leftwich, 1983).

CSR disclosure plays a pivotal role in addressing conflicts between agency and principal. By adopting CSR disclosure, companies can effectively reduce such conflicts. Additionally, CSR disclosure serves as an invaluable mechanism for overseeing and reporting a firm's progress towards its short-term and long-term goals. This, in turn, ensures transparency and accountability within the organisation and enhances overall performance and stakeholder trust (Chang et al., 2017 and Ntim et al., 2014). Ho and Wong, (2001) suggested that higher levels of governance mechanisms lead to stronger internal controls and weaker information asymmetry. Agency theory proposes that board of directors as well as SSB will lead to higher disclosure levels (Farag, Mallin, & Ow-Yong, 2018). If the SSB members cannot perform their activities independently, this will have a negative impact on the given bank's reporting, and it will affect the overall disclosure of IBs (Usdeldi et al., 2022). Agency theory suggests that encouraging companies to disclose more CSR information to assure stakeholders of the company's socially responsible performance leads to less information asymmetry between managers and stakeholders.

It can be seen, therefore, that researchers have used agency theory to assess hypotheses regarding the level of CG characteristics disclosure, (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); Huafang and Jianguo, 2007). In addition, management has been encouraged to enhance the disclosure of CSR information to convince stakeholders that they are operating in their best interests and are also genuinely committed to addressing CSR issues. By doing so, they can actively contribute to minimising agency costs and conflicts within the given organisation. This increases transparency and fosters trust and accountability; it further enables a positive relationship between management and stakeholders, which ultimately benefits the overall efficiency and effectiveness of the company (Jensen and Meckling, 1979; (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020).

2.2. Empirical Literature and Hypothesis Development

In the banking context, the relationship between Shariah governance and CSR is found to be very limited, and studies examining CG as a determinant of the CSR disclosure level have considered only CG board-related variables (e.g., (Bokpin, 2013); (Elzahar & Hussainey, 2012). Similarly, few studies have employed CG in relation to SSBs as a distinctive feature of IBs (e.g., Abdul Rahman & Bukair, 2013; (El-Halaby & Hussainey, 2016); (Farook, Kabir Hassan, & Lanis, 2011); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Ineizeh, 2019); (Musibah & Alfattani, 2014).

Additionally, to the best of the researcher's knowledge, only a limited number of studies have depended on AAOIFI (2010) standards in their development of a CSR disclosure index (e.g., (Brahim & Arab, 2020); (El-Halaby & Hussainey, 2016); (Nugraheni & Khasanah, 2019). In contrast, most studies used the earlier AAOIFI (2005) in developing a CSR disclosure index before the issuance of the 2010 standards. This is a further reason for this study's examination of the effects of SSB characteristics on CSR disclosure using the standards No.7 of the AAOIFI (2010) as a benchmark by which to develop a CSR index.

The reason for focusing on the AAOIFI (2010) standard no.7 rather than other standards is that the 2010 standards explain each of the duties mentioned in the definition of CSR in detail. First, religious responsibility stands for to the requirement of IBs to follow Shariah rules in all of their activities and operations. Second, economic accountability implies the requirement that IBs are financially sustainable, profitable and efficient. Third, legal accountability is the obligation of IFIs to respect and comply with the laws and regulations of the countries in which they operate. Fourth, ethical duties refer to the responsibilities of IFIs to observe the vast majority of uncoded cultural, religious and traditional values. Finally, in addition to their religious, economic, legal and ethical responsibilities, stakeholders expect IFIs to play a social role in promoting Islamic values. Additionally, they help IBs to disclose CSR activities and compliance for IFIs, as well as to ensure that the main objective is delivered in an appropriate, transparent and understandable way to stakeholders. (Nugraheni & Khasanah, 2019). Accordingly, the adoption of AAOIFI standard no. 7 is the most applicable method for this study.

Additionally, existent literature indicates that most studies investigating CSR and IBs have focused primarily on those in Gulf countries (Abdul Rahman & Bukair, 2013; (Haniffa & Hudaib, 2007); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020). Other studies have been based mainly on single countries, such as Bangladesh (e.g., Islam et al., 2021) or Indonesia (e.g., (Nugraheni & Khasanah, 2019); (Ridwan & Mayapada, 2022). SSBs strongly and positively influence CSR disclosure, as previous literature has confirmed (e.g., (El-Halaby & Hussainey, 2016). It follows, that it is interesting to examine and analyse the relationship between SSB characteristics and CSR disclosure within the MENA region as it has only rarely been examined by previous literature.

(El Hussein, 2018) conducted an important study that examined the connections between CSR disclosure and SSB variables. The research revealed that IBs attach significant importance to their ethical and moral identities and incorporate aspects of social welfare. This investigation covered various Islamic countries from 2000 to 2014. Using content analysis, (El Hussein, 2018) found that disclosure levels ranged from 13.3% to 49%. Notably, the presence of SSB had a positive impact on CSR disclosure levels. The board's existence resulted in enhanced monitoring and adherence to Shariah principles and rules, leading to increased disclosure of information. including details of social activities. This demonstrated the proactive approach of IBs towards promoting transparency and social responsibility.

Existent literature shows that combining CG mechanisms with SSBs, along with their other elements, provides IBs with better-quality monitoring and higher disclosure levels (Abdul Rahman & Bukair, 2013; (Farook, Kabir Hassan, & Lanis, 2011); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Musibah & Alfattani, 2014). In regional studies, (Farook, Kabir Hassan, & Lanis, 2011) were the first to investigate the determinants of IBs' social disclosures. They employed scores of SSB size, reputable scholars, cross membership and secular educational qualifications to score 47 IBs in 14 countries, using regression analysis. They found that SSB cross-memberships, doctoral qualifications and/or international reputations resulted in greater monitoring. Consequently, they exhibited higher levels of compliance with Islamic laws and principles, leading to higher levels of CSR disclosure.

Additionally, using multiple linear regression, Abdul Rahman & Bukair, (2013) sought to discover how an SSB and its characteristics influence CSR disclosure level by examining 53 IBs in GCC for the year 2008. They used the combination of SSB characteristics (SSB's size, number of reputable scholars, cross-membership, secular educational qualifications and expertise) as SSB measurements. Their results indicated that IBs' annual reports contained higher levels of CSR disclosure, demonstrating the positive impact of SSBs on those disclosures. They found that the combination of internal SSB characteristics leads to greater monitoring and, therefore, more compliance with Shariah principles and rules, which leads to higher CSR disclosure levels.

Using the same SSB variables as (Rahman. & Bukair, 2013), across eight countries in the MENA region (only countries that applied AAOIFI in their IBs) for the year 2013, (El-Halaby & Hussainey, 2016) found that the average compliance level based on AAOIFI standards relating to the SSB was 68%, whilst that of the CSR was 27%, and that there was a positive relationship between SSB and CSR. Their study is the only one in the MENA region and only focused on one year; thus, it is unrepresentative of all MENA Islamic banking, which motivated this study to bridge this gap in the literature by directing our focus on MENA for a longer period. Additionally, they concluded that the increased explanatory power of corporate governance mechanisms had more impact on CSR disclosure levels when they were related to the SSB than when they were related to the board of directors. Moreover, (Ineizeh, 2019) added that there is a positive relationship between SSB and CSR disclosure for the GCC IB's from 2006 to 2016, using panel data regression.

Recently, (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020) explored the practices of GCC countries' IBs' CSR disclosures from 2010 to 2014. They focused on the Shariah governance mechanism (using SSB size and SSB cross-membership) as a determinant of CSR and how it can influence a firm's value. They indicated that although the CSR disclosure level was extremely low and that there was a positive relationship between SSB size and IBs' CSR disclosure activities, the relationship between cross-membership and CSR disclosure was significantly negative and no relationship between SSB meetings and CSR disclosure.

Single-country studies, such as those by (Nugraheni & Khasanah, 2019); (Ridwan & Mayapada, 2022), measuring the extent to which Indonesian IBs disclosed CSR information according to CSR disclosure determinants, were studied using multiple regression analysis. Both studies found that SSB qualifications did not affect CSR disclosure, but they reached a contradictory result regarding the effects of SSB size on CSR disclosure. Additionally, Fujianti,et al. (2023) examined the effect of SSB index on CSR disclosure in Malaysia and Indonesia from 2016 till 2019 and found a negative relationship. Also Sari et al., (2023) found a negative relationship between SSB crossmembership and SSB expertise while a positive relationship between SSB meetings and CSR in Indonesian IBs.

This study differs from that of (El-Halaby & Hussainey, 2016), regarding four methodological points. First, El-Halaby & Hussainey only focused on one year (2013), which cannot be deemed representative; in contrast, this study uses longitudinal data from 2012–2022. Second, they focused on the eight countries that adopted AAOIFI for their banks; this study includes 13 countries in the MENA region. Third, El-Halaby & Hussainey examined the effects of three SSB characteristics (SSB size, SSB cross-membership and reputation) on CSR disclosure. This study examines Shariah governance (mainly SSB characteristics) and CSR disclosure practices, taking into account of most of SSB- characteristics (SSB size, the number of SSB meetings, SSB secular educational qualifications, SSB cross-membership and SSB expertise) as potential determinants of CSR disclosure by IBs which are expected to represent the competencies and capabilities of SSB in assessing their influence on CSR disclosure. According to agency theory, IBs' inclusion of SSBs can appear to be an attempt by management to reduce agency conflict by fostering transparency and accountability (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020). Finally, El-Halaby & Hussainey's CSR disclosure index was composed of to 12 dimensions and classified as either Universal-oriented CSR disclosure or Sharia-oriented CSR disclosure and collected from a combination of items from previous studies and the Governance Standard No.7. This study index is considered, therefore, to be a strict adaptation of Standard No. 7 of AAOIFI (mandatory versus voluntary).

In conclusion, the relationship between SSB characteristics and CSR disclosure is mixed: a group of researchers reported a positive association (e.g., (Elamer, Ntim, & Abdou, 2020);

(Farag, Mallin, & Ow-Yong, 2018); (Farook, Kabir Hassan, & Lanis, 2011); (Safieddine, 2009), while others concluded a negative relationship (e.g., (Abdullah, Percy, & Stewart, 2013); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020). In contrast, a third group revealed a non-linear relationship (Cheng & Courtenay, 2006); (Ridwan & Mayapada, 2022) between SSB characteristics and CSR disclosure. Examining and analyzing the emergence of either negative or positive relationships in recent years is intriguing, even in the banking sector.

H1: There is a positive relationship between SSBI and CSR disclosure.

3. Research methodology

3.1. Sample and Data Collection

The current study uses secondary data relating to CSR disclosure. The researcher obtained data in the form of financial statements for the banks from the Fitch Connect database. However, the database did not contain accessible data on either governance or CSR variables. As a result, the researcher relied on the annual reports of IBs (i.e., SSB and CSR reports) as well as their websites to manually extract additional/missing information.

The sample period was chosen in accordance with the objectives defined by the latest governance standards of the AAOIFI (2010). These standards aim to coordinate the social responsibility activities of IBs. More specifically, these standards seek to ensure that information on the CSR activities of IBs, as well as their compliance with Islamic standards, reaches stakeholders in an honest, clear and comprehensive manner (AAOIFI,, 2010).

The sample for this study comprised all IBs operating in the MENA region: 600 bank-year observations. The banks were selected in accordance with previous literature on IBs in the MENA region (e.g., (Abedifar et al., 2013; (Brahim & Arab, 2020); Beck et al., 2013; (El-Halaby & Hussainey, 2016); (Rajhi & Hassairi, 2013). It follows, that the number of IBs in the sample was justifiable and may differ from previous studies in terms of the number of selected years.

Annual reports are one of the primary tools that IBs use to disclose their socially responsible behaviour (Platonova, Asutay, Dixon, & Mohammad, 2018). Previous studies of CSR

disclosure determinants (e.g. (Farag, Mallin, & Ow-Yong, 2018); (Haniffa & Hudaib, 2007); (Maali, Casson, & Napier, 2006) have widely employed them as studies on the performance of IBs and CSR disclosure (Arshad, 2012; (Farag, Mallin, & Ow-Yong, 2018); (Hossain, 2019); (Mosaid & Boutti, 2012); (Platonova, Asutay, Dixon, & Mohammad, 2018). Additionally, other reports published on the websites of IBs, such as environmental and CSR reports, can support the examination of CSR disclosures (Platonova, Asutay, Dixon, & Mohammad, 2018).

The Central Bank in each country provided its list of banks for the period 2012-2022 while any bank with Islamic-only windows was included in the sample for a proper application of Shariah. In keeping with existent Islamic banking literature, the study excluded banks with missing data and those whose annual reports had not been published as well as annual reports in a different language other than English and Arabic. The final unbalanced panel dataset is presented in, which consists of 600 bank-year observations from 64 IBs, covering a period of 11 years (2012–2022) in 13 countries in the Arab MENA region: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, the United Arab Emirates (UAE) and Yemen.

3.2. Measurement of Variables and Econometric Models

This study adopts a quantitative research approach which increase reliability, establish causality and offer strong forms of measurement as well as the ability to generalise results (Bryman & Bell, 2003).

3.2.1. Measuring the CSR Disclosure Index (Dependent Variable)

The CSR disclosure index measure was adopted from the work of (Brahim & Arab, 2020); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020). These studies strictly adopted the AAOIFI (2010) standards which objective is to develop standards on CSR activities and compliance for IFIs, as well as ensuring that the main objectives are delivered in appropriate, transparent and understandable ways to stakeholders (Nugraheni & Khasanah, 2019).

To measure the CSR disclosure in the study, it is important to note that, from a Shariah perspective, the various categories of CSR disclosure proposed by Governance Standard No. 7 do not carry the same weight. As a result, the unweighted disclosure index was used to assess the CSR disclosure items in the annual reports, ensuring the validity and reliability of the analysis. Each CSR disclosed in the annual report was scored at '1', or at '0' if the annual report did not show the same. The use of the unweighted index and dichotomous methods to measure CSR disclosure was consistent with other CSR disclosure studies (e.g.,; (Platonova, Asutay, Dixon, & Mohammad, 2018). Following previous studies (e.g., (Brahim & Arab, 2020); (Haniffa & Hudaib, 2007); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Issa, Zaid, Hanaysha, & Gull, 2021); (Maali, Casson, & Napier, 2006); (Platonova, Asutay, Dixon, & Mohammad, 2018), measuring the CSR was undertaken as follows:

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

CSR = corporate social responsibility disclosure index for the bank i and for the year t;

N = number of items expected for *the* bank in the index; and

j = denotes each item included in the index.

Therefore, the value of the index is calculated as the sum of the scores assigned to each item in score (j) for each bank i in year t. It can be standardised as follows:

$$CSRD(i,t) = \left(\frac{\sum_{i=1}^{N} \quad Score(j)}{N}\right) x100$$

3.2.2. Measuring SSB characteristics (Independent Variable)

This paper employs SSB index (SSBI) as an independent variable which is the SSB score of five mentioned characteristics rather than measure each one separately as a robustness check. To do this, these indicators are combined using principal component analysis (PCA) approach. Consistent with (Farook, Kabir Hassan, & Lanis, 2011), Ibrahim et al., (2015), and (Ineizeh, 2019); Rahman & Bukair (2013), who formulated the scores of Islamic governances to enhance monitoring quality and increase the level of CSR disclosure within the Islamic Banking sector, this thesis constructs SSB index consisting of (the number of board members

(SSBS), number of meetings (SSBM), cross membership (SSBCROSS), secular educational qualifications (SSBPHD), and expertise of the SSB (SSBEXP). Each SSB characteristic is weighted using principal component analysis (PCA), a data reduction technique that identifies associated variables and classifies them as components which capture a significant portion of the total variance of all the variables of interest (Larcker et al., 2007).

3.2.3. Control Variables

In line with previous research, this paper employs bank age and size together as bank-specific characteristics (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Hossain, 2019); (Nomran, Haron, & Hassan, 2018); (Wang, Lu, & Lin, 2012). The bank size is measured by the natural logarithm of total assets (Farag, Mallin, & Ow-Yong, 2018); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Platonova, Asutay, Dixon, & Mohammad, 2018); Simpson, 2002) while the bank age is the number of years since the individual banks were established (Khémiri & Noubbigh, 2020) The researcher believes that larger banks should be more transparent to the public, and it follows that they will more likely report their activities to a wider community. Country level control variables are also employed and include the AAOIFI, which is a dummy variable - equal to 1 if the country of the bank requires the application of the AAOIFI's standards and 0 otherwise. Regulatory framework, which is a dummy variable that is equal to 1 if the central bank has a central SSB and 0 otherwise; the rate of inflation and Gross Domestic Product (GDP) growth (Elamer, Ntim, & Abdou, 2020); (Bourkhis & Nabi, 2013); Khalil, & Boulila 2020; (Khomsatun, Rossieta, Fitriany, & Nasution, 2021).

Table 1 Variables Summary

Abbreviation name	Full Name	Variable Description	Data Source
Dependent variable			
CSR	Corporate Social Responsibility Disclosure	Ratio of actual disclosure points over the maximum score possible for the bank	Annual Report/Website
Independent variables – Shariah Supervisory Board Characteristics			
SSBI	Shariah Supervisory Board index	PCA calculations derived from	Annual reports and Website

		SSB characteristics (size; meetings; cross-membership-PhD holders, Experience)	
Control variables			
Size	Size of the bank	The natural logarithm of a bank's total assets	Fitch connect database
Age	Age of Islamic bank	The Islamic bank age as from establishment date	Fitch connect database
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions Standards	Dummy variable which is equal to 1 if the country of the bank requires the application of the AAOIFI's standards and 0 otherwise	Fitch connect database
Regulatory Framework	Shariah regulatory framework	Dummy variable that is equal to 1 if the central bank has a central SSB and 0 otherwise	Annual reports
GDP	Gross domestic product	Annual growth of Gross domestic product (%)	World bank
Inflation	Annual inflation for each bank-year	The consumer price change (annual %)	World bank
Year dummy	Years	Dummy variable was created for the year period, where 1 is for the current year and 0 otherwise	

3.3. Regression Model

(Blundell & Bond, 1998) adopted the formulation for dynamic panel estimation, which combines the moment criteria for the differenced model with those for the levels model (Arellano & Bond, 1991); (Karmani & Boussaada, 2021). (Blundell & Bond, 1998) found that when the dependent and explanatory variables were determined over time, the lagged levels of these variables were poor instruments for the regression equation of differences.. There are two estimators for the GMM method: differential GMM and system GMM. When there are missing values, the system GMM performs better than the difference GMM.

In this study, the system GMM estimator was applied to resolve defects in the model, such as multicollinearity, autocorrelation, heteroscedasticity and endogenous variables. Doing so helped to ensure that the obtained results were not biased whilst also enhancing their stability and efficiency (Nguyen, Le, Ho, & Nguyen, 2021). Additionally, it works well when

a panel has a shorter time dimension (where T is 11) than its cross-sectional dimension (where N is 64) (Blundell & Bond, 1998).

Additionally, to address issues of over-identification and autocorrelation problems, this study employed two post-estimation specification tests, namely the Sargan test and the Arellano-Bond test. The Sargan (1958) test is used for over-identification as it tests the instrumental variable's accuracy, which verifies the validity of the instruments. The (Arellano & Bond, 1991) test for autocorrelation is used to confirm the existence of autocorrelation.

The lagged levels of explanatory variables are used as instruments, and the SGMM models specifications can be presented in the following equations:

Model 1

$$CSR_{it} = \alpha + \beta_1 CSR_{it-1} + \beta_2 SSBI_{it} + \beta_3 AGE + \beta_4 Size_{it} + \beta_5 AAOIFI_{it} + \beta_6 regulatory\ framework_{it} + \beta_7 GDP_{it} + \beta_8 Inflation_{it} + \varepsilon_{it}$$

Where:

CSR = the ratio of disclosure points over the maximum score that a bank can achieve in the sample Islamic banks i at year t or known as the dependent variable. A summary of CSR disclosure dimensions is set out in Appendix 1'

SSB index = the independent variables and created from the score of five SSB characteristics: the size of the SSB, the number of meetings, SSB cross-membership, the number of SSB members with various backgrounds and the number of persons who hold a PhD.

β_3 to β_8 = control variables: Size is the natural logarithm of total assets for bank i during the period t. Age is the bank's age from its foundation for bank i during the period t; the AAOIFI is a dummy variable, which is equal to 1 if the country of the bank requires the implementation of the AAOIFI's standards and 0 otherwise; the regulatory framework is a dummy variable that is equal to 1 if the central bank has a central SSB and 0 otherwise; the

rate of inflation is consumer prices (annual %), and GDP is the annual gross domestic product of the country.

Year dummy variables = the year 2011 to 2022 as a dummy variable, b1...bn are the regression coefficients; ε is the error term. CSR$_{t-1}$ indicates 1-year lag of the dependent variable CSR (previous year's CSR).

4. Findings and Discussion

4.1. Descriptive Statistics: CSR Disclosure and SSB Characteristics

Table 2 summarises the descriptive statistics of all the variables in this chapter for the 600-year observations. It presents the minimum, maximum, mean, standard deviations and number of observations for the entire sample. The results show that CSR was disclosed in banks' annual reports with different concentrations and levels of information. There are large swings in MENA banks' CSR disclosure. CSR scores range between 0.02 and 0.875. The mean of CSR disclosures (31.8%) over the covered years for the entire sample shows that the extent of disclosure varies across time, which reflects a slight increase by (10%) in the level of CSR disclosure of IBs, compared with the latest previous study done in MENA by (Brahim & Arab, 2020), which is (24.5%) covering 5 years from 2010 till 2014. Thus, descriptive statistics indicate low level and considerable variations in the level of compliance with the AAOIFI standards. Noticeably, these findings are consistent with those of the existent CSR disclosure literature in MENA countries. Therefore, like our expectations, MENA IBs started to be more aware of disclosing their CSR activities than before, but in a low rate.

As for the independent variable, the SSBI has a mean value of 50%. In terms of the control variables, the size of IBs ranges between 1.124 and 5.398, with a mean value of 3.503. The bank age has a mean value of 21 years, which is in line with the study done by (El-Halaby & Hussainey, 2016), which found that the average number of years was 20 years. The results also show 45% of the IBs in MENA region are governed by a central Shariah Board and 74% of the banks belong to countries which apply the AAOIFI standards. Surprisingly, the minimum GDP growth in the MENA region is -27.9 with average of 1.7, indicating that some countries did not experience growth in some specific years. The inflation rate varies from -3.7% to 359%, with an average of 8.7%.

Table 2 Descriptive Statistics: SSB characteristics and CSR Disclosure SSB on MENA countries

Variables	Observations	Min	Max	Mean	Std. Dev.
CSR	600	0.0188	0.8750	0.3148	0.1590
SSBI	600	0.0000	1.0000	0.5000	0.5004
Age	600	1.0000	51.0000	20.3850	12.9465
Size	600	4.1268	8.5214	6.5881	0.8504
AAOIFI	600	0.0000	1.0000	0.7400	0.4390
Regulatory Framework	600	0.0000	1.0000	0.4500	0.4979
GDP%	600	-27.9946	8.8646	1.5166	4.9761
Inflation%	600	-3.7491	359.0930	8.7171	28.8246

Note: The total sample = 600 bank-year observations over 2012-2022 including 64 IBs in MENA region. The dependent CSR = the average of the whole CSR index (CSR);. The Independent variables :, SSBI= SSBI is the score of (SSB size, SSB meetings, SSB crossmembership, SSB PhD and SSB expertise)., Control variables: Age is the bank age due to its foundation for bank; Size = natural logarithm of total assets; AAOIFI= binary variable which is equal to 1 if the country of the bank requires the application of the AAOIFI's standards and 0 otherwise; the regulatory framework is a dummy variable that is equal to 1 if the central bank has a central SSB and 0 otherwise; GDP= Annual rate of economic growth of the gross domestic product; Inflation= the consumer price change (annual %). Number of cases (N): - that represent number of observations per each dependent variable; Mean:- is central value over data; Std. Dev: standard deviation measure used to quantify the amount of variation or dispersion of data.

Pearson correlation matrix is tested. (Gujarati & Porter, 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 show that there is nomulti-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 & Porter, 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 amulti-collinearity/autocorrelation problem.

4.2. Panel Regression Analysis:

Following the descriptive statistical analysis of the variables, it is important to utilise the appropriate statistical tests according to the nature of study relationship to analyse the linear relation between the SSB characteristics and CSR disclosure. Given the nature of the data (both time series and cross-sectional) utilised in this study, the initial approach was to conduct a fixed or random effect panel data analysis using the Hausman (1978) test (Ntim & Soobaroyen, 2013). This was essential to ensure that the study addressed potential biases in the estimated coefficients arising from correlations between unobserved firm characteristics and exogenous variables. By employing either a fixed-effect model or a model in first differences, the likelihood of biased coefficients can be minimised (Himmelberg, Hubbard, & Palia, 1999).

Table 3 shows the results of the SGMM results of the relation SSB characteristics and CSR disclosures. They reveal the impact of the lagged value of CSR-on-CSR disclosure change. The results show a positive and significant association of the lagged variable of CSR with the dependent variables in the regression, at a value of 0.6141.

Table 3 SGMM Results: SSBI and CSR disclosure

Variables	CSR
L.CSR	0.6141***
	(0.0229)
SSBI	0.0184**
	(0.0076)
Age	0.0601*
	(0.0371)
Size	0.0173***
	(0.0037)
AAOIFI	-0.0321*
	(0.0185)
Regulatory Framework	-0.0281*
	(0.0169)
GDP	0.0009**
	(0.0004)
Inflation	-0.0002**
	(0.0001)
Year Dummy	Yes

Constant	-0.0041
	(0.0664)
AR1	0.0003
AR2	0.4735
Sargan Test	1.0000
Observations	536

Note: Sample description and variable definitions: The dependent CSR = the average of the whole CSR index (CSR) The Independent variables :, SSBI: is the SSB index, control variables: Age is the bank age due to its foundation for bank; Size = natural logarithm of total assets; AAOIFI= binary variable which is equal to 1 if the country of the bank requires the application of the AAOIFI's standards and 0 otherwise; the regulatory framework is a dummy variable that is equal to 1 if the central bank has a central SSB and 0 otherwise; GDP= Annual rate of economic growth of the gross domestic product; Inflation= the consumer price change (%)

The results show that the coefficient of SSB characteristics is positive and highly significant with CSR disclosure, suggesting that the enhancement of SSB characteristics is associated with more CSR disclosure changes. This result is consistent with the agency theory, which supports the idea of a larger board, and other previous studies (e.g., (Rahman. & Bukair, 2013); (Farag, Mallin, & Ow-Yong, 2018); (Farook, Kabir Hassan, & Lanis, 2011); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020); (Ineizeh, 2019); (Nugraheni & Khasanah, 2019), who found that the size of Shariah board can affect the level of CSR disclosure positively as it reduces agency conflicts by operating as an additional governance layer for monitoring managers, resulting in greater disclosure. Moreover, a higher number of board members may also reduce uncertainty and lead to a lack of information as the board with more members will usually have better composition in terms of the experience gained from different backgrounds, leading to greater CSR disclosure (Birnbaum, 1984 and (Noordin & Kassim, 2019).

Regarding control variables, empirical results suggest that there is a positive and significant relationship between the age and the size of the bank CSR. The results are in line with previous studies (El-Halaby & Hussainey, 2016); Hu & Scholtens, 2014; (Ridwan & Mayapada, 2022), assuming that disclosing more CSR activities is expected from larger banks as they are more visible to the public, which leads them to avoid the potential political

cost and retain their legitimacy in the Islamic society (Ibrahim et al., 2015). Conversely, other studies (Abdul Rahman & Bukair, 2013; (Farook, Kabir Hassan, & Lanis, 2011); (Ineizeh, 2019) showed that there is an insignificant relationship between bank size and CSR disclosure. Regarding the AAOIFI framework, and the Shariah framework, it is found that there is a negative relationship, which means that the disclosure level decreases when the countries follow a centralized framework. Regarding the GDP, the findings show a positive relationship, which means that when the economy grows and GDP increases, Islamic banks may shift their focus towards more comprehensive CSR disclosure to meet stakeholder expectations. The study results differ from previous studies (e.g., Chambers et al., 2003; Abdul Rahman & Bukair, 2013), which found no relationship between GDP and CSR disclosure in different countries.

To test the validity of instruments and to ensure the consistency of the SGMM estimators used in our model, the Hanen test of over-identification restrictions is conducted (Tarchouna et al., 2017) since the Hansen test yields the p-values of the overall CSR disclosure is 1.0000 for all of them, which is greater than 0.05, so the overall validity of the instrument is significant. Moreover, the model's AR (2) results are 47%, meaning there is no autocorrelation problem as the p-value for the second lag is greater than 5%.

5. Conclusion

The objective of this paper is to discuss the effect of SSB characteristics on the level of CSR disclosure in MENA IBs covering the period 2012-2022. The CSR index is developed from the recommendations of AAOIFI Governance Standard No. 7. The sample includes 17 banks from Bahrain, three from Egypt, six from Kuwait, one from Lebanon, three from Oman, two from Palestine, six from Qatar, four from Saudi Arabia, two from Sudan, two from Syria, nine from UAE and three from Yemen. It contributed to the current CSR disclosure literature by examining the determinants of CSR disclosure in MENA IBs for the years 2012-2022, using comprehensive SSB variables and system generalised method of moments (SGMM) analysis.

The study tests the degree to which SSB characteristics affect IB's decision to disclose their CSR information in their annual report in IBs. There is a lack of empirical research in this

area, apart from the notable study conducted by (El-Halaby & Hussainey, 2016), who covered only the year 2013. The findings reveals that the SSB characteristics have a positive and significant effect on CSR disclosure. This means that the existence of SSB, whose members have sufficient skills, high education level and knowledge of the Islamic banking sector and a higher number of meetings and engagement with CSR disclosure practices and CSR activities to a greater extent, is in line with previous literature (e.g., Abdul Rahman & Bukair, 2013; (Farook, Kabir Hassan, & Lanis, 2011); (Harun, Hussainey, Mohd Kharuddin, & Farooque, 2020). Therefore, the SSB of MENA region IBs has become more aware of the importance of disclosing CSR information.

These findings have several implications for banks, regulators and policymakers. Particularly, they provide banks with a better understanding of the benefits of strengthening their CG, especially SSB characteristics, to improve their CSR disclosure and increase their awareness of the importance of undertaking social activities. As there are numerous annual reports and websites of MENA IBs that do not disclose CSR information, regulatory bodies and policymakers may establish a minimum benchmark for CSR disclosure, which each bank publishes in either their annual report or website. In addition, regulatory entities, such as the AAOIFI, should be more proactive in directing IBs towards the best disclosure practices for both mandatory and voluntary CSR. AAOIFI is also expected to have a strong collaboration with regulatory bodies in MENA countries to improve CSR disclosure practice among IBs.

Further research could address several points. First, this study considers only CSR disclosures in annual reports in MENA region. Future studies should consider other communication channels, such as social media, newspapers, magazines, news and television. Second, this study explores only the disclosures in the annual reports and websites of the IBs in MENA region; future research can include other IFIs and IBs worldwide. They may also consider other methodological approaches, such as interviews with managerial staff and stakeholders to enhance our understanding of this phenomenon. Additionally, future research can focus and compare the disclosure levels during and after the COVID-19 pandemic. Finally, this study used data from 13 different countries, which

provided a wider understanding of the relationship between SSB characteristics and CSR disclosure; then, it could not examine the effect on CSR in a particular country.

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