Islamic Corporate Social Reporting Practices and the Link with Financial Performance in the Malaysian Islamic Banking Industry

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Abstract

The main aim of this thesis is to contribute to a better understanding of corporate social reporting (CSRep) and economic performance from an Islamic perspective in the context of Malaysia. This study develops an integrated framework to help provide a more complete picture of Islamic CSRep. The proposed framework is tested to understand the CSRep practices of Malaysian Islamic banks. This study also investigates the extent of CSRep practices of Islamic banks in Malaysia before and after the governance standards on Corporate Social Responsibility (CSR) conduct and disclosure, were introduced at the end of 2009 by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The study deals with quality and quantity of CSRep in annual reports and stand-alone CSR reports. As previous studies that specifically examine the relationship between CSR and financial performance in Islamic banking are limited, this study first explores the relationship between CSRep and traditional financial measures that are commonly used in Western studies, focusing on efficiency of cost, revenue and profit. In addition however, the study explores the link between CSRep and socio-economic accounting measures which are more aligned with the socio-economic objectives of Islamic banks. The findings obtained from this study suggested that Islamic CSRep in Malaysian Islamic banks, in general, is still low but increasing in quantity and improving in quality. The major focus of disclosure in the annual reports and CSR reports of Islamic banks is employees. Malaysian Islamic banks are to some extent reflecting Islamic principles as expected from the CSRep framework, but not wholly. The analysed data provides evidence that quality and quantity of CSRep in Malaysian Islamic banks has increased since the introduction of AAOIFI standards on CSR, even though the standards are not compulsory. There is limited support that CSRep is related to financial performance and socio-economic performance, however there is some evidence that CSRep when measured according to the Standards is related to socio-economic indicators, particularly the profit sharing ratio and *Zakat* performance ratio. The study also found that Islamic banks in Malaysia tend to be more liberal in their *Shariah* interpretation in order to be competitive and because of the multicultural nature of their constituents. Hence, the key contributions to the literature of this study are the use of socio-economic performance variables as additional empirical elements and to provide a contextual understanding of Islamic CSRep through the use of a multicultural country setting.

Declaration

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

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