Shariah Disclosure and the Performance of Islamic Financial Institutions

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ABSTRACT

Manuscript type: Research paper
Research aims: This study aims to shed light on the relationship between Shariah disclosure and the performance (social performance and firm value) of listed Islamic financial institutions in the Gulf Cooperation Council (GCC) countries.
Design/Methodology/Approach: A checklist based on Islamic standard setters that is based on previous disclosure studies is developed to gauge the level of Shariah disclosures. Data are gathered from the annual reports of the Islamic financial institutions (IFIs) in the GCC for the year ending 2017.
Research findings: The findings show a negative and significant relationship between Shariah disclosure and social performance; they also show a positive and insignificant relationship with Tobin's Q. This outcome could be attributed to the corporate social responsibility (CSR) activities which create financial burdens for the IFIs. With high levels of disclosure, there is a trade-off between the two.
Theoretical contribution/Originality: This paper contributes to literature by developing a new disclosure index based on the Shariah perspective in relation to CSR engagement of the IFIs. The findings are noteworthy to the IFIs since CSR practices need to be entrenched into the working practices. They are also expected to generate positive contributions to the social good of the Islamic society, thereby fulfilling justice and equality in lieu of the Islamic concepts.
Practitioner/Policy implication: From a more practical perspective, this study is useful to regulators and policy makers who wish to

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incorporate CSR into their Shariah-compliant policies. Based on the findings, it is vital that CSR standards be implemented as a mandatory policy for the IFIs. Doing so would enhance their social performance, thus enhancing a higher level of Shariah disclosures.
Research limitation/Implications: The findings are limited to the context of Shariah disclosure and the GCC listed firms. The sources of data used for this study are also confined to the annual reports and the websites of the IFIs. In this regard, the outcome may not be applicable to all markets.

Keywords: GCC Countries, Islamic Financial Institutions, Shariah Disclosure, Shariah Governance, Shariah Supervisory Board, Social Performance
JEL Classification: G280, G380, M140, Z120

1. Introduction

The concept of social responsibility (SR) and its practices has a vast history in the Muslim world. In the Holy Quran, it was stated: "Surely the believers are none but brothers unto one another, so set things right between your brothers, and have fear of Allah that you may be shown mercy" (49:10). This was also enforced by the Prophet's (peace be upon him) *hadith* (quote): "The believers' example in the matter of their mutual love, relationship and compassion with one another is of the state of the body that when a part of it is afflicted, the whole of it is afflicted with fever and restlessness" (Sahih Bukhari, n.d.). This quote basically means that the Muslim community cannot thrive as a unit without justice, love and compassion among its believers. The concept of *zakat* (religious tax), *Sadaqat* (alms), and interest-free loans are well-known in this regard (Mir, Hassan, & Hassan, 2016).

From a Shariah governance framework perspective, there is a persistent ethical issue in relation to the communication of financial information, whereby the public has the right to know about the impact of the business operations on their welfare (Baydoun & Willet, 1997). There is no place for conservatism of disclosure in Islam. Generally, this demand for the disclosure of financial information stems from information asymmetry, and agency conflicts between managers and outside investors (Healy & Palepu, 2001). All of these are part of the general corporate governance structure of firms.

Against this backdrop, this study aims to explain whether Shariah disclosure (SD) has any significant influence on the actions and decisions of the Islamic financial institutions' corporate social responsibility (CSR) activities, and their market value. In this regard, the Shariah governance framework is decentralised in the Gulf Cooperation Council (GCC) countries (Hamza, 2013). The GCC countries have already started taking vast steps in enhancing, maintaining and supporting the social responsibility (SR) activities. For example, they have launched initiatives to develop the intellectual capital as a means to boost the labour market need of skilled workers. This was done in partnership with various economic sectors by offering scholarships, sponsoring students, encouraging entrepreneurs, launching SR awards and encouraging other types of donations and charity activities (Aldosari & Atkins, 2015).

It would, therefore, be interesting to investigate whether the decentralised nature of the GCC countries' Shariah governance framework influences the disclosure practices of the IFIs and what effects the Shariah disclosure (SD) have on their performance. Another reason for conducting this study is that despite the relative uniqueness of the GCC region, and the voluntary nature of its Shariah governance framework, very few empirical studies have examined the code's effectiveness in improving social performances. Most studies tend to focus on CSR disclosure rather than the level of CSR activities conducted by the IFIs (Farook, Kabir Hassan, & Lanis, 2011; Raman & Bukair, 2013; Bukair & Rahman, 2015). As a result, this paper aims to expand on the existing disclosure index proposed by Wallace (1988) and Al-Sartawi (2016) by adapting Islamic elements into the framework so as to accommodate the current global environment. This is done in accordance with the Islamic principles of the Shariah as recommended by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and Bank Negara Malaysia (BNM) standards of Shariah. This comprehensive index will exclusively embrace the Shariah disclosure dimensions. This index will consequently act as a structural support for future integrated reporting frameworks and make a new contribution to the area of Islamic finance and disclosure.

According to Schacht (1964), the Shariah (Islamic Law) is the epitome of Islamic thoughts, the most typical manifestation of the Islamic way of life, the core and kernel of Islam itself. Therefore, different from conventional financial institutions, the IFIs have the responsibility to ensure that their management, operations, activities and instruments are in compliance with Shariah principles which can be accomplished by establishing a proper Shariah governance framework (Hamza, 2013). The Shariah supervisory board (SSB) is one of the internal governance mechanisms which monitors the Islamic banks' activities in accordance with Shariah laws specifically, its implementations and compliance (Hamza, 2013).

Islam takes the concept of disclosure a step further, where disclosure is fundamentally rooted in the notion that human beings are trustees who are responsible for all of God's creations, and that they would be held accountable for their actions (Maali, Casson, & Napier, 2006). Therefore, through voluntary disclosures, firms can discharge their accountability to investors, shareholders and other stakeholders (Ousama & Fatima, 2010). Similarly, Collett and Hrasky (2005) argued that the capacity of codes to achieve good governance depends on the extent to which companies are willing to engage in effective voluntary disclosure and compliance.

This paper contributes to literature through the significance of its implications for the IFIs, not only those in the GCC, but also those in other international investment communities. From a more practical perspective, this study serves the needs of regulators and policy makers in setting new Shariah-compliant policies for corporate social responsibility. Based on the findings of this study, it is recommended that regulatory bodies in the GCC begin instituting strategies that would encourage CSR activities among firms so as to attract investors and enhance performance. This study will also be significant to shareholders, for it also raises concerns regarding the role of governmental and non-governmental bodies in the GCC countries, and how these would contribute to the SR activities which would enable the organisations concerned to fulfil their economic vision of 2030. In addition, the management may be able to understand the importance of SR activities, thereby learning to develop better SR plans. Doing so would increase the partnership between the various organisations and the community at large. Finally, this study also raises concerns regarding the minimalist or decentralised model currently being applied by the GCC countries, where the similarities and differences among the countries, based on their regulatory environments, can be compared.

The rest of this paper is structured as follows. Section 2 provides a review of relevant literature and the hypothesis development. Section 3 provides the model developed in this study. Section 4 presents the results and analysis and Section 5 concludes.

2. Literature Review and Hypotheses

2.1 Theoretical Background

Corporate governance is one of the major components used to evaluate a firm's performance, for instance, its financial stability, particularly in the banking industry throughout the world (Hassan, Rizwan, & Sohail, 2017). Nonetheless, the philosophical foundation of corporate governance in Islam requires an additional layer of governance for the purpose of Shariah compliance. With this aspiration, corporate governance in the IFIs would require a set of institutional arrangement to oversee the Shariah compliance aspects of their businesses and operations. The lack of a specific model of corporate governance as noted in Islamic literature has thus led to the introduction of the Shariah governance system which complements the existing corporate governance framework in IFIs. In this regard, a Shariah governance system is particularly exclusive and unique to the corporate governance framework in the IFIs, unlike their conventional counterparts (Dusuki & Bouheraoua, 2011).

Honggowati, Rahmawati, Aryani and Probohudono (2017) claimed that the conceptual framework of the agency theory can serve as the fundamental mechanism for assessing the disclosure practices conducted by firms, so as to develop an organisational culture that reduces the agency problems. As the agency theory has its roots in information economics with an assumption about the principle-agent relationship, the agency theory makes it easier to monitor a firm's performance. Al-Sartawi (2016) has provided empirical evidence showing that disclosure has a significant ability in reducing information asymmetry, i.e., a firm's management is motivated to disclose more information voluntarily so as to convince the stakeholders that it is behaving optimally on stakeholders' behalf, thereby reducing agency costs.

The full disclosure concept in Islamic accounting is a result of the social accountability concept where the community has the right to know about the effect of the companies' activities and operations on their society (Baydoun & Willett, 1997). However, it has been argued (Baydoun & Willet, 1997; Maali et al., 2006) that this does not mean disclosing information to the last detail. Only the information required by users is disclosed for the purpose of assisting the users in making the economic and religious decisions and also in assisting the management to fulfil its accountability.

Khan (2016) stated that the FASB had identified two dimensions of financial disclosure: content and presentation of information on a firm's website. Since the aim of the current study is to measure the level of disclosure from the Islamic finance point of view, it would also be investigating a third and new dimension, the Shariah dimension. In this regard, the current study will describe the Shariah dimension as information pertaining to Shariah compliance as noted in the annual reports of the IFIs. Hasan (2010) noted that the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standard number one which is a dimension followed by the GCC countries, except Saudi Arabia, demands that the IFIs disclose a Shariah report that encompasses an opinion on the bank's operations with regards to Shariah compliance, in addition to other multiple Shariah issues.

The argument presented in this paper centres around the hypothesis that Shariah disclosure contributes to the CSR activities, i.e., social performance and firm value of the Islamic financial institutions in the GCC. This paper examines whether the commitment of the IFIs in making voluntary Shariah disclosure can explain the observable differences noted in the social performance and firm value of the IFIs.

2.2 Islamic Finance in the GCC

"Islamic finance has been expanding throughout the world mainly due to an increase in the Islamic population and the economic development of Islamic nations. Islamic finance is gaining attention from western financial circles because of its development as a source of additional revenue. Another reason is its unique concepts backed by actual transactions which offer an alternative to the western financial system" (Mizushima, 2014, p. 60).

The term 'Islamic finance' is often used interchangeably with 'interest-free' financing. It is perceived as an alternative to conventional or western financial institutions; it has attracted the attention of many researchers and investors in the last decade (Cevik & Charap, 2011). An IFI can be defined as a financial institution that follows the Shariah law (Islamic law) in all of its operational aspects (Alharbi, 2015). However, the most distinguishing feature of the IFIs is that interest (*riba*) is prohibited. Another distinguishing feature of Islamic finance is risk sharing, where the IFIs operate using profit and loss provision schemes.

Islamic finance had been practiced throughout the centuries in the periphery of Islam, without any institutionalisation until the 1970s (Asutay, 2010). The first modern Islamic financial institution, as acknowledged by many researchers, was the Mit Ghamr Savings Bank which was established in Egypt in 1963 (Chong & Liu, 2009). Following the first Islamic international bank, the Islamic Development Bank (IDB) was established in 1974 in Jeddah in a convention held by the finance ministers of all Islamic countries (Alharbi, 2015). Hence, no one can deny that the core of the Islamic finance industry is the Gulf Cooperation Council (GCC) countries. As one of the countries, the Kingdom of Saudi Arabia prides itself on following Shariah laws and principles in every aspect of life including its economic activities (Wilson, 2009). In his study, Wilson (2009) had claimed that modern Islamic finance had originated with the founding of the Dubai Islamic Bank, which was established in 1975 in the United Arab Emirates (UAE). As a result of that, the GCC countries were selected as the context of this study.

According to Olson and Zoubi (2008), the IFIs in the GCC need to have 'in-house Shariah committees' so as to ensure their compliance with the principles of Shariah. The GCC countries, with the exception of Saudi Arabia, follow a minimalist model which allows only for a slight intervention by the regulatory authorities. This approach favours the markets in establishing their own governance and disclosure systems. While Bahrain, the UAE, Oman and Qatar have adopted the AAOIFI standards, Saudi Arabia is still on the passive path. This means that the governance system within Saudi IFIs is based on voluntary actions, and not on legal requirements (Hasan, 2010). Due to these discrepancies in the regulatory environments of the GCC countries, this study anticipates that the level of the CSR activities would differ among the countries.

2.3 Shariah Disclosure and Social Performance

Based on the concept of social justice, Islamic business organisations are forbidden from performing any action that involves any type of exploitation, or that leads to unfairness or damage to a society and the environment (Raman & Bukair, 2013). Islam provides more ethical and obligatory behaviours for the different business stakeholders (Mir et al., 2016). In contrast to western theories, the Islamic view of the CSR takes a rather holistic approach. Islam offers an intergalactic spiritual view, derived from the teachings of the Holy Quran and the Sunnah. This view provides a better alternative philosophical framework for man's interaction with nature as well as his fellowmen (Dusuki, 2008). For a business to be considered ethical, it has to balance between pursuing profits and fulfilling social responsibilities. In this sense, morals and standards may vary according to culture and region. In the Middle

East and North Africa (MENA) region, the CG practices have not yet reached a saturated level; they are still being challenged by both external and internal factors (ElGammal, El-Kassar, & Canaan Messarra, 2018). The CSR is an attempt to soften the corporation's image by presenting it as humane, benevolent and socially responsible. In response to the changing paradigms, there have been different CSR practices being included on the agendas of many corporations, as a measure to adopt value-based governance that meets the interests of primary and secondary stakeholders (Perrini, Russo, Tencati, & Vurro, 2011).

The central idea of the social contract theory is how to relate a corporation to society. According to this theory, business must act in a responsible manner not only because it is in its commercial interest to do so, but also because it is part of how society implicitly expects businesses to operate. This notion is reminiscent of the Islamic requirement, that is, accountability should first and foremost, be to God (Allah). It has been explicitly mentioned that firms make true, fair, timely and transparent disclosure of financial facts and information not only to shareholders, but also to other stakeholders (Sarker, 2012), thereby maintaining the social relationship between firms and their stakeholders.

Freeman (1984) claimed that the board of directors should be considered as spokespersons for the broader participants in the social and political process, and also as builders of coalitions among the external stakeholders. Against this backdrop, it can be argued that the Shariah Supervisory Boards (SSBs) can act as spokespersons for the CSR, and other social agendas. The SSB is an independent authority that is not under the umbrella of other authorities. It has no fear of the upper level management (Board of Directors and Shareholders), and the Investors of the Bank (Hassan et al., 2017). The SSBs can strive to enhance the concept of justice, equality and transparency in the Islamic society. These concepts help to improve the social and financial performance of Islamic Banks. Based on the above, the hypothesis is formulated as:

H_1: There is a relationship between Shariah disclosure (SD) and the social performance of the Islamic financial institutions listed in the GCC stock exchanges.

2.4 Shariah Disclosure and Firm Value

According to Ismail, Hassan and Alhabshi (2016), disclosure that assures compliance with the Shariah increases the confidence of stakeholders, and also contribute to the financial stability and performance of the IFIs.

Studies (e.g. Basuony & Mohamed, 2014) have supported the notion that the timely disclosure of financial information enhances firm performance by increasing transparency, and reducing information asymmetry. Such monitoring costs are associated with the agency problem. As such, financial disclosure which as a form of voluntary disclosure is an essential component of a good corporate governance framework, and the key proxy of earning quality and high performance (Mutiva, Ahmed, & Muiruri-Ndirangu, 2015).

Prior studies (Hamrouni, Slimani, & Charrada, 2015) have used many variables to measure firm performance, yet there is an element of debate in finance research on how firm performance should be assessed. For the purpose of this study, Mutiva et al.'s (2015, p. 172) definition of performance measures is accepted as "… an apparatus used by organisations to manage progress towards achieving preset goals, and in the process, identifies the key indicators of organisational performance and customer satisfaction". Other studies (Lishenga & Mbaka, 2015; Aksu & Kosedag, 2005) which examined the effect of voluntary disclosure on performance used different measures of performance including stock price (Haggard, Martin, & Pereira, 2008), return on equity (Achoki & Shukla, 2016), and Tobin's Q. While Haggard et al. (2008) found that improved disclosure reduce stock price co-movement, Aksu and Kosedag (2005), and Achoki and Shukla (2016) reported a positive relationship between disclosure and general performance. In contrast, Matengo (2008) observed no relationship between disclosure and performance.

According to Hamrouni et al. (2015), profitability ratios which are accounting-based measures of performance is not enough, as noted in the criticisms of Benston (1985). Therefore, since market values depend on investor confidence, market evaluation assessed through Tobin's Q could be presented as an alternative measure to the accounting-based measures. Tobin's Q is computed as the ratio of the market value of the firm's outstanding debt and equity divided by the book value of assets (Himmelberg, Hubbard, & Palia, 1999). A prior study by Lishenga and Mbaka (2015) had also used Tobin's Q to examine the relationship between corporate disclosure, and performance. They reported a positive and significant association between the two variables.

Focussing on the performance based on a firm's valuation perspective, the hypothesis was thus formulated as:

H_2: There is a relationship between Shariah disclosure (SD) and the market value of the Islamic financial institutions listed in the GCC stock exchanges.

Based on the empirical and theoretical literature, this study anticipates that the IFIs, with high levels of Shariah governance would have a higher level of social performance than the IFIs with low levels of governance. To test this stipulation, this study deployed the corporate social responsibility measures of performance as the dependent variable.

3. Data and Methodology

To address the research questions, data on performance indicators were collected from the entire population of all the listed Islamic financial institutions (IFIs) listed in the GCC stock exchanges for the year 2018. The IFIs were then classified into Islamic banks (48) and Islamic insurance companies (46). Data were gathered from the financial statements, annual reports and sustainability reports of the IFIs.

As Shariah disclosure (SD) is a fluctuating variable, it should be measured at a certain point in time. Thus, the data were collected for one prior year that is from 2017. Due to the source and nature of the data collected, an attempt was also made to protect the data on the websites from any updates or changes during the time of the study. To do this, data which include all the annual reports, policies, sitemaps, hyperlinks and images were downloaded, and then saved in advance. Since the current study also considered the lagging effects of disclosure on performance, data regarding the performance measures (social performance and Tobin's Q) were collected for the year ending 2018. Accordingly, this study will examine the influence of 2017's level of SD on 2018's performance, thereby accounting for the lag effect.

As an abstract concept, disclosure, whether online or paper-based, cannot be measured in an accurate or precise way. Therefore, the literature continually debates on what is the most appropriate way to measure disclosure. Abed, Al-Najjar & Roberts (2016) stated that the content analysis method, which is used to measure disclosures, falls into two categories: textual content analysis, and disclosure indices, where the indices measure the availability of specific items. Despite the subjectivity involved in the development of disclosure indices, many prominent studies found these indices to be valuable research instruments (Wallace, 1988, Al-Sartawi, 2016). These studies include those related to the disclosure of financial information online. The current study, therefore, uses the content analysis approach to measure disclosure. For this, a checklist was adapted from previous disclosure studies (Wallace, 1988; Al-Sartawi, 2016). New elements were then adjusted into the checklist so as to gauge the level of the Shariah disclosure. This is based on the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and Bank Negara Malaysia's (BNM) standards of the Shariah Supervisory Boards (SSBs).

The availability of the annual reports is very important for this study. The reason is because many users in developed and developing countries view annual reports as the most important, most frequent and the major source of information, among all other sources of financial information (Botosan, 1997). It should also be noted, that no IFIs were excluded in this study since the entire population listed in the stock exchanges of the GCC countries were included as subjects since all the annual reports of the IFIs were available. In the current study, the total amount of donations and charities disclosed in the financial reports were used to express the social performance (SP). These social performances exclude obligatory taxes such as *zakat*, and unlawful gains and profits due to the different regulatory environments in which the IFIs operate. The main reason for excluding *zakat* is that in the GCC, most IFIs compute *zakat* in accordance with their Articles of Association. Moreover, it is the shareholders' responsibility to pay the *zakat* on their respective shares in the IFI's capital and distributed cash dividends. Any company that did not report any information about the donations and charities was also excluded from the study sample.

The developed checklist (see Appendix 1 for index) was then used to measure the level of the Shariah disclosure of the GCC IFIs. The maximum score of the Shariah disclosure was 24 items, hence the Shariah disclosure index was based on a binary. In other words, if an IFI reported an item which was included in the checklist, it received a score of 1, and if the IFI did not report an item, a score of 0 was allocated. Accordingly, the index for each bank was calculated by dividing the total earned scores of the bank by the total maximum possible score appropriate for the bank. The formula below shows the calculation for the Shariah disclosure index:

$$SD = \sum_{i=1} \frac{di}{n}$$

where *di* refers to disclosed item equals '1' if the IFI meets the checklist item and '0' otherwise; *n* refers to equals maximum score each IFI can obtain.

To test the hypotheses, the following regression models were developed using Shariah disclosure as an independent variable and profitability ratios as the dependent variables. A review of the literature showed that several firm characteristics influenced performance, hence, they were considered as control variables. These include IFI size (Eriki & Osifo, 2015), leverage (Brigham & Ehrhardt, 2005), IFI age (Majumdar, 1997), institutional ownership and type of audit firm (Al-Sartawi, 2016).

Model 1:

$$SP_i = \beta_0 + \beta_1 SD_i + \beta_2 LFSZ_i + \beta_3 LVG_i + \beta_4 AGE_i + \beta_5 IOW_i + \beta_6 Audit_i + \varepsilon_i$$

Model 2:

$$TQ_i = \beta_0 + \beta_1 SD_i + \beta_2 LFSZ_i + \beta_3 LVG_i + \beta_4 AGE_i + \beta_5 IOW_i + \beta_6 Audit_i + \varepsilon_i$$

Table 1 illustrates the measurement used for the variables of the study.

Table 1: Variables of the Study

Label	Variable Name	Measurement
Dependent Variables		
SP	Social Performance	Natural logarithm of total donations, charity and employee support disclosed in the financial reports of IFIs for the period 2018. SP excludes obligatory taxes such as *zakat* in addition to unlawful gains and profits.
TQ	Tobin's Q	Equity Market Value / Equity Book Value
Independent Variables		
SD	Shariah Disclosure	Total scored items by the firm/Total maximum scores
Control Variables		
LFSZ	Firm Size	Natural logarithm of Total Assets
LVG	Leverage%	Total liabilities/ Total Assets
AGE	Firm Age	The difference between the establishing date of the firm and the report date.
IOW	Institutional Ownership%	The ratio of shares held by institutional investors to total number of shares outstanding.
Audit	Type of Audit Firm Employed	IFIs which employed a Big 4 firm scored a '1', and '0' otherwise
Ei	Error	

4. Results and Discussion

4.1 Descriptive Analysis

The descriptive analysis was derived and further presented in Tables 2 and 3. The tables highlight the multi-comparison post hoc test which compared and contrasted the level of the Shariah disclosure and the level of the CSR engagement (social performance) in the region. This was performed by calculating the mean differences between each country for the year 2017. The tables also highlight the distribution of the IFIs among the six countries, where the Kingdom of Saudi Arabia (KSA) is noted to have the largest number (42) of IFIs and Kuwait, the least number (6).

Table 2 indicates that Oman had the highest level of Shariah disclosure (84.12 %) whereas Kuwait has the lowest (69.69 %). This could be attributed to Oman's late entry into the Islamic financing market which has a stricter approach to Shariah regulations. Another

Table 2: Multiple Comparisons of Shariah Disclosure among the GCC Countries

Post Hoc Test for Multiple Comparisons of Shariah Dimension								
Country	N	Mean	S.D	KSA	Kuwait	Bahrain	Qatar	Oman
KSA	42	.7642	.19424	–				
Kuwait	6	.6969	.32266	-.12543 (.156)	–			
Bahrain	9	.7345	.20199	-.05647 (.366)	.07664 (.326)	–		
Qatar	8	.7467	.2267	-.00135 (.856)	.14545 (.267)	.03200 (.582)	–	
Oman	8	.8412	.6761	.13141 (.154)	0.2462* (.026)	.15430 (.222)	0.13800 (.362)	–
UAE	21	.7853	.22431	-.05613 (.189)	.06721 (.310)	-.02437 (.764)	-.04182 (.403)	-.18024* (.035)
Total	94	.7615	.3077					
F-Stat Sig.	1.364 .246							

Note: * The mean difference is significant at the 0.05 level; ** the mean differences are illustrated above brackets and the significance levels are illustrated between brackets.

reason for this could be the nature of the regulatory environments of the GCC countries where a minimalist approach is being adhered to, leading to variations in the level of regulations in each country. Despite these variations, only the mean differences between Oman and Kuwait, and Oman and the UAE, are significant at the levels of 0.026 and 0.035, respectively. Following this, the UAE, like Oman, has the highest level of Shariah disclosure at 78.53%. This could be attributed to the UAE's progressive technological environment and their efficient usage of technology in reporting their operations. Table 3 presents the multiple comparison of the social performance.

As can be noted, Table 3 shows the multi-comparison post hoc test which differentiates the level of social performance among the GCC countries. The table indicates that the UAE has the highest level of CSR (mean 392.63) while Kuwait has the lowest (mean 78.89). The main reason for this could be traced to the number and size of the IFIs

Table 3: Multiple Comparisons of Social Performance among the GCC Countries

Post Hoc Test for Multiple Comparisons of Shariah Dimension								
Country	N	Mean	S.D	KSA	Kuwait	Bahrain	Qatar	Oman
KSA	42	276.82	164.68	–				
Kuwait	6	78.89	85.49	-33.37 (.487)	–			
Bahrain	9	110.05	52.74	-259.63 (.619)	-146.90 (.832)	–		
Qatar	8	240.21	43.52	308.20 (.011)*	219.31 (.002)*	377.09 (.252)	–	
Oman	8	130.76	27.89	-460.54 (.172)	-531.82 (.433)	-241.24 (.594)	-293.86 (.823)	–
UAE	21	392.63	112.45	1580.70 (.000)	866.80 (.000)	825.31 (.000)	1036.47 (.000)	971.71 (.010)
Total	94	119.39	82.14					
F-Stat	12.583							
Sig.	.007							

Note: * The mean difference is significant at the 0.05 level; ** the mean differences are illustrated above brackets and the significance levels are illustrated between brackets.

in each country. Another reason for the significant difference between the UAE and the other GCC countries is the various initiatives and programs developed in the UAE due to the encouragement of its federal government, as a part of their 'National Happiness and Positivity programme'. Based on the official website of the UAE's Ministry of Economy (CSR UAE, n.d.), one such initiative was detected in the 'CSR Smart Platform' which referred to "the nation's smart portal to provide organisations with entry-level access to the details of the initiatives, programmes and projects, and to coordinate active interactions between the State and, primarily, private-sector entities, thereby contributing to the welfare of the UAE's society, nature and environment". Additionally, the government of the UAE shows appreciation to firms contributing to social causes listed on the 'CSR Smart Platform' by honouring those firms with a CSR membership badge. Therefore, this paper recommends that the other GCC countries follow such initiatives which contribute to the performance of firms as well as their overall sustainable development in the long run. Table 4 displays the descriptive statistics for the continuous variables.

Table 4: Descriptive Statistics for the Continuous Variables

Variable	Min.	Max	Mean	S.D
SD	0.220	.8541	.7615	.3077
Social Performance*	2.78	5498.21	119.4	82.14
TQ	.00	18.32	1.0884	3.74875
IFI Size*	6.54	7351754.1	11152.97	194169.8
Leverage	.055	.86	.5329	.4657
AGE	2	50	21.3	16.85
IOW	.14	1.06	.6172	.24519

Note: *Millions.

Based on Table 4, it can be seen that the descriptive statistics highlight the mean of the dependent and independent variables for the sampling year 2017. The mean value of the first dependent variable, social performance, is 119.4 which is a low figure when compared to the size of the total assets. One possible reason for this is that *zakat* (obligatory taxes), and unlawful gains have been excluded from the calculation of the social performance. As both these variables have normality distributions which are skewed, natural logarithm was used in the regression analysis. On the other hand, the mean value of the second dependent variable, Tobin's Q, is 1.0884. As Tobin's Q represents the ratio of the market value of an IFI's share capital to the replacement cost of the IFI's share capital, a mean value greater than 1 indicates that the stocks are overvalued, i.e., the GCC stock markets are selling the assets of the IFIs at a higher price than as stated in the book value. This implies that most of the IFIs are overvalued, relative to their book values.

The mean leverage for the banks is approximately 53%, with a minimum of 5.5%, indicating that banks have somewhat high debts. A maximum of 86% would signify very high debts. This indicates that most of the IFIs assets are financed by debt instruments which support the perception that Shariah-compliant investments are less than customer deposits, thereby overstating the value of assets, and reducing the size of returns, as shown by the performance proxies above.

The age of the IFIs has ranged from two to 50, with a mean of 21.3. Meanwhile, the overall percentage of institutional ownership is 61.72%, making a concentration of ownership in the IFIs. This may lead to a collusion between managers and institutional owners who would be eager to increase their own profits at the expense of shareholders' interests. Finally, the analysis of the discontinuous variables shows that 83% of the IFIs are audited by one of the Big 4 auditing firms; this means higher costs due to higher fees, hence lower profits. The study further conducted a path analysis test as shown in Table 5.

As noted in Table 5, the IFIs were divided into two groups to determine the extent of the differences between the financial institutions, based on the size of their assets. The first group include IFIs which

Table 5: Distribution of Variables Based on the Firm Size

Variables	N	Firm Size		Two independent sample t-test	
		Large	Small	T. test	Sig.
Social Performance	47-47	4405.30	108.87	2.173	.032**
TQ	47-47	1.0326	1.8970	-1.785	.027**
SD	47-47	.7812	.7404	.529	.265
Age	47-47	32.13	20.02	.233	.339
IOW	47-47	.6211	.4387	.280	.338
Audit	47-47	.85	.85	.000	.60

Note: *p<0.05 level, **p<0.1 level.

exceeded the median, and they were labelled as large institutions. The second group include institutions below the median, and they were labelled as small institutions.

The results of the path analysis show that the social performance, i.e., the CSR engagement in larger IFIs is greater than small-sized IFIs. The positive value of the t-test show that larger IFIs tend to have higher social performance than the smaller IFIs. This difference is found to be significant at the 0.032 level. One possible cause for this could be that larger IFIs have an edge over the smaller IFIs by offering a larger menu of financial services, hence mobilising more funds. However, this contradicts the finding made by Wickert, Scherer and Spence (2016) who found that large firms tended to focus on communicating CSR symbolically, but they do less to implement CSR into their core structures and procedures. This also applied to the small firms that had less active communication, hence they placed more emphasis on the CSR implementation. Additionally, the path analysis shows that there is a significant and inverse relationship between Tobin's Q and size, where Tobin's Q in smaller institutions is greater when compared to larger institutions. One possible cause for this could be due to the larger IFIs being more highly leveraged as they rely more on debt instruments when compared to small-size IFIs. This could be due to the lower risks associated with larger IFIs when compared to smaller ones. Based on McConnell and Servaes (1995), market value is negatively correlated with leverage for firms with strong growth opportunities, but is positively correlated with leverage for firms with weak growth opportunities. This is because highly leveraged firms are less likely to exploit valuable growth opportunities as compared to firms with low levels of leverage, thereby reducing their market value. According to Dybvig and Warachka (2015), larger firms with greater total assets usually have more investments, thereby lowering their Tobin's Q. This is because over-investment reduces Tobin's Q rather than increases it.

Further to the above, the path analysis also indicates that larger IFIs have a higher level of Shariah disclosure when compared to their smaller counterparts. This result is expected because larger institutions can afford better resources, and advance technologies to communicate their operations, and financial and social activities with their stakeholders, and potential investors. As for the control variables, the path analysis shows that there is a positive relationship between age and size. One reason for this could be that older and more experienced banks are more attractive to depositors and investors, thereby contributing to an increase in the size of its assets. Lastly, the results shows a positive yet insignificant relationship between institutional ownership and type of audit firm with size.

4.2 Validity and Reliability

Several key tests were undertaken to assess the regression assumptions of multicollinearity, normality, linearity, and homoscedasticity. Table 6 illustrates the Pearson's correlation matrices which measured statistical relationship between the independent and the dependent variables, and to show whether multicollinearity exists among the data before assessing the model.

The analysis indicates that the IFI size and Shariah have the highest correlation (0.745). Other variables are also found to be correlated including IFI size, and social performance. However, since no coefficient exceeded 0.80, it can be assumed that no multicollinearity existed between the variables.

Table 6: Pearson's Correlations Matrix

Variables	SP	TQ	Shariah	IFI Size	LVG	Age	IOW	Audit
SP	1							
TQ	.125 (.114)	1						
Shariah	-.107 (.018)	.047 (.737)	1					
IFI Size	.209* (.007)	-.178 (.064)	-.745 (.392)	1				
LVG	.079 (.248)	.134 (.641)	.267 (.228)	.191 (.273)	1			
Age	-.052 (.533)	-.200 (.379)	.237 (.740)	-.043 (.716)	.195 (.108)	1		
IOW	.190 (.487)	.004 (.868)	-.078 (.457)	.005 (.943)	-.249 (.113)	-.087* (.011)	1	
Audit	-.712 (.743)	-.222 (.391)	-.536 (.816)	-.081 (.727)	.094 (.367)	.164 (.114)	-.077 (.459)	1

Note: * Correlation is significant at the 0.05 level, ** correlation is significant at the 0.01 level.

This study further checked for multicollinearity by conducting the variance inflation factor (VIF) and the tolerance test. The VIF scores are shown in Table 7, indicating that no score exceeds 10 for any variable in the models. Similarly, the tolerance test, which is the inverse of the VIF, suggests that no score is below 0.2. It is, therefore, concluded that no problems are found with regards to collinearity in the model.

Table 7: Collinearity Statistics Test

Model	Tolerance	VIF	Skewness	Kurtosis
SD	0.605	1.652	-1.418	1.240
Lev	0.815	1.227	-.972	-.344
Age	0.846	1.182	.756	-1.002
IOW	0.858	1.167	.300	-.824
IFI Size	0.834	1.199	2.202	3.895
Audit	0.810	1.235	–	–

The above table reports the normality test, where the skewness test and the kurtosis test suggest that all the predictive variables are normally distributed except for firm size. The variable, however, is treated using natural logarithms to transform the data to better fit the normal distribution before conducting the regression analysis. It should be noted that an auto-correlation test was not conducted in this research due to the nature of the data used which are cross-sectional.

To validate the results of the SD index, the Cronbach alpha was used as it measured the internal consistency of the 24-items within the disclosure checklist. The Cronbach alpha is 0.878 (exceeds 0.7), thus indicating that the disclosure index used is reliable. The disclosure index used in the study has been adapted from Wallace (1988) and Al-Sartawi (2016), and is expanded to include a Shariah perspective of disclosure.

4.3 Regression Analysis

Table 8 reports the empirical results of the regression analysis of both the study models. It also shows the coefficients of determination, where the value of the F-statistics for model 1 (social performance) is more than the F-schedule at the confidence level of 95% which is 4.624, with a p-value of less than 0.05. This finding statistically supports the significance of the regression model. On the other hand, model 2 (Tobin's Q) reported

Table 8: Regression Analysis

Variables		Social Performance			Tobin's Q		
		Beta	t	Sig.	Beta	t	Sig.
Independent Variable	Shariah Disclosure	-.276	-2.349	.021*	.020	1.191	.835
Control Variables	Lev	.115	1.467	.129	.056	.767	.482
	Age	.013	.057	.953	-.316	-2.625	.047**
	IOW	.064	0.172	.209	-.033	-.148	.809
	IFI Size	.126	1.383	.116	-.104	-1.394	.228
	Audit Type	-.044	-0.139	.684	-.169	-1.401	.273
		R	R^2	Adj. R^2	F-Stat		Prob. (F)
Model 1:	SP	.363	.146	.070	4.624		0.028*
Model 2:	Tobin's Q	.295	.101	.013	1.317		0.274

Note: **p<0.1 level, *p<0.05 level.

an F-statistics of 1.317 with a p-value of more than 0.05, thus model 2 is considered as not significant.

Focussing on model 1, the hypothesis testing of H_1 shows that the Shariah disclosure has a negative and significant relationship with social performance. One reason for the low level of CSR engagement by IFIs as reported in the descriptive analysis is the exclusion of the unlawful gains and obligatory taxes such as *zakat* since this study only included the voluntary charities and donations. Next, according to the opponents of the CSR, being socially active by engaging in charity projects, supporting and promoting staff welfare, and minimising environmental damage can be expensive, thereby elevating administrative burden (Platonova, Asutay, Dixon, & Mohammad, 2018). It is argued that CSR activities create financial burdens for corporations, and with high levels of disclosure there is a trade-off between the two since both are costly for IFIs as supported by Friedman (2007), and Perrini et al. (2011). As for the remaining control variables, this study found no association between IFI age, institutional ownership, IFI size and audit type with social performance.

On the other hand, model 2 reported a positive and insignificant relationship between Shariah disclosure and Tobin's Q. As Shariah disclosure provides a timely and relevant information regarding the IFIs' operations and financing activities to stakeholders, it is expected that the perception of investors would be affected. According to Abdel-Azim and Abdelmoniem (2015), the more transparent the disclosure, the lower the information asymmetry and the higher the premium allocated to the firm. This in turn increases the value of Tobin's Q and the firm. Likewise, DeMarzo and Duffie (1991) claimed that the lower the level of disclosure, the lower the value of Tobin's Q. Despite this significant relationship between Shariah disclosure and Tobin's Q, this study failed to find an association with the other dimensions. Regarding the control variables, this study found a positive and significant relationship between IFI age and Tobin's Q. The possibility for this could be due to the older and larger firms having a greater market value as a result of their vast experience and their availability of resources. Consequently, we can deduce that the level of Shariah disclosure by the GCC Islamic banks has a negative and significant relationship with social performance while the level of Shariah disclosure has a positive yet insignificant relationship with Tobin's Q. Accordingly, Figure 1 illustrates the conceptual framework summarising the findings based on hypotheses and variables.

5. Conclusion and Implications

The preceding empirical analysis allows us to understand the relationship between Shariah disclosure (SD) and performance of the listed Islamic financial institutions (IFIs) in the GCC stock exchanges. Two indicators were used to measure the dependent variables, social performance (CSR engagement) and Tobin's Q (market value). As for Shariah disclosure, this study expanded on the disclosure index proposed by Wallace (1988) and Al-Sartawi (2016) by including the Islamic perspective of disclosure. This study also used the content analysis approach for analysis by developing a checklist (see Appendix 1) to gauge the level of Shariah disclosure. This was based on the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Bank Negara Malaysia (BNM) standards of Shariah Supervisory Boards (SSBs).

The results indicate that the level of the Shariah disclosure made by the GCC IFIs is 76.15%. Based on this, it can be concluded that the Islamic banks listed in the GCC countries stock exchanges present a good level of SD (more than 50%), based on Wallace's (1988) index disclosure classification. This study thus concludes that there is a negative and significant relationship between the Shariah disclosure

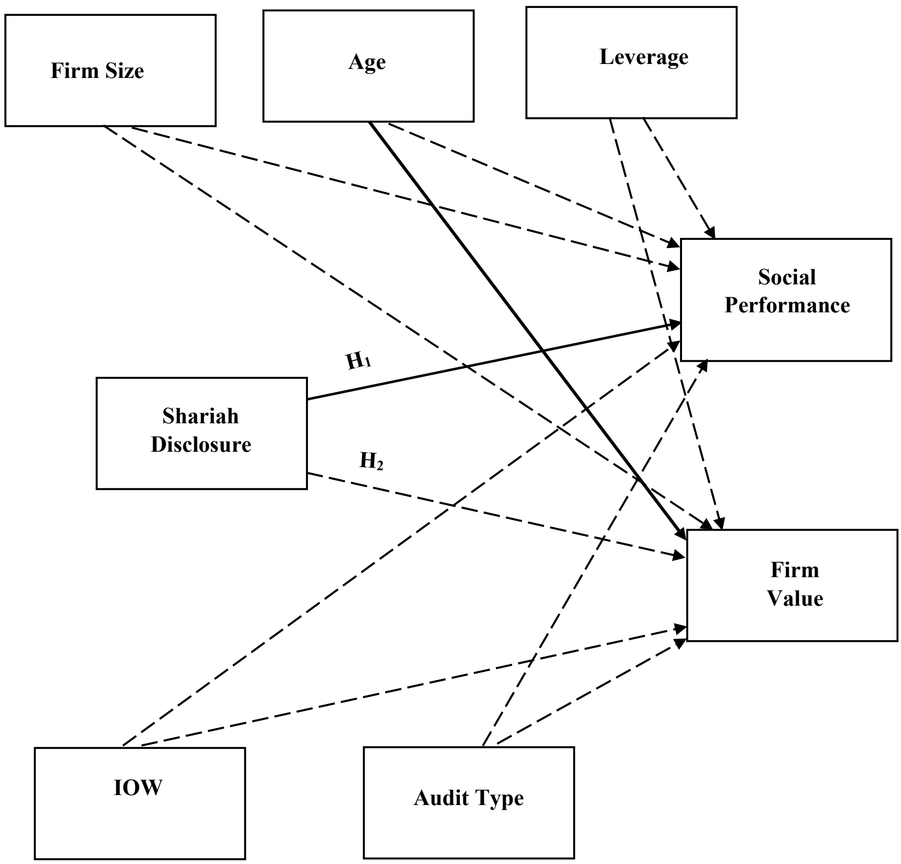

Figure 1: Conceptual Framework Findings
Note: ——→ Accept – – – → Reject

and social performance, whereas there is a positive and insignificant relationship between the Shariah disclosure (content dimension) and Tobin's Q. This outcome could be attributed to the varying regulatory standards adopted by each GCC country.

The current study thus extends on previous studies conducted in the GCC countries by developing a new Shariah disclosure index and by considering Tobin's Q as a performance indicator, thereby offering a marketing perspective to view the same issue. In this regard, the current study provides new contributions pertaining to Islamic financing and disclosure to the literature. Additionally, this study also provides empirical evidence to interested parties of Islamic banking industry such as users, preparers, regulators and researchers within the GCC countries, with regards to the importance and benefits of Shariah disclosure. Clearly, Shariah disclosure can enhance IFI performance as well as maintain the rights of shareholders.

Although the GCC regulatory bodies have established a number of Shariah standards, different interpretations of the religious texts, and the minimalist implementation means that a variation exist in the levels of disclosure which could have an insignificant impact on performance. Accordingly, the research also recommends that the GCC regulatory bodies develop a set of standardised guidelines to harmonise disclosure practices since the level of Shariah disclosure varies among the IFIs and countries. This study also finds that larger banks disclosed more information as compared to smaller firms, hence corporate disclosure practices should be followed by all firms no matter their size.

Based on the negative relationship noted between Shariah disclosure and social performance, it is vital to implement CSR standards as a mandatory policy for the IFIs. Doing so would enhance their social performance and deliver a higher level of Shariah disclosure. Accordingly, by entrenching CSR practices into the working of IFIs could generate positive contributions to the social good of the Islamic society, thereby assisting them in fulfilling justice and equality, in lieu of the Islamic concepts.

The conduct of this study is in line with that of Platonova et al. (2018) in the sense that by maintaining a good CSR policy, the IFIs could cope with possible reputation-damaging events, and the external negative news they may receive in the future. This can protect their profits and financial results. Therefore, having a comprehensive socially responsible agenda could assist Islamic banks in generating valuable goodwill that will safeguard them from unexpected challenges and also give them access to new projects that are not available for companies with less CSR incentives.

The limitation of this study lies with the related sample size, which can be addressed by future studies. Nonetheless, 94 selected IFIs disclosing items that encompass Shariah compliance should provide a reasonable degree of generality regarding the findings. Since the findings are confined to the GCC listed IFIs only, future studies could empirically extend on this study to the Middle East and North African region and Southeast Asia, where IFIs prevail.

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Appendix

Shariah Disclosure Index

	SD Index
	Shariah dimension
1	Disclose about Shariah Review Unit or Shariah Department.
2	Clearly specify the role of the Shariah board.
3	Disclose the number of Shariah committee members.
4	Disclose Shariah committee qualifications, experience and knowledge.
5	Disclose members nationalities.
6	Disclose the Shariah Audit report.
7	Disclose the time of Shariah Review.
8	Disclose information about the Shariah Risk Management.
9	Disclose information about the Shariah Research Function.
10	Disclose Shariah decisions to relevant stakeholders.
11	Disclose information about the Shariah duties, responsibilities, functions and appointment.
12	Disclose information about the AAOIFI Governance standards they are following.
13	Shariah board independence.
14	Disclose policies in relation to appointments and dismissals of the Shariah board.
15	Shariah review is conducted by qualified independent body.
16	Shariah report tracking unlawful gains and profits.
17	Disclose about any conflict of interest.
18	Disclose the frequency of Shariah board meetings.
19	Disclose about the members of Shariah Committee who serve in board.
20	Frequency of Shariah reports.
21	Disclosure of attendance of every Shariah Committee member.
22	Percentage of attending meetings by the members.
23	Chairman of the Shariah Committee qualification and background.
24	Information about the Shariah controller.