

## **CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY IN ISLAMIC BANKS: A SYSTEMATIC LITERATURE REVIEW**

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### **ABSTRACT**

The main objectives of this study are two-fold. First, this study aims to review the research development on corporate governance (CG) and corporate social responsibility (CSR) in Islamic banks. Second, this study aims to identify the impact of CG on the CSR of Islamic banks. Several previous studies focused on CG and CSR in Islamic banks with empirical and theoretical approaches. Through a systematic literature review (SLR), 20 papers published in the Scopus database from 1997 to 2021 on the relationship between CG and CSR in Islamic banks were selected for analysis. The findings revealed that most of the research on CG and CSR in Islamic banks uses a quantitative approach to measure the level of CSR disclosure in the banks and the impact of CG on CSR disclosure. In addition, some evidence concludes that aspects of CG, such as the Shari'ah supervisory board (SSB), board of directors (BODs), and audit committee, positively or negatively influence CSR disclosure in Islamic banks. This study suggests that research on CG and CSR in Islamic banks still requires development on variables aspects, issues, and analysis development using other research methods such as qualitative approaches.

**Keywords:** Corporate Governance, Shari'ah Governance, Corporate Social Responsibility, Islamic Banks.

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## TADBIR URUS KORPORAT DAN TANGGUNGJAWAB SOSIAL KORPORAT DALAM BANK ISLAM: TINJAUAN LITERATUR SISTEMATIK

### ABSTRAK

Objektif utama kajian ini mempunyai dua tujuan. Pertama, kajian ini bertujuan untuk meninjau perkembangan penyelidikan mengenai tadbir urus korporat (CG) dan tanggungjawab sosial korporat (CSR) di bank Islam. Kedua, kajian ini bertujuan untuk mengenal pasti kesan CG terhadap CSR bank Islam. Terdapat beberapa kajian lepas yang memfokuskan kepada CG dan CSR di bank Islam dengan pendekatan empirikal dan teori. Melalui kajian literatur sistematik, 20 kertas kerja yang diterbitkan dalam pangkalan data Scopus dari 1997 hingga 2021 mengenai hubungan antara CG dan CSR dalam bank Islam telah dipilih untuk dianalisa. Dapatan kajian mendedahkan bahawa kebanyakan kajian mengenai CG dan CSR di bank Islam menggunakan pendekatan kuantitatif untuk mengukur tahap pendedahan CSR di bank Islam, serta kesan CG terhadap pendedahan CSR. Selain itu, beberapa bukti merumuskan bahawa aspek CG seperti lembaga penyeliaan Syariah (SSB), lembaga pengarah (BODs), dan jawatankuasa audit mempunyai pengaruh positif atau negatif terhadap pendedahan CSR di bank Islam. Kajian ini mencadangkan bahawa penyelidikan mengenai CG dan CSR di bank Islam masih memerlukan pembangunan terhadap aspek pembolehubah, isu, dan pembangunan analisis menggunakan kaedah penyelidikan lain seperti pendekatan kualitatif.

**Kata Kunci:** Tadbir Urus Korporat, Tadbir Urus Syariah, Tanggung Jawab Sosial Korporat, Bank Islam.

### INTRODUCTION

Islamic banking has been the fastest-growing segment in the global financial industry since the early 2000s.<sup>1</sup> The average growth of

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<sup>1</sup> Ejaz Aslam and Razali Haron, "Does Corporate Governance Affect the Performance of Islamic Banks? New Insight into Islamic Countries," *Corporate Governance: The International Journal of Business in Society* 20, no. 6 (2020): 1073. <https://doi.org/10.1108/CG-11-2019-0350>; Faridah Hj Hassan and Abdul Aziz Shah Mohamad Sewan, "The Development and Growth of Islamic Finance in European Union," *Journal of Islamic Management Studies* 4, no. 1 (2022): 31.

Islamic banking and finance has reached 8.07% annually (2011-2019), with total assets owned by Islamic banks (IBs) valued at USD 2.59 trillion at the end of 2018.<sup>2</sup> This growth cannot be separated from the corporate governance (CG) implemented by IBs in the banking system's stability. The governance structure in IBs and conventional banks (CBs) is different in terms of structures, functions, and objectives. IBs are required to establish the Shari'ah supervisory board (SSB) in the governance structure to ensure Shari'ah compliance through deliberation and approval by the SSB of IBs on Islamic banking contracts, followed by vetting and approval by the Shariah Advisory Council (SAC) of Bank Negara Malaysia.<sup>3</sup> SSB aims to monitor, approve, and report IBs' compliance with the Shari'ah rules and principles.<sup>4</sup> With regard to SSB and Shari'ah compliance of IBs in Malaysia, the Islamic Financial Services Act 2013 (IFSA) stresses on Shari'ah compliance aspect as advised by SSB in which "all Islamic Financial Institutions are duty bound to ensure their aims, operations, affairs and activities are in compliance with Shari'ah".<sup>5</sup>

In carrying out its duties, SSB is responsible for supervising and ensuring that all operational activities carried out by IBs are in accordance with Shari'ah principles. If the IBs become non-compliant, their position in the market will be negatively impacted due to a lack of customer trust, and consequently, profitability will decrease and increase their risk.<sup>6</sup> Furthermore, SSB also supervises all investments

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<sup>2</sup> "Islamic Finance Country Index Report," Global Islamic Finance Report, accessed 27 March 2020, <http://www.gifr.net/publications/gifr2019/ifci.pdf>.

<sup>3</sup> Hizri Hasshan, "Shariah Non-Compliance Issues and Defence of Illegality in Islamic Finance Litigation," *Malayan Law Journal* cxxvi (2017): 1-15.

<sup>4</sup> Mushera Ambaras Khan, Nur Nadiah Hamdan, and Nurhafiza Ab Jabbar, "Independent Advice Circular in Corporate Exercises: Revisiting the Law on Fairness Opinion," *IJUM Law Journal*, 22(1) (2014): 37-52. DOI: <https://doi.org/10.31436/iiumlj.v22i1.115>.

<sup>5</sup> Section 28(1) of the IFSA 2013.

<sup>6</sup> Rihab Grassa, "Shariah Supervisory Systems in Islamic Financial Institutions Across the OIC Member Countries: An Investigation of Regulatory Frameworks," *Journal of Financial Regulation and Compliance* 23, no. 2 (2015): 137, <https://doi.org/10.1108/JFRC-02-2014-0011>.; Muhammad Taufik, "Can Shari'ah Supervisory Board and

conducted by IBs, and IBs are not allowed to invest beyond SSB-approved investments.<sup>7</sup>

Accounting and Auditing for Islamic Financial Institutions (AAOIFI) played an important role in improving the governance structure of IBs by issuing governance standards to support the development of good governance practices within IBs.<sup>8</sup> Through these guidelines, AAOIFI has provided guidance on Shari'ah governance with the primary objective to verify IBs' efficient operation, promote transparency, and assure all stakeholders that IBs comply with Shari'ah by adhering to good CG.<sup>9</sup>

IBs, as institutions, also consider the purpose of creating socio-economic justice and the distribution of wealth and income evenly in society. Corporate social responsibility (CSR) is a way to create socio-economic justice in society.<sup>10</sup> In this regard, CSR disclosure is one of

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Islamic Bank Characteristics Reduce Tax Avoidance? Evidence in Indonesia and Malaysia,” *Journal of Financial Crime* (2022), <https://doi.org/10.1108/JFC-03-2022-0059>.

<sup>7</sup> Md. Hafij Ullah and Ruma Khanam, “Whether Shariah Compliance Efficiency a Matter for the Financial Performance: The Case of Islami Bank Bangladesh Limited,” *Journal of Islamic Accounting and Business Research* 9, no. 2 (2018): 185, <https://doi.org/10.1108/JIABR-01-2016-0001>.

<sup>8</sup> Moegamat Igshaan Taliep, “Viability of Islamic Banking And Finance In South Africa: A Look At The Legal Framework And Governance”, *IIUM Law Journal*, 18(2) (2010): 239-260. <https://doi.org/10.31436/iiumlj.v18i2.24>; Omar Kachkar and Mustafa K. Yilmaz, “How Diverse are Shariah Supervisory Boards of Islamic Banks? A Global Empirical Survey,” *International Journal of Ethics and Systems* (2022), <https://doi.org/10.1108/IJOES-10-2021-0195>.

<sup>9</sup> Tawida Elgattani, “AAOIFI Governance Disclosure in Islamic Banks: Its Determinants and Impact on Performance” (PhD diss., University of Portsmouth, 2018).; Delina Herdian Septiani et al., “Good Corporate Governance in Islamic Banking during Fourth Industrial Revolution Era,” *Islamic Research* 5, no. 1 (2022): 101, <https://doi.org/10.47076/ir.v5i1.125>.

<sup>10</sup> Loganathan Krishnan, “A Re-Assessment Of Auditors’ Office In Enhancing Accountability”, *IIUM Law Journal*, 16(2) (2008): 263-282. <https://doi.org/10.31436/iiumlj.v16i2.54>

the key responsibilities of IBs in the form of accountability to God and humanity.<sup>11</sup>

Businesses use CSR implementation as a competitive strategy to create a good reputation, ensure business continuity, and optimise profits. These relationships are consistent with stakeholder theory, which argues that if an organisation wants to fulfil its goals successfully, it must consider all stakeholders' interests.<sup>12</sup> CSR disclosure is critical in increasing corporate transparency and improving banks' credibility.<sup>13</sup> Thus, to enhance the reputation of IBs, CSR disclosure can play an important role in increasing stakeholders' interest, especially in socio-economic issues.

Even though CSR disclosure is important for IBs, this mechanism is still influenced by CG. The role of CG, especially the board of directors (BODs) and audit committee, affects CSR disclosure. One of the duties of the BODs and audit committee is to oversee CSR disclosure.<sup>14</sup> This task is quite essential in ensuring the company's disclosure and transparency in the annual report. In addition, not only the BODs and audit committee but the SSB also has a role in encouraging CSR disclosure.<sup>15</sup> Therefore, IBs that are based on

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<sup>11</sup> Safrina Safrina, "Why CSR is Relevant to Environmental Protection? A Study of CSR Performance on Indonesian Limited Liability State-Owned Companies," *IJUM Law Journal* 29 (S2) (2021): 43-67. [https://doi.org/10.31436/iiumlj.v29i\(S2\).679](https://doi.org/10.31436/iiumlj.v29i(S2).679).

<sup>12</sup> Michael T. Lee, and Robyn L. Raschke, "Innovative Sustainability and Stakeholders' Shared Understanding: The Secret Sauce to "Performance with a Purpose",  
*Journal of Business Research* 108 (2020): 22, <https://doi.org/10.1016/j.jbusres.2019.10.020>.

<sup>13</sup> Tze Kiat Lui et al. "Corporate Social Responsibility Disclosures (CSRDs) in the Banking Industry: A Study of Conventional Banks and Islamic Banks in Malaysia," *International Journal of Bank Marketing* 39, no. 4 (2021): 542, <https://doi.org/10.1108/IJBM-04-2020-0192>.

<sup>14</sup> Shaban Mohammadi, Hadi Saeidi and Nader Naghshbandi, "The Impact of Board and Audit Committee Characteristics on Corporate Social Responsibility: Evidence from the Iranian Stock Exchange," *International Journal of Productivity and Performance Management* 70, no. 8 (2020): 2208, <https://doi.org/10.1108/IJPPM-10-2019-0506>.

<sup>15</sup> Ridwan Ridwan and Arung Gihna Mayapada, "Does Sharia Governance Influence Corporate Social Responsibility Disclosure in Indonesia Islamic

Shari'ah principles must be sensitive to socio-economic problems through good CG mechanisms; thereby, CSR in IBs can be maximised and transparent.

Previous studies that have focused on CG and CSR in IBs have been carried out both in empirical and theoretical aspects. Some researchers tried to investigate the impact of the SSB on the level of CSR disclosure<sup>16</sup> or the determinants of CSR disclosure.<sup>17</sup> In addition, the implementation of AAOIFI standards on CSR disclosure was also investigated to determine the level of CSR disclosure by the AAOIFI index.<sup>18</sup> Thus, SSB in IBs plays an important role in investigating the level of CSR disclosure.

Furthermore, several previous studies tried to measure the impact of CSR on financial performance in IBs.<sup>19</sup> CSR disclosure does not only impact socio-economic aspects of the community but also has an impact on the performance of IBs. This is a positive value for IBs to improve the bank's reputation through the maximum implementation of CSR. In addition, another study empirically examines the relationship between CSR disclosure in banks by comparing CSR in

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Banks?" *Journal of Sustainable Finance & Investment* 12, no. 2 (2022): 8.

<sup>16</sup> Azhar Abdul Raman and Abdullah Awadh Bukair, "The Influence of the Shariah Supervision Board on Corporate Social Responsibility Disclosure by Islamic Banks of Gulf Co-Operation Council Countries," *Asian Journal of Business and Accounting* 6, no. 2 (2013): 65-104.

<sup>17</sup> Sayd Farook, M. Kabir Hassan and Roman Lanis, "Determinants of Corporate Social Responsibility Disclosure: The Case of Islamic Banks.," *Journal of Islamic Accounting and Business Research* 2, no. 2 (2011): 114-141, <https://doi.org/10.1108/17590811111170539>.

<sup>18</sup> Peni Nugraheni and Erlinda Nur Khasanah, "Implementation of the AAOIFI Index on CSR Disclosure in Indonesian Islamic Banks," *Journal of Financial Reporting and Accounting* 17, no. 3 (2019): 365, <https://doi.org/10.1108/JFRA-02-2018-0013>.

<sup>19</sup> Indra Siswanti, Sabri Mohammad Sharif and Sonny Indrajaya, "The Role of Corporate Social Responsibility and Sharia Compliance on Islamic Banks Performance in Indonesia and Malaysia," *Journal of Asian Finance, Economics and Business* 8, no. 6 (2021): 983-992, <https://doi.org/10.13106/jafeb.2021.vol8.no6.0983>.

IBs and CBs. This can be a guideline, especially for IBs, to improve CSR instruments through CG based on Shari'ah principles.

Based on the research gap as explained above, the current study undertakes a systematic literature review (SLR) that focuses on examining the impact of CG on CSR in IBs. Therefore, this study has two objectives. First, through an SLR, research related to CG and CSR in IBs can be viewed from the development of research methods applied as well as cases that have been developed in several countries. Second, this study aims to identify the impact of CG on CSR in IBs based on several selected articles.

## CONCEPTUAL FRAMEWORK

### Corporate Governance Theory

The main purpose of good corporate governance is to protect shareholders and other stakeholders from managerial discretion. The separation between ownership and control and the distinction of interest of different stakeholders makes it necessary to adopt a governance mechanism to align stakeholder interests. According to Ridwan and Mayapada, CG is regarded from a larger perspective, namely “the interaction between management, the BODs, shareholders, and other corporate stakeholders, rather than only the relationship between shareholders and management.”<sup>20</sup>

Furthermore, the principles of good CG include accountability, transparency, responsibility, and fairness in managing the company. The implementation and reporting of CSR are methods to realise the principles of good CG. Therefore, to influence the implementation and reporting of CSR, a CG structure is essential. The CG structure, according to Grassa and Matoussi<sup>21</sup>, basically consists of “the General

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<sup>20</sup> Ridwan Ridwan and Arung Gihna Mayapada, “Does Sharia Governance Influence Corporate Social Responsibility Disclosure in Indonesia Islamic Banks?” *Journal of Sustainable Finance & Investment* 12, no. 2 (2022): 2-7.

<sup>21</sup> Rihab Grassa and Hamadi Matoussi, “Corporate Governance of Islamic Banks: A Comparative Study Between GCC and Southeast Asia

Meeting of Shareholders, the board of commissioners, the BODs, and committees under the board of commissioners, which include the audit committee, risk monitoring committee, and nomination and remuneration committee". Generally, the BODs and audit committees are the most important parties in the CG structure.<sup>22</sup>

### Corporate Governance of Islamic Banks

In the governance structure of IBs, all forms of activities carried out by the IBs must comply with Shari'ah law. Hence, the risk of non-compliance with Shari'ah can create financial turmoil. Shari'ah compliance is not only a contractual requirement but also a statutory requirement by virtue of Section 28 of the IFSA. In case IBs in Malaysia fail to comply with Shari'ah, the consumer may invoke statutory non-compliance as a ground to invalidate such a contract, hence creating financial turmoil.<sup>23</sup> In addition, the purpose of CG of IBs is different from the purpose of conventional governance. CG of IBs ensures fairness for all stakeholders through greater transparency and accountability based on Islamic principles.<sup>24</sup>

To ensure that all activities in IBs remain in line with Shari'ah principles, IBs require banks to establish a Shari'ah supervisory board (SSB) responsible for ensuring that transactions comply with Shari'ah

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Countries," *International Journal of Islamic and Middle Eastern Finance and Management* 7, no. 3 (2014): 346-362, <https://doi.org/10.1108/IMEFM-01-2013-0001>.

<sup>22</sup> Khaled Samaha, Hichem Khelif, and Khaled Hussainey, "The Impact of Board and Audit Committee Characteristics on Voluntary Disclosure: A Meta-Analysis," *Journal of International Accounting, Auditing and Taxation* 24 (2015): 16, <https://doi.org/10.1016/j.intaccudtax.2014.11.001>.

<sup>23</sup> Tun Ariffin Zakaria, "A Judicial Perspective on Islamic Finance Litigation in Malaysia," *IIUM Law Journal* 21, no. 2 (2013): 143-182. <https://doi.org/10.31436/iiumlj.v21i2.100>

<sup>24</sup> Rihab Grassa, and Hamadi Matoussi, "Corporate Governance of Islamic Banks: A Comparative Study Between GCC and Southeast Asia Countries," *International Journal of Islamic and Middle Eastern Finance and Management* 7, no. 3 (2014): 346-362, <https://doi.org/10.1108/IMEFM-01-2013-0001>.

principles<sup>25</sup>, failing which the banks may be subjected to Shari'ah non-compliance risk.<sup>26</sup> SSB will oversee all activities and processes carried out by IBs to ensure compliance with Shari'ah. AAOIFI in the Governance Standards No. 5 states that “the SSB should be an independent body of legal scholars specialising in *Fiqh al-Muamalat* (Islamic commercial jurisprudence). The members of SSB must have in-depth knowledge of Islamic jurisprudence and finance to maximise their role and commitment to developing IFIs under the Shari'ah framework.”<sup>27</sup>

### Corporate Social Responsibility of Islamic Banks

CSR for Islamic financial institutions (IFIs) includes people's expectations of the company's role in the economy and its role from a spiritual perspective.<sup>28</sup> From the Islamic perspective, Islamic corporate social responsibility (ICSR) is broader than the conventional CSR concept. ICSR considers three basic principles from one concept of the Qur'an, namely *Khilafah* (caliphate), *taklif* (accountability), and *amar*

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<sup>25</sup> Md. Kausar Alam et al., “Shariah Supervisory Boards of Islamic Banks in Bangladesh: Expected Duties and Performed Roles and Functions,” *Journal of Islamic Accounting and Business Research* 12, no. 2 (2021): 263, <https://doi.org/10.1108/JIABR-02-2020-0035>.

<sup>26</sup> See for an example, the case of *Arab-Malaysian Finance Bhd v Taman Ihsan Jaya Sdn Bhd & Ors (Koperasi Seri Kota Bukit Cheraka Bhd, third party)* [2009] 1 CLJ 419. The High Court in invalidating some Bai' Bithaman Ajil transaction has allowed the banks to seek refund of amount of financing pursuant to Section 66 of the Contracts Act 1950. Justice Wahab Patail J held that: “This court holds that where the bank purchased directly from its customer and sold back to the customer with deferred payment at a higher price in total, the sale is not a bona fide sale, but a financing transaction, and the profit portion of such Al-Bai' Bithaman Ajil facility rendered the facility contrary to the Islamic Banking Act 1983 or the Banking and Financial Institutions Act 1989 as the case may be.”

<sup>27</sup> Latifah Algabry et al., “Conceptual Framework of Internal Shari'ah Audit Effectiveness Factors in Islamic Banks,” *ISRA International Journal of Islamic Finance* 12, no. 2 (2020): 175-176, <https://doi.org/10.1108/IJIF-09-2018-0097>.

<sup>28</sup> Peni Nugraheni and Erlinda Nur Khasanah, “Implementation of the AAOIFI Index on CSR Disclosure in Indonesian Islamic Banks” *Journal of Financial Reporting and Accounting* 17, no. 3 (2019): 369.

*bil ma'ruf wa nahyi 'anil munkar* (enjoining good and forbidding evil).<sup>29</sup>

AAOIFI issued Governance Standards No. 7 concerning the Implementation and Disclosure of CSR for IFIs in 2009. According to AAOIFI, CSR is “all activities carried out by an IFI to fulfil its religious, economic, legal, ethical and discretionary accountabilities as financial intermediaries for individuals and institutions.” This standard serves two purposes. First, it aims to develop universal standards for CSR and compliance activities for IFIs. Second, the standards are to be delivered consistently, truthfully, and transparently and can be understood by the relevant stakeholders to whom the IFI is accountable.

Nomran and Haron<sup>30</sup> demonstrated that the CSR level for IBs is measured by the CSR disclosure index according to the six dimensions consisting of mission and vision statement, product and services, commitment to employees, commitment to the debtor, commitment to society, and *zakah*, charity and benevolent funding. The first five dimensions are generally similar to that of conventional banking except for the last dimension, which is specific to Islamic banking.

## RESEARCH METHODOLOGY

To achieve the research objectives, this study adopted an SLR methodology which involves a literature review of the relationship between CG and CSR mechanisms in IBs, following previous studies.<sup>31</sup>

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<sup>29</sup> *Ibid.*

<sup>30</sup> Naji Mansour Nomran and Razali Haron, “A Systematic Literature Review on Sharī'ah Governance Mechanism and Firm Performance in Islamic Banking,” *Islamic Economic Studies* 27, no. 2 (2020): 123, <https://doi.org/10.1108/IES-06-2019-0013>.

<sup>31</sup> Juan Pablo Gonzales-Bustos and Ana Beatriz Hernández-Lara, “Corporate Governance and Innovation: A Systematic Literature Review,” *Corporate Ownership and Control* 13, no. 2 (2016): 33-45, <https://doi.org/10.22495/cocv13i3p3>.

## Identification of keywords

To review literature through an SLR method, the study first identified the keywords to be used. The keywords chosen must be related to the purpose of the current research. The selection of keywords to support this study includes “corporate governance”, “ownership structures”, “board of directors”, “shariah governance”, “shariah supervisory”, and “shariah board”, for they are related to CG.<sup>32</sup>

Meanwhile, for corporate social responsibility, the keywords used are “CSR” and “corporate social responsibilities”.<sup>33</sup> The two keywords are then merged, i.e., (“corporate governance”, “ownership structures”, “board of directors”, “shariah governance”, “Shariah supervisory”, and “Shariah board”) and (CSR” and “corporate social responsibilities”) in the search field. The method for performing an article search is using Boolean search AND.

## Information Sources and Period

The utilised database in this research comes from the Scopus database. This database is chosen because it offers a good balance between quality and coverage, being the largest repository of abstract and citation literature in the world.<sup>34</sup> In addition, the search period in this study began in the early 1990s. The main reason for taking this period is based on the study of IBs, particularly in CG, which began in the late

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<sup>32</sup> Naji Mansour Nomran and Razali Haron, “A Systematic Literature Review on Shari’ah Governance Mechanism and Firm Performance in Islamic Banking,” *Islamic Economic Studies* 27, no. 2 (2020): 123, <https://doi.org/10.1108/IES-06-2019-0013>.

<sup>33</sup> Rébecca Stekelorum, “The Roles of SMEs in Implementing CSR in Supply Chains: A Systematic Literature Review,” *International Journal of Logistics Research and Applications* 23, no. 3 (2020): 253, <https://doi.org/10.1080/13675567.2019.1679101>.

<sup>34</sup> Jorge Cruz-Cárdenas et al., “COVID-19, Consumer Behavior, Technology, and Society: A Literature Review and Bibliometric Analysis,” *Technological Forecasting and Social Change* (2021): 3, <https://doi.org/10.1016/j.techfore.2021.121179>.

1990s.<sup>35</sup> Meanwhile, the study which focused on CSR in IBs was started in the early 2000s. Therefore, the search period is set between 1997 and 2021.

### Screening Process

In this section, the keywords chosen were merged into 14 different combinations, resulting in 161 publications, with several papers being eliminated. The elimination process resulted in 57 papers that were identified for further examination. From the 57 papers, several papers appeared in more than one search criteria, resulting in duplication for some papers. Additional filtering was required to eliminate duplication, and at the end of the screening process, 20 papers were selected. Table 1 provides a summary of the combination of keywords and the number of articles available during the screening process, while Figure 1 provides the diagram of the screening process following a previous study.<sup>36</sup>

Table 1: Keywords' combination and number of articles

Search Criteria	Number of articles	Number of articles considered
Corporate governance AND CSR	14	5

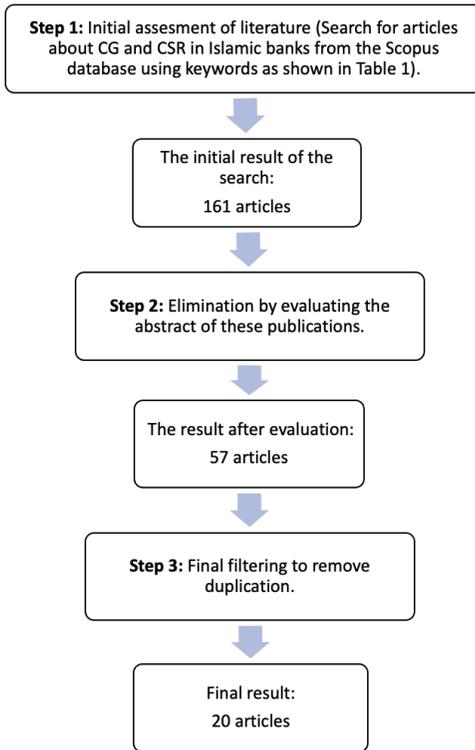
<sup>35</sup> Simon Archer, Rifaat Ahmed Abdel Karim and Talla Al-Deehani, "Financial Contracting, Governance Structures and the Accounting Regulation of Islamic Banks: An Analysis in Terms of Agency Theory and Transaction Cost Economics," *Journal of Management and Governance* 2, no. 2 (1998): 149-170, <https://doi.org/10.1023/A:1009985419353>.

<sup>36</sup> Naji Mansour Nomran and Razali Haron, "A Systematic Literature Review on Sharī'ah Governance Mechanism and Firm Performance in Islamic Banking," *Islamic Economic Studies* 27, no. 2 (2020): 94, <https://doi.org/10.1108/IES-06-2019-0013>.

Corporate governance AND Corporate social responsibility	27	8
Ownership structure AND CSR	4	1
Ownership structure AND Corporate social responsibility	7	1
Board of directors AND CSR	2	0
Board of directors AND Corporate social responsibility	5	1
Shariah governance AND CSR	5	2
Shariah governance AND Corporate social responsibility	13	4
Shariah supervisory AND CSR	8	4
Shariah supervisory AND Corporate social responsibility	10	6
Islamic governance AND CSR	14	5
Islamic governance AND Corporate social responsibility	27	10
Shariah board AND CSR	11	4
Shariah board AND Corporate social responsibility	14	6
Total	161	57
<b>Final Filtering</b>		<b>20</b>

Source: Scopus database

Figure 1: Screening process for data collection



## FINDINGS AND DISCUSSION

This section reviews several articles related to IBs' CG and CSR. Table 2 presents an overview of previous literature that has been filtered from the Scopus database on CG and CSR in IBs based on the title, authors and year of publication, journal name, and research objectives.

### Analysis of the Development of Research on CG and CSR in Islamic Banks

The development of research related to CG and CSR in IBs began in the 2000s. This research was pioneered by Nathan and Ribière<sup>37</sup>,

<sup>37</sup> Samy Nathan and Vincent Ribière, "From Knowledge to Wisdom: The Case of Corporate Governance in Islamic Banking.," *VINE: The Journal*

focusing on the conceptual framework and relationship between CSR, intellectual capital, and CG of IBs. In this study, the authors did not specifically conduct a case study in a country or an IB. Furthermore, this study was the first paper to discuss the potential of CSR in the CG of IBs. In this period, only this journal was included in the Scopus database that discussed CG and CSR in IBs.

In the 2010s, there were 11 papers that discussed CG and CSR in IBs. In this period, quantitative research was conducted on several IBs in various countries, particularly on the impact of CG on CSR disclosure in IBs. Hassan and Harahap<sup>38</sup> conducted a research related to the measurement of CSR disclosure based on the CSR disclosure index through eight dimensions that became the benchmark in CSR disclosure at seven IBs in seven different countries. Furthermore, in 2011, the research related to CSR disclosure was expanded by increasing sample data to 47 IBs in 17 countries.<sup>39</sup> In the same year, a similar research was also conducted by Paino et al.<sup>40</sup> that discussed the disclosure of Shari'ah, CSR, and CG in 17 IBs in Malaysia.

In 2013, the research began to focus on IBs in the Gulf Co-Operation Council (GCC) countries on the influence of the SSB on CSR disclosure. This research was conducted by Rahman and Bukair<sup>41</sup>

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*of Information and Knowledge Management Systems* 37, no. 4 (2007): 471, <https://doi.org/10.1108/03055720710838533>.

<sup>38</sup> Abul Hassan and Sofyan Syafri Harahap, "Exploring Corporate Social Responsibility Disclosure: The Case of Islamic Banks," *International Journal of Islamic and Middle Eastern Finance and Management* 3, no. 3 (2011): 203, <https://doi.org/10.1108/17538391011072417>.

<sup>39</sup> Sayd Farook, M. Kabir Hassan and Roman Lanis, "Determinants of Corporate Social Responsibility Disclosure: The Case of Islamic Banks," *Journal of Islamic Accounting and Business Research* 2, no. 2 (2011): 114, <https://doi.org/10.1108/17590811111170539>.

<sup>40</sup> Halil Paino, Anis Barieyah Bahari and Rosliza Abu Bakar, "Shariah, Social Responsibilities and Corporate Governance of the Islamic Banks in Malaysia," *European Journal of Social Sciences* 23, no. 3 (2011): 382, <https://doi.org/10.1109/CHUSER.2011.6163803>.

<sup>41</sup> Azhar Abdul Rahman and Abdullah Awadh Bukair, "The Influence of the Shariah Supervision Board on Corporate Social Responsibility Disclosure by Islamic Banks of Gulf Co-Operation Council Countries," *Asian Journal of Business and Accounting* 6, no. 2, (2013): 65-104.

by observing 53 IBs in the GCC. This year, only this publication was found in the Scopus database. In the following year, Mallin et al.<sup>42</sup> conducted a research on CSR disclosure and financial performance in IBs. In addition, the size of the SSB was also considered a supporting factor in CSR disclosure. This study observed 90 IBs in 13 countries. In the same year, Musibah and Alfattani<sup>43</sup> also conducted a similar study using financial performance as a mediator in the relationship between SSB effectiveness, intellectual capital, and CSR in 36 IBs in the GCC. Musibah and Alfattani<sup>44</sup> defined SSBs effectiveness as the efficiency of SSB characteristics such as the independence of its members, the size of the board, number of meetings, educational qualification, and cross-membership of SSB members.

In 2015 and 2016, there was no publication in the Scopus database that discussed CG and CSR in IBs. In 2017 Pujiati<sup>45</sup> discussed the influence of Islamic governance, independent board of commissioners, institutional ownership, independent audit committees, and profitability on CSR in all IBs in Indonesia. This paper was the first paper to focus on observations in Indonesia. Furthermore, in the same year, Yadiat et al.<sup>46</sup> examined the impact of Islamic corporate governance (ICG) and Islamic corporate social responsibility (ICSR)

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<sup>42</sup> Chris Mallin, Hisham Farag and Kean Ow-Yong, "Corporate Social Responsibility and Financial Performance in Islamic Banks," *Journal of Economic Behavior & Organization* (2014): 21-38.

<sup>43</sup> Anwar Salem Musibah and Wan Sulaiman Bin Wan Yusoff Alfattani, "The Mediating Effect of Financial Performance on the Relationship Between Shariah Supervisory Board Effectiveness, Intellectual Capital and Corporate Social Responsibility of Islamic Banks in Gulf Cooperation Council countries," *Asian Social Science* 10, no. 17 (2014): 139-164, <http://dx.doi.org/10.5539/ass.v10n17p139>.

<sup>44</sup> *Ibid.*

<sup>45</sup> Diyah Pujiati, "Corporate Social Responsibility Factors at Sharia Banks in Indonesia," *International Journal of Economic Research* 14, no. 15 (2017): 221.

<sup>46</sup> Winwin Yadiat, Gustani and Gia Amrania, "The Effect of Islamic Corporate Governance (ICG) and Islamic Corporate Social Responsibility (ICSR) Disclosures on Market Discipline with Financial Performance Used as Intervening Variables (Empirical Study on Shariah based Banks Operating in QISMUT Countries)," *International Journal of Applied Business and Economic Research* 15, no. 24 (2017): 119.

on market discipline using financial performance as an intervening variable. This study observed 42 IBs in 6 countries.

Moreover, in 2018, two papers discussed CG and CSR in IBs. The first paper was conducted by Yusoff et al.<sup>47</sup>, who observed the influence of financial performance and governance, especially the Shari'ah supervisory committee and ownership structure, on CSR. This study focused on 37 IFIs in Malaysia. Another paper by Al-Malkawi and Pillai<sup>48</sup> measured the relationship between financial performance and CG, such as the BODs, insider shareholding, institutional shareholding, and government shareholding, as well as CSR. The study covered 22 IBs in the GCC. The last paper in the 2010s was in 2019 by Nugraheni and Khasanah<sup>49</sup> that analysed 11 Islamic banks in Indonesia regarding implementing the AAOIFI index on CSR and the influence of CG on CSR.

Research on CG and CSR in IBs continued in the 2020s era. In this era, there were eight articles with similar methods and different case studies. In 2020, there were five papers entered into the Scopus database. Firstly, Harun et al.<sup>50</sup> measured the level of CSR disclosure in the GCC. The authors also examined the effectiveness of CG variables (board, SSB, audit committee and ownership) in determining CSR disclosure and its impact on firm value. They used data of 39 IBs

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<sup>47</sup> Haslinda Yusoff, Nor Khadijah Mohd Azhari and Faizah Darus, "Effects of Financial Performance and Governance on Corporate Social Responsibility Disclosure: Evidence from Islamic Financial Institutions in Malaysia," *Global Journal Al-Thaqafah*, Special Issue, (2018): 57.

<sup>48</sup> Husam-Aldin Nizar Al-Malkawi and Rekha Pillai, "Analyzing Financial Performance by Integrating Conventional Governance Mechanisms into the GCC Islamic Banking Framework," *Managerial Finance* 44, no. 5 (2018): 604, <https://doi.org/10.1108/MF-05-2017-0200>.

<sup>49</sup> Peni Nugraheni and Erlinda Nur Khasanah, "Implementation of the AAOIFI Index on CSR Disclosure in Indonesian Islamic Banks," *Journal of Financial Reporting and Accounting* 17, no. 3 (2019): 365, <https://doi.org/10.1108/JFRA-02-2018-0013>.

<sup>50</sup> Mohd Shukor Harun et al. "CSR Disclosure, Corporate Governance and Firm Value: A Study on GCC Islamic Banks," *International Journal of Accounting & Information Management* 28, no. 4 (2020): 607, <https://doi.org/10.1108/IJAIM-08-2019-010>.

during the period 2010-2014.<sup>51</sup> Secondly, another study focused on the Islamic banking industry in Pakistan.<sup>52</sup> This study measured the influence of stakeholder pressure, such as SSB pressure, top management pressure, customer pressure, and competitor pressure, on ICSR adoption. Thirdly, a similar research method was also carried out by Ridwan and Mayapada<sup>53</sup> with IBs in Indonesia as a case study. The authors examined the effect of SSB, board of directors, and audit committee on CSR disclosure in 10 IBs. Fourthly, in the same year, Jati et al.<sup>54</sup> also observed CSR disclosure in 10 IBs in Indonesia. They analysed the impact of profitability, liquidity, leverage, and an Islamic Governance Score on Islamic Social reporting in 10 IBs. Lastly, the last paper this year was conducted by Wahyuni et al. with the same case studies as in the two previous papers but with different methods. The authors analysed the effect of the ICG index and ICSR index on enhancing firm value in IBs in Indonesia.<sup>55</sup> In this era, most case studies on CG and CSR in IBs were conducted in Indonesia.

In 2021, there were three papers with cases in three countries, namely Malaysia, Bangladesh, and Indonesia. Lui et al.<sup>56</sup> discussed the

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<sup>51</sup> *Ibid.*

<sup>52</sup> Syed Asim Ali Bukhari, Fathyah Hashim and Azlan Bin Amran, "Determinants and Outcome of Islamic Corporate Social Responsibility (ICSR) Adoption in Islamic Banking Industry of Pakistan," *Journal of Islamic Marketing* 12, no. 4 (2020): 730.

<sup>53</sup> Ridwan Ridwan and Arung Gihna Mayapada, "Does Sharia Governance Influence Corporate Social Responsibility Disclosure in Indonesia Islamic Banks?" *Journal of Sustainable Finance & Investment* 12, no. 2 (2022): 2.

<sup>54</sup> Kwat Waluyo Jati et al., "Islamic Social Reporting Disclosure as a Form of Social Responsibility of Islamic Banks in Indonesia," *Banks and Bank Systems* 15, no. 2 (2020): 48, [http://dx.doi.org/10.21511/bbs.15\(2\).2020.05](http://dx.doi.org/10.21511/bbs.15(2).2020.05).

<sup>55</sup> Sri Wahyuni, Pujiharto, and Dwi Rahmawati Rahayu, "Islamic Corporate Governance Index and Islamic Social Reporting Disclosure Index for Enhancing Firm Value: An Empirical Study of Islamic Banking in Indonesia," *International Journal of Innovation, Creativity and Change* 12, no. 1(2020): 511.

<sup>56</sup> Tze Kiat Lui et al. "Corporate Social Responsibility Disclosures (CSRDs) in the Banking Industry: A Study of Conventional Banks and Islamic Banks in Malaysia," *International Journal of Bank Marketing* 39, no. 4 (2021): 541, <https://doi.org/10.1108/IJBM-04-2020-0192>.

level of CSR disclosure in 16 IBs and 21 conventional banks in Malaysia. This study also investigated the impact of ownership concentration on CSR disclosure. In addition, another study analysed the impact of SSB and Shari'ah audit committees on the adoption of CSR in IBs in Bangladesh.<sup>57</sup> This study took 160 branches of IBs from 40 different commercial banks. The last research was conducted by Fachrurrozie et al.<sup>58</sup>, who measured the effect of profitability, size, and SSB on 14 IBs in Indonesia. From these publications, it can be concluded that the research methods carried out are similar, but the parameters and variables used are slightly different.

Based on the previous studies above, in the last 20 years, research related to CG and CSR continued to develop with various case studies. Quantitative research began in the 2010s by measuring the level of CSR disclosure in IBs in various countries. During this period, some studies analysed the influence of CG, such as SSB, BODs, audit committees, and CSR disclosure. In addition, the financial performance of IBs was also considered in CSR disclosure. Previous research tried to analyse the relationship between financial performance and CSR or financial performance as a mediator in the relationship between SSB effectiveness and CSR. Other studies also analysed the relationship between financial performance and several aspects of CG and CSR in IBs. In the 2020s, the development of this research continued by incorporating other parameters such as profitability, liquidity, leverage, and stakeholder pressure on CSR disclosure. In addition, another paper using a different method tried to measure the impact of the ICG index and ICSR index on enhancing firm value. Furthermore, during this period, some papers tried to measure the comparison of the level of CSR disclosure between IBs and CBs. From this explanation, it can be concluded that research related to CG and CSR in IBs focuses on the

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<sup>57</sup> K. M. Anwarul Islam et al., "The Impact of Shariah Supervisory Board and Shariah Audit Committee on CSR Adoption at Islamic Banks," *Journal of Asian Finance, Economics and Business (JAFEB)*8, no. 3 (2021):479, <http://dx.doi.org/10.2139/ssrn.3822818>.

<sup>58</sup> Fachrurrozie et al., "The Effect of Profitability, Size and Shariah Supervisory Board of an Indonesian Islamic Bank on the Islamic Social Reporting Disclosure," *Banks and Bank Systems* 16, no. 3, (2021): 84, [http://dx.doi.org/10.21511/bbs.16\(3\).2021.08](http://dx.doi.org/10.21511/bbs.16(3).2021.08).

factors that influence CSR disclosure and its effect on financial performance or firm value.

### **Analysis of the Impact of CG on CSR in Islamic Banks**

Research on the impact of CG on CSR in IBs was started in 2011<sup>59</sup>, which focused on benchmarks for CSR disclosure in seven IBs from seven different countries. This benchmark was based on eight dimensions consisting of ethical behaviour, stakeholder engagement, customer relations, CG, interest-free, legal products and services. Also included were SSB, development and social goals, employees, environment, and research and development. The calculation of CSR disclosure was based on the CSR disclosure index (CDI) on each dimension. The study revealed that the average CDI on the dimension of CG and SSB was less than 50%. These show that not all CG and SSB in IBs could disclose CSR reports well. In addition, from all dimensions, only the strategic social development dimension reached more than 50% of the average CDI. Of the seven IBs, only one IB received an average CDI of more than 50%. From these results, it can be concluded that reporting in IBs was still below the CDI average. This study suggested that AAOIFI has to develop CSR standards similar to international standards.

Farook et al.<sup>60</sup> studied the factors that influence CSR disclosure in 47 IBs in 14 countries. The study revealed that CG, which is measured by the number of characteristics such as the existence of the SSB, the number of SSB members, the existence of SSB members with cross-memberships, the existence of SSB members with doctoral qualifications, and the existence of reputable scholars governing the SSB board, significantly affects CSR disclosure. In other words, a higher level of CSR disclosure requires the existence of SSB members

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<sup>59</sup> Abul Hassan and Sofyan Syafri Harahap, "Exploring Corporate Social Responsibility Disclosure: The Case of Islamic Banks," *International Journal of Islamic and Middle Eastern Finance and Management* 3, no. 3 (2011): 215-219, <https://doi.org/10.1108/17538391011072417>.

<sup>60</sup> Sayd Farook, M. Kabir Hassan and Roman Lanis, "Determinants of Corporate Social Responsibility Disclosure: The Case of Islamic Banks.," *Journal of Islamic Accounting and Business Research* 2, no. 2 (2011): 129-132, <https://doi.org/10.1108/17590811111170539>.

with cross-memberships, doctoral qualifications and/or international reputation, resulting in greater monitoring and hence greater compliance with Shari'ah laws and principles.

Paino et al.<sup>61</sup> analysed the disclosure of Shari'ah, CG, and CSR in 17 IBs in Malaysia. The result of this study revealed that the majority of IBs in Malaysia were able to disclose Shari'ah, CG, and CSR in their annual reports. In addition, for CG disclosure, there was no relationship between the size of banks and CG disclosure. However, for CSR disclosure, there was a significant difference between the content-category themes level of social responsibilities disclosure among IBs. The study suggested that IBs could reveal more Shari'ah, CG, and CSR in their annual reports through a higher level of monitoring within banks.

Rahman and Bukair<sup>62</sup> examined the impact of SSB in IBs on the level of CSR disclosure. This study utilised 53 IBs in the GCC. It used multiple regression to investigate the association between the CSR disclosure level and the SSB score. The study revealed that the SSB and its attributes influence the determination of CSR disclosure. Combining the internal SSB characteristics leads to a greater monitoring of compliance with Shari'ah principles, thus leading to higher levels of CSR disclosure. It could be concluded that SSB and their membership affect IBs in providing CSR information rather than as a part of the banks' responsibility against society.

In 2014, Mallin et al.<sup>63</sup> examined the relationship between CSR and the financial performance of 90 IBs in 13 countries. The result of the study showed that CSR disclosure was determined by financial

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<sup>61</sup> Halil Paino, Anis Barieyah Bahari and Rosliza Abu Bakar, "Shariah, Social Responsibilities and Corporate Governance of the Islamic Banks in Malaysia," *European Journal of Social Sciences* 23, no. 3 (2011): 388-390, <https://doi.org/10.1109/CHUSER.2011.6163803>.

<sup>62</sup> Azhar Abdul Rahman and Abdullah Awadh Bukair, "The Influence of the Shariah Supervision Board on Corporate Social Responsibility Disclosure by Islamic Banks of Gulf Co-Operation Council Countries," *Asian Journal of Business and Accounting* 6, no. 2, (2013): 85-89.

<sup>63</sup> Chris Mallin, Hisham Farag and Kean Ow-Yong, "Corporate Social Responsibility and Financial Performance in Islamic Banks," *Journal of Economic Behavior & Organization* (2014): 32-36.

performance. Better financial performance encouraged banks to engage more in social activities. SSB size also influenced CSR disclosure, and a larger SSB size might lead to a higher level of CSR disclosure. The study suggested that the size of the SSB should be larger to approve more Islamic-based products, thus contributing to higher profit for better financial performance, which might encourage IBs to participate more in social activities.

Another study in a similar context was conducted by Musibah and Alfattani<sup>64</sup> in the same year. The study observed the influence of SSB and intellectual capital (IC) on CSR among 36 IBs in the GCC. Moreover, this study also identified the significance of financial performance as a mediator in the relationship between SSB effectiveness, IC, and CSR. The study revealed that SSB effectiveness, Capital Employee Efficiency (CEE) and Structure Capital Efficiency (SCE) of IBs positively influenced CSR. However, Human Capital Efficiency (HCE) did not influence CSR. Financial performance as a mediator was found to be a significant mediating factor for the relationship between SSB effectiveness, CEE, SCE, and CSR in IBs. This study indicated that the more effective the SSB in IBs, the better the financial performance and level of social involvement.

Pujiati<sup>65</sup> examined the influence of Islamic governance, independent board of commissioners, institutional ownership, independent audit committee, and profitability on the level of CSR disclosure of IBs in Indonesia. Of the five factors, only the composition of the audit committee had a significant effect on CSR disclosure, while no influence was detected on Islamic governance, institutional ownership and profitability. The study indicated that the effective

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<sup>64</sup> Anwar Salem Musibah and Wan Sulaiman Bin Wan Yusoff Alfattani, "The Mediating Effect of Financial Performance on the Relationship between Shariah Supervisory Board Effectiveness, Intellectual Capital and Corporate Social Responsibility, of Islamic Banks in Gulf Cooperation Council Countries," *Asian Social Science* 10, no. 17 (2014): 153-156.

<sup>65</sup> Diyah Pujiati, "Corporate Social Responsibility Factors at Sharia Banks in Indonesia," *International Journal of Economic Research* 14, no. 15 (2017): 225-226

composition of the independent audit committee could be a benchmark of CSR disclosure.

Yadiat et al.<sup>66</sup> analysed the effect of Islamic corporate governance (ICG) and Islamic corporate social responsibility (ICSR) disclosure on market discipline using financial performance as an intervening variable based on 42 IBs from 6 countries. The study revealed that ICG and ICSR disclosure had a significant influence on financial performance and market discipline. However, financial performance had no significant influence on market discipline. Therefore, financial performance could not be used as an intervening variable linking ICG and ICSR to market discipline. The study concluded that the disclosure of ICG and ICSR will increase transparency and promotion of the market discipline of IBs.

Yusoff et al.<sup>67</sup> discussed the effect of financial performance and CG, such as SSB and ownership structures, on CSR in 37 IFIs in Malaysia for the period 2010 using the OLS regression. The study revealed that SSB and ownership structures had a significant influence on CSR. Meanwhile, financial performance had no significant influence on CSR. As a result, strengthening the CG framework of IFIs through embedding SSB will improve CSR disclosure transparency and accountability.

Another study conducted by Al-Malkawi and Pillai<sup>68</sup> analysed the financial performance of 22 IBs in GCC countries by integrating

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<sup>66</sup> Winwin Yadiat, Gustani and Gia Amrania, "The Effect of Islamic Corporate Governance (ICG) and Islamic Corporate Social Responsibility (ICSR) Disclosures on Market Discipline with Financial Performance Used as Intervening Variables (Empirical Study on Shariah based Banks Operating in QISMUT Countries)," *International Journal of Applied Business and Economic Research* 15, no. 24 (2017): 137-139.

<sup>67</sup> Haslinda Yusoff, Nor Khadijah Mohd Azhari and Faizah Darus, "Effects of Financial Performance and Governance on Corporate Social Responsibility Disclosure: Evidence from Islamic Financial Institutions in Malaysia," *Global Journal Al-Thaqafah*, Special Issue, (2018): 64-67.

<sup>68</sup> Husam-Aldin Nizar Al-Malkawi and Rekha Pillai, "Analyzing Financial Performance by Integrating Conventional Governance Mechanisms into the GCC Islamic Banking Framework," *Managerial Finance* 44, no. 5 (2018): 615-616, <https://doi.org/10.1108/MF-05-2017-0200>.

conventional governance mechanisms. This study measured the relationship between financial performance and several aspects of CG, such as CSR, BODs, insider shareholding (INSD), institutional shareholding (INST), and government shareholding (GOVT), for the period 2005-2015. The study found that only INSD has a positive relationship with financial performance. Meanwhile, other aspects, such as INST, GOVT, BOD, and CSR, had a negative relationship with the financial performance of IBs. In other words, conventional CG mechanisms such as insider shareholding can accelerate the financial performance of IBs, whereas INST, GOVT, BOD, and CSR function as inhibitors of financial performance.

Nugraheni and Khasanah<sup>69</sup> investigated the level of CSR disclosure in IBs in Indonesia based on the AAOIFI index. This study also measured the influence of CG on CSR disclosure. The multiple regression was conducted based on secondary data of 11 IBs for the period 2011-2014. Based on the AAOIFI index, CSR disclosure of IBs in Indonesia was still relatively low, and it became a concern for IBs to focus more on social activities. In addition, empirical evidence on the influence of CG on CSR disclosure provided evidence that the board of commissioner (BOC) size and SSB did not affect CSR disclosure. Moreover, the composition of an independent BOC had a negative effect on CSR disclosure. However, the frequency of BOC meetings and SSB size had a significant and positive effect on CSR disclosure. This result concluded that CSR disclosure could be increased by improving the optimisation of BOC meetings and SSB size.

Harun et al.<sup>70</sup> observed the level of CSR disclosure of IBs in GCC countries and the effectiveness of CG variables such as board, SSB, audit committee (AC), and related ownership in determining CSR disclosure and its impact on firm value. This study adopted a quantitative research method using secondary data from annual reports

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<sup>69</sup> Peni Nugraheni and Erlinda Nur Khasanah, "Implementation of the AAOIFI Index on CSR Disclosure in Indonesian Islamic Banks," *Journal of Financial Reporting and Accounting* 17, no. 3 (2019): 373-378, <https://doi.org/10.1108/JFRA-02-2018-0013>.

<sup>70</sup> Mohd Shukor Harun et al. "CSR Disclosure, Corporate Governance and Firm Value: A Study on GCC Islamic Banks," *International Journal of Accounting & Information Management* 28, no. 4 (2020): 625-627, <https://doi.org/10.1108/IJAIM-08-2019-010>.

of 39 IBs for the period 2010-2014. The study revealed that the issuance of AAOIFI guidance for CSR disclosure did not improve the CSR disclosure practice because the level of CSR disclosure in GCC was still relatively low. This study reported that a larger board size could improve CSR disclosure practices for the effect of CG characteristics on CSR disclosure. Meanwhile, CEO duality and AC size had a negative effect on CSR disclosure, indicating an impaired voluntary disclosure. For the firm value, the study found a significant negative relationship between CSR disclosure and firm value. In other words, CSR disclosure had a negative impact on firm value since it reduced a firm's competitive edge with rivals and created more uncertainty for investors. The study suggested that AAOIFI, as a regulatory body, should encourage IBs to practice CSR disclosure in their annual reports by collaborating with regulatory bodies in GCC countries.

Bukhari et al.<sup>71</sup> analyse ICSR adoption in 338 IB branches in Pakistan. This research also measured the influence of stakeholders' pressure on ICSR adoption. In addition, this study also examined the influence of ICSR adoption on the branch's intangible outcomes. The study found SSB and competitors had a significant influence on IB branches to adopt ICSR practices. SSB could encourage IBs to be more responsible in social activities towards their various stakeholders. Likewise, the impact of competitor pressure was due to the similar regulatory environment and target market among IBs, resulting in IBs seeking to gain a competitive advantage through various programs such as ICSR. Furthermore, ICSR adoption had a positive impact on the IB branch's intangible outcomes.

Ridwan and Mayapada<sup>72</sup> conducted a study investigating the impact of Shari'ah governance on CSR disclosure of 11 IBs in Indonesia for the period 2011-2018. This study found that the size of

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<sup>71</sup> Syed Asim Ali Bukhari, Fathyah Hashim and Azlan Bin Amran, "Determinants and Outcome of Islamic Corporate Social Responsibility (ICSR) Adoption in Islamic Banking Industry of Pakistan," *Journal of Islamic Marketing* 12, no. 4 (2020): 748-749.

<sup>72</sup> Ridwan Ridwan and Arung Gihna Mayapada, "Does Sharia Governance Influence Corporate Social Responsibility Disclosure in Indonesia Islamic Banks?" *Journal of Sustainable Finance & Investment* 12, no. 2 (2022):12-14.

BOD had a significant negative effect on CSR disclosure. As a result, BOD in IBs should be focused on the frequency of meetings instead of adding more size of BOD. In addition, AC and SSB had no significant influence on CSR disclosure.

Another similar study was conducted by Jati et al.<sup>73</sup> investigating the impact of profitability, liquidity, leverage, and an Islamic Governance Score (IG score) on Islamic social reporting (ISR) in 10 IBs in Indonesia. This study revealed that profitability and leverage did not influence ISR. In other words, if IBs earn more profit, they might not necessarily have high social activities and social reporting, as well as high and low leverage of IBs, which did not affect the disclosure of ISR. Meanwhile, the liquidity and IG score had a significant impact on ISR. However, liquidity had a negative impact on ISR, or when the liquidity was high, it was less likely for the banks to disclose ISR. The IG score had a positive impact on ISR; therefore, the higher the supervision of the SSB, the better the Islamic social reporting by the banks.

Wahyuni et al.<sup>74</sup> examined whether the Islamic corporate governance (ICG) index and Islamic social reporting (ISR) index could have influenced the value of 9 IBs in Indonesia for the period 2013-2017. The ICG index had a significant effect on firm value. With the better implementation of ICG, the company could increase its value. While the ISR index had no effect on firm value.

Recently, Lui et al.<sup>75</sup> analysed the level of CSR disclosure among 21 CBs and 16 IBs in Malaysia. This study also investigated the impact

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<sup>73</sup> Kuat Waluyo Jati et al., "Islamic Social Reporting Disclosure as a Form of Social Responsibility of Islamic Banks in Indonesia," *Banks and Bank Systems* 15, no. 2 (2020): 51-53, [http://dx.doi.org/10.21511/bbs.15\(2\).2020.05](http://dx.doi.org/10.21511/bbs.15(2).2020.05).

<sup>74</sup> Sri Wahyuni, Pujiharto, and Dwi Rahmawati Rahayu, "Islamic Corporate Governance Index and Islamic Social Reporting Disclosure Index for Enhancing Firm Value: An Empirical Study of Islamic Banking in Indonesia," *International Journal of Innovation, Creativity and Change* 12, no. 1(2020): 515-516.

<sup>75</sup> Tze Kiat Lui et al. "Corporate Social Responsibility Disclosures (CSRDs) in the Banking Industry: A Study of Conventional Banks and Islamic

of ownership concentration on CSR disclosure levels. The study revealed that the CSR disclosure level of IBs was higher than CBs. Furthermore, the ownership concentration had a significantly negative influence on CSR disclosure. It could be concluded that the high ownership concentration reduces the level of disclosure. However, the interaction test between IBs and ownership concentration with CSR disclosure showed that the complementary relationship between IBs and ownership concentration had a positive effect on CSR disclosure. In addition, CG characteristics such as board size (BODSIZE) and board independence (INDDIR) had a significant relationship with CSR disclosure. However, BODSIZE had a positive effect on CSR disclosure and indicated that the large board size was more likely to be transparent in their operation, while for INDDIR, it had a negative effect on CSR disclosure and implied that having a larger number of external directors might lead to lower CSR disclosure level.

Islam et al.<sup>76</sup> investigated the impact of SSB and Shari'ah audit committee (SAC) on CSR adoption in IBs in Bangladesh. This study followed a quantitative research method that observed 160 IBs and branches of 40 different commercial banks. This study found SSB and SAC had a significant influence on CSR adoption. Strong and effective SSB and SAC support played an important role in CSR strategies. It would encourage the development of a CSR framework to ensure enhanced welfare for society and the economy.

Fachrurrozie et al.<sup>77</sup> investigated the effect of profitability, size, and SSB on ISR disclosure in Indonesian IBs. Additionally, this paper also investigated the role of SSB as a moderator variable in the relationship between profitability and size of an IB and ISR disclosure. The study utilised 14 IBs for the period 2014-2018. The result showed

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Banks in Malaysia," *International Journal of Bank Marketing* 39, no. 4 (2021): 552-559, <https://doi.org/10.1108/IJBM-04-2020-0192>.

<sup>76</sup> K. M. Anwarul Islam et al., "The Impact of Shariah Supervisory Board and Shariah Audit Committee on CSR Adoption at Islamic Banks," *Journal of Asian Finance, Economics and Business (JAFEB)* 8, no. 3 (2021): 482-483, <http://dx.doi.org/10.2139/ssrn.3822818>.

<sup>77</sup> Fachrurrozie et al., "The Effect of Profitability, Size and Shariah Supervisory Board of an Indonesian Islamic Bank on the Islamic Social Reporting Disclosure," *Banks and Bank Systems* 16, no. 3, (2021): 88-89, [http://dx.doi.org/10.21511/bbs.16\(3\).2021.08](http://dx.doi.org/10.21511/bbs.16(3).2021.08).

that ISR disclosure in Indonesian IBs was determined by profitability and firm size. It could be concluded that higher profit of banks would increase the social activities of IBs, and the large size of IBs would support a wider range of social activities. In addition, the role of SSB did not have a significant influence on ISR. However, SSB had a significantly negative role in moderating the interaction between profitability, firm size and ISR disclosure. In other words, the greater the number of SSB members, the less the influence of profitability and size of IBs on ISR disclosure. This study suggested enhancing the role of SSB in social reporting through optimal supervision and monitoring in the implementation of sufficient social activities.

In summary, several previous studies revealed that CG and its characteristics could affect the level of CSR disclosure in IBs. The most influential aspect in CSR disclosure was SSB and its characteristics, such as the existence of SSB, the number of SSB members, the existence of SSB members with cross-memberships, and the existence of SSB members with doctoral qualifications, and the existence of reputable scholars governing the SSB. However, another study of IBs in Indonesia as a case study concluded that SSB still focused on the operational activities of IBs. In other words, SSB did not affect CSR disclosure. In addition, the level of CSR disclosure based on the AAOIFI index was still low, especially in Indonesia. This indicates that AAOIFI, as a regulatory body, should encourage IBs to practice CSR disclosure in their annual reports and develop CSR disclosure standards.

Table 2: An Overview of Previous Literature on CG and CSR in Islamic banks

<b>Title</b>	<b>Authors and Year of Publication</b>	<b>Journal Name</b>	<b>Research Objectives</b>

From Knowledge to Wisdom: The Case of CG in Islamic Banking	Nathan and Ribière (2007)	VINE: The journal of information and knowledge management systems	This paper explores the concept and relationship between intellectual capital, wisdom, and CSR in the CG of Islamic banks.
Exploring CSR Disclosure: The Case of Islamic Banks	Hassan and Harahap (2010)	International Journal of Islamic and Middle Eastern Finance and Management	The objective of this study is to explore CSR disclosure among seven Islamic banks.
Determinants of CSR Disclosure: The Case of Islamic Banks	Farook et al. (2011)	Journal of Islamic Accounting and Business Research	This study discusses the level of CSR disclosure in 47 IBs from 14 countries.
Shariah, Social Responsibilities and CG of The Islamic Banks in Malaysia	Paino et al. (2011)	European Journal of Social Sciences	This study aims to analyse the disclosure of Shari'ah, CSR, and CG in IBs in Malaysia.
The Influence of The Shariah Supervision Board on CSR Disclosure by	Rahman and Bukair (2013)	Asian Journal of Business and Accounting	This paper measures the influence of SSB in IBs on the level of

Islamic Banks of Gulf Cooperation Council Countries			CSR disclosure.
CSR and Financial Performance in Islamic Banks	Mallin et al. (2014)	Journal of Economic Behavior & Organization	The purpose of this study is to examine the relationship between CSR and financial performance in IBs.
The Mediating Effect of Financial Performance on the Relationship between Shariah Supervisory Board Effectiveness, Intellectual Capital and CSR of Islamic Banks in Gulf Cooperation Council Countries	Musibah and Alfattani (2014)	Asian Social Science	This study aims to discuss the influence of SSB and intellectual capital on CSR among 36 IBs in GCC.
CSR Factors at Sharia Banks in Indonesia	Pujiati (2017)	International Journal of Economic Research	This study examines the influence of Shari'ah governance, independent

			board of commissioners, institutional ownership, independent audit committees, and profitability on the level of disclosure of corporate social responsibility at Shari'ah bank in Indonesia.
The Effect of Islamic Corporate Governance (ICG) and Islamic Corporate Social Responsibility (ICSR) Disclosures on Market Discipline with Financial Performance used as Intervening	Yadiat et al. (2017)	International Journal of Applied Business and Economic Research	The objective of this study is to measure the effect of ICG and ICSR disclosure on market discipline using financial performance as an intervening variable.

Effects of Financial Performance and Governance on CSR Disclosure: Evidence from IFIs in Malaysia	Yusoff et al. (2018)	Global Journal Al-Thaqafah	This study examines the effect of financial performance and governance, such as the Shari'ah supervisory committee and ownership structures, on CSR.
Analysing Financial Performance by Integrating Conventional Governance Mechanisms into the GCC Islamic Banking Framework	Al-Malkawi and Pillai (2018)	Managerial Finance	This paper measure the relationship between financial performance and several aspects of CG, such as CSR, BOD, Insider shareholding, Institutional shareholding, and government shareholding.
Implementation of the AAOIFI Index on CSR Disclosure in Indonesian Islamic Banks	Nugraheni and Khasanah (2019)	Journal of Financial Reporting and Accounting	This study analyses the extent to which CSR disclosure in IBs in Indonesia is based on the AAOIFI index

			and also examines the influence of CG on CSR disclosure.
CSR Disclosure, CG and Firm Value: a study on GCC Islamic Banks	Harun et al. (2020)	International Journal of Accounting & Information Management	This paper measures the level of CSR disclosure of IBs in GCC, as well as the effectiveness of CG variables (board, SSB, audit committee and related ownership) in determining CSR disclosure and its impact on firm value.
Determinants and Outcome of Islamic Corporate Social Responsibility (ICSR) Adoption in the Islamic Banking Industry of Pakistan	Bukhari et al. (2020)	Journal of Islamic Marketing	This study examines the influence of stakeholders' pressure, such as SSB pressure, top management pressure, customer pressure, and competitor pressure, on ICSR adoption.

Does Sharia Governance Influence CSR Disclosure in Indonesian Islamic Banks?	Ridwan and Mayapada (2020)	Journal of Sustainable Finance & Investment	This study investigates the effect of Shari'ah governance on CSR disclosure of IBs in Indonesia.
Islamic social reporting disclosure as a form of social responsibility of Islamic banks in Indonesia	Jati et al. (2020)	Banks and Bank Systems	This study examines the impact of profitability, liquidity, leverage, and an Islamic Governance Score on Islamic Social Reporting in Islamic commercial banks in Indonesia.
Islamic CG Index and Islamic Social Reporting Disclosure Index for Enhancing Firm Value: An Empirical Study of Islamic Banking in Indonesia	Wahyuni et al. (2020)	International Journal of Innovation, Creativity and Change	This study examines whether Islamic corporate governance and Islamic social reporting index can enhance firm value on IBs in Indonesia.

CSR Disclosures in The Banking Industry: A Study of Conventional Banks and Islamic Banks in Malaysia	Lui et al. (2021)	International Journal of Bank Marketing	This paper examines the level of CSR disclosure of conventional and IBs in Malaysia and the impact of ownership concentration on the CSRD level.
The Impact of Shariah Supervisory Board and Shariah Audit Committee on CSR Adoption at Islamic Banks in Bangladesh	Islam et al. (2021)	Journal of Asian Finance, Economics and Business (JAFEB)	This study analyses the influence of the SSB and SAC on CSR adoption in IBs in Bangladesh.
The Effect of Profitability, Size and Shariah Supervisory Board of an Indonesian Islamic Banks on The Islamic Social Reporting Disclosure	Fachrurrozie et al. (2021)	Banks and Bank Systems	This study analyses the effect of profitability, size and SSB on ISR disclosure in Indonesian IBs.

Source: Scopus database

## **CONCLUSION AND RECOMMENDATION FOR FUTURE RESEARCH**

This study has two main objectives, namely, identifying the development of research on CG and CSR in IBs and the impact of CG on CSR in IBs. Through an SLR, 20 articles were selected and reviewed from the Scopus database during 1997-2021. This study shows that research related to CG and CSR in IBs began in 2007, focusing on the conceptual framework and relationship between CSR, intellectual capital, and IB governance. Quantitative research was started in 2010 and focused on measuring the CSR disclosure of IBs.

Research continues to develop by identifying factors, especially from CG aspects, that determine the level of CSR disclosure in IBs, the relationship between CSR and financial performance, and the impact of CG and CSR on the financial performance of IBs. CG aspects, such as the SSB and its characteristics, BODs and their characteristics, and the audit committee, have a positive or negative influence on CSR disclosure. However, in some cases, SSB does not significantly influence CSR disclosure because SSB is only focused on supervising the operational activities of IBs.

Furthermore, in terms of the financial performance of IBs, this aspect can be a mediating factor in the positive relationship between SSB and CSR. On the other hand, another study has shown that CSR disclosure is determined by financial performance but does not apply to the reciprocal relationship because other research shows that CSR has a negative relationship with financial performance. In addition, several previous studies have shown that AAOIFI, as a regulatory body, should encourage IBs to disclose CSR in their annual reports because of the low level of CSR disclosure in several IBs.

This study recommends reviewing and analysing CG and CSR in other IFIs based on the Scopus database for future research. In addition, since this study utilises only the Scopus database, future research may apply other databases, such as the Web of Science, to review all articles related to CG and CSR in IBs.