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26-Aug-2016

Dear Dr, Nejati:

It is a pleasure to accept your manuscript entitled "Social Responsibility Disclosure in Islamic Banks: A Comparative Study of Indonesia and Malaysia" in its current form for publication in Journal of Financial Reporting and Accounting. The comments of the reviewer(s) who reviewed your manuscript are included at the foot of this letter.

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Sincerely,
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Managing Editor, Journal of Financial Reporting and Accounting
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Social Responsibility Disclosure in Islamic Banks: A Comparative Study of Indonesia and Malaysia

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Responses to Reviewer(s)’ Comments

Manuscript ID: JFRA-01-2015-0016 – R3

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Reviewer 1:

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<td>We reviewed the underlying theories applied in previous studies. However, due to the descriptive nature of this study which provides a comparative study of Islamic banks in Indonesia and Malaysia, we did not empirically test a research model. Therefore, an underpinning theory was not introduced in this study. Following the suggestions by the reviewer and in line with our study findings, we explained how legitimacy theory can be used as a lens to support banks’ disclosure of their social responsibilities.</td>
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Social Responsibility Disclosure in Islamic Banks: A Comparative Study of Indonesia and Malaysia

Purpose: Corporate social responsibility (CSR) has become an important aspect of business society. As such, companies have shown a growing interest in reporting their social and environmental initiatives. This study aims to explore social responsibility reporting of full-fledged Islamic banks in two developing countries, namely Indonesia and Malaysia.

Design/methodology/approach: Content analysis of the annual reports for three full-fledged local Islamic banks in Indonesia and three Islamic banks in Malaysia was carried out for the period of 2007 to 2011.

Findings: Results of the study revealed that corporate social responsibility disclosure of Islamic banks has generally grown both in Malaysia and Indonesia. More specifically, it was found that workplace and community dimensions were the most highly disclosed areas by the Islamic banks in both countries.

Research limitations/implications: The current study provides a cross-cultural perspective on social responsibility disclosure in Islamic banks across two countries. The study is limited by investigating a 5-year time frame.

Practical implications: By discussing the findings according to the stages of growth model for corporate social responsibility, we suggest that Islamic banks can enhance their responsiveness, and transform their role from being CSR reporters of social responsibility to responders.

Originality/value: While the tenets of CSR have a lot in common with Islamic moral law (Shariah), little is known about CSR disclosure of Islamic banks.

Keywords: Corporate Social Responsibility, CSR Reporting, Islamic Banks, Content Analysis

Introduction

Corporate social responsibility (CSR) and social reporting has become a critical issue for many companies due to the increase of public awareness about the impacts of companies on society and environment. The journey of CSR began centuries ago and it is still growing at an unprecedented pace with no sign of slowing down (Quazi, Nejati and Amran, 2015). Avoiding unacceptable activities and obtaining “social license” (Gunningham, Kagan and Thornton, 2004, p. 308) have stimulated an increasing number of companies to be involved in
CSR reporting. This is evident from the number of companies issued sustainability report. Among the 250 largest companies in the world, less than half of them presented sustainability reports in 2004, while more than 80 percent of them issued a sustainability report in 2008 (KPMG, 2008). This leaves no shadow of doubt as to why many practitioners and researchers consider CSR reporting both as part and outcome of reputation risk management (e.g., Friedman and Miles, 2001; Hasseldine, Salama and Toms, 2005; KPMG, 2005; Rayner, 2001; Starovic, 2002; Toms, 2002). Moreover, excellent organizations are expected to be in an advanced state of social responsiveness, through proactive social reporting (Douglas, Doris and Johnson, 2004).

Achieving an ethical and socially responsible attitude towards firm’s stakeholders is the primary goal of CSR (Hopkins, 2004). Thus, the tenets of CSR are compatible with Islamic banking. According to Islamic moral law (Shariah), every citizen is responsible to promote justice and welfare in the society and seeks God’s blessings, in order to achieve success in this world and the hereafter. Although CSR is essential to demonstrate accountability and Islamic ethical decision making of managers, auditors, and the Shariah (moral law) Board (SSB) members, little is known about CSR disclosure practices in Islamic banks’ annual report (Hassan and Harahap, 2010). The extant literature shows that majority of developed countries, where social responsibility disclosure is a more common practice, have focused on CSR reporting. Belal (2008) and Momin (2006) stated that CSR studies in developing countries are at the initial and exploratory stage. Additionally, Visser et al. (2008) pointed out that due to the existence of discrepancies in the socio-economic and cultural contexts, the notion of CSR is different in developing and developed countries. As such, to bridge the existing gap in the literature and explore Islamic banks’ social responsibility reporting in developing countries, the current study investigates social responsibility reporting of selected full-fledged Islamic banks in Indonesia and Malaysia. The reason for selecting these two countries is that both Indonesia and Malaysia are substantially promoting Islamic banking system. Besides, these two countries which are categorized as developing economies are located in the same region with possessing relatively similar culture. In both countries, Islam is the dominant religion and the total of Muslim population in these two countries accounts for an approximately 14% of the world Muslim population (PewResearch Center, 2009). Therefore, the relatively similar settings of both countries allow for a meaningful comparison of social responsibility reporting practices amongst the full-fledged Islamic banks.

The findings of this study can help in formulating a global attitude toward CSR through incorporating developing countries’ experience as recommended by Prieto-Carrón et al.
(2006) and Lund-Thomsen (2004). Specifically, this study seeks to provide answers to the following questions:

1. What areas are included in social responsibility reporting of Islamic banks in Indonesia and Malaysia?
2. What are the similarities and differences in social responsibility reporting practices of Islamic banks in Indonesia and Malaysia?
3. What are the stages of growth of social responsibility reporting among Islamic banks in Indonesia and Malaysia?

To meet the objectives and answer the research questions, first, a review of the existing literature is provided. Then, research methodology applied in the current study is presented followed by the findings of the research. Lastly, the results are discussed and study limitations and directions for future research are outlined.

**Common Theoretical Perspectives on Conventional CSR Practices**

Recent development shows that CSR is becoming a subject of interest for researchers. Social accounting researchers have devoted their effort to elaborate CSR practices from different dimensions through applying various approaches and theoretical perspectives. In Western context, social accounting disclosure has various theoretical perspectives. These viewpoints try to justify the nature of social accounting disclosure, and explain why business organizations disclose social accounting information. The commonly used theories for explaining such justification include agency theory, legitimacy theory, and stakeholder theory.

The agency theory was proposed by Jensen and Meckling (1976) and Watts and Zimmerman (1978). The main focus of agency theory is on the principal-agent relationship that exists in the separation of ownership and management, or in the separation of risk bearing, decision making and management functions (Jensen and Meckling, 1976). At the heart of agency theory lies the assumption that self-interest is the main driver for all individuals’ actions and individuals act in an opportunistic manner to increase their wealth. Agency theory include two essential assumptions: (1) both the principal and agent tend to maximize their returns by all means; and (2) both parties might not have compatible interests (Deegan and Samkin, 2009). Ness and Mirza (1991) applied agency theory to elucidate to the reasons behind disclosure of social and environmental information (see also, Belkaoui and Karpik, 1989). Through reviewing social disclosure of 131 UK leading companies’ annual reports of 1984,
they found consistent results with agency theory. They stated that “managers will disclose social and environmental information only if it increases their welfare, that is, when the benefits from the disclosure outweigh the associated costs” (p. 212) (the main assumption of agency theory).

Legitimacy theory was defined by Lindblom (1994, p. 2) as “... a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part”. Gray, Kouhy and Lavers (1996) mentioned that legitimacy theory at its simplest argues that existence of organizations depends on the way society perceives whether or not organizations’ value system is commensurate with society’s own value system. It is argued that corporation should have a contract with society. Upon meeting these contracts, organizations and their actions are legitimized. Zeghal and Ahmed (1990) and Patten (1991) proposed the role of business social disclosures in a response to public policy. Parker (1986) stated that social accounting disclosure can act as an early response which can impede legislative pressure for increased disclosure. It is also a counter to possible government intervention or pressure from other interest groups. Consequently, social accounting disclosure in corporate reports can be utilized anticipate or avoid social pressure. It may also enhance corporate image or its reputation status (Gray, Owen and Maunders, 1988).

Freeman (1984, p. 25) proposed a definition for stakeholder as “any group or individual who can affect or is affected by the achievement of the firm’s objectives”. This group or individual may include employees, communities, society, the state, customers, even suppliers, competitors, local government, stock markets, industry bodies, foreign government, future generations, and non-human life. Basically, the dynamic and complex relationship between organization and its surrounding is the focal point in stakeholder theory (Gray et al, 1996). Corporations are required to attain the ability to balance the conflicting demands of various stakeholders of the firm (Robert, 1992). Considering the increasing demand for transparency from the business, disclosure practices have been accepted as an important medium to perform corporate responsibility. This can be used to inform about business operation impact on the society and environment.

**Islamic Theoretical Perspectives on CSR Practice**

Prior studies of Islamic CSR practices mainly considered Islamic banks’ disclosure practices and related them to various influential factors (see for example Haniffa and Hudaib, 2004). These studies were based on the premise of Islamic worldview. The Islamic worldview
provides a holistic picture being responsible that is different from the western worldview. Dusuki (2005) offers a distinction between Islamic and Western CSR based on the concept of Falah. Al Falah literally means success. From Islamic viewpoint, Falah does not only include success and happiness of this world, e.g. profit maximization and business sustainability, but also refers to falah and happiness in the hereafter. Therefore, most of the prominent scholars of Islamic economics, such as Cahpra (2008) and Naqvi (1981) contend that the axiom of tawhid is paramount in understanding Islamic principles since it articulates additional axioms that are important in this matter. These supplementary elements are Rububiyyah (oneness of God), Adl (justice), Tazkiyyah (purification and development), and Ukhuwwah (brotherhood). These are vital to create a society that accentuates the spiritual goodness embodied in Islam and contribute to the development of a better system.

Zain, Darus, Yusoff, Amran, Fauzi, Purwanto & Naim (2014) suggested an Islamic CSR framework based on the concept of tawhid and ibadah. The proposed framework is in congruence with the principles of Maqasid al-Shariah and Maslahah in providing rules and prioritisations of CSR strategies, policies and practices. As mentioned by Zain et al. (2014), Tawhid refers to the belief to surrender to one’s God by making all actions either physically or mentally subservient to God instructions. The absolute holder of everything on earth and in the universe is God and man is accountable to God. In the light of God’s ownership of everything, God has entrusted mankind to the use of resources. In return for the use of the resources, mankind should be accountable for how the resources using the resources. For being the khalifah and maintaining the Man’s relationship with humans, it is essential to ensure everybody lives in peace with one another. Additionally, Man’s relationship with the environment focuses on the indefinite survival of the earth. In consensus with the viewpoints of Maqasid al-Shariah and Maslahah, CSR policies and practices should be developed by Islamic organizations with the ultimate aim of protecting Maqasid al-Shariah (see Ahmad Issalih, Amran, Darus, Yusoff and Md Zain, 2015; Darus, Yusoff, Abang Naim, Mohamed Zain, Amran, Fauzi and Purwanto, 2013).

This indicates that the Western and Islamic worldviews are clearly and mutually exclusive. Given the literature on Islamic theoretical perspectives, the scope of this study is to understand the social responsibility reporting by Islamic banks in Indonesia and Malaysia. Additionally, the possible similarities and differences in the reporting practices of these two countries are facilitated by Islamic-based theories.
Review of Literature on the Banking Industry

Banks across the globe have been under increasing scrutiny and considerable pressure from various stakeholders including shareholders, investors, media, non-governmental organizations (NGOs) and customers (Bhattacharya and Sen, 2004; Coupland, 2005; Frenz, 2005; Jeucken, 2001, 2004; Ogrizek, 2001). The aim for such pressure and scrutiny is to ensure that banks perform business in a responsible and ethical manner. However, banks’ tendency for incorporating sustainability indicators in social disclosures and their extent of related reporting are rather unexplored (Khan, Halabi and Samy, 2011).

A case study of six Irish financial institutions by Douglas, Doris and Johnson (2004) which compared the level of social disclosure of these institutions with four European “best practice” financial institutions revealed that Irish banks are behind the leading European banks with regards to the quality and quantity of social reporting. Furthermore, Khan et al. (2009) examined the CSR disclosure of 20 selected banks listed in Dhaka Stock Exchange. The findings indicated that disclosed CSR reports for the investigated banks was very limited. Additionally, Halabi et al. (2006) analyzed the content of annual reports, CSR report and website of Australia’s top ten companies, based on Global Reporting Initiative (GRI) guidelines. The investigated companies included four banks and the results showed that all of them disclosed some information regarding the environment, labor practices, and human rights. Social responsibility disclosure was found to be performed through an ad hoc environmental accounting method in a study by Nikolaou (2007). Social reporting practices of major banks in Bangladesh was investigated using GRI G3 and GRI FSS indicators by Khan et al. (2011). The findings indicated little disclosure by the banks. Moreover, Williams and Adams (2013) examined the disclosure of employee issues in a large bank in UK. They reported there are other considerations which determine what and how employee issues are reported by the bank other than transparency and employee accountability.

In the context of Kenya, the annual reports of 40 Kenyan banks were assessed by Barako and Brown (2008). They revealed a low level of corporate social disclosure. In addition, CSR reporting of Pakistani listed commercial banks was investigated by in a study by Sharif and Rashid (2013). Despite the voluntary nature of CSR reporting in Pakistan, the results showed an impressive level of CSR activities performed by the banks. Furthermore, examination of CSR implementation in the Greek banking sector indicated that information disclosed by Greek banks in relation to CSR and sustainability issues were fragmentary in nature and had a low level of compliance with the Global Reporting Initiative (GRI) (Evangelinos et al., 2010). Moreover, Ratanajongkol, Davey and Low (2006) assessed the 40 largest companies
in Thailand regarding the extent and nature of corporate social responsibility. They found a growing trend of corporate social reporting, with a primary focus on human resources. Generally, despite the evidence provided by the extant literature regarding a lower level of corporate social reporting in developing countries than developed countries, there is a growing trend in the developing countries toward corporate social disclosure.

Methodology

Social responsibility reporting has been defined differently in the literature. One definition proposed by Gray, Owen and Maunders (1987) considers corporate social reporting as the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. This definition was further illustrated as social and environmental disclosure that includes information regarding a corporation’s activities, aspirations and public image on environment, employees, consumer issues, energy usage, equal opportunities, fair trade, corporate governance and the like (Gray et al., 2001).

The current study performed a content analysis of the annual reports of three selected full-fledged local Islamic banks operating in Indonesia and three local Islamic banks operating in Malaysia for the period of 2007 to 2011. This provided researchers with information to examine the trend of social responsibility reporting in the two developing countries’ Islamic banks. The analyses were carried out based on the six themes adapted from the guidelines of AAOIFI (2005), Haniffa and Hudaib (2004), and Hassan and Harahap (2010). These themes include Strategy, Governance, Product, Community Development and Social Goals, Employee, and Environment. An equal-weighted index was applied to measure CSR disclosure score for each bank under each theme, using the following equation:

$$\frac{\sum_{j=1}^{m} d_j}{N}$$

where $N$ is the maximum number of relevant items a bank may disclose and $d_j$ is equal to 0 if there is no disclosure and 1 if there is disclosure. The key elements under each theme are summarized in Table 1. A total of 78 constructs were developed as indicators of the index (Appendix). In order to ensure reliability, the coder went through preliminary content analysis training by reviewing five reports. Their coding was then evaluated and checked by
co-authors. Upon achieving satisfactory skills for content analysis, the coder proceeded to
complete content analysis for the whole reports.

To explore the growth stages for social responsibility reporting among the Islamic banks in
Indonesia and Malaysia, a model developed by Ditlev-Simonsen and Gottschalk (2011) on
the stages of growth for corporate social responsibility was used. This model consists of three
core stages, namely; the first movers, the doers and the changers; and three by-products
(laggers), namely; the followers, the reporters, and the responders (Ditlev-Simonsen &
Gottschalk, 2011)

Findings
Through comparing CSR disclosure by dimension between Indonesian and Malaysian Islamic
banks (Figures 1 and 2) over the 5-year period (2007-2011) revealed that the workplace and
community dimensions are the most highly disclosed areas. However, the environment has
the lowest level of disclosure the banks in both countries. The trend shows a growth for
Indonesian Islamic banks in almost all of the dimensions of corporate social disclosure over
the years. Community dimension is an exception because it was peaked in 2009 and
decreased in the following years. Likewise for Malaysia, the level of social reporting of the
Islamic banks has improved over the years. However workplace dimension is an exception
which was peaked in 2010 and decreased in the following year.

In contrast with Malaysian Islamic banks, Indonesian Islamic banks started off at a lower
level of disclosure in marketplace and community dimension. Interestingly, however, they
improved their disclosure level over the course of five years and managed to present the same level of social responsibility reporting in the above-mentioned dimensions as Malaysian Islamic banks. Additionally, Malaysian Islamic banks had a less than half of the workplace disclosure level compared to Indonesian Islamic banks. However, the trend shows a considerable improvement over the years. Consequently, Malaysian Islamic banks demonstrated higher disclosure on workplace dimension than Indonesian Islamic banks from 2009 onwards. Lastly, Indonesian Islamic banks improved their disclosure on environmental issues, whereas Malaysian Islamic banks maintained the same low level of such disclosure over the years. It is worth noting that Indonesian Islamic banks have exceeded the reporting level of Malaysian banks on environmental issues since 2010.

The overall level of Indonesian and Malaysian Islamic banks’ corporate social reporting between 2007 and 2011 is illustrated in Figure 3. It can be observed that the Islamic banks in both countries have demonstrated an increase in their commitment towards CSR through the rising level of their CSR disclosure over the years. Although Malaysian Islamic banks began CSR disclosure at a lower level than Indonesian Islamic banks in 2007, they managed to surpass Indonesian Islamic banks in 2009, with a substantial 19% increase in disclosure level, and maintained the lead until 2011. On the other hand Indonesian Islamic banks have hardly followed up and managed to minimize CSR disclosure gap since 2010.

With reference to stages of growth model for corporate social responsibility (Ditlev-Simonsen & Gottschalk, 2011), and analysis of the overall growth in corporate social responsibility among the Islamic banks in Indonesia and Malaysia, it can be suggested that Islamic banks did not start off as the ‘first movers’. Rather, they were drawn into CSR reporting as an effort to ride the wave and to prevent falling behind other sectors. Despite the growing awareness among the Islamic banks on the importance of social responsibility, it seems that they are at the reporting stage. This is consistent with the argument made by Ditlev-Simonsen (2010) that stated Islamic banks merely report about their CSR-related activities without any actual changes other than increased reporting.

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Insert Figure 3 here.

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In summary, there has been a considerable improvement in the investigated Islamic banks ‘corporate social responsibility disclosure. In particular, Islamic banks in Malaysia and
Indonesia had 69% and 58% growth rate respectively in terms of disclosure from 2007 to 2011 (Figure 4). However, the rate of growth appears to be settling in the course of time. It was started off with 31% for Malaysia and 30% for Indonesia at first, and decreased in the course of time.

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Particularly, Malaysian Islamic banks had 183% and 45% growth rate in CSR workplace and marketplace disclosure respectively from 2007 to 2011 (Figure 5). However, Indonesian Islamic banks had a growth rate of 233% and 108% respectively in environment and community social responsibility reporting from 2007 to 2011 (Figure 6). Moreover, Indonesian banks demonstrated the least growth rate in terms of workplace CSR disclosure.

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**Discussion and Conclusion**

This study revealed an overall growth in the corporate social responsibility disclosure of Islamic banks in Indonesia and Malaysia. Study findings are in accordance with the concept of Islamic accountability where Islamic organizations, such as Islamic banks are expected to satisfy social responsibility along with their economic responsibility. Based on the findings, Islamic banks have demonstrated ongoing efforts toward good citizenship. This is evident from greater disclosure of their social impacts and higher levels of accountability. As vicegerent of God, these banks have played their role by engaging in social responsibility activities. The increasing social responsibility reporting practices amongst the Islamic banks is in line with the objective of Shariah and establishment of Islamic organizations.
The study findings can be explained through the lens of legitimacy theory which supports Islamic banks’ engagements in social responsibility practices and disclosure to seek and maintain their license for operation in the community. In addition, companies can benefit by engaging themselves in social responsibility. These benefits include better recruitment and retention of employees (Simms, 2002), improved internal decisions making and cost savings (Adams, 2002; King, 2002), enhanced corporate image (Bragdon and Karash, 2002; Epstein and Schnietz, 2002; Hsu and Cheng, 2012), competitive advantage (Adams, 2002; Bernhut, 2002), and improved financial returns (Margolis and Walsh, 2003; Orlitzky, Schmidt and Rynes, 2003). CSR engagement and disclosure is a way for the Islamic banks to show their value system is in line with society’s value system, resulting in their improved image in the society. Despite the high cost for CSR implementation, the advantages are likely to far outweigh the costs (Hopkins, 2004).

However, an analysis of the growth stages based on Ditlev-Simonsen and Gottschalk’s (2011) model for corporate social responsibility implies that banks only seek to uphold good corporate images for their CSR activities. Subsequently, it is suggested that Islamic banks should enhance their responsiveness and transform themselves from a mere reporter of social responsibility to the responders in the CSR maturity process. This can be performed by adapting new initiatives initiated by other forefront corporations. Thus, Islamic banks are encouraged to proactively embed social responsibility principles in the DNA and strategy of their organization. Islamic banks are also encouraged to transparently admit to and mention the ongoing struggles and conflicts in their social responsibility practices instead of just presenting rhetoric arguments in their disclosures. This can reduce information asymmetry and build trust in stakeholders toward disclosures (Dumay and Lu, 2010).

Although community appears to be a dominant social responsibility disclosure by the Islamic banks in 2007 and 2008, workplace category overtook the community category and had the highest disclosure level among all the four major categories. This is in contrast with the findings of a study by Khan et al. (2011) in which most banks were found to disclose more on the society category than the other sustainability categories.

Given the substantial growth of Islamic finance in the past two decades, this study is timely to shed some light on the current CSR reporting of full-fledged Islamic banks in Indonesia and Malaysia. Financial markets could play a key role in achieving the goals of sustainable development in both developed and developing countries (Dasgupta, Laplante and Mamingi, 2001; Labatt, White and Cooper, 2002; Lanoie, Lamplante and Roy, 1998).
The current study provided fresh insights on the corporate social reporting of Islamic banks in two developing countries. The comparative approach of this paper allows for identification of the similarities and differences in the CSR reporting approaches of the Islamic banking sector in Indonesia and Malaysia. This can assist in the accumulation of developing countries’ knowledge about corporate social reporting (Brown et al., 2007). Moreover, Islamic banks in the region can learn from the commonly practiced social responsibility areas. Islamic principles require Islamic banks to promote development of the under-privileged echelons of society, promote the social welfare, and protect the needs of society as a whole. However, findings of this study revealed a higher focus on workplace compared to society by the investigated Islamic banks. This signals CSR initiatives by the Islamic banks have a deviation toward the Western-centric approach. Our study implications challenge the status quo on Islamic banks and suggest avenues for future research.

The findings of this study offer significant value to regulators, shareholders and deposit holders of Islamic banks. Regulators in both countries can formulate a social responsibility framework and guideline practice for Islamic organizations. This can be used as a benchmark tool to view CSR from an Islamic perspective. Shareholders and deposit holders of Islamic banks can evaluate social responsibility practices of the Islamic banks to ensure the focus of such practices are directed toward activities prioritized by Shariah. The present study has empirically examined and categorized the existing social responsibility practices of Islamic banks in accordance to the Ditlev-Simonsen and Gottschalk’s (2011) stages of growth model for corporate social responsibility.

The findings of this study are limited to the investigation of a 5-year time frame. Future studies might extend the time frame and also include non-Islamic banks to examine the effects of Shariah on the tendency toward CSR reporting.

Appendix: Detailed CSR Disclosure Index of Islamic Banks

Theme 1: Strategy

Corporate Vision

- Operating within Shariah principles
- Focusing on stakeholders and distribution of profit
- Appreciating shareholders and customers
- Building long-lasting relationships with customers
Theme 2: Governance

Top Management

- Name of the board of directors
- Position of the board members
- Academic qualifications of board
- Profile of the board of directors
- Remuneration of the board of directors
- Shareholding of the board of directors
- Various sub-committees which exist and number of meeting held
- Audit committee exists
- Multi-directorship exist among board of directors
- Name and position of the management team
- Member in the subcommittee of the management team members
- Academic qualifications of the management team
- Governance structure of the Islamic bank including committees under the highest governance body responsible for specific task, such as setting strategy or organizational oversight
- Mechanism for shareholders and employees to provide recommendations or direction to the highest governance body and annual general body meeting
- Risk management practices

Shariah Compliant

- Name of Shariah Supervisory Board (SSB) members
- Qualifications of SSB members
- Number of SSB members
- Remuneration of members
- Report sign by all members
- Number of meetings held
- Examination of documents based on sample
- Examination of all documents
- No defects in products
- Report defects in product
- Report of SSB
- Nature of unlawful transactions
- Certification of distribution of profits/losses complying to Shariah
- Zakah calculated according to Shariah
- Shariah screening during investment

**Theme 3: Product**

*Product, Services, and Fair Dealing with Supply Chain*

- Introduction of SSB-approved new product
- Basis of Shariah concept on new products
- Glossary/definition of new product
- No investment in non-permissible activities
- Nature of unlawful transaction
- Fair dealing with those in supply chain
- Promotion of Research and Development
- Market survey and feasibility report

**Theme 4: Community Development and Social Goals**

*Strategic Social Development*

- Funding to organizations that provide benefits to community for social equity
- Fostering strong links with the community/public service
- Creating job opportunities
- Amount spent in community activities
- Participation in government-sponsored social activities
- Zakah payment - monetary
- Zakah payment - beneficiaries
- Qardh-Hassan - monetary
- Qardh-Hassan - beneficiaries
- Sadaqah - monetary
- Sadaqah - beneficiaries
- Community cohesion
- Debt policy and amount of debts written off
Research, Development and Training

- Capacity building
- Regular performance and career development report
- Strategy formulation and decision making support to the top management
- Standardize training curriculum
- Database management

Theme 5: Employment

Employees

- Equal opportunities policy
- Employees’ welfare
- Ensuring diversity
- Training: Shariah awareness
- Training: professional skill
- Encouraging talent
- Keeping policy of international labour standard
- Reward for employees
- Employees’ appreciation
- Focus on safety of staff

Theme 6: Environment

Environment

- Introduction of green product
- Glossary/definition of green product
- Investment in recycling bin project (recycling for nature) and other sustainable development project
- Amount of donation in environmental awareness
- Financing in any project which may lead to environmental damage
- Investment in sustainable development projects
- Initiatives to mitigate environmental impacts of product and services, and extent of impact mitigation
- Focus on risk-based corrective actions
Table 1: CSR Disclosure Index

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<th>Theme</th>
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<td>3) Product</td>
<td>- Product, Services, and Fair Dealing with Supply Chain</td>
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<td>4) Community Development &amp;</td>
<td>- Strategic Social Development</td>
<td>13</td>
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<td>Social Goals</td>
<td>- Research, Development and Training</td>
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<td>5) Employment</td>
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Figure 1: CSR Disclosure of Indonesian Islamic Banks by Dimensions

Figure 2: CSR Disclosure of Malaysian Islamic Banks by Dimensions
Figure 3: Comparative CSR Disclosure of Indonesian and Malaysian Islamic Banks

Figure 4: Growth of Social Responsibility Disclosure Level by Islamic Banks
Figure 5: Social Responsibility Disclosure Growth by Malaysian Islamic Banks

Figure 6: Social Responsibility Disclosure Growth by Indonesian Islamic Banks
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<tr>
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<td>Social Responsibility Disclosure in Islamic Banks: A Comparative Study of Indonesia and Malaysia</td>
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<tr>
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<td>Organisation</td>
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- **Accept (26-Aug-2016)**

  **vol:15, iss:1**

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