



ISSN 1759-0817  
Volume 09 Number 00 2019

Journal of  
**Islamic Accounting and  
Business Research**



Advanced  
search[Home](#) / [Journals](#) / Journal of Islamic Accounting and Business Research

## Journal of Islamic Accounting and Business Research

Issue(s) available: **64** – From Volume: 1 Issue: 1, to Volume: 14 Issue: 8Subject: [Accounting & finance](#) > [Accounting/accountancy](#) > [Islamic accounting](#)[Subscribe to table of contents alerts](#) [RSS feed](#)

Search within this journal

[All issues](#)[EarlyCite](#)

### ▼ Volume 14

- [Issue 8](#) 2023
- [Issue 7](#) 2023
- [Issue 6](#) 2023 *Corporate governance in islamic banking and finance*
- [Issue 5](#) 2023
- [Issue 4](#) 2023
- [Issue 3](#) 2023
- [Issue 2](#) 2023
- [Issue 1](#) 2023

### ▼ Volume 13

- [Issue 8](#) 2022
- [Issue 7](#) 2022
- [Issue 6](#) 2022
- [Issue 5](#) 2022
- [Issue 4](#) 2022
- [Issue 3](#) 2022
- [Issue 2](#) 2022
- [Issue 1](#) 2022

### ▼ Volume 12

- [Issue 8](#) 2021

- [Issue 7](#) 2021
- [Issue 6](#) 2021
- [Issue 5](#) 2021
- [Issue 4](#) 2021
- [Issue 3](#) 2021
- [Issue 2](#) 2021
- [Issue 1](#) 2021

## ▼ Volume 11

- [Issue 10](#) 2020
- [Issue 9](#) 2020
- [Issue 8](#) 2020
- [Issue 7](#) 2020
- [Issue 6](#) 2020
- [Issue 5](#) 2020
- [Issue 4](#) 2020
- [Issue 3](#) 2020
- [Issue 2](#) 2020
- [Issue 1](#) 2020

## ▼ Volume 10

- [Issue 5](#) 2019
- [Issue 4](#) 2019
- [Issue 3](#) 2019
- [Issue 2](#) 2019
- [Issue 1](#) 2019

## ▶ Volume 9

## ▶ Volume 8

## ▶ Volume 7

## ▶ Volume 6

## ▶ Volume 5

## ▶ Volume 4

## ▶ Volume 3

## ▶ Volume 2

## ▶ Volume 1

ISSN:  
(International  
Standard  
Serial  
Number.)

Online date, start – end:  
2010

**Copyright Holder:**

Emerald Publishing Limited





**Open Access:**

hybrid

**Editors:**

- Dr Mohammad Hudaib
- Prof Roszaini Haniffa

### Further Information

- [About the journal](#) 
- [Purchase information](#) 
- [Editorial team](#) 
- [Write for this journal](#) 

Digital Repository Universitas Jember



[Support & Feedback](#) ▲ [Manage cookies](#)



# emerald PUBLISHING



© 2023 Emerald Publishing Limited

#### Services

[Authors](#)

[Editors](#)

[Librarians](#)

[Researchers](#)

[Reviewers](#)

#### About

[About Emerald](#)

[Working for Emerald](#)

[Contact us](#)

[Publication sitemap](#)

#### Policies and information

[Privacy notice](#)

[Site policies](#)

[Modern Slavery Act](#)

[Chair of Trustees governance statement](#)

[Accessibility](#)

[Home](#) / [Journals](#) / [Journal of Islamic Accounting and Business Research](#)

/ Islamic governance and leverage: the interacting role of corporate social responsibility disclosure

To read this content please select one of the options below:

Add to cart



£27.00 (excl. tax)  
30 days to view and  
download



Access through your institution



Access and purchase options ▾

# Islamic governance and leverage: the interacting role of corporate social responsibility disclosure

[Novi Puspitasari, Iman Harymawan, Norazlin Ab Aziz](#) ▾

[Journal of Islamic Accounting and Business Research](#)

ISSN: 1759-0817

(International

Article publication date: 29 November 2023

Standard

Permissions

Serial  
DOWNLOADS  
Number.)



## Abstract

### Purpose

This study aims to analyze the relationship between Islamic governance (IG) and leverage and examine the interaction of corporate social responsibility disclosure (CSR) in the relationship between IG and leverage.

### Design/methodology/approach

This study used 444 observational data comprising Asian, European and African Islamic banks (IBs) and analyzed using the regression analysis method to answer the research hypothesis.

### Findings

This study finds that IG had a significant positive effect on leverage, indicating that it can increase the leverage of IBs. In other words, IG boosts the public confidence to entrust their funds to IBs through current accounts and savings. However, this study shows that CSR weakens the relationship between IG and leverage. In addition, this study includes the control variables of board size, Islamic supervisory board size and company size, where all three variables showed their effect on leverage. These results were obtained through additional analysis by categorizing our sample based on CSR.

### Research limitations/implications

The results of this study show that IG significantly positively affects IB leverage globally. This can be used as a basis for policymakers to include the ICG variable in analyzing IBs leverage. The weakness of this study is the use of IG variables based on disclosure so that IG components that affect leverage cannot be analyzed accurately. Future research can use the IG variable by using specific IG component values such as the number of meetings, member attendance and remuneration of SSB members in analyzing IB leverage globally.

### Originality/value

To the best of the authors' knowledge, this research is the first study to discuss the interaction of CSR with IG on leverage in Islamic banking in Asia, Europe and Africa, thus adding to the existing literature on Islamic banking.

## Keywords

Digital Repository Universitas Jember

Islamic governance

CSR disclosure

Leverage

Islamic banking

## Acknowledgements

The author would like to thank the Research and Community Service Institute of Universitas Jember for providing funding for this research.

## Citation

Puspitasari, N., Harymawan, I. and Ab Aziz, N. (2023), "Islamic governance and leverage: the interacting role of corporate social responsibility disclosure", *Journal of Islamic Accounting and Business Research*, Vol. ahead-of-print No. ahead-of-

Skip to main content <https://doi.org/10.1108/JIABR-12-2022-0335>



Advanced search

Publisher: Emerald Publishing Limited

Copyright © 2023, Emerald Publishing Limited

## Related articles

[CSR Disclosure, Corporate Governance and Firm Value: a study on GCC Islamic Banks](#)Mohd Shukor Harun et al., *International Journal of Accounting & Information Management*, 2020[Corporate governance and the quality of CSR disclosure: lessons from an emerging economy](#)Husam Ananzeh, *Society and Business Review*, 2022[Improving Islamic bank performance through agency cost and dual board governance](#)Early Ridho Kismawadi, *Journal of Islamic Accounting and Business Research*, 2023[Estimating the Impacts of Corporate Governance of the Financial Performance on Non-Financial Firms of Bangladesh](#)Ishtiaq Ahmad et al., *Journal of Engineering and Applied Sciences*, 2021[Financing covid-19 mRNA vaccines](#)Victor Roy et al., *The BMJ*, 2023[Determinants of Farm Households Savings in District Kohat, KP, Pakistan](#)Malik Muhammad Shafi et al., *Sarhad Journal of Agriculture*, 2022Powered by **TREND MD**

I consent to the use of Google Analytics and related cookies across the TrendMD network (widget, website, blog). [Learn more](#)

Yes

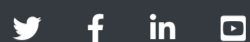
No

Support & Feedback [Manage cookies](#)

Digital Repository Universitas Jember



# emerald PUBLISHING



© 2023 Emerald Publishing Limited

## Services

[Authors](#)

[Editors](#)

[Librarians](#)

[Researchers](#)

[Reviewers](#)

## About

[About Emerald](#)

[Working for Emerald](#)

[Contact us](#)

[Publication sitemap](#)

## Policies and information

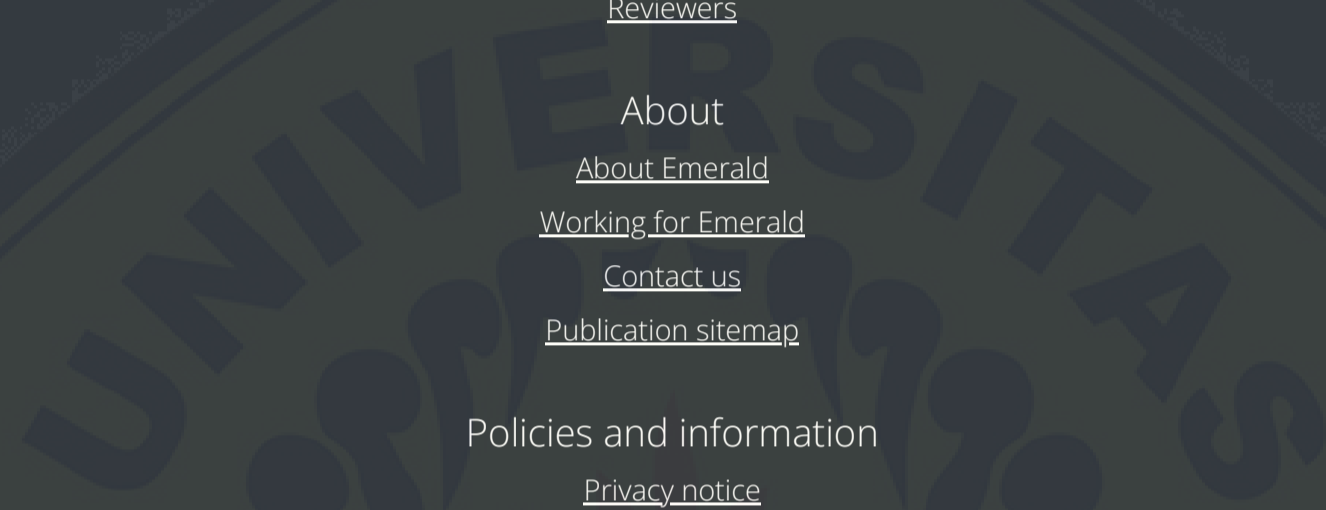
[Privacy notice](#)

[Site policies](#)

[Modern Slavery Act](#)

[Chair of Trustees governance statement](#)

[Accessibility](#)



# Islamic governance and leverage: the interacting role of corporate social responsibility disclosure

Islamic  
governance  
and leverage

Novi Puspitasari

*Department of Management, Faculty of Economics and Business,  
Universitas Jember, Jember, Indonesia*

Iman Harymawan

*Department of Accountancy, Faculty of Economics and Business,  
Universitas Airlangga, Surabaya, Indonesia, and*

Norazlin Ab Aziz

*Department of Finance, Faculty of Business and Economics, Universiti Malaya,  
Kuala Lumpur, Malaysia*

Received 13 December 2022  
Revised 17 September 2023  
22 October 2023  
Accepted 9 November 2023

## Abstract

**Purpose** – This study aims to analyze the relationship between Islamic governance (IG) and leverage and examine the interaction of corporate social responsibility disclosure (CSR) in the relationship between IG and leverage.

**Design/methodology/approach** – This study used 444 observational data comprising Asian, European and African Islamic banks (IBs) and analyzed using the regression analysis method to answer the research hypothesis.

**Findings** – This study finds that IG had a significant positive effect on leverage, indicating that it can increase the leverage of IBs. In other words, IG boosts the public confidence to entrust their funds to IBs through current accounts and savings. However, this study shows that CSR weakens the relationship between IG and leverage. In addition, this study includes the control variables of board size, Islamic supervisory board size and company size, where all three variables showed their effect on leverage. These results were obtained through additional analysis by categorizing our sample based on CSR.

**Research limitations/implications** – The results of this study show that IG significantly positively affects IB leverage globally. This can be used as a basis for policymakers to include the ICG variable in analyzing IBs leverage. The weakness of this study is the use of IG variables based on disclosure so that IG components that affect leverage cannot be analyzed accurately. Future research can use the IG variable by using specific IG component values such as the number of meetings, member attendance and remuneration of SSB members in analyzing IB leverage globally.

**Originality/value** – To the best of the authors' knowledge, this research is the first study to discuss the interaction of CSR with IG on leverage in Islamic banking in Asia, Europe and Africa, thus adding to the existing literature on Islamic banking.

**Keywords** Islamic governance, CSR disclosure, Leverage, Islamic banking

**Paper type** Research paper

## 1. Introduction

Islamic banking exists as a form of financial practice with the concept of Islam. IBs operate based on sharia rules that are mainly not interest based (Hoque and Liu, 2021). IBs prioritize



The author would like to thank the Research and Community Service Institute of Universitas Jember for providing funding for this research.



equity creation through profit–loss sharing financial transactions (Chong and Liu, 2009). IBs have a different structure of financing sources from companies, especially in using debt. Therefore, leverage as a form of using debt in IBs is an exciting thing to discuss because, fundamentally, the leverage of IBs differs from non-banking companies. Leverage in IBs includes elements of public funds as a source of financing generally unavailable to non-financial companies, as explained Shah *et al.* (2012). However, previous studies discussing financial leverage in IBs are still very limited, including those conducted by Čihák and Hesse (2010), Ahmed (2007), Al-deehani *et al.* (1999) and Naveed (2013). The principle of financial leverage of IBs differs significantly, both in terms of the source of funds and the use of funds, with conventional bank financial leverage. Therefore, it is worth exploring the significant factors in determining the financial leverage decisions of IBs.

The literature review confirms that there have been no studies exploring the determinants of financial leverage decisions of IBs comprehensively. Closest related studies include Bukair (2019), who examined the effect of bank size, profitability, tangibility, bank growth, liquidity, non-debt tax shields and bank age on liquidity; Rehman *et al.* (2019), who analyzed the effect of size, profitability, tangibly, liquidity, CAR, growth, IRR, inflation and IPI on leverage; and Sheikh and Qureshi (2017), who assessed the effect of profitability, bank size, growth, tangibility on leverage. Further, Samad and Hassan (2018) compared the leverage level of IBs with conventional banks in Malaysia, while Olson and Zoubi (2008) compared the leverage levels of IBs in GCC countries. The argument for using leverage rather than debt as a dependent variable is that leverage, unlike debt, is well-defined in the banking sector because the financial leverage of banks is different from the financial leverage of non-financial companies. IB leverage includes sources of financing that are generally not owned by non-financial companies. This fundamental difference indicates the composition of bank obligations, including deposit and non-deposit obligations. The existing literature has substantially discussed the relationship between good corporate governance and with leverage of companies (Arping and Sautner, 2010; Uddin *et al.*, 2019; and Zhou *et al.*, 2021).

IB has the unique characteristics, so IB should implement governance following Islamic rules. Choudhury and Hoque (2006), as early researchers who analyzed governance from an Islamic perspective, stated that there are different characteristics and features compared to conventional systems. Governance in an Islamic perspective refers to a particular case of a broader decision-making theory that uses the premise of an Islamic socio-scientific epistemology based on God's oneness.

Meanwhile, the stakeholder theory, by the mechanism for implementing Islamic governance (IG), states that if the company's goals are aligned with the expectations and interests of stakeholders, then it will create better company performance (Freeman and McVea, 1984). Some studies that link the concept of IG with the company's financial performance include Hassan (2016), Lui (2021); and Harun and Farooque (2020). Research that specifically uses IG as an independent variable can affect financial performance among them (Zafar and Sulaiman, 2020; Amran *et al.*, 2017; Siswanti *et al.*, 2017). Based on previous studies, no studies have been found that specifically discuss the relationship between IG and leverage. IG, which has been widely proven to improve the financial performance of Islamic companies, should also affect leverage in Islamic banking. Research by Duru *et al.* (2012) and Graham *et al.* (2015) shows that IG increases leverage.

There are several community problems that the world is currently facing, including extreme poverty, social development, health and disease problems, food scarcity, lack of educational facilities, overpopulation, problems related to women's rights and labor and economic crisis, and besides, environmental issues and climate change are also concerns (Zafar *et al.*, 2022a). As a result, corporations have emphasized the approach of social

responsibility in business activities (Gray *et al.*, 1995). Unlike other industries, banks are proactively involved in social responsibility, become a source of people's finances and can play a decisive role in a country's economic development (Fatma Armeli, 2004). Islamic banking operates under Islamic jurisprudence, orders, provisions and ethics. Islamic banking is the substance of actual economic activity, social and economic development and welfare in general (Platonova *et al.*, 2018).

Good Management Theory, developed by Waddock and Graves (2016), explains the relationship between CSR and financial performance where this theory is a development of stakeholder theory. The company should be able to satisfy all interested parties without degrading its financial performance to have a good image and reputation (Budi, 2021). Several studies have resulted in CSR negatively affecting financial performance because it is considered a cost embraced by the neo-classical tradition, including those carried out by Wang (2018). However, several studies show that CSR does not affect financial performance, including those found by Soana (2011) and Oware and Mallikarjunappa (2019). This is contradictory to the findings of Zafar *et al.* (2022b), Firman Menne (2017), Platonova *et al.* (2018), Perrini *et al.* (2011) and Noor *et al.* (2019), which show CSR affects financial performance. However, the argument related to the characteristics of Islamic banking, which was formed as an institution with social goals in general, influences financial performance. Studies on CSR in Islamic banking practice are still limited. Some of these studies are Mallin *et al.* (2014), Platonova *et al.* (2018) and Rehman *et al.* (2020). At the same time, some previous studies have conflicting results (Zafar and Sulaiman, 2020). The social purpose of Islamic banking is considered as important as making a profit (Haniffa and Hudaib, 2007), and it is often said that IBs must be socially responsible regardless of financial consequences (Dusuki, 2008). The studies mostly only focused on CSR study in IB.

The studies that have been carried out have yet to show the involvement of CSR concern IG and financial performance. It can be a gap because many previous studies have analyzed IG on leverage and CSR as related to financial performance but have yet to analyze the interaction of CSR and IG on leverage. Haniffa and Hudaib (2007) reinforce this gap by stating that the social goals of IBs are as important as profit goals. It means that the social goals of IBs that can be realized in CSR activities have an essential role in analyzing financial performance, especially in the study of leverage. Therefore, this study fills the gap with a novelty by using CSR as an interaction variable for IG in determining the leverage of IBs. There are two objectives of this study, namely, analyzing the relationship between IG and leverage; and analyzing the interaction of corporate social responsibility disclosure (CSRSD) in the relationship between IG and leverage.

## 2. Literature review and hypothesis development

### 2.1 Stakeholder theory

The stakeholder theory argues that the company is not only concerned with owners and managers as well as essential parties of the company but also other external parties involved, including suppliers, customers and competitors (Al-Nasser Mohammed and Muhammed, 2017). The stakeholder theory emphasizes that an organization that meets the demands and needs of stakeholders will accelerate its financial performance (Berrone, 2007; Donaldson and Preston, 1995). From an Islamic perspective, the stakeholder theory provides a comprehensive description of responsibilities guided by Islamic rules. These guidelines are recognized in the Islamic principles of property rights and contracts as conveyed by Chapra (2004). The stakeholder theory, as the basis for the relationship between governance and performance in the perspective of Islamic banking, must refer to the existence of the Sharia Supervisory Board (SSB) because it is related to accountability and supervision

under Islamic law (Al-Nasser Mohammed and Muhammed, 2017). SSB has a strategic role in implementing governance in IBs.

## *2.2 Islamic governance in Islamic financial institutions (IFI)*

IFIs require governance to promote fairness, transparency and corporate accountability. Sharia compliance requirements are part of the corporate governance framework signifying the essence of maintaining relationships between different stakeholders as well as relationships with God (Hasan, 2012:25). IFIs need an additional shariah framework to guarantee and maintain not only the relationship with Allah SWT but also with other human beings and the environment. Many preliminary studies suggest IFIs adopt IG as a whole. Hasan (2009) designed an IG model based on the following components:

- (1) Epistemological method: In the epistemological method, Islam rejects rationality and rationalism as the episteme of Shari'ah corporate governance and replaces it with the episteme of Tawhid or the oneness of Allah.
- (2) Objective consists of:
  - Right and interest: IG protects the interest and rights of all stakeholders but is subject to the rules of Sharia.
  - Corporate goal: IG acknowledges profit motive oriented but balances it with the Shari'ah objective and principles.
- (3) Nature of management: The nature of management of the Islamic corporate governance model is premised on two fundamental principles of Shura, an interactive, integrated and evolutionary process, and the apex level of management is the Shari'ah board that is responsible for supervising and overseeing the overall corporate activities to comply with the Shari'ah principles.
- (4) Management boards: IG uses a two-tier board. Shari'ah board is the ultimate governance.
- (5) Capital-related and ownership structure: IG considers the shareholders and the investment account holders as the rightful owners rather than the shareholders alone.

According to Sencal and Asutay (2020), IG is considered to be a product of Islamic Moral Economy (IME) by essentializing the substantive morality inherent within Islam in relation to incorporating the larger stakeholders' interests.

## *2.3 Pecking order theory in Islamic banking*

Islamic banking, as an intermediary institution managing publicly owned funds through deposits and investments, has a high total debt and causes high leverage value. This informs IBs to prioritize debt in operational activities. However, when observed in the financial statements, public deposits are the most significant component of total debt in Islamic banking. Based on these conditions, applying the pecking order theory in Islamic banking cannot be confused with the company. Asutay and Harningtyas (2015) stated that Islamic commercial banking is as a value-oriented banking proposal shaped by the norms, values and principles of Islamic ethics and also by Islamic legal norms. The existence of high leverage shows the ability of Islamic banking to raise public funds. This means that IBs have high trust from the public as fund management institutions for parties with excess assets. This condition is an opportunity for IBs to be able to provide high financing to customers so that IBs have the possibility of getting high profits from these activities.

### *2.4 Good management theory in Islamic banking*

Mergaliyev *et al.*, (2021) described Islamic banking as an institutional aspect of Islamic economics which finances and regulates economic activity to promote the economic development and well-being of all creatures, including human well-being through social justice. Therefore, IBs have emerged in response to expectations to operationalize IME. Consequently, based on the IME theoretical frameworks, IBs should conduct their financial operations in an ethical manner with social impact consequences. This concept is in line with Good Management Theory which explains the relationship between CSR and financial performance. This theory is a development of the stakeholder theory. Waddock and Grave developed an excellent management theory in 1997 (Donaldson and Preston, 1995). The company should be able to satisfy all interested parties without degrading its financial performance to have a good image and reputation (Budi, 2021). This theory encourages companies to constantly look for better ways to increase the company's competitive advantage, which can improve the company's financial performance. According to Miles and Covin (2000), social and environmental activities are an alternative way to satisfy stakeholders and can be an advantage that increases competitiveness. Good management practices have good relationships with stakeholders, which in turn will improve the company's financial performance and competitive advantage (Donaldson and Preston, 1995; Edward, 2004; Waddock and Graves, 2016).

### *2.5 Islamic governance and leverage in Islamic banking*

The structure of IBs is theoretically different from conventional banks because of the existence of structured investment activities through equity schemes of profit-sharing agreements and non-involvement in interest, as interest is prohibited in Islam (Hoque and Liu, 2021). This confirms the findings of some previous literature stating that IBs have lower leverage than conventional banks (Olson and Zoubi, 2008; Samad and Hassan, 2018). The existing literature has discussed the relationship between good corporate governance and leverage (Arping and Sautner, 2010; Uddin *et al.*, 2019; Zhou *et al.*, 2021). With its special characteristics, Islamic banking should implement governance following Islamic rules where previous researchers have developed the concept of corporate governance for Islamic companies.

The research that explicitly used IG as an independent variable can affect financial performance among them (Zafar and Sulaiman, 2020; Amran *et al.*, 2017, Siswanti *et al.*, 2017). No studies have been found that specifically discuss the relationship between IG and leverage. IG, which has been widely proven to improve the financial performance of Islamic companies, should also affect leverage in Islamic banking. The research by Duru *et al.* (2012) and Graham *et al.* (2015) showed that IG increases leverage. Hasan and Asutay (2019) considered IG as one of the most significant factors that lead to the depositors' determination of their deposit. It is reported that 81.4% of 468 depositors from Bahrain, Bangladesh and Sudan will transfer their funds to other banks because of non-compliance with Shari'ah principles. Hasan and Asutay (2019) wrote that 70% of depositors would also move their funds if they know the bank's income was derived from interest-based earnings. Based on the results of research that has been carried out previously, our first hypothesis is as follows:

*H1. Islamic governance is positively related to leverage.*

### *2.6 Roles of corporate social responsibility on the link between Islamic governance and leverage in Islamic banking*

The banking industry has become a sector leader in implementing corporate social responsibility (CSR) (Forcadell and Aracil, 2017). Currently, many banks have started to

disclose separate CSR sections in their annual reports to illustrate the significant contribution of the banking sector to society. Such CSRDs are essential in promoting corporate transparency and improving the bank's reputation (Branco and Rodrigues, 2008). Generally, studies on CSR performance by Islamic banking are still lacking, while some existing studies have conflicting results (Zafar and Sulaiman, 2020). The social purpose of Islamic banking is considered as important as making a profit (Haniffa and Hudaib, 2007), and this is often said that IBs must be socially responsible regardless of financial consequences (Dusuki, 2008). However, the results of previous studies show that CSR affects financial performance (Zafar *et al.*, 2022a; Memme *et al.*, 2016; Noor *et al.*, 2019). Thus, based on the studies, we suggest that CSR will strengthen the relationship between IG and leverage. The argument is related to the characteristics of Islamic banking, which is formed as an institution with general social goals and influences financial performance. Accordingly, our second research hypothesis is developed as follows:

*H2.* Corporate social responsibility strengthens the relationship between Islamic governance and leverage.

### 3. Research method

This study uses the datas from all IBs worldwide from 2010 to 2021 because of the available data. Financial data is obtained from OSIRIS, while non-financial data is obtained from annual reports. This study uses regression analysis, and all tests were carried out using STATA 17.0 software. STATA is a popular statistical data analysis software used in quantitative scientific research. It is very powerful because it can easily and quickly process large amounts of data in various statistical tests. Initially, 1,152 annual report data for IBs from Asian, European and African continents were sampled for analysis because IBs are available in the three continents based on the OSIRIS database. Further compilation resulted in the final sampling of 444 sets of annual reports. Table 1 presents a detailed breakdown of the sample.

#### 3.1 Operational definitions of variables

The following describes the operational definitions of the IG, leverage and CSRD variables.

*3.1.1 Islamic governance.* Islamic governance is a corporate governance system that regulates and controls companies based on Islamic principles (So, Haron, Gui, Princes and Sari, 2021). There are two criteria for Islamic governance; firstly, the products and services provided do not violate Islamic law; and secondly, a portion of the company's income is donated to charity (Murphy and Smolarski, 2018). This study's measurement of Islamic governance variables refers to Darmadi (2011). This study uses the Islamic Supervisory

Description	Firm-year observation
Firm-Year Observation 2010–2021	1,152 observations
Annual report not available	682 observations
Missing data for TICKER*	11 observations
Missing data for return on equity (ROE) variable	15 observations
Final Sample	444 observations

**Table 1.**  
Sampling criteria

**Note:** \*TICKER indicates a specific stock abbreviation traded at a stock exchange  
**Source:** Table developed by authors

Board (ISB) Index, which has 11 components, including names of members, positions of members, pictures of members, number of meetings held, member's attendance in meetings, remuneration of members, duties and responsibilities of the board, compliance of products and services with shariah, compliance of profit or loss with shariah, examination procedures and recommendations to management.

**3.1.2 Leverage.** A bank's financial leverage fundamentally differs from any non-financial institution in that it includes deposits, a source of financing generally unavailable for the latter. In addition, much empirical research for enterprises uses long-term debt-divided assets rather than total liabilities-divided assets (Shah *et al.*, 2012).

*Leverage* compares a bank's total debt to its total capital. If the bank has a high level of leverage ratio, then it means that the bank can disburse more loans to its customers. The ability to provide more loans to customers can be an opportunity for banks to increase their income. This variable is measured using the following formula (Shah *et al.*, 2012):

$$\text{Leverage} = 1 - \frac{\text{Book Value Equity}}{\text{Book Value Asset}}$$

**3.1.3 Corporate social responsibility (CSR disclosure/CSRD).** There is an increasing demand for transparency and openness for the disclosure of ethical, social and environmental information (also known as CSRD) in the banking sector because of its substantial impact and role on society (Kamla, 2007). This study uses dummy variables to measure CSRD by referring to the components of the Global Reporting Index (GRI) standard that can be accessed at [www.globalreporting.org/standards/](http://www.globalreporting.org/standards/). The CSR component of this study is found in the [Appendix](#).

The study also used control variables that include board size, ISB size, company size and return on equity. [Table 2](#) states the measurement of each variable and its corresponding source.

### 3.2 Empirical model

It used multiple linear regression methods to test the relationship between IG and CSR to leverage by controlling the control variables of company board size, SSB size, IB size and return on equity. The regression equation is as follows:

	Variable	Definition	Measurement	Source
Dependent variable	LEV	Firms leverage	Total debt/total equity	OSIRIS
Independent variable	ISB	Islamic Supervisory Board	Indeks ISB = total item disclosed/total items that should have been disclosed	Annual report
Moderation variable	CSRD	CSR disclosure	Dummy 1 if the bank discloses CSR and 0 otherwise	Annual report and sustainability report
Control variable	BSIZE	Board size	Total company board in a period	Annual report
	SSBSIZE	Islamic supervisory board size	Total Islamic supervisory board in one period	Annual report
	FSIZE	Firm size	Natural logarithm of total assets	OSIRIS
	ROE	Return on equity	Net income/Total equity	OSIRIS

**Source:** Table developed by authors

**Table 2.**  
Variable measurements

JIABR

Empirical model for *H1*:

$$\text{LEV}_{i,t} = \alpha_0 + \beta_1 \text{IG}_{i,t} + \beta_2 \text{CSR}_{i,t} + \beta_3 \text{BSIZE}_{i,t} + \beta_4 \text{FSIZE}_{i,t} + \beta_5 \text{ROE}_{i,t} + \beta_7 \text{Country}_{i,t} + \beta_8 \text{Year FE} + \varepsilon_1 \quad (1)$$

Empirical model for *H2*:

$$\text{LEV}_{i,t} = \alpha_0 + \beta_1 \text{IG} * \text{CSR}_{i,t} + \beta_2 \text{IG}_{i,t} + \beta_3 \text{CSR}_{i,t} + \beta_4 \text{BSIZE}_{i,t} + \beta_5 \text{FSIZE}_{i,t} + \beta_7 \text{ROE}_{i,t} + \beta_8 \text{Country}_{i,t} + \beta_9 \text{Year FE} + \varepsilon_1 \quad (2)$$

## 4. Results and discussion

Table 3 presents descriptive statistics of sample variables. The dependent variable (LEV) has an average value of 0.839, a median of 0.874, a minimum of 0.029 and a maximum value of 2.307. The average value of the independent variable (ISB) is 0.286, the median is 0.250, the minimum is 0.000 and the maximum is 0.917. Meanwhile, the moderation variable (CSR) has an average value of 0.336, a median of 0.000, a minimum of 0.000 and a maximum of 1.000.

Table 3 also shows that the average value of ISBSIZE is 4.292, with a median of 4, a minimum of 1 and a maximum value of 12. The BSIZE variable has an average value of 10.321, a median of 9, a minimum of 4 and a maximum of 23. Meanwhile, the FSIZE variable has an average value of 21.675, a median of 21.818, a minimum of 14.108 and a maximum value of 26.129. Plus, the average value for the ROE variable is 0.091, with a median value of 0.087, a minimum of -0.454 and a maximum value of 0.665. Table 4 demonstrates the findings of the correlation between the variables used in this study. This table shows that

	Mean	Median	Minimum	Maximum
LEV	0.839	0.874	0.029	2.307
ISB	0.286	0.250	0.000	0.917
CSR	0.336	0.000	0.000	1.000
ISBSIZE	4.292	4.000	1.000	12.000
BSIZE	10.321	9.000	4.000	23.000
FSIZE	21.675	21.818	14.108	26.129
ROE	0.091	0.087	-0.454	0.665

**Table 3.**

Descriptive statistics

Source: Table developed by authors

	LEV	ISB	CSR	ISBSIZE	BSIZE	FSIZE	ROE
LEV	1.000						
ISB	-0.005 (0.916)	1.000					
CSR	-0.026 (0.581)	0.173*** (0.000)	1.000				
ISBSIZE	0.237*** (0.000)	-0.211*** (0.000)	0.134*** (0.004)	1.000			
BSIZE	0.112** (0.017)	-0.345*** (0.000)	0.044 (0.349)	0.687*** (0.000)	1.000		
FSIZE	0.239*** (0.000)	-0.397*** (0.000)	0.131*** (0.005)	0.279*** (0.000)	0.260*** (0.000)	1.000	
ROE	0.054 (0.252)	-0.164*** (0.000)	-0.201*** (0.000)	0.086* (0.067)	0.173*** (0.000)	0.065 (0.166)	1.000

**Table 4.**

Pearson correlation

Notes: *p*-values in parentheses \**p* < 0.1; \*\**p* < 0.05 and \*\*\**p* < 0.01

Source: Table developed by authors

ISB positively correlates with CSRD at a significant level of 1%. These results show a significantly positive relationship between ISB and CRSD. A larger ISB size would translate to better CSRD levels.

Table 5 provides the regression results between IG and leverage. IG is measured using ISB variables, and CSRD variables are measured using dummy variables. There are two regression models in Table 5. The first column of the table illustrates the regression between LEV, ISB and CSR. The ISB variable has a significant positive relationship at a rate of 1% to the LEV variable with a value of 0.363. This means that banks that have an excellent ISB index show that they also have higher leverage. This result supports the first hypothesis, where the ISB variable positively affects leverage. Meanwhile, the CSRD variable has a significant negative relationship with a significance level of 1% to LEV with a value of  $-0.039$ . This shows lower leverage values follow CSR disclosures in the Islamic banking sector.

In addition, the second column of the table shows the interaction between ISB\_CSR variables against LEV. The column shows that the ISB\_CSR variable significantly negatively influences the LEV at one percent significance level. This signifies that CSR disclosures can weaken the relationship between ISB and its corresponding ISB Index, whereby higher CSRD would mean lower leverage for IBs. These results do not support the second hypothesis that the CSR variable strengthens the relationship between ISB and leverage.

Meanwhile, Table 6 shows the *t*-test results between companies that disclose CSR and companies that do not disclose CSR. The results of the *t*-tests show that companies that disclose CSR have a better ISB rate (ISB Size, Bsize and Fsize) than companies that do not disclose CSR. Nevertheless, the results are not statistically significant. Further, the results also show that companies with no CSRD tend to have higher leverage levels and ROE than those with CSRD.

#### 4.1 Islamic governance has a positive and significant relationship with leverage

Islamic economics teaches us to obey Allah's rules in economic activities by recognizing public and individual ownership. Individual ownership in the practice of Islamic economics, one of which is the recognition of customer deposits with wadiah contract in the liability section. IBs seem to carry out sharia rules in running their business by continuing to place customer ownership in non-ownership accounts of IBs. It shows that Islamic theory (Hamidu *et al.*, 2015)

	(1) LEV	(2) LEV
ISB_CSR		$-0.225^*$ ( $-1.79$ )
ISB	$0.363^{***}$ (3.54)	$0.431^{***}$ (3.52)
CSR	$-0.039^{**}$ ( $-2.10$ )	$0.013$ (0.42)
ISBSIZE	$-0.038^{***}$ ( $-4.11$ )	$-0.036^{***}$ ( $-3.85$ )
BFSIZE	$-0.020^{***}$ ( $-4.79$ )	$-0.020^{***}$ ( $-4.83$ )
FBSIZE	$0.061^{***}$ (5.10)	$0.062^{***}$ (5.16)
ROE	$0.188$ (1.51)	$0.204$ (1.62)
_cons	$-0.242$ ( $-1.01$ )	$-0.282$ ( $-1.17$ )
Year FE	Yes	Yes
Country FE	Yes	Yes
$R^2$	0.470	0.474
$R^2_a$	0.427	0.430
N	444	444

Notes: *t*-statistics in parentheses; \* $p < 0.1$ ; \*\* $p < 0.05$  and \*\*\* $p < 0.01$

Source: Table developed by authors

**Table 5.**  
Regression analysis



	MEAN		Coefficient	t-value
	CSR	NON-CSR		
LEV	0.829	0.844	-0.015	-0.552
ISB	0.341	0.259	0.082***	3.730
ISBSIZE	4.758	4.056	0.702***	2.869
BSIZE	10.588	10.185	0.403	0.938
FSIZE	22.078	21.471	0.607***	2.806
ROE	0.049	0.112	-0.062***	-4.368

**Table 6.**  
t-test

**Notes:** t-statistics in parentheses; \* $p < 0.1$ ; \*\* $p < 0.05$  and \*\*\* $p < 0.01$   
**Source:** Table developed by authors

states that religion (Islam) guides its followers to behave well is implemented in this research. Religion will also affect people's beliefs, values, behavior and lifestyles, even when they do business transactions with other people. Acknowledgment of individual ownership in the form of customer deposits is a form of good behavior in conducting business transactions with other human beings in accordance with Islamic teachings.

According to [Sencal and Asutay \(2020\)](#), the implementation of Islamic norms and values in the IBs essentializes the "Islamic identity" of these institutions, which renders them as a separate sector, namely, the Islamic banking sector, within the existing capitalist financial system. Islamic banks embody good relations with fellow human beings by prioritizing governance under the rules of Allah SWT, called IG. The ISB constitutes one of the most important and distinguishing features of IG in IBs ([Sencal and Asutay, 2020](#)).

The statistical analysis result shows that IG significantly positively affects leverage. Based on these findings, it can be interpreted that IG can increase leverage in Islamic banking. Leverage on IBs has a different structure from non-bank institutions. In other words, IBs have high leverage, mainly of current accounts and savings, meaning they have high debt. These two accounts are also served as the sources of financing for IBs. Contrarily, non-bank institutions do not have a current account and saving component, so they tend to have low leverage to avoid financial pressure over using high debt.

Based on this research's findings, IG has demonstrated its role in realizing a high level of leverage by prioritizing shariah values. As ISB is the primary form of IG that must exist for every shariah-compliant, including Islamic banking, the banks must operate based on Islamic rules, whereby all aspects of the operations will be supervised, controlled, evaluated and reported by ISB. [Alam and Islam \(2021\)](#) stated that IG is essential for IBs to implement sharia principles, ensure compliance and monitor bank functions. In addition, it is necessary for a good, efficient, effective, profitable and higher-performance business and to eliminate confusion among executive management. People could trust IBs with their wealth because of the existence of IG. Interpreting this using stakeholder theory, IBs perform well by satisfying their stakeholders' interests which are attained through the appointment of the ISB.

This paper measures IG by including the disclosure of ISB member's name, ISB member's position, ISB member's picture, number of meetings held by ISB, ISB member attendance in meetings, remuneration of ISB member, duties and responsibilities of the ISB, compliance of products and services with shariah, compliance of profit or loss with shariah, examination procedures and recommendation to management, become an embodiment of transparency and accountability in the management of Islamic banks. It can convince the public that IBs have been properly managed according to Islamic rules. The public confidence is reflected in the number of customer deposits in the liabilities section, with

values that tend to be high. This means that people have high trust to IBs. These findings affirm the significance of IG as one of the most important contributing factors to ensuring the sustainability of the Islamic bank.

This study supports the concept of stakeholder theory related to the existence of the ISB, as explained [Al-Nasser Mohammed and Muhammed \(2017\)](#) that the role of the ISB is to advise and supervise the company's operations and ensure that all operations are following Sharia principles. The results of this study are also in line with the findings by [Handley-Schachler et al. \(2007\)](#) and [Tekin and Polat \(2021\)](#), who state that corporate governance has a significant positive effect on leverage in the banking sector. However, it seems that the pecking order theory cannot be aligned with the results of this study because of the presence of high leverage in the Islamic banking sector, which is proof of people's trust in the Islamic banking sector by depositing their funds in the form of current accounts and savings. The high leverage is not because of the desire of IBs to use debt in financing their operations. This is under the explanation by [Shah et al. \(2012\)](#), who state that the leverage structure of the Islamic banking industry is different from non-bank institutions, where the former has a public deposit component that dominates the total amount of debt.

#### *4.2 Corporate social responsibility disclosure interaction with Islamic governance on leverage*

The statistical analysis results show that CSRD has not been able to strengthen the relationship between IG and leverage in the Islamic banking sector. Specifically, the interaction of CSRD with Islamic governance significantly negatively affects leverage in Islamic banking. This result contradicts the findings of [Budi \(2021\)](#), who stated that the productivity of Islamic banking is entirely mediated by the influence of Islamic governance on CSRD.

CSR in this study uses GRI components, including foundation, general disclosure, economy, environment and social dimensions. Based on the statistical descriptive data, the median value of CSR disclosures is 0, which means that half of the observational data has no CSRD value, or the company does not disclose the components of the GRI. The average value is only 0.3, which means the company only reveals one-third of the GRI components. It can be happen because the type of banking sector is not related to the environmental dimension, including materials, energy, water and effluents, biodiversity, emissions, effluents and waste, environmental compliance and supplier environmental assessment, which leads to the non-disclosures of these dimensions.

Another reason for the low CSRD average values that there is no obligation for IBs to compile CSRD reports. This is in line with the findings by [Farook et al. \(2011\)](#), who stated that most IBs significantly disclose CSR not as expected, or it can be interpreted that IBs mostly need to disclose CSR. This study confirms the statement of [Asutay and Harningtyas \(2015\)](#) that it is essential to evaluate the performance of IBs in relation to IME's foundational framework, as the latter provides the rationale for the emergence of Islamic banking. It will help to locate how the IB institutions are directed in fulfilling the multidimensional development, instead of financialization of the economy, and meet both form, Islamic principles as well as substance (social and moral filters). It is also supported by [Mergaliyev et al. \(2021\)](#), who stated that IBs have failed in their CSR practices because most IBs conduct only zakah distribution and other charitable activities without a systemic approach toward CSR. Thus, social performance is a weak area in IB performance indicating dis-embeddedness in relation to the maqasid al-Shari'ah defined objectives ([Mergaliyev et al., 2021](#)).

Relatedly, the results of this study are not in line with stakeholder theory which states that companies which disclose social responsibility activities will be able to meet the interests of policymakers so that the company gets an assessment and good image reflected in the company's performance, as stated by [Zafar et al. \(2022a\)](#). It confirms a positive and

significant relationship between CSR disclosures and Islamic banking financial performance consistent with stakeholder theory instruments. The findings of this research also cannot accommodate the concept of Good Management Theory, which states that companies that disclose CSR will affect financial performance (Budi, 2021).

The findings of this study also show a significant negative relationship between the interaction of CSR and ISB on financial performance. In this case, leverage, contradicting the results of previous research, including Menne *et al.* (2016), Siswanti *et al.* (2017), Zafar *et al.* (2022b), Noor *et al.* (2019) and Asim *et al.* (2020). They confirmed that CSR and ISB have a significant positive influence on financial performance. Nevertheless, this study is in line with the results of empirical studies conducted by Island *et al.* (1997), Brammer *et al.* (2006) and Vasconcellos *et al.* (2011), which show a significant negative influence on the interaction of CSR and ISB on leverage.

#### 4.3 Control variable

This study includes board size, ISB size, company size and return on equity as control variables. The results of the primary regression test showed that the variable board size (BSize) and Islamic supervisory board size (ISBSize) had a significant adverse effect on leverage. In contrast, the company size (log total assets) significantly positively affected leverage, whether there was a CSR interaction with IG. The findings of board size and ISB size significantly negatively affect leverage, indicating that the minimal number of boards and ISBs further improve financial performance. Our finding is similar to Bukair (2019) and Phan (2003), who state that companies are better off having a minimal corporate board size because they can communicate effectively. AAOIFI rules the number of ISBs at least three as a minimum number (El-Halaby and Hussainey, 2016). The size of the company is found to have a significant positive effect on the leverage of IBs, in line with the studies by Sheikh and Qureshi (2017), Shah *et al.* (2012), Bukair (2019) and Al-hunnayan (2020). IBs with higher levels of total assets typically have greater public trust, which results in an increase in total deposits in the form of current and savings accounts, which raises the leverage value.

#### 4.4 Additional analysis

This study also conducted an additional analysis by segregating samples into companies with and without CSRD. Figures in Table 7 show that companies with CSRD harm IG. This supports the research's second hypothesis, where IBs that chose to disclose CSR activities show declining leverage values. This result indicates that involvement in CSR activities leads to a decrease in the value of real debt in Islamic banking, such as the component of tax debt, loss of commitments, obligations related to employee benefits and other liabilities. In other words, Islamic banking, with its IG complemented with CSRD, can prove its ability to lower the company's actual debt.

Meanwhile, IBs with no CSRD were found to have a significant positive influence on leverage. This indicates that the existence of ISB in IBs without implementing CSR disclosures increases leverage. This condition aligns with the main regression results where ISB significantly positively affects leverage. High leverage indicates a high total debt value, where the public mostly deposits the liability structure in IBs. This means that even though IBs do not disclose CSR, people would still entrust their funds with the support of the existence of ISB as a form of IG of IBs.

## 5. Conclusion

The study aims to analyze the relationship between IG and leverage and the interaction of CSRD in the relationship between IG and leverage. This study found that IG has a

## Islamic governance and leverage

	Companies with CSRD (1) LEV	Companies with no CSRD (2) LEV
ISB	-0.305** (-2.61)	0.425*** (3.49)
ISBSIZE	-0.011 (-1.15)	-0.043*** (-3.06)
BSIZE	-0.003 (-0.55)	-0.018*** (-3.21)
FSIZE	0.068*** (2.97)	0.047*** (3.23)
ROE	-0.252** (-2.03)	0.295 (1.64)
_cons	-0.406 (-0.99)	-0.061 (-0.21)
Year FE	Yes	Yes
Country FE	Yes	Yes
R <sup>2</sup>	0.598	0.527
R <sup>2</sup> _Adjusted	0.515	0.468
N	153	291

**Table 7.**  
Regression results based on corporate social responsibility disclosure

**Notes:** *t*-statistics in parentheses; \**p* < 0.1; \*\**p* < 0.05 and \*\*\**p* < 0.01  
**Source:** Table developed by authors

significantly positive effect on leverage. In other words, the results imply that having Islamic shariah boards help to increase the leverage of IBs by boosting the public confidence to entrust their funds in the form of current accounts and savings; albeit, the total debt in IBs is mostly public deposit funds as one of the short-term sources of financing. This study also shows that the interaction between CSRD and IG significantly negatively impacts leverage. It means that CSR disclosures that are balanced with the implementation of IG reduce leverage. This is because of the lack of regulations mandating CSRD for IBs. The Islamic banking sector is part of the financial services industry that is not directly related to environmental activities, including materials, energy, water and effluents, biodiversity, emissions, effluents and waste, environmental compliance and supplier environmental assessment. Therefore, this is one of the reasons for the low CSRD index for IBs. Besides, all three control variables, which are board size, ISB and company size, demonstrated effects on leverage. These results were obtained through additional analysis by categorizing our sample based on CSRD. Future studies should examine IBs' social responsibility dimension that reflects their actual roles and responsibilities for society and will be more in line with the business character of IBs.

This research contributes both theoretically and practically. The theoretical contribution is that it is the first to analyze the interaction of CSR and GI on leverage in IBs worldwide. Most prior studies were performed on IG or CSR on financial performance, which was carried out in only a specific area (GCC, MENA, Indonesia and Malaysia), and the results were still contradictory. The practical contribution is that the findings of this research are helpful for regulatory agencies because the research results can be used as an effective regulatory formula related to implementing GI, leverage and CSR policies by adjusting the conditions of the bank. In addition, Islamic organizations concerned with implementing CSR can use the findings of this research to analyze the appropriate CSR formulation in determining leverage.

This research recommends several things to increase the study of IBs' IG, CSR and leverage. *First*, methodology. Future research can use IG variable indicators such as the number of meetings, attendance and the remuneration value of SSB members. Future research can also use CSR variable components that follow the characteristics of an IFI called Islamic corporate social responsibility. Another recommendation is further research

in more detail using observational data from all IBs worldwide to obtain a more significant number of observations. *Second*, for the regulator. Based on this research, it was found that many IBs still do not report CSR activities in their annual reports. Therefore, regulators worldwide need to require IBs to report CSR activities as a form of responsibility to society.

### References

- Alam, K. and Islam, F.T. (2021), "Why is Shariah governance framework important for Islamic banks?", *Asian Journal of Economics and Banking*, Vol. 5 No. 2, pp. 158-172, doi: [10.1108/AJEB-02-2021-0018](https://doi.org/10.1108/AJEB-02-2021-0018).
- Al-Deehani, T., Ahmed, R. and Karim, A. (1999), "The capital structure of Islamic banks under the contractual obligation of profit sharing", *International Journal of Theoretical and Applied Finance*, Vol. 2 No. 3, pp. 243-283.
- Al-Hunnayan, S.H. (2020), "The capital structure decisions of Islamic banks in the GCC", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 4, pp. 745-764, doi: [10.1108/JLABR-02-2017-0026](https://doi.org/10.1108/JLABR-02-2017-0026).
- Al-Nasser Mohammed, S.A.S. and Muhammed, J. (2017), "The relationship between agency theory, stakeholder theory and Shariah supervisory board in Islamic banking: an attempt towards discussion", *Humanomics*, Vol. 33 No. 1, pp. 75-83, doi: [10.1108/H-08-2016-0062](https://doi.org/10.1108/H-08-2016-0062).
- Arping, S. and Sautner, Z. (2010), "Corporate governance and leverage: evidence from a natural experiment", *Finance Research Letters*, Vol. 7 No. 2, pp. 127-134, doi: [10.1016/j.frl.2010.02.003](https://doi.org/10.1016/j.frl.2010.02.003).
- Asim, S., Bukhari, A., Hashim, F. and Amran, A.B. (2020), "Determinants and outcome of Islamic corporate social responsibility (ICSR) adoption in Islamic banking industry of Pakistan", *Journal of Islamic Marketing*, Vol. 12 No. 4, pp. 730-762, doi: [10.1108/JIMA-11-2019-0226](https://doi.org/10.1108/JIMA-11-2019-0226).
- Asutay, M. and Harningtyas, A.F. (2015), "Developing maqasid al-Shari'ah index to evaluate social performance of Islamic banks: a conceptual and empirical attempt", *International Journal of Islamic Economics and Finance Studies*, Vol. 1 No. 1, pp. 5-64.
- Berrone, P. (2007), "Corporate ethical identity as a determinant of firm performance: a test of the mediating role of stakeholder satisfaction", *Journal of Business Ethics*, Vol. 76 No. 1, pp. 35-53, doi: [10.1007/s10551-006-9276-1](https://doi.org/10.1007/s10551-006-9276-1).
- Brammer, S., Brooks, C. and Pavelin, S. (2006), "Corporate social performance and stock returns: UK evidence from disaggregate measures", *Financial Management*, Vol. 35 No. 3, pp. 97-116.
- Branco, M.C. and Rodrigues, L.L. (2008), "Factors influencing social responsibility disclosure by Portuguese companies", *Journal of Business Ethics*, Vol. 83 No. 4, pp. 685-701, doi: [10.1007/s10551-007-9658-z](https://doi.org/10.1007/s10551-007-9658-z).
- Budi, I.S. (2021), "The mediation role of productivity in the effect of Islamic corporate governance on Islamic corporate social responsibility disclosure", *Journal of Accounting and Investment*, Vol. 22 No. 2, pp. 254-275, doi: [10.18196/jai.v22i2.10773](https://doi.org/10.18196/jai.v22i2.10773).
- Bukair, A.A.A. (2019), "Factors influencing Islamic banks' capital structure in developing economies", *Journal of Islamic Accounting and Business Research*, Vol. 10 No. 1, pp. 2-20, doi: [10.1108/JLABR-02-2014-0008](https://doi.org/10.1108/JLABR-02-2014-0008).
- Chapra, M.U. (2004), "Stakeholders model of governance in Islamic economic system", *Comments: Muhammad Umer Chapra. Islamic Economic Studies*, Vol. 11 No. 2, pp. 43-63, available at: [http://mpra.ub.uni-muenchen.de/56027/1/MPRA\\_paper\\_56027.pdf](http://mpra.ub.uni-muenchen.de/56027/1/MPRA_paper_56027.pdf)
- Chong, B.S. and Liu, M.H. (2009), "Islamic banking: interest-free or interest-based?", *Pacific-Basin Finance Journal*, Vol. 17 No. 1, pp. 125-144, doi: [10.1016/j.pacfin.2007.12.003](https://doi.org/10.1016/j.pacfin.2007.12.003).
- Choudhury, M.A. and Hoque, M.Z. (2006), *Corporate Governance in Islamic Perspective*, Vol. 6 No. 2, pp. 116-128, doi: [10.1108/14720700610655132](https://doi.org/10.1108/14720700610655132).
- Čihák, M. and Hesse, H. (2010), "Islamic banks and financial stability: an empirical analysis", *Journal of Financial Services Research*, Vol. 38 Nos 2/3, pp. 95-113, doi: [10.1007/s10693-010-0089-0](https://doi.org/10.1007/s10693-010-0089-0).

- Darmadi, S. (2011), "Corporate governance disclosure in the annual report an exploratory study on Indonesian Islamic banks", *Humanomics*, Vol. 29 No. 1, pp. 4-23, doi: [10.1108/08288661311299295](https://doi.org/10.1108/08288661311299295).
- Donaldson, T. and Preston, L.E.E. (1995), "The stakeholder theory of the corporation: concepts, evidence, and implications author (s): Thomas Donaldson and Lee E", *Preston Source: The Academy of Management Review*, Vol. 20 No. 1, pp. 65-91.
- Dusuki, A. (2008), "Understanding the objectives of Islamic banking: a survey of stakeholders' perspectives", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 1 No. 2, pp. 132-148, doi: [10.1108/17538390810880982](https://doi.org/10.1108/17538390810880982).
- Edward, R. (2004), "The stakeholder approach revisited".
- El-Halaby, S. and Hussainey, K. (2016), "Determinants of compliance with AAOIFI standards by Islamic banks", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 9 No. 1, pp. 143-168, doi: [10.1108/IMEFM-06-2015-0074](https://doi.org/10.1108/IMEFM-06-2015-0074).
- Farook, S., Kabir Hassan, M. and Lanis, R. (2011), "Determinants of corporate social responsibility disclosure: the case of Islamic banks", *Journal of Islamic Accounting and Business Research*, Vol. 2 No. 2, pp. 114-141, doi: [10.1108/17590811111170539](https://doi.org/10.1108/17590811111170539).
- Fatma Armeli, A.A.F.A. (2004), "기사 (article) 와 안내문 (information)", *The Electronic Library*, Vol. 34 No. 1, pp. 1-5.
- Firman Menne (2017), "Advances in Islamic finance, marketing, and management article information".
- Gray, R., Kouhy, R. and Lavers, S. (1995), "Corporate social and longitudinal study of UK disclosure", *Accounting, Auditing and Accountability Journal*, Vol. 8 No. 2, pp. 47-77.
- Hamidu, A.A., Haron, H.M. and Amran, A. (2015), "Corporate social responsibility: a review on definitions, core characteristics and theoretical perspectives", *Mediterranean Journal of Social Sciences*, Vol. 6 No. 4, pp. 83-95, doi: [10.5901/mjss.2015.v6n4p83](https://doi.org/10.5901/mjss.2015.v6n4p83).
- Handley-Schachler, M., Juleff, L. and Paton, C. (2007), "Corporate governance in the financial services sector", *Corporate Governance: The International Journal of Business in Society*, Vol. 7 No. 5, pp. 623-634, doi: [10.1108/14720700710827202](https://doi.org/10.1108/14720700710827202).
- Haniffa, R. and Hudaib, M. (2007), "Exploring the ethical identity of Islamic banks via communication in annual reports Roszaini Haniffa", *Journal of Business Ethics*, Vol. 76 No. 1, pp. 97-116, doi: [10.1007/s10551-006-9272-5](https://doi.org/10.1007/s10551-006-9272-5).
- Harun, M.S. and Farooque, O.A. (2020), "CSR disclosure, corporate governance and firm value: a study on GCC Islamic banks", *International Journal of Accounting and Information Management*, Vol. 28 No. 4, pp. 607-638, doi: [10.1108/IJAIM-08-2019-0103](https://doi.org/10.1108/IJAIM-08-2019-0103).
- Hasan, Z. (2009), "Corporate governance: western and Islamic perspectives", *International Review of Business Research Papers*, Vol. 5 No. 1, pp. 277-293, available at: [www.bizresearchpapers.com/attachments\\_2009\\_01\\_13/23.Zulkipli.pdf](http://www.bizresearchpapers.com/attachments_2009_01_13/23.Zulkipli.pdf)
- Hasan, Z. (2012), *Shari'ah Governance in Islamic Bank*, Edinburgh University Press, Edinburgh, available at: [https://books.google.co.id/books?hl=en&idlr=andid=\\_zMkDQAAQBA&doi=fndandpg=PP1anddq=Zulkifli+framework+of+Islamic+governance&dots=qHUZTIHHruandsig=a\\_o5te7snDzGelzr12fUCYns3Mandredir\\_esc=y#v=onepageandq=ZulkifliframeworkofIslamicgovernanceandf=false](https://books.google.co.id/books?hl=en&idlr=andid=_zMkDQAAQBA&doi=fndandpg=PP1anddq=Zulkifli+framework+of+Islamic+governance&dots=qHUZTIHHruandsig=a_o5te7snDzGelzr12fUCYns3Mandredir_esc=y#v=onepageandq=ZulkifliframeworkofIslamicgovernanceandf=false)
- Hassan, Y.M. (2016), *Journal of Accounting in Emerging Economies Article Information: Accounting in Emerging Economies*, Vol. 6 No. 1, pp. 13-32.
- Hasan, Z. and Asutay, M. (2019), "The state of Islamic governance in Islamic financial institutions: Islamic governance index", *Research in Corporate and Shari'ah Governance in the Muslim World: Theory and Practice*, Emerald Publishing, Bingley, pp. 371-387.
- Hoque, H. and Liu, H. (2021), "Capital structure of Islamic banks: how different are they from conventional banks?", *Global Finance Journal*, Vol. 54, p. 100634, doi: [10.1016/j.gfj.2021.100634](https://doi.org/10.1016/j.gfj.2021.100634).
- Island, R., War, C., Reagan, P., Packard, D. and Commission, T.P. (1997), "stock market reaction to ethical initiatives of defense contractors", *Critical Perspectives on Accounting*, Vol. 8 No. 6, pp. 541-561.

- Lui, T.K. (2021), "Corporate social responsibility disclosures (CSRDs) in the banking industry: a study of conventional banks and Islamic banks in Malaysia", *International Journal of Bank Marketing*, Vol. 39 No. 4, pp. 541-570, doi: [10.1108/IJBM-04-2020-0192](https://doi.org/10.1108/IJBM-04-2020-0192).
- Mallin, C., Farag, H. and Ow-Yong, K. (2014), "Corporate social responsibility and financial performance in Islamic banks", *Journal of Economic Behavior and Organization*, Vol. 103, pp. S21-S38, doi: [10.1016/j.jebo.2014.03.001](https://doi.org/10.1016/j.jebo.2014.03.001).
- Menne, F., Winata, L. and Hossain, M. (2016), "The influence of CSR practices on financial performance", *Evidence from Islamic Financial Institutions in Indonesia*, Vol. 12 No. 2, pp. 77-90, doi: [10.17265/1548-6583/2016.02.002](https://doi.org/10.17265/1548-6583/2016.02.002).
- Mergaliyev, A., Asutay, M., Avdukic, A. and Karbhari, Y. (2021), "Higher ethical objective (maqasid al-Shari'ah) augmented framework for Islamic banks: assessing ethical performance and exploring its determinants", *Journal of Business Ethics*, Vol. 170 No. 4, pp. 797-834, doi: [10.1007/s10551-019-04331-4](https://doi.org/10.1007/s10551-019-04331-4).
- Miles, M.P. and Covin, J.G. (2000), "Environmental marketing: a source of reputational, competitive, and financial advantage", *Journal of Business Ethics*, Vol. 23 No. 3, pp. 299-311, doi: [10.1023/A:1006214509281](https://doi.org/10.1023/A:1006214509281).
- Naveed (2013), "[WIP] M p r a", *Economic Policy*, Vol. 2116, p. 33.
- Noor, F., Mohd, R. and Muhamad, R. (2019), "Modi fi ed integrated Islamic CSRD index and financial performance of Malaysian Islamic banks", *Journal of Islamic Accounting and Business Research*, Vol. 11 No. 8, pp. 1599-1617, doi: [10.1108/JIABR-10-2018-0158](https://doi.org/10.1108/JIABR-10-2018-0158).
- Olson, D. and Zoubi, T.A. (2008), "Using accounting ratios to distinguish between Islamic and conventional banks in the GCC region", *The International Journal of Accounting*, Vol. 43 No. 1, pp. 45-65, doi: [10.1016/j.intacc.2008.01.003](https://doi.org/10.1016/j.intacc.2008.01.003).
- Oware, K.M. and Mallikarjunappa, T. (2019), "Corporate social responsibility investment, third-party assurance and firm performance in India", *South Asian Journal of Business Studies*, Vol. 8 No. 3, pp. 303-324, doi: [10.1108/SAJBS-08-2018-0091](https://doi.org/10.1108/SAJBS-08-2018-0091).
- Perrini, F., Russo, A., Tencati, A. and Vurro, C. (2011), "Deconstructing the relationship between corporate social and financial performance", *Journal of Business Ethics*, Vol. 102 No. S1, pp. 59-76, doi: [10.1007/s10551-011-1194-1](https://doi.org/10.1007/s10551-011-1194-1).
- Phan, P.H. (2003), "The performance implications of ownership-driven governance reform", *European Management Journal*, Vol. 21 No. 6, pp. 698-706, doi: [10.1016/j.emj.2003.09.013](https://doi.org/10.1016/j.emj.2003.09.013).
- Platonova, E., Asutay, M., Dixon, R. and Mohammad, S. (2018), "The impact of corporate social responsibility disclosure on financial performance: evidence from the GCC Islamic banking sector", *Journal of Business Ethics*, Vol. 151 No. 2, pp. 451-471, doi: [10.1007/s10551-016-3229-0](https://doi.org/10.1007/s10551-016-3229-0).
- Samad, A. and Hassan, M.K. (2018), "The performance of Malaysian Islamic bank during 1984–1997: an exploratory study", *SSRN Electronic Journal*, Vol. 1 No. 3, pp. 1-14, doi: [10.2139/ssrn.3263331](https://doi.org/10.2139/ssrn.3263331).
- Sencal, H. and Asutay, M. (2020), "Ethical disclosure in the Shari'ah annual reports of Islamic banks: discourse on Shari'ah governance, quantitative empirics and qualitative analysis", *Corporate Governance: The International Journal of Business in Society*, Vol. 21 No. 1, pp. 175-211, doi: [10.1108/CG-01-2020-0037](https://doi.org/10.1108/CG-01-2020-0037).
- Shah, M.A.R., Rashid, A. and Khaleequzzaman, M. (2012), *Determinants of Financial Leverage in Islamic Banks*, Springer International Publishing, Cham, doi: [10.1007/978-3-030-05225-6](https://doi.org/10.1007/978-3-030-05225-6).
- Sheikh, N.A. and Qureshi, M.A. (2017), "Determinants of capital structure of Islamic and conventional commercial banks: evidence from Pakistan", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 10 No. 1, pp. 24-41, doi: [10.1108/IMEFM-10-2015-0119](https://doi.org/10.1108/IMEFM-10-2015-0119).
- Siswanti, I., Salim, U., Sukoharsono, E.G. and Aisjah, S. (2017), "Sustainable business of Islamic bank through on the Islamic corporate governance and Islamic financial performance", *GATR Journal of Finance and Banking Review*, Vol. 2 No. 2, pp. 15-20.

- Soana, M.G. (2011), "The relationship between corporate social performance and corporate financial performance in the banking sector", *Journal of Business Ethics*, Vol. 104 No. 1, pp. 133-148, doi: [10.1007/s10551-011-0894-x](https://doi.org/10.1007/s10551-011-0894-x).
- Tekin, H. and Polat, A.Y. (2021), "Is leverage a substitute or outcome for governance? Evidence from financial crises", *International Journal of Emerging Markets*, Vol. 18 No. 4, pp. 1007-1030, doi: [10.1108/IJOEM-03-2020-0297](https://doi.org/10.1108/IJOEM-03-2020-0297).
- Uddin, M.N., Khan, M.S.U. and Hosen, M. (2019), "Does corporate governance influence leverage structure in Bangladesh?", *International Journal of Financial Studies*, Vol. 7 No. 3, p. 50, doi: [10.3390/ijfs7030050](https://doi.org/10.3390/ijfs7030050).
- Vasconcellos, F.C.D. and Criso, V.L. (2011), *Corporate Social Responsibility, Firm Value and Financial Performance in Brazil*, Vol. 7 No. 2, pp. 295-309, doi: [10.1108/17471111111141549](https://doi.org/10.1108/17471111111141549).
- Waddock, S.A. and Graves, S.B. (2016), "The corporate social performance", *Strategic Management Journal*, Vol. 18 No. 4, pp. 303-319.
- Wang, Z. (2018), "Political embeddedness and the diffusion of corporate social responsibility practices in China: a trade-off between financial and CSR performance?", *Journal of Cleaner Production*, Vol. 198, pp. 1185-1197, doi: [10.1016/j.jclepro.2018.07.116](https://doi.org/10.1016/j.jclepro.2018.07.116).
- Zafar, M.B. and Sulaiman, A.A. (2020), "Measuring corporate social responsibility in Islamic banking: what matters?", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 13 No. 3, pp. 357-388, doi: [10.1108/IMEFM-05-2019-0227](https://doi.org/10.1108/IMEFM-05-2019-0227).
- Zafar, M.B., Sulaiman, A.A. and Nawaz, M. (2022a), "Does corporate social responsibility yield financial returns in Islamic banking?", *Social Responsibility Journal*, Vol. 18 No. 7, pp. 1285-1310, doi: [10.1108/SRJ-04-2020-0160](https://doi.org/10.1108/SRJ-04-2020-0160).
- Zafar, M.B., Sulaiman, A.A. and Nawaz, M. (2022b), "Does corporate social responsibility yield financial returns in Islamic banking?", *Social Responsibility Journal*, Vol. 18 No. 7, pp. 1285-1310, doi: [10.1108/SRJ-04-2020-0160](https://doi.org/10.1108/SRJ-04-2020-0160).
- Zhou, M., Li, K. and Chen, Z. (2021), "Corporate governance quality and financial leverage: evidence from China", *International Review of Financial Analysis*, Vol. 73, p. 101652, doi: [10.1016/j.irfa.2020.101652](https://doi.org/10.1016/j.irfa.2020.101652).

### Further reading

- Finance, C. (2023), "Issues in Islamic corporate finance: in group".
- Myers, S.C. and Majluf, N.S. (1984), "Corporate financing and investment decisions when firms have information that investors do not have", *Journal of Financial Economics*, Vol. 13 No. 2, pp. 187-221, doi: [10.1016/0304-405X\(84\)90023-0](https://doi.org/10.1016/0304-405X(84)90023-0).



(1) Strategy and analysis	
1.1	Statement from the most senior decision-maker
1.2	Description of key impacts, risks and opportunities
(2) Organizational profile	
2.1	Name of the organization
2.2	Primary brands, products and/or services
2.3	Operational structure
2.4	Location of organization's headquarters
2.5	Countries in operation
2.6	Nature of ownership
2.7	Markets served
2.8	Scale of the organization
2.9	Significant changes regarding size, structure or ownership
2.10	Awards received
(3) Report parameters	
Report profile	
3.1	Reporting period
3.2	Date of most recent previous report
3.3	Reporting cycle
3.4	Contact point for questions
Report scope and boundary	
3.5	Process for defining report content
3.6	Boundary of the report
3.7	Limitations on the scope or boundary of the report
3.8	Joint ventures, subsidiaries, leased facilities, outsourced operations and other entities
3.9	Data measurement techniques
3.10	Effect of any re-statements of information provided in earlier reports
3.11	Significant changes in the scope, boundary or measurement methods
GRI content index	
3.12	GRI content index
Assurance	
3.13	External assurance
Governance, commitments and engagement	
Governance	
4.1	Governance structure
4.2	Indicate whether chairperson is also an executive officer
4.3	Board structure
4.4	Mechanisms for shareholders and employees to provide recommendations to the highest governance body
4.5	Linkage between compensation for members of the Board, senior managers and executives, and the organization's performance
4.6	Processes to avoid conflicts of interest at the Board
4.7	Expertise of Board members on sustainability topics (including gender and diversity aspects)
4.8	Statements of mission, codes of conduct, and principles

**Table A1.**  
Corporate social  
responsibility  
components

*(continued)*

4.9	Procedures of the Board for overseeing the organization's management of sustainability performance
4.10	Process of evaluating the Board's sustainability performance
Commitments to external initiatives	
4.11	Precautionary approach
4.12	External charters, principles or other initiatives
4.13	Memberships in associations
Stakeholder engagement	
4.14	Stakeholder groups
4.15	Stakeholder identification and selection
4.16	Approaches to stakeholder engagement
4.17	Topics and concerns raised by stakeholders
Economic performance	
EC1	Direct economic value generated and distributed
EC2	Financial implications because of climate change
EC3	Coverage of the organization's defined benefit plan
EC4	Financial assistance from government
Market presence	
EC5	Standard entry-level wage by gender compared to local minimum wage
EC6	Locally based suppliers
EC7	Local hiring
Indirect economic impacts	
EC8	Infrastructure investments and services for public benefit
EC9	Indirect economic impacts
Environmental	
Materials	
EN1	Materials used by weight or volume
EN2	Recycled input materials
Energy	
EN3	Direct primary energy consumption
EN4	Indirect primary energy consumption
EN5	Energy savings
EN6	Initiatives for energy efficiency and renewable energy
EN7	Initiatives to reduce indirect energy consumption
Water	
EN8	Total water withdrawal
EN9	Effect of water withdrawal
EN10	Water recycled and reused
Biodiversity	
EN11	Land assets in or adjacent to protected areas
EN12	Impacts on biodiversity
EN13	Habitats protected or restored
EN14	Strategies for biodiversity
EN15	Endangered species
Emissions, effluents and waste	
EN16	Greenhouse gas emissions

(continued)

Table A1.

JLABR

EN17	Other greenhouse gas emissions
EN18	Initiatives to reduce greenhouse gas emissions
EN19	Ozone-depleting substances
EN20	NOx, SOx and other air emissions
EN21	Water discharge
EN22	Weight of waste
EN23	Significant spills
EN24	Waste deemed hazardous under the terms of the Basel Convention
EN25	Impacts of discharges of water and runoff on biodiversity
Products and services	
EN26	Initiatives to mitigate environmental impacts
EN27	Packaging materials
Compliance	
EN28	Sanctions for noncompliance with environmental regulations
Transport	
EN29	Environmental impacts of transport
Overall	
EN30	Environmental protection expenditures
Labor practices and decent work	
Employment	
LA1	Workforce by employment type, contract, region and gender
LA2	Employee hires and turnover by age group, gender and region
LA3	Benefits provided to full-time employees
LA15	Return to work and retention rates after parental leave, by gender
Labor/management relations	
LA4	Employees with collective bargaining agreements
LA5	Minimum notice period regarding significant operational changes
Occupational health and safety	
LA6	Workforce represented in joint health and safety committees
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities
LA8	Training on serious diseases
LA9	Health and safety topics covered in formal agreements with trade unions
Training and education	
LA10	Training per employee per gender
LA11	Programs for skills management and lifelong learning
LA12	Regular performance and career development reviews, by gender
Diversity and equal opportunity	
LA13	Composition of governance bodies
Equal remuneration for women and men	
LA14	Ratio of basic salary and remuneration of women to men
Human Rights	
Investment and procurement practices	
HR1	Investment agreements that include clauses incorporating human rights concerns

**Table A1.**

*(continued)*

HR2	Human rights screening of suppliers, contractors and other business partners
HR3	Training on human rights
Non-discrimination	
HR4	Incidents of discrimination
Freedom of association and collective bargaining	
HR5	Freedom of association and collective bargaining
Child labor	
HR6	Child labor
Forced and compulsory labor	
HR7	Forced labor
Security practices	
HR8	Training for security personnel
Indigenous rights	
HR9	Violations of rights of indigenous people
Assessment	
HR10	Human rights reviews and/or impact assessments
Remediation	
HR11	Grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms
Society	
Community	
SO1	Implemented local community engagement, impact assessments and development programs
SO9	Operations with significant potential or actual negative impacts on local communities
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities
Corruption	
SO2	Programs/business units analyzed for risks related to corruption
SO3	Anti-corruption training
SO4	Actions taken in response to incidents of corruption
Public policy	
SO5	Public policy positions and lobbying
SO6	Contributions to political parties, politicians and related institutions
Anti-competitive behavior	
SO7	Legal actions for anticompetitive behavior, antitrust and monopoly practices
Compliance	
SO8	Sanctions for noncompliance with regulations
Product responsibility	
Customer health and safety	
PR1	Health and safety impacts along life cycle
PR2	Noncompliance with health and safety standards and regulations
Product and service labeling	
PR3	Product information

(continued)

**Table A1.**

## JLABR

---

PR4	Noncompliance with product and service information standards
PR5	Customer satisfaction
Marketing communications	
PR6	Fundraising and marketing communications standards
PR7	Noncompliance with marketing communications standards
Customer privacy	
PR8	Complaints regarding customer privacy
Compliance	
PR9	Sanctions for noncompliance with regulations concerning the provision and use of products and services

---

**Table A1.**

Source: [www.globalreporting.org/standards/](http://www.globalreporting.org/standards/)

---

### Corresponding author

Novi Puspitasari can be contacted at: [novipuspitasari@unej.ac.id](mailto:novipuspitasari@unej.ac.id)

---

For instructions on how to order reprints of this article, please visit our website:

[www.emeraldgrouppublishing.com/licensing/reprints.htm](http://www.emeraldgrouppublishing.com/licensing/reprints.htm)

Or contact us for further details: [permissions@emeraldinsight.com](mailto:permissions@emeraldinsight.com)