VALUE RELEVANCE OF ACCOUNTING NUMBERS: DETERMINANTS OF CORPORATE SOCIAL RESPONSIBILITY (CSR) DISCLOSURES OF ISLAMIC BANKS IN MALAYSIA

Rosnia Masruki
Nurazalia Zakaria
Norhazlina Ibrahim
Universiti Sains Islam Malaysia (USIM)

ABSTRACT

The objective of this study is to examine whether corporate social responsibility (CSR) disclosures are influenced by the bank-specific factors namely bank leverage, size, and profitability in Islamic banks in Malaysia. It relates to the value relevance of accounting numbers which intended to assess how well accounting numbers reflect the determinants of CSR among Malaysian Islamic Banks. The determinants of CSR disclosures are investigated using both the Stakeholder Theory and the Agency Theory. This paper hypothesized that lowly leveraged banks will tend to make larger donations than highly leveraged banks. Therefore, leverage negatively influences the disclosure of CSR. Large and profitable banks will tend to be involved in social role than small and less profitable banks. Thus, there is a positive association between corporate social role and the bank's size and profit. There are seventeen fully fledged Islamic banks in Malaysia. Logit regression is used to test empirically whether the CSR is highly influenced by the factors identified earlier. The empirical evidence supports only one of the predictions. Specifically, the results infer the fact that the CSR disclosures are significant and positively associated to bank size only. This contradicts with the leverage and profitability, which provides no support. Nonetheless, the study provides some contribution on factors that contribute to the disclosure of CSR.

Keywords: Islamic banks, corporate social responsibilities (CSR), value relevance, accounting numbers

INTRODUCTION

The value of social responsibility, either individually or collectively, has been evolving throughout history, and major organisations throughout the world now realise that corporate social responsibility (CSR) is an important part of a bank's operations, because of its positive impact on society, which in turn impacts positively on staff members and the general public. CSR does not mean just taking part in charitable activities and events; it means holding the responsibility to develop the society by envisioning future plans for socio-economic justice and be conscious about their responsibility for the welfare of society around them. Islamic banks are not excluded from this responsibility. In fact their CSR expectation is more compared to conventional banks (Dusuki and Dar, 2005). Clearly Islamic banks operating based on shari'ah must depart further from conventional banks that are deeply profit motivated. Thus, the concept of brotherhood, social obligations, justice and fairness would be the goals of Islamic banks.

Some reports propose that Islamic banks are growing at an annual rate of more than 15% making them the fastest growing segment of the credit market in Muslim countries (Zaher and Hassan, 2001). The need to recognize Islamic banks should ideally operate in accordance with the principles laid down by Islamic law (shari'ah).[1] Hameed and Yahya (2003) claim that as one of the Islamic business institutions, the Islamic banks are not only obliged to report the information regarding the economic performance of the Islamic banks but also the information about the banks; achievements in fulfilling their proper and adequate financial reporting on shari'ah compliance, social and environmental concerns as a whole of their stakeholders. It is supported by SFA (Statement of Financial Accounting) No. 1 on Objectives of Financial Accounting for Islamic Banks and Financial Institutions (AAOIFI, 2002).

Merged with this function is the social role of Islamic banks that entails social justice and accountability, requiring the banks to disclose corporate social responsibility (CSR) information. The World Business Council for Sustainable Development in its publication

[1] The shari'ah is the sacred law of Islam derived from the Muslim holy book (Qur'an), the savings and deeds of the Prophet Muhammad (Sunnah), consensus (ijma), reasoning by anology (qiyas) and public interest (maslahah).

"Making Good Business Sense" by Lord Holme and Richard Watts, used the following definition: *"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".*

Usmani (2002) asserts that according to Islamic principles, business transactions can never be separated from the moral objectives of society. As such, a number of scholars have developed a normative standard for reporting (Gambling and Karim, 1986; Baydoun and Willet, 2000; Lewis, 2001) and indeed social reporting for Islamic businesses based on Islamic principles (Haniffa, 2001; Maali et al, 2003). Governments in Muslim populated countries, specifically in Malaysia and international regulatory institutions such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) have also voiced their support for the development and adoption of such CSR reporting standards encouraged and propagated by Islam (Sharani, 2004). The research question posed in his study attempts to look at the level of disclosure of Islamic banks in Malaysia in relation to the Islamic governance: the Shari'ah Supervisory Board (SSB). This is to assure investors of the compliance of Islamic banks with Islamic laws and principles. The existence of a SSB may lead to greater monitoring and thereby greater disclosures of CSR information, the degree to which the SSB would influence CSR disclosures may also depend on the characteristics of this corporate governance mechanism (Haniffa and Cooke, 2002).

Therefore, the objective of this study is to look at whether the factors such as leverage, bank size, and profitability are associated with CSR disclosure. This study could benefit various parties in many ways; to the bank itself as a survival to be an Islamic bank; to the stakeholders, as corporate social reporting is the indicator of Islamic bank's performance; to the investors in their bank investment selection; to enable policy makers to tighten up the bank social reporting because this role is mainly a reflection of the importance that the Islamic principles upon which these banks operate give to social issues in the future. This paper sets out the literature review, data, methodology and results as well as discussion and conclusion.

LITERATURE REVIEW

The study focusses on Islamic banks and their corporate social responsibility (CSR) disclosure. In these modern days, particularly in Malaysia, despite the growth of Islamic banks in size and complexity of other financial institutions offering Islamic banks, little research has addressed the issue of corporate social responsibility in the context of Islamic banks.

A recent study conducted by Arshad et al (2012) found that CSR activities communicated in corporate annual reports are significantly positively related with corporate reputation as well as firm performance. These results indicate that CSR activities and disclosure from Islamic perspectives are equally important business strategies in creating continuous superior performance for organisations. Arshad et al (2012) analysed annual reports of 17 Islamic banks in Malaysia from 2008 until 2010. On average they found that the CSR disclosure for these banks is at a moderate level of 63.75 percent. In addition to that, a study by Hassan et al (2012) comparing the CSR disclosure of Islamic and conventional banks in Bahawalpur region, Pakistan found favorable findings indicating Islamic banks are more incline to disclose more on CSR disclosures as compared to their conventional counterparts. However, their study is only limited to banks in the area of Bahawalpur region.

However, a study conducted by Hassan and Harahap (2010) found that the issue of CSR is not of major concern for most Islamic banks. Their findings indicate the overall mean CSR disclosure index of one Islamic bank out of seven to be above average. Another study with similar results is one conducted by Sayd Farook et al (2011). They surveyed selected Islamic banks around the world in the year 2000s. Overall, they findings showed that CSR disclosure level stands at only 16.8% and the level of CSR disclosure is influenced by the characteristics of the banks' SSB and the relevant publics.

Prior study conducted by Maali et al. (2003) also indicates that Islamic banks are not completely fulfilling their social role in accordance with the prescriptions of Islam. Islamic banks "were supposed to adopt new financing policies and to explore new channels of investment which may encourage development and support small scale traders to lift up their economic level" (Usmani, 2002). They should have advanced towards profit and loss sharing (musharakah) in gradual phases and should have increased the size of musharakah financing. Unfortunately, it remains that very few Islamic banks and financial institutions have paid attentions to this social aspect. He further highlights that in a number of Islamic banks, other permitted forms of financing are not affected according to the procedures required by the shari'ah.

In addition to that, Aggarwal and Youssef (2000) found that while Islamic banks are expected to "favour small entrepreneurs who do not have access to credit in the conventional banking system", they rarely offer finance to these segments of the market, contrary to Islamic injunctions to promote the development of the under-privileged echelons of society. They infer that this is a rational response by Islamic banks in the face of severe agency problems in their attempts to provide funds to entrepreneurs. This leads them to conclude that "economic incentives shape the structure of Islamic banking more so than religious norms". Another study also suggests that Islamic banks' CSR reporting falls short of the benchmark for entities whose operations are founded on Islamic principles (Maali et al., 2003). Based on an Islamic perspective, they develop a pragmatic benchmark for social disclosures that they would expect Islamic banks to provide. They find that there is considerable variation in the voluntary social reporting of Islamic banks, from some banks reporting 35% of expected social disclosure to others disclosing almost no social information.

Definition of CSR

The definition of Corporate Social Responsibility itself has already generated numerous articles and publications. Various definitions have been debated and taken place for more than five decades now. There is an impressive history associated with the evolution of the concept and definition of corporate social responsibility (CSR). Definitions expanded during the 1960's and grew during the 1970's. In the 1980's, there were fewer new definitions, more empirical research, and alternative themes began to mature. These alternative themes included corporate social performance (CSP), Stakeholder Theory, and business ethics theory. In the 1990's CSR continues to serve as a core construct but transformed into alternative thematic frameworks. Bowen (1953) defined CSR as the "obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". Some academics even argue that CSR goes against the basic notion of a free economy in which the main task of the corporation is to seek economic profits.

Maybe the biggest opponent of CSR, Milton Friedman, wrote in 1970 that "business as a whole cannot be said to have responsibilities" (Friedman, 1970). Furthermore, he denies the existence of CSR in the capitalist world. His basic argument against social responsibilities is the fact that the Chief Executive Officer (CEO), or any other manager for that matter, spends the money of the owners of the company. If investors want to contribute to society they can do that with their private money and they do not need a manager spending their money. Furthermore, he indicates that corporations can make philanthropic contributions as long as they will lead to long term returns for the shareholders and provided that these corporate social initiatives are approved by the stockholders.

Maignan and Ralston (2002) define the CSR policy of a firm as the principles and processes present to minimize its negative impacts and maximize its positive impacts on selected stakeholder issues. This idea is shared by the European Commission (2001) of the European Union, who defines CSR as a concept whereby companies voluntarily integrate social and environmental concerns in their business operations and in their interactions with their stakeholders.

Theories Underlying CSR

Concepts and theories of corporate social responsibility (CSR) have been examined and classified by scholars since the mid-1970s. However, due to the evolving meaning of CSR, numerous efforts are needed to understand new developments. Since there is a great diversity of theories and approaches, the task remains a very hard one, mainly because no uniformity could be arrived. In discussing CSR, western research will normally adopt several theories such as ethical, economic, legal, charity or stewardship. Each theory will lead to different perceptions on CSR. The ethical theory suggests that business must be carried out in accordance to the ethical principles such as fair and justice. As for the economic theory, it suggests that CSR could be implemented through a successful company and therefore, the responsibility of a company is to maximize its wealth. A well performed company could assist the society through providing jobs, basic amenities and contribute to thriving economy. A company according to the legal theory is a nexus of contract. Therefore, companies are required to operate in a legal manner within the stipulated law. The charity theory suggests that companies make voluntary contributions to society and in return it will enhance their reputation. Contrary to that, the stewardship theory suggests that companies are trustees and must ensure that the benefits will be returned to the society. The existence of a company according to the stewardship theory should lead to a better condition for the society and not otherwise. However in this context, three theories are further explained and explored.

i) Stakeholder Theory

Another important approach to CSR stems from a book by Freeman (1984) called "Strategic Management: A Stakeholder Approach". In another words, the real pioneer in the field of stakeholder responsibility is Freeman. The stakeholder theory developed by Freeman (1984) focuses on the interactions between firms and society. Over the years the stakeholder theory has been recognized as an integral part of CSR by many authors (Harrison & Freeman, 1999; Clarkson, 1995).

It is argued that through effective stakeholder, the management of social and ethical issues can be resolved and the demands of society and shareholders will be accounted for (Harrison & Freeman, 1999). Clarkson's (1995) differentiates between social and stakeholder issues, stating that social issues are furthered by local institutions and adopted in regulation and legislation, while stakeholder issues are not concerned with legislation and regulation.

The obligation towards every stakeholder needs to be identified and the company needs to assume responsibility for meeting their obligations towards their stakeholders. Whether the stakeholders are employees, stockholders, customers or Non-Governmental Organizations, (NGOs) all the issues they feel are important need to be taken into consideration by the company to a certain extent. It is important for companies to identify all their stakeholders, because stakeholders that might not be recognized still have expectations of the corporation. These expectations refer again to Carroll's (1979 & 1991) approach towards the definition of CSR, because expectations focus on all levels of responsibility, economic, legal and ethical (Carroll, 1996). There are many different stakeholders a company has to take into account. They range from stockholders to NGOs and from customers to suppliers. The company has responsibilities towards each of these stakeholders and these responsibilities can be qualified according to Carroll's approach using the economic, legal and ethical responsibilities. This will lead to an overview of the type of stakeholders, their possible priorities and the consequential responsibilities. It should be noted that every company has slightly different stakeholders with different expectations. Some stakeholders expect more than others, while other stakeholders may be more important or have a more direct influence on the company.

Stakeholder theory explains why various constituents including shareholders, creditors, managers, employees, customers, government and the general public have legitimate claims on the modern corporations (Freeman,1984). Freeman (1984) defines a stakeholder as any group or individual who can affect or is affected by the achievement of the organisations objectives. Particularly, Brammer and Millington (2004) identify three groups of stakeholders who may have a significant impact on the company; legislative and political stakeolders, community and consumers' stakeholders, and financial stakeholders. These categories correspond to the typology of external stakeholders identified by Carroll (1996).

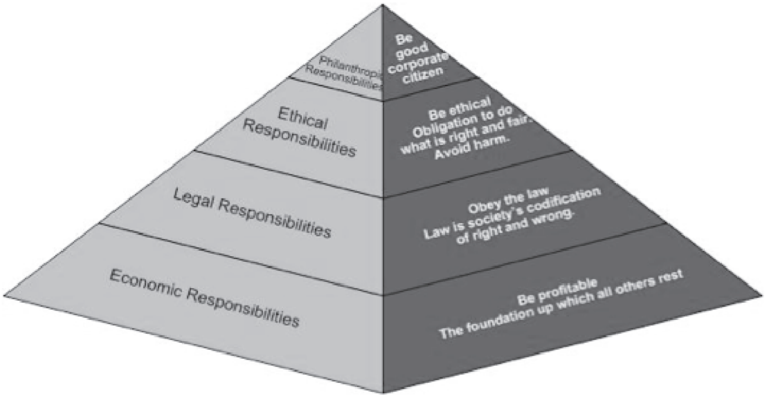
The theory also explicitly acknowledges that the government and general public contribute resources and facilities such as infrastructure and educated workforce. Consequently, they may operate effectively and that in reutrn external stakeholders, at least implicitly expect some payback in the form of financial support for social reasons (Adams and Harwick, 1998). Thus, stakeholder theory proposed that intuitive appeal in providing insights into why a company might make discretionary payments to support CSR. As such, Hill and Jones (1992) also consider stakeholder theory is a generalised form of agency theory: one of stakeholder-agency. As such, variable such as financial structure i.e. leverage and company size are dervied from agency and stakeholder theories in order to explain and predict the CSR behaviour of Islamic banks in Malaysia. Stakeholder theory's proponent implies that the theory provides a viable framweork within which to examine management strategy, including the motives for discretionary CSR.

ii) Carroll's CSR

A famous viewpoint on the concept of CSR is provided by famous Carroll's (1979, 1991). He uses the Pyramid of Corporate Responsibility to identify a spectrum of obligations that companies have toward society. He defines CSR using a four responsibilities approach known as economic, legal, ethical, and philanthropic (discretionary). The main focus of any organization has always been on the economic responsibilities, which implies that companies have to produce goods and services for the public to gain profit. Businesses have responsibility towards the shareholders to increase their wealth. Even though, making lots of money is surely central to why corporations exist, but these days it appears that corporations are being challenged to do more and, to be more. Businesses are also accountable on their legal responsibility.

Legal responsibilities require business to operate within the boundaries of laws and national policies. The companies' activities need to be regulated in order to prevent them from abusing their power. According to Carroll this legal responsibility is seen as part of the social contract between society and business. On the other hand, ethical responsibilities demand that firms operate morally, fairly and justly (Tan and Komaran, 2006). However, broadening accountability beyond shareholders to include employees, customers, suppliers, competitors and the community have shifted the board's role in overseeing this accountability beyond philanthropy. Philanthropic responsibilities oblige companies to contribute financial and other resources for the welfare, making charitable donations and contributing to human wellbeing. These responsibilities are not expected by the public, so when a company does not take discretionary responsibilities it will not perceived unethical, and will therefore not be punished by the society (Cochius, 2006).

Figure 1: Carroll's CSR Pyramid



Source: Carroll (1979, 1991)

Agency Theory

The agency theory is the relationship between the principals and agents which involves the nature of costs of resolving conflict of interests between principals and agents (Jensen and Meckling, 1976). This theory infers that the precipitators of these conflicts incur agency costs in which they have the incentive for possible reduction (Morris, 1987). Recent study done by Brown et al. (2006) indicates that agency costs play a prominent role in explaining corporate donation, which is part of CSR.

In the current study, agency theory is employed to link the overall views on examining the corporate social responsbility (CSR). Agency theory has been primarily concerned with the relationship between managers and stakeholders. Thus, agency theory explains the incentives problems in a firm caused by the separation of ownership and control of resources. This theory suggests that where there is a separation of ownership and control of a firm, the potential for agency costs exists because of the conflicts of interest between principals and agents (Hossain et al, 1995).

Corporate Social Responsibility (CSR) from Islamic Point of View

In Islam, business activities are not undertaken to satisfy only material needs and wants but more importantly it should be undertaken to fulfill religious obligation and to achieve other non-material objectives such as to secure social needs (al-Jawziyyah, 1995; Rahman and Goddard, 1998). Social responsibility refers to the obligations that an organization has to protect and contribute to the sociey in which it function (Beekun, 1997). Social responsibility in Islam stems from the concept of brotherhood and social justice (Naqvi, 1981). Based on the axiom of *Tawhid,* the main objectives of social responsibility should be to demonstrate responsibility not only to Allah and human beings, but also to the environment. The concept of *Tawhid* also signifies businessmen's role as Allah's *khalifah* (vicegerent) on earth. As *khalifah*, businessmen are not free but responsible and accountable to Allah (Haniffa et al., 2002). As a *khalifah*, leaders in Islamic Business Organisations (IBOs) are required to practice corporate social responsibility essentially from the principle of *Tawhid* (Muwazir et al., 2006). All possessions, wealth, expertise, abilities, positions and power belongs to Allah. Businessmen is only trustees to them. As trustees, it is imperative that we manage these possessions to the best of our abilities to create a maximum added value in corporate social responsibility by intention of creating benefit to the community (Bardai, 2002). Here, the concept of the community demonstrates that society has a right and stake in whatever a person owns. In Islam, business organisations are considered as human institution which is part of the community. As a result, IBOs have to promote social responsibilty.

The Importance of Accounting Numbers

Accounting numbers are defined as value relevant if they have a predicted association with equity market values. One way in which accounting numbers can be assessed is to see how they relate to stock returns. Accounting numbers which update the market's beliefs will generate a change in returns. The technique for measuring the market impact of accounting numbers was developed primarily by Ball and Brown (1968) and was called the Abnormal Performance Index.

Basically, there are three objectives of studying the value relevance of the accounting numbers. First, it is intended to test the relevance and reliability of accounting numbers as reflected in equity values. Second, a research on value relevance of accounting numbers can help to assess how well accounting reflect information used by equity investors. Finally, the conclusions derived from such studies can be used as inputs for those involved in the setting and monitoring of accounting standards. Studies examining what factors infuence relevance of reported numbers in financial statemetns are becoming increasingly important in accounting literature. An understanding of what factors conttibute to or detract from value relevance of accounting numbers is essential in the light of globalisation that has resulted in internationalisation of accounting practices.

Value relevance is defined as the power of specific financial statements variables to explain changes in equity values. The greater the explanatory power of specific financial statement variables, the greater the value relevenace (Hasan and Anandarajan, 2003). In another word, value relevance is understood as the ability of financial statement infromation to summarise or capture infromation that affects share values and empirically tested as a statistical association between market values and accounting values (Hellstrom, 2005).

According to Francis et al. (2004), value relevance is one of the basic attributes of accounting quality. High quality accounting information is a preconditional for well functioning capital markets and economy as whole and as such should be of importance to investors, companies and accounting standard setters. Investors rely on accounting information in their pricing of shares and companies which provide good quality information thus have an advantage in a lower cost of capital. Traditionally, earnings and book values are stated to contribute to value relevance (Ohlson,1995). Researchers have proved a high degree of associotion between changes in earnings and book values as well as combination of both with changes in equity values. The intrinsic assumption is that earnings and book values have information content to investors. This information is then impounded positively or negatively in stock prices.

A research done by Ibrahim et al. (2003 a) examined the value relevance of accounting numbers by looking specifically on the purchased goodwill. The study seek to investigate empirically the association between goodwill and market value and to describe the relationship between purchased gooodwill and other assets of the firms operating in Malaysia. It was found that goodwill numbers are of value relevance to investors. The analysis also confirms that goodwill is an asset of considerable magnitude and is valued at least as equal to other assets and the results also indicate that investors do use information in the Balance Sheet when making an economic decision.

METHODOLOGY

Hypotheses of the Study

This study attempts to verify the factors which can contribute and affect the corporate social responsibility (CSR) made by the banks. The hypotheses predict that:

$H_{1\,(a)}$ Lowly leveraged banks will tend to make larger donations than highly leveraged banks. Therefore, there is a negative association between corporate social role and the leverage;

$H_{1\,(b)}$ Large companies will tend to involve in social role than small banks. Thus, there is a positive association between corporate social role and the company's size, profit

$H_{1\,(c)}$ Profitable banks will tend to make larger social role than less profitable banks.

Logit model

To achieve the objective, the model will be used to test empirically whether the social role is related to the factors attribute is based on the previous model of Adam and Hardwick (1998). Logit regression is a form of regression which is used when the dependent is a dichotomy. The model to be estimated is expressed as follows:

$$DON_{jt} = \beta_{0\,+}\,\beta_1 LEV_{jt} + \beta_2 InSIZE_{jt} + \beta_3 PROF_{jt} + \Sigma_{jt}$$

where:

DON_{jt} = A dummy variable taking the value one (1) if the company is doing social roles, otherwise coded zero (0), for firm j in year t

LEV_{jt} = Total Debt / Total Assets for firm j in year t

InSIZE	= Measured by the natural log of total assets by firm j in year t
$PROF_{jt}$	= Return on Assets (ROA) for firm j in year t
Σ_{jt}	= Error term for firm j in year t

The specific related variables are chosen from the organization's characteristics namely; leverage will be measured by a variable LEV that is defined as the ratio of total debt to total assets (Brammer and Millington, 2004); bank size according to Adams and Hardwick (1998) and Lenway and Rehbein (1991) where size is measured by total value of assets. According to Adams and Hardwick (1998) and Brammer and Millington (2004), in order to minimize and reduce the impact of heteroscedascity and extreme values, this variable is expressed in natural logarithms (Ln). Therefore, this study employed the natural log value of total assets (Brammer and Millington, 2004) to avoid such problems; finally, profitability will employ Return on Assets (ROA) to measure the profitability of the Islamic banks because of the criteria of Islamic banks with interest-free.

Data

The data was collected through content analysis (annual report) either retrieving from the respective banks' websites or hardcopy annual report. In general there are 17 Islamic Banks in Malaysia whether foreign or local as expressed in Table 1.

Table 1: Summary of Islamic Banks in Malaysia

Ownership	Sample size	Percentage
Local Banks	11	61
Foreign Banks	7	39
TOTAL	**18**	**100**

Next, Table 2 shows the list of licensed Islamic banking institutions in Malaysia as defined by Central Bank of Malaysia (Bank Negara

Malaysia). There are 11 local banks, whilst the rest 6 are foreign banks. IAIB (2001) classifies Islamic banks as any financial intermediary that claims to operate according to the laws and principles of Islam.

Table 2: List of Islamic Banks Selected

Islamic Banks	Ownership
1. Bank Muamalat Malaysia Berhad	Local
2. CIMB Islamic Bank Berhad	Local
3. Alliance Islamic Bank Berhad	Local
4. AmIslamic Bank Berhad	Local
5. Asian Finance Bank Berhad	Foreign
6. Bank Islam Malaysia Berhad	Local
7. Affin Islamic Bank Berhad	Local
8. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	Foreign
9. EONCAP Islamic Bank Berhad	Local
10. Hong Leong Islamic Bank Berhad	Local
11. HSBC Amanah Malaysia Berhad	Foreign
12. Kuwait Finance House (Malaysia) Berhad	Foreign
13. Maybank Islamic Berhad	Local
14. OCBC Al-Amin Bank Berhad	Foreign
15. Public Islamic Bank Berhad	Local
16. RHB Islamic Bank Berhad	Local
17. Standard Chartered Saadiq Berhad	Foreign

The data is analysed using Statistical Package for Social Science (SPSS) version 14.0. In order to meet the objectives of the study, descriptive statistics and inferential statistics were employed. The use of descriptive statistics and also t-test are important to describe the phenomena of interests.

To carry out the test, initially the descriptive statistics results are presented to look at the distribution of data (variables). Next, the t-test is applied to investigate whether there are differences between banks disclose CSR and banks did not disclose CSR. Lastly the determinants of CSR are tested using logit regression, which is the fountainhead of this research. The sample will be drawn from the population of 17 Islamic banks in Malaysia including local and foreign financial institutions offering Islamic banking services. IAIB (2001) classifies Islamic banks as any financial intermediary that claims to operate according to the laws and principles of Islam. In order to test the hypotheses, annual reports of those Islamic banks in Malaysia will be obtained for the population from respective bank's website. However, to be included in the sample, the 2006 sample consisted of the banks with year end between January 1, 2006 and December 31, 2006. Similarly, the 2007 and 2008 population of Islamic banks consisted of the banks with year end between January 1, 2008 and December 31, 2008.

Logit regression analysis is also applied to answer the objective of the study. The model used in this study is as follows:

$$DON_{jt} = \beta_{0\,+}\,\beta_1 LEV_{jt} + \beta_2 InSIZE_{jt} + \beta_3 PROF_{jt} + \Sigma_{jt}$$

where:

DON_{jt}	= A dummy variable taking the value one (1) if the company is doing social roles, otherwise coded zero (0), for firm j in year t
LEV_{jt}	= Total Debt/Total Assets for firm j in year t
InSIZE	= Measured by the natural log of total assets by firm j in year t
$PROF_{jt}$	= Return on Assets (ROA) for firm j in year t
Σ_{jt}	= Error term for firm j in year t

RESULTS AND DISCUSSION

Descriptive Statistical Result

This section discusses the findings of the study and provides some conclusions based on descriptive statistical analysis on all the data collected. The findings will be discussed accordingly to secondary data collected (annual reports). A summary of the seventeen Islamic banks population in Malaysia is all used in this study. Table 3 presents the number of banks disclosing and not disclosing CSR. The final sample of this study is 51 banks' years. The CSR model is estimated based on the dichotomous dependent variable whereby banks disclosing CSR are coded as one (1), otherwise coded zero (0). It shows that 45.10 percent or 23 of the Islamic banks in Malaysia are disclosing CSR from year 2006 till 2008 (3 years).

Table 3: Summary of the Data

CSR	Years			N	%
	2006	2007	2008		
1=Disclosing CSR	7	8	8	23	45.10
2=Not disclosing CSR	10	9	9	28	51.90
Total	**17**	**17**	**17**	**51**	**100.00**

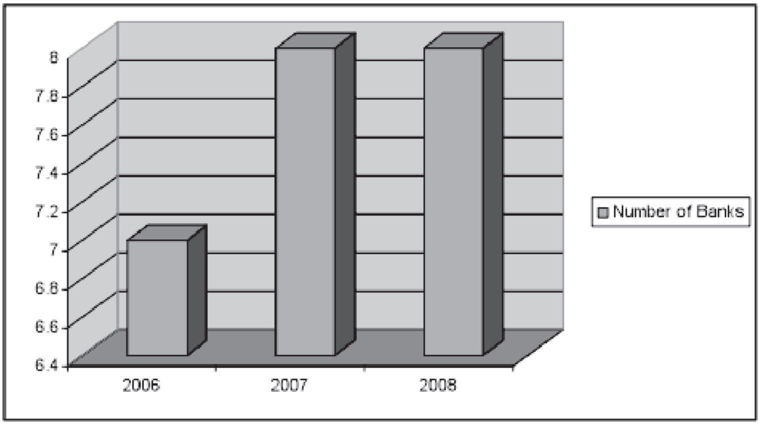
The numbers of bank disclosing CSR increase only 1 from 2006 to 2007 and 2008. But sadly, half of the banks did not disclose CSR, and this result contradicted to CSR expectation on Islamic banks. Even though in 2007 and 2008 the numbers of banks disclose CSR is remain unchanged, but the distribution is different. It can be seen in Table 4, some of local and foreign banks did not consistently disclose CSR over 3 years period from 2006 to 2008.

Table 4: CSR Disclosure from 2006 untill 2008

Types of Ownership	Total banks		2006		2007		2008	
	N	%	No	Yes	No	Yes	No	Yes
Local	11	65	7	4	6	5	4	7
Foreign	6	35	3	3	3	3	5	1
Total	**17**	**100**	**10**	**7**	**9**	**8**	**9**	**8**

No = banks not disclosing CSR
Yes = banks disclosing CSR

Figure 2: Number of Islamic Banks Disclosing CSR



To explain further, the level of disclosure is also even very minimal as CSR disclosure is voluntary by the banks. As shown in Table 5, the local banks disclose the highest number of pages on CSR from year 2006 until 2008, ranging from 8 to 10 pages. The foreign banks usually disclose from 1 to 2 pages on CSR in their annual reports. Deriving from further review of the foreign banks' annual reports, the information disclosed is based on the minimal guideline provided by the Bank Negara Malaysia and Companies Act 1965.

Table 5: Numbers of Pages of the Local and Foreign Banks Disclose CSR

Year	Ownership	Number of Pages									
		1	2	3	4	5	6	7	8	9	10
2006	Local	1	1	1							1
	Foreign	3									
2007	Local	1			1	1				1	1
	Foreign	3									
2008	Local		2	1		1	1		2		
	Foreign	1									

The Independent T-test

This test is used to examine whether there are differences between banks disclose CSR and vice versa on the selected variables. There are 3 variables that are significantly differs between banks disclosing CSR and banks not disclosing CSR. Based on the result in Table 6, banks disclosing CSR have higher total assets and working capital and at the same time higher total debt. CSR disclosure is crucial to the banks as they do not want to lose their reputation as an Islamic business organization that promulgates social responsibility (Muwazir, et al., 2006). They have higher debts as they need to run day-to-day banks operations particularly in giving loans to customers.

Additionally, banks with high amount of debts showed that customers have confidence in the bank to deposit their money and trust that the bank's management is able to provide reasonable return on their investments. In turn, these deposits are mobilized through giving of loans to customers. Banks heavily depend on the revenue from the repayments of loans and their profit charges. Besides, banks also must ensure that they are able to pay their liabilities to ensure the stability of their financial positions.

Table 6: Differences between Banks Disclose CSR vs Banks Do Not Disclose CSR

Variables	t	Significance
Debt/Assets Ratio	-1.385	0.175
Total Debt	-2.163	0.035*
Total Assets	-2.292	0.026*
ROA	-1.170	0.248
Net Income	-0.386	0.702
Asset-Liability (Working capital)	-2.805	0.007**

** significant at the 0.01 level
* significant at the 0.05 level

Logit Regression

This analysis is probably the ultimate goal of this study, identifying determinants of CSR for Islamic banks. Before disclosing the result of logit regression, the overall descriptive statistics for the dependent and independent variables in the CSR model is expressed in Table 7 followed by the model used.

Table 7: CSR Disclosure from 2006 untill 2008

Year	Variables	Minimum	Maximum	Mean	Std. Deviation	Skewness
N = 51	DON	0	1	0.451	0.503	0.203
	LEV	0.03156	1.01902	0.8650100	0.1669277	-3.748359665
	InSIZE	19.49012509	24.01631066	22.53592034	0.93308280	-1.10774272
	PROF	-0.257787189	0.022451209	-0.00121188	0.04013975	-5.642167822

$$DON_{jt} = \beta_{0+}\beta_1 LEV_{jt} + \beta_2 InSIZE_{jt} + \beta_3 PROF_{jt} + \Sigma_{jt}$$

where:

DON_{jt}	= A dummy variable taking the value one (1) if the company is doing social roles, otherwise coded zero (0), for firm j in year t
LEV_{jt}	= Total Debt / Total Assets for firm j in year t
InSIZE	= Measured by the natural log of total assets by firm j in year t
$PROF_{jt}$	= Return on Assets (ROA) for firm j in year t
Σ_{jt}	= Error term for firm j in year t

Correlation Matrix of Variables

A Pearson coefficient of correlation (r) was computed to examine the correlation between the independent variables and to get approximate idea relating to the multicolinearity problem which exists in almost multiple regression models. It is also important condition in running logit regression analysis.

Table 8: Correlation Coefficient Matrix (Overall)

N=51	DON	LEV	InSIZE	PROF
DON	1.000	0.180**	0.325*	0.165**
LEV		1.000	0.735	0.494*
InSIZE			1.000	0.475*
PROF				1.000

** Correlation is significant at the 0.01 level (2-tailed)
* Correlation is significant at the 0.05 level (2-tailed)

With regard to Gujarati (1988), the correlation below absolute 0.80 should not be deemed harmful with regard to multicolinearity. Table 8 shows that the independent variables namely, bank leverage and profitability (0.494), and bank size and profitability (0.475) are statistically significant. The correlation coefficient of the determinants of the variables, as expected the CSR disclosure (DON) is positively and significantly correlated with the bank size (InSIZE) and the profitability (PROF). Similarly, there is a positive correlation between CSR and the leverage (LEV).

The Logit Regression Results

As the dependent variable is a dichotomous, a logit regression analysis was carried out to maximum likelihood estimating procedure where it applies a logarithmic transformation to the dependent variable. To test statistically whether CSR of Islamic banks in Malaysia are influenced by the banks' factors such as leverage, size and profitability, the logit CSR model was employed. The result presented in Table 9 as follows:

Table 9: Logistic Regression Summary Result

Predicted Sign	β_0	β_1 -	β_2 +	β_3 +	R^2	N
2006-2008 P-value	-20.156 0.045	-1.055 0.761	2.125 0.070*	10.394 0.556	0.122	51

*Significant at the 0.10 level

Model: $DON_{jt} = \beta_{0} + \beta_1 LEV_{jt} + \beta_2 InSIZE_{jt} + \beta_3 PROF_{jt} + \Sigma_{jt}$

where:

DON_{jt} = A dummy variable taking the value one (1) if the company is doing social roles, otherwise coded zero (0), for firm j in year t

LEV_{jt} = Total Debt / Total Assets for firm j in year t

InSIZE = Measured by the natural log of total assets by firm j in year t

$PROF_{jt}$ = Return on Assets (ROA) for firm j in year t

Σ_{jt} = Error term for firm j in year t

The above table summarizes the determinants of CSR of Islamic banks in Malaysia over 3 years period from 2006 to 2008. The coefficient of leverage (LEV) and profitability (PROF), β_1 and β_3 was not statistically significant. Thus, we cannot prove statistically that these two variables (leverage and profitability) have impact on CSR. This result also has to take into consideration that only 12.2 percent is determined by the three banks characteristics namely, leverage, size and profitability of the Islamic banks in Malaysia.

However, the coefficient of bank size (InSIZE), β_2 is significant and positively related to the CSR at 10% significance level. Indeed, there is a strong support to reveal that larger Islamic banks in Malaysia are more likely to disclose CSR as compared to smaller banks. This finding supports our notion which also consistent with study done by Brammer and Millington (2004) and Brown et al. (2006).

The size of the Islamic banks reflects the ability of the banks to attract customers to obtain financing from them. In order to retain customers, Islamic banks must show that they are socially responsible to the community in addition to generating profits for their shareholders. As Islamic banks are governed by the shari'ah guidelines, providing full disclosure on socially responsible activities are one way to show that they are abiding by such guidelines (Muwazir et al., 2006).

Overall, only size of the bank is the determinant of CSR of Islamic banks in Malaysia. Both leverage and profitability are not statistically significant with CSR. Profitability and leverage are not significant with CSR because the purpose and existence of Islamic bank in contributing to the fulfillment of the socio-economic objectives and the creation of a just society (Siddiqui, 2001).

CONCLUSION

The social function of Islamic banks represents a major part in their activities. They have grown in size and significance in the past three decades in line with Islamic principles. The topic on CSR to charitable and community service organizations have recorded a remarkable increase. This has been proven by a number of studies, even though up till now, the reasons underlying this event have yet to be thoroughly assessed. In relation to the value relevance of accounting numbers, it is intended to assess how well accounting numbers reflect the determinants of CSR among Islamic banks, particularly in Malaysia.

This study used all population of 17 licensed Islamic banks in Malaysia over 3 years from 2006 to 2008. Since the numbers of Islamic banks is too small, it is not appropriate to run the analysis yearly, instead it becoming 51 numbers of cases for 3 years as there is no missing data. The study was initiated with the descriptive statistics and correlation analysis to examine the statistical results and the correlation matrix among the variables under study. Further, logistic regression analysis was conducted to examine whether the bank characteristics namely; leverage, size and profitability are associated with CSR. The empirical evidence supports the prediction merely for size of the banks. The larger Islamic banks in Malaysia are more likely to disclose CSR compared to smaller banks. However, this study found that there is no significant relationship between leverage and profitability with CSR. This study contradicts the findings of other researches like study done by Adam and Harwick (1998). Eventually, this CSR model was able to provide evidence that Islamic banks size is important determinant to disclose CSR.

There are various appropriate theories to develop CSR models in order to generalize the determinants of CSR. The different measurement used also might differ on each other which lead to mix result on this matter. Thus, the interpretation of the findings must be observed with cautious. Finally, future research on other factors and comparisons of the determinants of CSR between Malaysian market and other developed countries might be considered. Value relevance of accounting numbers research and CSR also has shown a decreasing trend. Probably, future research should look at the issue on CSR, particularly among the Islamic banks as CSR cannot be separated with business as it is defined and explained clearly in Shari'ah principles.

There are many studies define profitability, leverage and size using different ratios. Thus, the issue of comparability on the results between studies must be reviewed with caution. Another limitation in this study, there are only three variables included in the model, thus may not be able to explain the impact on CSR. In addition, we only include 3 years data and may not be able to generate a clearer picture and form generalization generated from the findings.

With regards to the implication of this study, it is hoped that this study will contribute to the body of knowledge on CSR and how the CSR concepts could be deployed more effectively by Islamic Banks. It is hope that this study can suggest ways to help Islamic banks and Bank Negara Malaysia to come up with more suitable CSR strategies and policies. A final conclusion is that more research should be done to add more variables into the model. Another area that is worth looking at is to investigate why foreign Islamic banks disclosing less CSR compared to local Islamic banks.

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