CSR, CORPORATE REPUTATION AND FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN MALAYSIA: STAKEHOLDERS' PERCEPTIONS

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CSR, CORPORATE REPUTATION AND FINANCIAL PERFORMANCE OF ISLAMIC BANKS IN MALAYSIA: STAKEHOLDERS' PERCEPTIONS

ABSTRACT

A review of the extant literature established that the Islamic financial services industry (IFSI) needs to sustain its growth momentum. This is due to the downfall of the world's largest banks in 2008, which has shaken the global financial industry. Besides, external challenges emerging in the global financial industry have affected the performance of Islamic banks in Malaysia. To overcome such problems, existing reports and several authors have suggested that Islamic banks should get involved in corporate social responsibility (CSR) activities and disclose such activities in the annual reports. It is argued that corporate social responsibility disclosure (CSRD) can increase the business performance of Islamic banks in terms of corporate reputation and financial performance. However, there is an absence of an Islamic CSR framework for Islamic banks in Malaysia. As a critical response to this, this study aimed to establish a modified integrated Islamic CSRD index (MIICSRDi) for Islamic banks in Malaysia. This study also examined whether stakeholders perceived that the MIICSRDi has an influence on the financial performance of Islamic banks in Malaysia. In addition, this study investigated the mediation role of corporate reputation in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. Particularly, stakeholder theory explains the establishment of the MIICSRDi as well as the perceived relationship between the MIICSRDi and financial performance. This study integrated the stakeholder theory with the *Shariah* principles (unity, equilibrium, free will, responsibility, and *tazkiyah*) and the *'urf* principle (customary practice). Furthermore, signalling theory clarifies the mediation role of corporate reputation in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. This study utilised a cross-sectional survey design to obtain data from 343 respondents comprising 173 employees and 170 customers of Islamic banks. Before conducting the actual study, the items were validated using exploratory factor analysis (EFA). Through the EFA, 11 dimensions for the MIICSRDi were identified, as well as one dimension for financial performance and two dimensions for corporate reputation. By using Partial Least Squares Structural Equation Modelling (PLS-SEM) analysis, this study discovered that the MIICSRDi is a reflective model that influences the financial performance of Islamic banks. Furthermore, both dimensions of corporate reputation, namely management reputation and social reputation, were perceived as partial mediators in the relationship between the MIICSRDi and financial performance. Management reputation was perceived to have a higher partial mediating effect compared to social reputation. The originality of the study lies in its contribution to the development of the MIICSRDi for Islamic banks in Malaysia as a reflective model based on the integration of the stakeholder theory, *Shariah* principles, and *'urf* principle. The MIICSRDi can serve as a guideline for the disclosure of CSR activities. The MIICSRDi was regarded as an essential tool for management reputation and in enhancing the financial performance of Islamic banks in Malaysia as perceived by the stakeholders.

Keywords: Islamic CSRD, financial performance, management reputation, social reputation, stakeholders' perceptions

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ABSTRAK

Sorotan kajian lampau menunjukkan bahawa industri perkhidmatan kewangan Islam (IFSI) perlu mengekalkan momentum pertumbuhannya. Hal ini disebabkan oleh kegagalan beberapa bank terbesar dunia pada tahun 2008 yang telah menggoncang industri kewangan global. Selain itu, cabaran luaran yang muncul dalam industri kewangan global telah menjejaskan prestasi bank Islam di Malaysia. Untuk mengatasi masalah tersebut, laporan sedia ada dan beberapa pengarang telah mencadangkan agar bank Islam melibatkan diri dalam aktiviti tanggungjawab sosial korporat (CSR) dan mendedahkan aktiviti tersebut dalam laporan tahunan mereka. Pendedahan tanggungjawab sosial korporat (CSRD) dikatakan mampu meningkatkan prestasi perniagaan bank Islam dari segi reputasi korporat dan prestasi kewangan. Namun begitu, rangka kerja CSR Islam bagi bank Islam di Malaysia masih belum dibangunkan. Sebagai gerak balas kritikal terhadap perkara ini, kajian ini bertujuan untuk membangunkan indeks CSRD Islam bersepadu yang diubah suai (MIICSRDi) untuk bank-bank Islam di Malaysia. Kajian ini juga mengkaji sama ada pihak berkepentingan menganggap MIICSRDi mempunyai pengaruh terhadap prestasi kewangan bank Islam di Malaysia. Di samping itu, kajian ini menyelidik peranan perantaraan reputasi korporat dalam hubungan antara MIICSRDi dengan prestasi kewangan berdasarkan pandangan pihak berkepentingan. Khususnya, teori pihak berkepentingan menerangkan pembangunan MIICSRDi serta tanggapan hubungan antara MIICSRDi dengan prestasi kewangan. Kajian ini menggabungkan teori pihak berkepentingan dengan prinsip *Syariah* (kesatuan, keseimbangan, kehendak sendiri, tanggungjawab dan *tazkiyah*) dan prinsip *'urf* (amalan adat). Tambahan pula, teori pengisyaratan menjelaskan peranan perantaraan reputasi korporat dalam hubungan antara MIICSRDi dengan prestasi kewangan berdasarkan

tanggapan pihak berkepentingan. Kajian ini menggunakan reka bentuk tinjauan keratan rentas untuk mendapatkan data daripada 343 responden yang terdiri daripada 173 pekerja dan 170 pelanggan bank Islam. Sebelum kajian sebenar dijalankan, item disahkan menggunakan analisis faktor penerokaan (EFA). Melalui EFA, 11 dimensi MIICSRDi telah dikenal pasti serta satu dimensi prestasi kewangan dan dua dimensi reputasi korporat. Melalui penggunaan analisis Pemodelan Persamaan Berstruktur Kuasa Dua Terkecil Separa (PLS-SEM), kajian ini mendapati MIICSRDi merupakan model reflektif yang mempengaruhi prestasi kewangan bank Islam. Tambahan pula, kedua-dua dimensi reputasi korporat iaitu reputasi pengurusan dan reputasi sosial dianggap sebagai pengantara separa dalam hubungan antara MIICSRDi dengan prestasi kewangan. Reputasi pengurusan dianggap mempunyai kesan perantaraan separa yang lebih tinggi berbanding reputasi sosial. Keaslian kajian ini terletak pada sumbangannya terhadap pembangunan MIICSRDi untuk bank-bank Islam di Malaysia sebagai sebuah model reflektif yang berasaskan gabungan antara teori pihak berkepentingan, prinsip *Syariah* dan prinsip *'urf*. MIICSRDi boleh dijadikan sebagai garis panduan untuk pendedahan aktiviti CSR. Pihak berkepentingan menganggap MIICSRDi sebagai alat penting dalam meningkatkan reputasi pengurusan dan prestasi kewangan bank-bank Islam di Malaysia.

Kata kunci: CSRD Islam, prestasi kewangan, reputasi pengurusan, reputasi sosial, persepsi pihak berkepentingan

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LIST OF SYMBOLS AND ABBREVIATIONS

AAOIFI	:	Accounting and Auditing Organization for Islamic Financial Institutions
BIMB	:	Bank Islam Malaysia Berhad
BNM	:	Bank Negara Malaysia
CAGR	:	Compounded annual growth rate
CBA	:	Central Bank of Malaysia Act
CFA	:	Confirmatory factor analysis
CSR	:	Corporate social responsibility
CSRD	:	Corporate social responsibility disclosure
CVI	:	Corporate value intent
GABV	:	Global Alliance for Banking on Values
GCC	:	Gulf Cooperation Council
GRI	:	Global Reporting Initiative
GTP	:	Government Transformation Programme
EFA	:	Exploratory factor analysis
ETP	:	Economic Transformation Programme
EY	:	Ernst & Young
IDB	:	Islamic Development Bank
IFSA	:	Islamic Financial Services Act
IFSB	:	Islamic Financial Services Board
IFSI	:	Islamic Financial Services Industry
IMF	:	International Monetary Fund
INCEIF	:	International Centre for Education in Islamic Finance
IRTI	:	Islamic Research and Training Institute
KMO	:	Kaiser-Meyer-Olkin measure of sampling adequacy
MGA	:	Multigroup analysis
MIICSRDi	:	Modified integrated Islamic CSRD index
NGOs	:	Non-governmental organisations

PCA	:	Principle component analysis
PDPA	:	Personal Data Protection Act
PEMANDU	:	Performance Management & Delivery Unit
PLS	:	Profit-loss sharing
RO	:	Research objective
ROA	:	Return on asset
ROE	:	Return on equity
ROI	:	Return on investment
ROS	:	Return on sales
SCM	:	Securities Commission Malaysia
SMEs	:	Small-medium enterprises
SSB	:	*Shariah* Supervisory Board
UK	:	United Kingdom
UN	:	United Nations
USA	:	United States of America
VBI	:	Value-based intermediation
YOY	:	Year-over-year

GLOSSARY OF ARABIC TERMS

Al-Falah	:	Fulfilment in life attained by material and spiritual contentment.
Fiqh	:	Islamic jurisprudence that covers all aspects of life, including religious, political, social, and economic aspects. In addition to religious observances (prayer, fasting, *zakat,* and pilgrimage), it is concerned with family law, inheritance, social obligations, commerce, criminal law, constitutional law, and international relations including war. The primary sources of *fiqh* are the *Quran* and *Sunnah*. Its secondary sources are *ijma'* (consensus) and *ijtihad* (effort to derive juristic opinions).
Gharamah		
Gharar	:	Any element of uncertainty or mere speculative risk. Since the *Shariah* enjoins fair and ethical dealings, unjustified enrichment is prohibited.
Hadith	:	A collection of the traditions of Prophet Muhammad (*SAW*), containing his sayings, deeds or tacit approvals.
Halal	:	Anything permissible according to the *Shariah*.
Haram	:	Anything forbidden according to the *Shariah*.
Ibadat	:	Worship. In its widest sense; it means submission to *Allah* by performing the duties as a servant to Him.
Ihsan	:	State of perfection and excellence in worship.
Ijma'	:	Universal agreement of legal scholars on any issue of jurisprudence after the demise of Prophet Muhammad (*SAW*).
Ijtihad	:	Effort exerted by a qualified scholar to derive laws of the *Shariah* from authentic and reliable sources.
Istihsan	:	Considering something good; juristic preference.
Maslahah	:	(Protection of) public interest.
Muamalat	:	Commercial and civil dealings under the *Shariah*.
Qard al-Hassan	:	Interest-free loan. The borrower should return the exact amount of debt without paying additional interest.
Qiyas	:	The use of analogy in new cases to find the same essential reason with the original ruling.
Quran	:	The primary source of Islam revealed by *Allah* to Prophet Muhammad (*SAW*).
Riba	:	Unjustified increment in the amount of loan.
Sadaqah	:	Charity given voluntarily to others from lawful income.

SAW	:	Represents the Arabic phrase, *sallallahu alaihi wasallam*, which can be translated as 'May the peace and blessing of *Allah* be upon him', or abbreviated as 'pbuh'. This abbreviation normally follows right after Prophet Muhammad's name.
Shahadah	:	To admit verbally that there is no god besides *Allah,* and Muhammad is His messenger
Shariah	:	Islamic law based on the *Quran* and *Sunnah*, which covers all aspects of the Islamic faith including beliefs and practices.
Shura	:	An approach to decision-making through collective consultation.
Sunnah	:	The traditions of Prophet Muhammad (*SAW*) consisting of his words and actions.
Surah	:	A chapter of the *Quran*. There is a total of 114 *Surahs* of varying lengths in the *Quran*. In all references to the *Quran* in the text (e.g. 30:41), the former number refers to the *surah* and the latter, the *ayah* or verse.
Tawhid	:	The oneness of God in Islam.
Tazkiyah	:	Growth and purification
'Urf	:	Something that is always being practised continuously whereby the practice is accustomed and accepted in the ordinary life. In addition, it is a practice that is not against the *Shariah.*
Waqf	:	Endowment by an individual or organisation to a charitable cause.
Zakat	:	A form of alms-giving based on specific assets at the rate of 2.5% each year.

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CHAPTER ONE: OVERVIEW

1.1 Introduction

The collapse of the world's largest banks, such as Lehman Brothers, Bear Sterns, and Anglo Irish Bank due to the global financial crisis in 2008 has shed doubts on the financial system's stability (Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010). An increasing number of reports and literature have advocated that the Islamic financial services industry (IFSI) should strengthen its operations in order to sustain the growth momentum (Aliyu, Hassan, Mohd Yusof, & Naiimi, 2017; Islamic Financial Services Board (IFSB), Islamic Development Bank (IDB), & Islamic Research and Training Institute (IRTI), 2010; Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010). Furthermore, external challenges such as the oil crisis, lower energy and commodity prices, geopolitical conflicts, and depreciation in the exchange rates in the global financial industry have affected the performance of Islamic banks including in Malaysia (IFSB, 2015, 2016, 2017; Smolo & Hassan, 2011). Therefore, to address such problems, one of the strategies is to be involved in corporate social responsibility (CSR) activities and to disclose those activities in the annual reports to provide adequate information to the interested stakeholders in which the disclosure may influence their decision-making (Darus et al., 2014; Ernst & Young (EY), 2013; Galant & Cadez, 2017; Securities Commission Malaysia (SCM), 2011). It has been argued that CSR and corporate social responsibility disclosure (CSRD) have an influence on business performance in terms of corporate reputation and the financial performance of Islamic banks (Arshad, Othman, & Othman, 2012; Mallin, Farag, & Ow-Yong, 2014). Specifically, satisfying the needs of stakeholders through the involvement in CSR activities and disclosure of such activities will increase the business performance of firms (Bayoud, Kavanagh, & Slaughter, 2012;

Waddock & Graves, 1997). Hence, indirectly, it will help to attain the Malaysian government's mission to become an international Islamic finance hub and to increase the financing share and market share of Islamic banking and finance to 40% in the year 2020 (Bank Negara Malaysia (BNM), 2011; Muhamad & Alwi, 2015; PEMANDU, 2013). However, there is an absence of an Islamic CSR framework for the Malaysian Islamic banks (Wan Jusoh, Ibrahim, & Mohd. Napiah, 2015; Wan Jusoh & Ibrahim, 2017, 2018). Furthermore, there is limited prior research regarding which CSR items are essential to the stakeholders and whether the CSR items can increase the business performance of Malaysian Islamic banks in terms of their corporate reputation and financial performance when disclosed in the annual reports.

Therefore, the purpose of this study is to establish a modified integrated Islamic CSRD index (MIICSRDi) for the Islamic banks in Malaysia. In particular, this study sought to examine the influence of the MIICSRDi on financial performance with corporate reputation as the mediator as perceived by the stakeholders. The stakeholder group included the employees and customers of Malaysian Islamic banks.

This chapter presents an overview of this study. Section 1.2 explains briefly the background of this study pertaining to the Islamic banking context, CSR, and CSRD and its relationship with financial performance and corporate reputation. In Section 1.3, the research problem is discussed, followed by the objectives of the study in Section 1.4 and the research questions in Section 1.5. A brief discussion of the research methodology is presented in Section 1.6. Meanwhile, Section 1.7 highlights the motivations and contributions of this study. The final section provides a description of the organisational structure of this study.

1.2 Background of the study

As witnessed in the 2008 global financial crisis, many of the largest financial institutions including Lehman Brothers, Bear Sterns, and Anglo Irish Bank have encountered liquidity problems (Farooq & Zaheer, 2015; Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010). This phenomenon has shaken the foundation of the capitalist financial system, and the position of the IFSI has also become vulnerable (Ahmed, 2009). This is because the IFSI has some similarities with the conventional system, such as weaknesses in the regulatory system, lack of product transparency, and limited risk-sharing features of the products (Smolo & Mirakhor, 2010). In particular, the issue has caused concerns regarding the stability and sustainability of the IFSI (IFSB, IDB, & IRTI, 2010).

Adding to these issues, reliable reports and literature have identified instability in the global financial industry, which has been caused by external challenges (IFSB, 2015; 2016; 2017; Smolo & Hassan, 2011). The turbulence faced by the global financial industry has been reported to be associated with the oil crisis, lower energy and commodity prices, geopolitical conflicts, and the depreciation of the exchange rates (IFSB, 2015, 2016, 2017). This situation has affected the performance of Islamic banks, including in Malaysia (IFSB, 2015, 2016, 2017; Smolo & Hassan, 2011). For instance, the financing growth rate of Islamic banks in Malaysia declined from 20.3% (2Q2015) to 11.9% (2Q2016) (IFSB, 2017). As a result, the Islamic banks needed another 28.1% of the financing share to achieve the Malaysian government's target of 40% in 2020. Moreover, IFSB (2017) pointed out that the Malaysian Islamic banks' market share was only 23.8% (2Q2016), which is lower than the target rate of 40% by 2020. Thus, it means that Islamic banks should increase their effort to gain another 16.2% of the assets in order to achieve their target.

Indeed, there is a need to overcome doubts regarding Islamic banks' stability and sustainability and to improve the performance of Malaysian Islamic banks. This is because the banking sector contributes the most to the financial industry (Imam & Kpodar, 2013). Grewal (2015) emphasised that Islamic banks are the most established and the leading sector in the global IFSI (Grewal, 2015). The IFSI includes Islamic banking, Islamic capital markets, Islamic funds, and Takaful (IFSB, 2017). Islamic banks dominate the global IFSI with 78.9% of the global Islamic financial assets (IFSB, 2017). The domination of the Islamic banking sector is due to asset growth (Grewal, 2015), the wide range of products and services (EY, 2013), and the demand from Muslim and non-Muslim customers for Islamic banks (Abdul Ghani, 2015; Muhamad & Alwi, 2015). The wide range of products and services offered by Islamic banks is to promote financial inclusion (BNM, 2015a) and real economic activities (BNM, 2015b).

Accordingly, the above points portray that it is essential to sustain and maintain the performance of Islamic banks, as these banks have the potential for continuous growth. Apart from this, Islamic banks are considered necessary because their operations are unique and different from those of conventional banks (Dusuki, 2008a). Islamic banks run their business operations based on the Islamic worldview (Abdullah & Nadvi, 2011; Asri & Fahmi, 2010; Dusuki, 2008a). The main objective of the Islamic worldview is to obtain *Allah*'s pleasure and concern on the dual worldview, which is to seek success in this world and the Hereafter (*al-falah*) (Abu Bakar & Md Yusof, 2016; Muhamad, 2006). Therefore, when the Islamic banks engage in activities that gain *Allah*'s pleasure and concern on the dual worldview, they will achieve success in this world and the Hereafter.

Nazim, Qureshi, and Shakeel (2013) stated that the Islamic banking sector in Bahrain, Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, and Turkey would foster the development of the IFSI in the near future. Malaysia is one of the pioneers in the IFSI and came third among the countries that held global Islamic banking assets (9.56%) behind Iran (40.21%) and Saudi Arabia (18.57%) in the first half of 2014 (IFSB, 2015). Besides, the Malaysian government is supportive of the growth of Islamic banks (Ariff & Rosly, 2011; Din, 2012; PwC, 2014). This support is perhaps because the government sees potential in the IFSI. This point is strongly agreed by Abd. Majid and Kassim (2015), who asserted that the IFSI can promote Malaysia's economic growth. Therefore, this study is focused on the Malaysian context.

It is interesting to study this topic in the Malaysian context due to several reasons. First, the Malaysian government is aiming for the country to become an international Islamic finance hub by 2020. It means that other countries including the other six growth market countries (Bahrain, Qatar, Indonesia, Saudi Arabia, United Arab Emirates, and Turkey) can refer to Malaysia as the centre from which they could seek advice regarding Islamic finance matters (Bernama, 2019). Besides, Malaysia also offers to arrange and manage the Islamic financial products and services in other countries (Bernama, 2019). Therefore, it is imperative to strengthen the business operations of Malaysian Islamic banks to prove that Malaysia is capable of becoming an international marketplace that deals with Islamic finance matters.

Second, Malaysia operates a dual banking system, whereby Islamic banks operate side by side with conventional banks (Central Bank of Malaysia Act (CBA), 2009). Therefore, the Malaysian financial system is different from those in other countries such as Iran and Sudan, as these countries offer full-fledged Islamic banking only (IFSB, 2017). Consequently, the dual financial system has promoted competition between the two types of banks. Thus, there is a need to ensure that Islamic banks can maintain and sustain their position parallel with conventional banks. In 2015, the assets of conventional banks represented 76.85% of the total banking assets, remarkably higher than Islamic banks' portion of only 23.15% (Ariff, 2017). Thus, research is needed in the Malaysian Islamic banking area in order to boost the performance of Islamic banks and to sustain their performance alongside conventional banks. Moreover, Islamic banks need to continue to exist so that the main target of the Malaysian government, which is to become an international Islamic finance hub, can be achieved.

Third, research in the Malaysian context is interesting due to the uniqueness of the Malaysian environment, which consists of multireligious and multiracial communities (Department of Statistics, 2019). It is challenging for Islamic banks to cater to the needs and demands of the multireligious and multiracial population. Thus, research is needed to ensure that Islamic banks can fulfil those needs and demands in the long run. Concerning the issues of maintaining sustainability and the slow growth of the Islamic banking sector, reports from EY (2013) and SCM (2011) proposed that the Islamic banking sector should be involved in CSR activities and disclose those activities in the annual reports. Darus et al. (2014) also agreed that Islamic banks should be involved in CSR activities and disclose those activities in their annual reports in order to provide adequate information to interested stakeholders.

It has been argued that CSR and CSRD would further expedite business performance in terms of the corporate reputation and financial performance of Islamic banks, and hence, ensure their sustainability and competitiveness in the industry (Arshad et al., 2012; Galant & Cadez, 2017; Mallin et al., 2014). In particular, the involvement in CSR activities and disclosure of those activities will foster a good relationship with the stakeholders, such as the employees, customers, investors, and suppliers (Bayoud et al., 2012; Deng & Xu, 2017; Mosaid & Boutti, 2012; Raithel & Schwaiger, 2015) and will directly enhance the business performance of the organisation (Platonova, Asutay, Dixon, & Mohammad, 2016; Waddock & Graves, 1997). Thus, the growth of Islamic banks will likely to achieve the government's aspiration by 2020 which is to increase the market share and financing share to 40% (Muhamad & Alwi, 2015; PEMANDU, 2013), as well as to become an international Islamic finance hub (PEMANDU, 2013). Indeed, the Malaysian government supports CSR and CSRD in the country (Ahmad Badawi, 2007; Ismail, Kassim, Mohd Amit, & Mohd Rasdi, 2014). CSR and CSRD are obligatory from the Islamic perspective (El-Halaby & Hussainey, 2015; Taman, 2011; Wan Jusoh et al., 2015; Wan Jusoh & Ibrahim, 2018).

However, there is an absence of an Islamic CSR framework for the Malaysian Islamic banks (Wan Jusoh et al., 2015; Wan Jusoh & Ibrahim, 2017, 2018). Although Bursa Malaysia has published a CSR standard, the standard is only meant for public-listed companies (Bursa Malaysia Securities Berhad, 2015). However, not all of the Islamic banks are public-listed. Furthermore, the CSR standard published by Bursa Malaysia does not contain Islamic elements. Meanwhile, although the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued a CSR standard, Malaysia has not adopted that standard (AAOIFI, 2017). The absence of a standard has resulted in inconsistencies in the CSRD from low to moderate level (Arshad et al., 2012; Darus et al., 2018; Masruki, Zakaria, & Ibrahim, 2012). The managers of Islamic banks believe that Islamic banks do not fully implement CSR policies, and hence, there is a need for improvement (Mohd Nor & Hashim, 2014).

Prominent scholars have also attempted to provide a better definition of CSR. However, there is no agreement on the accepted CSR definition (Galbreath & Shum, 2012; Hou & Li, 2014; van Beurden & Gössling, 2008; Wood & Jones, 1995). An agreement on the CSR definition can never exist because of the differences in national and geographical contexts (Wanderley, Lucian, Farache, & Sousa Filho, 2008). The theories applied from the conventional perspective also vary. In addition, prior studies on CSR to specify whether CSR is reflective or formative are limited. It is important to specify whether CSR is reflective or formative to avoid any bias when running the analysis (Hair, Hult, Ringle, & Sarstedt, 2017). In the reflective model, the items can serve as a representative of the dimension (Mohd Isa & Reast, 2014; Ramayah, Cheah, Chuah, Ting, & Memon, 2018). It means that the items are demonstrated by the dimension (from dimension to items) (Ramayah et al., 2018). The items are highly correlated and interchangeable in such a way that if an item is deleted, it will not affect the meaning of the dimension. Thus, the reflective CSR model can be applied in different countries, whereby if one item is not suitable in one particular country, the meaning of the dimension is not affected. Meanwhile, in the formative model, the items form the dimension (from items to dimension) (Mohd Isa & Reast, 2014; Ramayah et al., 2018). The items do not share the same meaning, and therefore the items are not correlated among themselves (Ramayah et al., 2018). If one of the items is deleted, it will affect the meaning of the dimension. Thus, by specifying CSR as either reflective or formative, the study can provide an answer to the question of whether CSR can be applied in different countries or vice versa.

From the Islamic perspective, scholars define the concept of Islamic CSR differently (e.g., Muhamad & Muwazir, 2008; Tilt & Rahin, 2015; Wan Jusoh et al., 2015). The underlying theories and principles employed for the development of an Islamic CSR framework vary, thus leading to inconsistencies in CSR dimensions and items (e.g., Darus et al., 2013; Issalih, Amran, Darus, Yusoff, & Md Zain, 2015; Muhamad & Muwazir, 2008; Tilt & Rahin, 2015). Furthermore, most of the studies are normative, and there is a lack of research validating the items. Validation is needed to ensure the reliability of the items (Churchill, 1979; Turker, 2009; Fatma, Rahman, & Khan, 2014). Besides, the literature review showed that the scholars did not mention whether the Islamic CSR framework is reflective or formative (e.g., in Appendix A). The importance of specifying whether the CSR framework is reflective or formative has been mentioned earlier. Thus, there is still no solution for Islamic banks in Malaysia, perhaps due to the absence of a mandatory Islamic CSR guideline for them.

Due to the different understandings of CSR and various levels of CSRD, the studies on CSR and CSRD including Islamic literature on stakeholders' perceptions have been reviewed (e.g., Alvarado-Herrera, Bigne, Aldas-Manzano, & Curras-Perez, 2017; Bani, Mohd Ariffin, & Abdul Rahman, 2015; Latif, Pérez, Alam, & Saqib, 2019; Muhamad, Abdul Rahman, & Lin, 2014; Turker, 2009) According to Johnston and Heineke (1998), perceptions are dominantly driven by experience. Papagiannakis and Liokas (2012) asserted that stakeholders' perceptions influence firms' business strategy. Since Malaysia consists of a multireligious and multiracial population, there is a need to cater to the population's varied demands in order to enhance business performance. Chaudary, Zahid, Shahid, Khan, and Azar (2016) and Bae and Kim (2013) asserted that CSR should blend with the culture in order to enhance the performance of organisations. Therefore, stakeholders' perceptions regarding CSR dimensions and items are needed in order to gauge the demands and needs that arise in the Malaysian context. However, research on perception is scarce. Therefore, this gap has motivated the study to obtain the perceptions of stakeholders regarding which of the Islamic CSR dimensions and items are essential.

Besides, previous literature found that CSRD does have an impact on financial performance (Arshad et al., 2012; Orlitzky, Schmidt, & Rynes, 2003; Saleh, Zulkifli, & Muhamad, 2011). Specifically, when a firm is involved in CSR activities and discloses the activities such as information from economic, legal, ethical, philanthropic, and religious aspects (AAOIFI, 2010; Carroll, 1979), customers will tend to purchase from the firm, become loyal, and spread positive comments about the firm (Deng & Xu, 2017). Moreover, the existing employees will be motivated and stay in the organisation while potential employees will be attracted to the organisation (Bayoud et al., 2012; Bhattacharya, Sen, & Korschun, 2008). However, the financial performance measurements used are inconsistent (Murphy, Trailer, & Hill, 1996; Venkatraman & Ramanujam, 1986). In addition, very few existing studies have used subjective assessment, particularly in the Islamic banking sector. These factors have led the study to use subjective assessment for financial performance.

Meanwhile, Saeidi, Sofian, Saeidi, Saeidi, and Saaeidi (2015) argued that the direct relationship between CSR and financial performance is weak. Thus, other intervening variables should be incorporated into the relationship. There is a weak positive relationship between CSR and financial performance (Abdullah & Abdul Aziz, 2013; Janggu, Joseph, & Madi, 2007). To improve the relationship, Galbreath and Shum (2012) and Saeidi et al. (2015) proposed corporate reputation as the intervening variable (mediator) between CSR and financial performance. However, limited empirical studies have explored the mediator variable. Hence, these points justify the choice of corporate reputation as perceived by the stakeholders as a mediator variable. Consequently, the relationship between the variables (MIICSRDi, financial performance, and corporate reputation) can be explained by the related theories.

Stakeholder theory asserts that organisations that meet the demands and needs of the stakeholders will improve their financial performance (Berrone, Surroca, & Tribó, 2007; Donaldson & Preston, 1995; Platonova et al., 2016). This theory is supported by Galant and Cadez (2017), who assured that more profits will be generated by organisations if they manage to establish a good relationship with the stakeholders, for example by providing financial literacy programmes to the customers (Bursa Malaysia Securities Berhad, 2015) and focusing on employees' welfare (Aribi & Gao, 2011). Meanwhile, signalling theory explains the mediating role of corporate reputation, whereby the MIICSRDi provided by the Islamic banks acts as a signal to the stakeholders to which the stakeholders will respond. Stakeholders' judgement of the Islamic banks influences the reputation of the Islamic banks, which in turn influences the stakeholders' responses towards the Islamic banks' financial performance (Fombrun & Shanley, 1990; Freeman, 1984; Galbreath & Shum, 2012).

This study also explains the Islamic economic worldview in order to integrate it with stakeholder theory. In particular, this study takes into account the principles of *Shariah*. These principles follow the rules established by *Allah* in the *Quran* and by the Prophet (*SAW*) in the *Sunnah*. These principles emphasise social justice and welfare as the foundations of economic philosophy with the aim of ensuring success in this world and the Hereafter (Haniffa & Hudaib, 2002). Thus, Islamic economic principles are derived from *Shariah* principles.

Mohammed (2007) and Tilt and Rahin (2015) suggested that there are four principles of the Islamic economy, namely, unity, equilibrium, free will, and responsibility. These four Islamic economic principles should be integrated with the stakeholder theory in order to establish the MIICSRDi. Also, the stakeholder theory and Islamic economic principles (unity, equilibrium, free will, and responsibility) as well as *tazkiyah* (growth and purification), which also falls under the Islamic economic principles, demonstrate the impact of the MIICSRDi on financial performance (Alamad, 2017; Sulaiman & Willet, 2003).

Furthermore, considering that Malaysia applies the dual banking system (Echchabi & Olaniyi, 2012) and the existence of local and foreign banks in the country (Ariff, 2017; Din, 2012) that serve multireligious and multiracial customers (Al-Ajmi, Hussain, & Al-Saleh, 2009), there is a need to include the *'urf* principle (customary practice). The *'urf* principle serves as a reference for the establishment of the MIICSRDi. This principle is known as the customary practice that is not against the *Shariah* principles (Wan Jusoh et al., 2015). The current Malaysian environment encourages the banking system to become more competitive in the financial industry. Islamic banks, in particular, need to be competitive in order to maintain and sustain in the financial industry.

1.3 Problem statement

It is expected that Islamic banks' involvement in CSR activities and disclosure of those activities in their annual reports will enhance their business performance (Arshad et al., 2012; Mallin et al., 2014). Hence, CSR activities and the disclosure of such activities in the annual reports are essential for Islamic banks' sustainability and growth.

However, in Malaysia, there is an absence of an Islamic CSR framework specifically created for the Islamic banks (Wan Jusoh et al., 2015, Wan Jusoh & Ibrahim, 2017, 2018). In the absence of such a framework, the Islamic banks will likely imitate the CSR practices adopted by conventional banks. Darus, Yusoff, Abang Naim, Amran, and Fauzi (2018) stated that it is crucial for the Islamic banks to comply and disclose their CSR practices in accordance with the *Shariah* principles in order to differentiate their business operations and to achieve the aim of transforming Malaysia into an Islamic finance hub internationally. Also, the absence of an Islamic CSR framework has resulted in very low to moderate level of disclosure of CSR activities in Malaysia (Arshad et al., 2012; Darus et al., 2018; Masruki et al., 2012). This factor has thus influenced the stakeholders' perception that the banks do not provide the outcomes that they expected (Aribi & Arun, 2015; Bani et al., 2015). The stakeholders' confidence in the banks will deteriorate, thus affecting the banks' performance adversely.

Thus, as advocated by Wan Jusoh and Ibrahim (2017, 2018), it is necessary to establish an Islamic CSR framework for Islamic banks in Malaysia. In the context of the multireligious and multiracial population of the country, there is a need to cater to the customers' varied demands and needs in order to enhance business performance. However, scarce empirical research is available regarding the CSR dimensions and items that should be disclosed in the annual reports. Furthermore, very few empirical studies have been conducted to examine whether the Islamic CSR framework is reflective or formative in the Islamic banking context. Hence, an Islamic CSR framework for Malaysian Islamic banks based on the perceptions of Malaysian stakeholders is direly needed based on the current environment. Moreover, there is limited existing research examining the relationship between the MIICSRDi and financial performance with corporate reputation as the mediator. Based on this discussion, the objectives of this study have been formulated, as stated in the next section.

1.4 Objectives of the study

Extant literature suggests that the involvement in CSR activities and disclosure of those activities in the annual reports will enhance the business performance of Islamic banks (Arshad et al., 2012; Mallin et al., 2014). However, there is an absence of an Islamic CSR framework created for Malaysian Islamic banks (Wan Jusoh et al., 2015; Wan Jusoh & Ibrahim, 2017, 2018). In addition, limited empirical studies have been conducted on the perception of Islamic CSRD, financial performance, and corporate reputation in the Islamic banking context. Therefore, the main objective of this study is to establish the MIICSRDi as a reflective model for the Islamic banks in Malaysia. In particular, this study aimed to examine the perceived relationship between the MIICSRDi and financial performance with corporate reputation as the mediator in the context of Islamic banks in Malaysia. The specific objectives of this study are:

1. To establish the MIICSRDi as a reflective model for the Islamic banks in Malaysia.

2. To examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

3. To examine the mediation role of corporate reputation in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

The specific research questions are:

1. What is the measurement model of the MIICSRDi for the Islamic banks in Malaysia?

2. What is the relationship between the MIICSRDi and financial performance as perceived by the stakeholders?

3. Does corporate reputation play a mediation role in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders?

1.5 Research process

The research process in this study follows the suggestion by Abdel-khalik and Ajynkya (1979), who strongly recommended the use of scientific methods in conducting empirical research so that the researcher can avoid bias interpretations.

This study used the survey questionnaire to obtain the stakeholders' perception of the establishment of the MIICSRDi as a reflective model, the impact of the MIICSRDi on financial performance, and the mediating role of corporate reputation in the relationship between the MIICSRDi and financial performance. The stakeholders included in this study are the employees and customers of Malaysian Islamic banks. The development of the research instruments for the MIICSRDi, financial performance, and corporate reputation is based on the literature by Churchill (1979), Fatma et al. (2014), and Turker (2009) which consists of (i) defining the instruments (ii) adapting the items based on the proposed definitions, theory, and principles, (iii) the process of analysing and refining the items, and (iv) validating the filtered items, which was done by the expert panel and using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA).

Specifically, the adaption of items was based on the operational definition, underlying theory, and principles, where the MIICSRDi items were adapted from international and local standards, selected literature on both Islamic and conventional banks, and selected annual reports. Besides, the financial performance items were adapted from the reviewed literature (Ahmad & Seet, 2009; Cegarra-Navarro, Reverte, Gómez-Melero, & Wensley, 2016; Chaudary et al., 2016). The corporate reputation items were also adapted from the reviewed literature (Caruana, 1997; Fombrun, Gardberg, & Sever, 2000; Helm, 2007; Jalil & Rahman, 2014; Rayner, 2003; Taghian, D'Souza, & Polonsky, 2015). Furthermore, the items were content validated and analysed using EFA. A pilot test was also conducted involving 30 employees and 30 customers of an Islamic bank to test the reliability of the questionnaire. The results indicated that the questionnaire is reliable. A cross-sectional survey was employed, and the purposive sampling method was applied. The 343 usable questionnaires were analysed using SPSS version 22 for the descriptive statistics. In addition, the hypothesis testing was done using the Partial Least Squares Structural Equation Modelling (PLS-SEM) software, which is SmartPLS 3.0.

1.6 Motivation and contribution of the study

This study is motivated by the collapse of several USA banks that has caused doubts on the necessity of sustaining Islamic banks' position in the financial industry (Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010). In addition, the external challenges faced by the global financial industry have led to the slow growth of Islamic banks (IFSB, 2015, 2016, 2017; Smolo & Hassan, 2011). Indeed, Islamic banks need to sustain and maintain their growth momentum to be able to compete with other institutions in the same field. Previous key reports and literature suggested that the involvement in CSR activities and disclosure of those activities in the annual reports will have a positive impact on business performance in terms of corporate reputation and financial performance (Arshad et al., 2012; Darus et al., 2014; EY, 2013; SCM, 2011).

Nevertheless, there is an absence of an Islamic CSR framework for Malaysian Islamic banks (Wan Jusoh et al., 2015; Wan Jusoh & Ibrahim, 2017, 2018). Wan Jusoh and Ibrahim (2017, 2018) highlighted that there is a need for a specific CSR framework for the Islamic banks in Malaysia. Therefore, this study aimed to establish the MIICSRDi as a reflective model for Islamic banks in Malaysia. Specifically, this study sought to examine whether the MIICSRDi has an impact on financial performance with corporate reputation as the mediator as perceived by the stakeholders. It is worth mentioning that this study fills the gaps in the existing research literature, as mentioned in the background to the study and in Chapters Two and Three.

From the methodological knowledge, the measurement for each variable (MIICSRDi, financial performance, and corporate reputation) was content validated by the expert panel, and the data were analysed using EFA and CFA. Hence, the measurements are reliable to be used in the Malaysian context. This study contributes to the establishment of the MIICSRDi as a reflective model for Malaysian Islamic banks. Since the MIICSRDi is a reflective model, it can be used as a benchmark by potential scholars to test the MIICSRDi in other countries. If one of the items is not suitable for a particular country, the dimensions of the MIICSRDi will still not be affected. In addition, the results identified that the MIICSRDi for Malaysian Islamic banks, which consists of 11 dimensions, is beyond social information. In particular, Islamic business operations and strategy is the most influential dimension. This has resulted in different business operations between Islamic banks and conventional banks as perceived by the stakeholders.

This study contributes to the development of a set of questionnaires for the financial performance measurements, which can be applied in the Malaysian Islamic banking context. This is because previous studies found that the financial measurements used vary (Murphy et al., 1996; Venkatraman & Ramanujam, 1986). In addition, this study found that corporate reputation consists of management reputation and social reputation for the Malaysian Islamic banks.

From the theoretical knowledge, since PLS-SEM analysis was used to predict the theories, the integration of the theories can be used to explain the relationship between the MIICSRDi, financial performance, and corporation reputation as perceived by the Malaysian stakeholders. Specifically, the underlying theories being referred to for the establishment of the MIICSRDi and the relationship with financial performance are the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, responsibility, and *tazkiyah*), and the *'urf* principle. Meanwhile, corporate reputation makes reference to the signalling theory. The integration of the Islamic worldview shows that there are differences between Islamic banks and conventional banks in terms of business operations, particularly in disclosing the CSR activities. For example, good governance is not considered as a part of CSR in conventional banking. Meanwhile, from the Islamic banking literature related to the *Shariah* principles, good governance is a part of CSR (Jain, Keneley, & Thomson, 2015; Krasodomska, 2015). In particular, the *'urf* principle is used due to its suitability to represent the Malaysian culture. For instance, the item "organising financial literacy programme" (Bursa Malaysia Securities Berhad, 2015; Jain et al., 2015) is under the *'urf* principle. While organising financial literacy programme is not considered as a part of CSR in Islamic literature, it is nevertheless demanded by the Malaysian stakeholders. Hence, it is important to integrate the theories in order to establish a comprehensive MIICSRDi in the Malaysian Islamic banking context.

From the practical perspective, it is expected that the MIICSRDi can be used as a strategy tool to enhance the business performance of Islamic banks and to convince the management of Islamic banks that CSRD is essential in order to expedite growth, sustain, and be competitive in the financial industry. The MIICSRDi can be used for disclosure purposes as the Malaysian stakeholders have given their perception regarding which CSR items are important and suitable to be disclosed in the annual reports.

Furthermore, practitioners can integrate the MIICSRDi into the value-based intermediation (VBI) strategy (BNM, 2018a). The VBI has been issued by BNM with the aim of delivering products and services that create an impact on the economy, community, and environment, in line with shareholders' sustainable returns and long-term interests. Currently, the VBI is voluntary and is being monitored by BNM. Hence, all the relevant activities conducted by Islamic banks will be backed by the key performance indicators (KPIs).

In addition, it is expected that the MIICSRDi will not increase the Islamic banks' costs, as mentioned in the *Quran* (57:18) that *"Indeed, the men who practise charity and the women who practise charity and [they who] have loaned Allah a goodly loan - it will be multiplied for them, and they will have a noble reward."* The MIICSRDi will safeguard the Islamic banks against unanticipated challenges and help them to perform better (Platonova et al., 2016). Besides, the PLS-SEM analysis shows that management reputation has a higher partial mediation effect on the relationship between the MIICSRDi and financial performance compared to social reputation as perceived by the stakeholders. Hence, practitioners should focus on disclosing the information concerning management reputation.

In summary, it is expected that this study will assist Islamic banks in increasing their financing and market shares to 40%, in line with the government's aspiration to make Malaysia an international hub for Islamic finance.

1.7 Organisation of chapters

This study is structured into three different phases, which are the literature review, data collection process, and discussion of the findings. In particular, these phases are categorised into eight chapters, as follows:

Chapter One: An Overview

Chapter one provides an overall view of the research. It describes the background of the study, research problem, and research objectives. It also highlights the justification and motivation of the study. Besides, it demonstrates the organisation of the thesis.

Chapter Two: The challenges and potentials of Malaysian Islamic banks

Chapter Two discusses the challenges faced by the financial industry that motivated the researcher to conduct this research. Furthermore, this chapter explains the unique features of Islamic banks in terms of the Islamic economic worldview as the foundation of Islamic banks, the basic principles of Islamic banks' operations, and the difference between Islamic banks and conventional banks. It was found that the Islamic worldview differentiates the business operations between Islamic banks and conventional banks. In addition, this chapter reveals that the Islamic banking sector dominates the IFSI. Further elaboration of the factors that lead to this domination is provided in this chapter. Besides, this chapter explains about the Malaysian environment, including the development of Islamic banks and the government support, which prompted the researcher to conduct the study in the Malaysian Islamic banks' context.

Chapter Three: Corporate social responsibility and disclosure, financial performance and corporate reputation

This chapter explains CSR and CSRD in detail and covers the Malaysian government's support for CSR and CSRD, the conventional perspective and Islamic perspective regarding CSR and CSRD, as well as the empirical research in this area. The chapter discusses the absence of an Islamic CSR framework in Malaysia, which leads to varied disclosure of CSR dimensions and items. Secondly, this chapter provides information on financial performance, particularly the relationship that financial performance has with CSR and CSRD, as well as the empirical research done to study the relationship. Also, this chapter discusses the reviewed literature on financial performance measurement and assessment. Lastly, this chapter elaborates the concept of corporate reputation and the related existing literature. It is suggested that there is a room for research on CSR and CSRD, financial performance, and corporate reputation in the Islamic banking context that needs to be improved.

Chapter Four: Theories and hypothesis development

This chapter explains the theories related to this study and the hypothesis development. After a critical literature review in Chapters Two and Three, Chapter Four links the literature together to explain the relationship between the variables (MIICSRDi, financial performance, and corporate reputation) and to develop the hypotheses. This study suggests that the theories used to establish the MIICSRDi is the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *'urf* principle. Meanwhile, the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, responsibility, and *tazkiyah*), and the *'urf* principle explain the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. In addition, the signalling theory is used to explain corporate reputation as the mediator in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. In short, this chapter suggests that the theories be integrated with the Islamic economic worldview to explain the relationship between the variables (MIICSRDi, financial performance, and corporate reputation) as perceived by the stakeholders.

Chapter Five: Research design and methodology (Part I)

This chapter describes the research philosophy and research design of this study. The target population and sampling procedure are discussed in this chapter. The rationales for using a survey questionnaire for data collection are also explained. Besides, the development of the research instrument based on the literature review, content validation, and EFA is discussed. The pilot study conducted is also elaborated in this chapter. This chapter reveals that there are 11 dimensions of the MIICSRDi (managing the environmental issues, Islamic business operations and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlights and computation, management of sources and charity fund, customer protection, Islamic ethical values); one dimension of financial performance; and two dimensions of corporate reputation (management reputation and social reputation).

Chapter Six: Research design and methodology (Part II)

The resulting conceptual framework and hypotheses following the EFA are presented in this chapter. Furthermore, the explanation for each of the questionnaire sections (Section A, B, C, & D) is presented. Besides, this chapter explains the administration of the questionnaire. The statistical techniques used for descriptive and inferential statistics are also justified.

Chapter Seven: Results and discussion

This chapter provides details of the response rate and the results of the empirical work undertaken. It explains the data examination and preliminary data analysis, as well as the profile of the respondents and multigroup analysis to test whether there is any difference between employees' and customers' perceptions. Also, this chapter explains the test to determine whether there is any difference in perceptions based on the types of Islamic banks examined. Furthermore, the results of the hypothesis testing are demonstrated using PLS-SEM analysis. This chapter also elaborates on the overall findings of the study. In particular, the results are discussed based on the research objectives. The discussion includes the implication of the results. The discussion is supported by prior literature on the relationship between CSR, CSRD, financial performance, and corporate reputation. Besides, the discussion is also supported by the integration of theories, which are stakeholder theory, signalling theory, *Shariah* principles (unity, equilibrium, free will, responsibility, and *tazkiyah*), and the *'urf* principle.

Chapter Eight: Summary and conclusion

This chapter exhibits a summary of the major findings and the conclusion drawn from the research. Overall, it discusses the summarised research findings based on the research objectives of this study. Besides, both the theoretical and practical implications of the study are discussed in this chapter. Finally, this chapter informs the limitations of the study and recommendations for future research. To simplify, Figure 1.1 illustrates the organisation of the thesis.

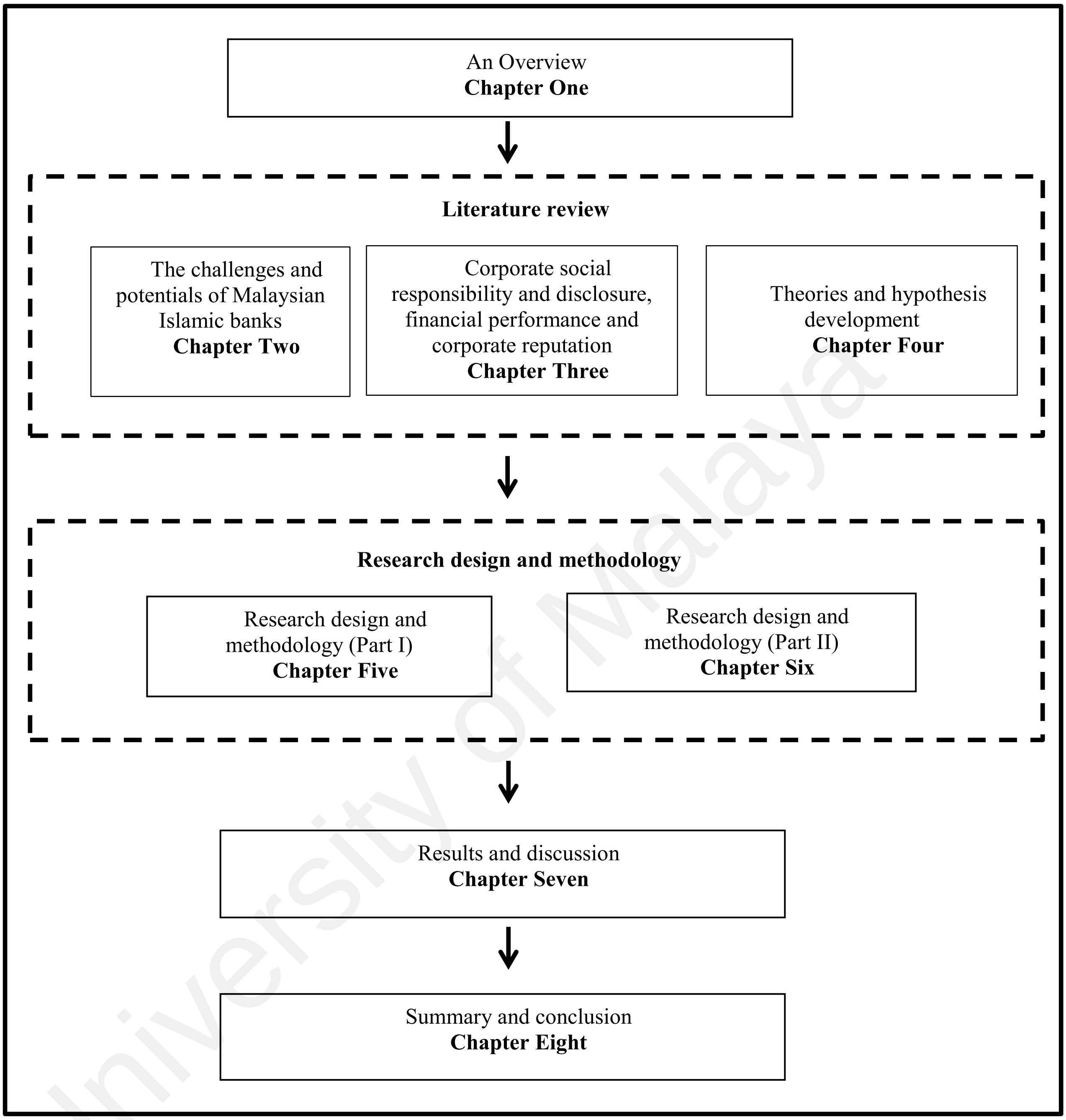


Figure 1.1: Overview of the thesis

CHAPTER TWO: THE CHALLENGES AND POTENTIALS OF MALAYSIAN ISLAMIC BANKS

2.1 Introduction

The aim of this chapter is to provide a review of the challenges faced by the financial industry, the unique features of Islamic banks, and the Malaysian Islamic banks. Section 2.2 discusses the challenges that affect the Malaysian Islamic banks, which triggered the researcher to conduct this research. Next, Sections 2.3, 2.4, and 2.5 discuss the need to study the Malaysian Islamic banks despite the occurrences of the challenges. Specifically, Section 2.3 elaborates on the unique features of Islamic banks by providing a discussion on Islam, the Islamic economic worldview, Islamic banking operations, and the differences between Islamic and conventional banks. Section 2.4 explains the reasons for the growth of Islamic banks. Section 2.5 discusses the Malaysian environment, the development of Islamic banks in Malaysia, and the government support for Malaysian Islamic banks. Finally, Section 2.6 presents the summary and conclusion of the chapter.

2.2 The challenges that affect Malaysian Islamic banks

The global financial crisis in 2008 saw tremendous panic among the regulators in their effort to ensure that Islamic banks could maintain and sustain in the financial industry (Aliyu et al., 2017; Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010; IFSB, IDB, & IRTI, 2010). This global financial crisis started with the subprime mortgage crisis in the USA (Smolo & Mirakhor, 2010). The reasons behind this liquidity crisis are the interest-based financial system, lack of transparency, and weaknesses in the regulatory system (Smolo & Mirakhor, 2010). The crisis led to the collapse of many of the world's largest investment banks, such as Lehman Brothers, Bear Sterns, and Anglo Irish Bank (Farooq

& Zaheer, 2015; Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010). Other financial institutions could also be affected by a liquidity crisis. Therefore, regular and effective monitoring of the banking sector becomes essential (Jan & Marimuthu, 2015; Rashid & Nishat, 2009). Some reports and literature have suggested that the IFSI should strengthen their operations in order to sustain growth (Aliyu et al., 2017; Jan & Marimuthu, 2015; Smolo & Mirakhor, 2010; IFSB, IDB, & IRTI, 2010).

Furthermore, the instability of the global financial industry has affected the performance of Islamic banks (IFSB, 2015, 2016, 2017; Smolo & Hassan, 2011). Islamic banks' global assets rate declined to 78.9% in 2016 from 79.6% in 2015 (IFSB, 2017). Malaysian Islamic banks' performance was also affected (IFSB, 2015, 2016, 2017). The financing growth rate declined from 20.3% (2Q2015) to 16.2% (4Q2015) to 11.9% (2Q2016) (IFSB, 2017). The instability of the global financial industry was caused by lower economic activities across countries, declining commodity prices, and the volatility in currencies (IMF, 2015a). The economy was also affected by the decline in global oil prices, which was caused by an oversupply of oil and slower growth in China's manufacturing activities (IMF, 2015b). Moreover, there were sharp declines in the currencies of the emerging countries, such as Brazil, Chile, Malaysia, Russia, and South Africa whereby their currencies depreciated between 5 and 25 per cent against the dollar in 2015 (IMF, 2015b). In addition, BNM (2015c) asserted that most of the Asian countries were at a moderate pace. All of these factors demonstrate that the global financial industry has an indirect impact on the Malaysian financial industry.

Despite the crisis that occurred in 2008 (Malaysian Digest, 2014) and the recent economic downturn in 2014 -2016 which slightly affected the country (IFSB, 2015, 2016, 2017), Malaysia nevertheless aims to transform the country's position into a fully developed country (Mohamad, 1991) with a more competitive economy by 2020 (BNM, 2011).

In the economic sector, Imam and Kpodar (2013) found the banking sector to be the most important contribution to the financial industry because the sector accelerates savings and manages funds efficiently. Interestingly, Nazim et al. (2013) advocated that the Islamic banking sector in Bahrain and six other growth market countries (Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, and Turkey) will foster the development of the IFSI in the near future. Therefore, the next section elaborates on the unique features of Islamic banks to explain the importance of sustaining and maintaining the position of Islamic banks.

2.3 The unique features of Islamic banks

This section discusses the background of Islamic banks. Particularly, Subsection 2.3.1 explains how Islamic banks emerged in Islam. In Subsection 2.3.2, the study elaborates on the Islamic economic worldview as the basis of operation of Islamic banks. Subsection 2.3.3 presents the basic principles of Islamic banks' operations, while Subsection 2.3.4 explains the differences between Islamic and conventional banks.

2.3.1 Islam and Islamic banks

The word Islam is derived from the Arabic word *salaam* (Khir, Gupta, & Shanmugam, 2008) and *salm* (Choudhury, 1993). Islam believes that there is only one God (Abu-Youssef, Kortam, Abou-Aish, & El-Bassiouny, 2015). Islam can be defined as submission and peace (Khir et al., 2008). Submission means to obey God, which is *Allah*, and the Prophet (*SAW*) (Dusuki, 2012; Murata & Chittick, 1994). Needless to say, if a person obeys the Prophet (*SAW*), it means that he or she obeys God's commands (Murata

& Chittick, 1994), for instance by taking the affirmation of faith, which is *shahadah* (to admit verbally that there is no god besides *Allah* and Muhammad is His messenger), praying five times a day, paying *zakat* or alms-tax, fasting during the month of *Ramadan*, and performing the pilgrimage to the House of God if there is an ability to do so (Murata & Chittick, 1994). Furthermore, Choudhury (1993) added that peace is attained through the act of submission to God. The author also referred to the statement made by Frithj of Schoun in Understanding Islam, that Islam means the meeting between God and man.

Currently, Islam is the second religion in the world based on the number of adherents (Ullah, Jamali, & Harwood, 2014). By 2070, Islam is projected to occupy the first place (Zoroya, 2015). According to Pew Research Center (2015), Islam is expected to grow twice faster than other religions. The Muslim population is expected to reach 2.8 billion in 2050 from 1.6 billion in 2010 (Pew Research Center, 2015). It shows that the influence of Islam is increasing (Abu-Youssef et al., 2015).

Apart from that, Islam is a comprehensive religion because it provides a set of guidelines that has a direct impact on all aspects of human life, including the development of social and economic activities (Khir et al., 2008). Islam comprises three basic elements, which are *aqidah*, *akhlaq,* and *Shariah*. Accordingly, Islamic banks are derived from one of these elements, as illustrated in Figure 2.1.

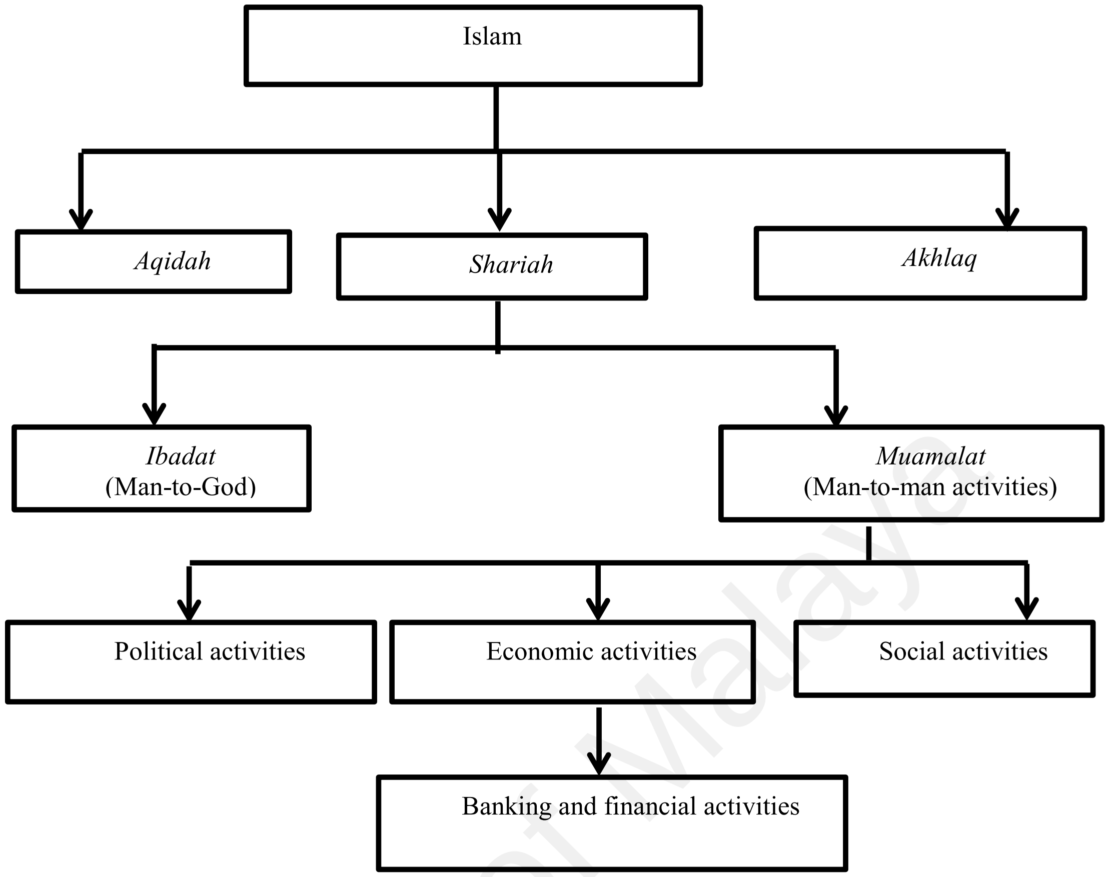


Figure 2.1: The relationship between banking activities and the Islamic elements Adapted from Haron and Shanmugam (1997)

The first element of Islam is aqidah (Khir et al., 2008). *Aqidah* is defined as faith and the belief in Islam (Khurshid, Al-Aali, Soliman, & Amin, 2014; Siwar & Hossain, 2009). Having the right aqidah means the person has a strong belief in the existence of *Allah* and His Prophet, Muhammad (*SAW*) (Khir et al., 2008). This strong belief may, therefore, lead the person to become a good Muslim (Khir et al., 2008). *Aqidah* consists of six pillars which every Muslim needs to conform to, namely, belief in God, belief in angels, belief in the *Quran*, belief in the prophets, belief in the Day of Judgement, and belief in the destiny (Khir et al., 2008). The second element of Islam is *Shariah*, which can be described as "Islamic law" and known as a code of conduct to be abided by Muslims (Dusuki, 2012). The third element is *akhlaq*, an Arabic term that refers to the characteristics of being noble, good, with morality, and ethical practices (Syed &

Metcalfe, 2015). Akhlaq such as manners and work ethics should be instilled in the daily actions of every Muslim (Khir et al., 2008).

The word *Shariah* originates from *shin ra'ayan*, which is defined as "the road to the watering place and the straight path to be followed" (Laldin, 2011, p.2). *Shariah* is an Islamic law that influences the life of every Muslim in all areas (Ahmad, 2006). There are five sources of *Shariah*, which are categorised into primary and secondary sources. The primary sources consist of the *Quran* (direct commandment from *Allah*) and *Sunnah* or *Hadith* (Prophet Muhammad's sayings, approvals, and actions). Meanwhile, the secondary sources of *Shariah* are *ijma'* (consensus), *qiyas* (analogy), and *ijtihad* (personal reasoning) (Ahmad, 2006; Ullah, 2014). *Ijma'* means the consensus of opinions among qualified Muslim scholars after the death of the Prophet (*SAW*) (Haniffa & Hudaib, 2007; Ullah, 2014). *Qiyas* is defined as an analogical deduction from the other three sources which is not mentioned directly in those sources but has similar features that existed in the past, to address the contemporary issues (Haniffa & Hudaib, 2007). The authors added that *qiyas* focuses on the needs of the stakeholders in terms of economics, ethics, and religion. Lastly, *ijtihad* is the endeavour of a qualified jurist to formulate the rule of law in order to determine the true ruling of the divine law on a matter which solution is not explicitly mentioned in the *Quran* (Jaafar, 2012). *Ijtihad* is only applied after the matter has gone through the stages of the *Quran*, *Sunnah* or *Hadith*, and *ijma'* (Muda & Jalil, 2007). It is important to note that the basis of *ijtihad* is rooted from evidence, which can be found in the *Quran* and *Sunnah*. Meanwhile, *istihsan*, *istislah*, *masalih al-mursalah*, and *'urf* are the subsidiary sources of *Shariah* law (Alkali & Buang, 2015). Therefore, in concluding a new law, the individuals involved should follow the references sequentially until a decision can be agreed upon.

Shariah provides comprehensive Islamic guidance, as it covers every aspect of a Muslim's activities in terms of *ibadat* (worship) and *muamalat* (transaction). *Ibadat* concerns the relationship between man and *Allah*; it is the law pertaining to worshipping *Allah* (*hablunminAllah*). Meanwhile, *muamalat* consists of the relationship between man and another man, which involves political, economic, and social matters (*hablunminannas*) (Khir et al., 2008). Hence, Islamic banking and finance falls under the category of *muamalat* whereby its activities must comply with *Shariah* laws such as paying attention to the applicability of commercial transactions as well as issues of fair dealing and social justice (Dusuki, 2012). Besides, the *Shariah* principles mainly focus on (i) promoting social justice and welfare and (ii) seeking *Allah*'s pleasure by establishing the foundations of a moral, social, political, and economic philosophy to achieve success in this world and the Hereafter (Haniffa & Hudaib, 2002). Islamic banks should abide by the concept of *muamalat* (economic activities), which must comply with the *Shariah* law. The next section presents a discussion on the Islamic worldview of the Islamic moral economy to provide a foundation of the economic activities that are in line with the *Shariah* principles.

2.3.2 Islamic economic worldview as the basis for Islamic banks

A worldview is an underlying philosophy of how a person perceives this world (Abdullah & Nadvi, 2011; Asri & Fahmi, 2010). Asri and Fahmi (2010) asserted that the worldview will influence society's system, whereby different worldviews will lead to divergent ends of human lives. For instance, the authors showed that there are differences between the Western, Christian, and Islamic worldview. The main objective of the Western worldview is secularism denoting the separation between religion and other aspects of life. The Christian worldview focuses more on religion which somehow neglects the aspects of the worldly life. Meanwhile, the Islamic worldview emphasises a dual worldview which concerns both this world and the Hereafter (Day of Judgement). Muhamad (2006) and Abu Bakar and Md Yusof (2015) agreed that the Islamic worldview upholds the idea of seeking *Allah*'s pleasure and success in this world and in the Hereafter (*al-falah*). Therefore, it is beneficial to discuss the Islamic economic worldview to understand how it affects the practice and operations of Islamic banks.

In light of the above discussion, Kuran (1995) stated that Sayyid Abul A'la Maududi is the first person in modern times to use the term "Islamic economics". Through the usage of this term, Maududi propagated that the Islamic economy will be the driving vehicle towards establishing or re-establishing the Islamic authority in influencing the economy rather than following the Western approaches (Kuran, 1995). Maududi made a direct and explicit reference to justice and equity as the fundamental principles of the authentic economy. Notably, the Islamic economic system is based on four principles, which are unity, equilibrium, free will, and responsibility (Naqvi, 1981, p. 62).

Unity (*tawhid*) is derived from the belief in one God (Mohammed, 2007). The fundamental principle of Muslims' submission to *Allah* revolves around the utterance of *khalimah shahadah*, "There is no God but *Allah*" (Mohammed, 2007). In accordance with this belief, a Muslim should surrender unconditionally to the will of *Allah.* Agil and Ghazali (2007) advocated that a man must give his commitment to *Allah* through worship, obedience, love, and submission. According to Naqvi (1981), when a true Muslim instils the concept of unity in his heart, it means he acknowledges the existence of *Allah* and the belief that *Allah* is always watching his actions. Mohammed (2007) agreed that when a Muslim believes in one God (*Allah*), which is the foundation in Islam, everything else will naturally follow from this belief. The Muslim will then maintain a good relationship not only with God but also with human beings and the environment. Thus, the person will behave well and at the same time, avoid any bad influence that can ruin any political, economic, social, and religious aspects of his life. Particularly, the concept of unity constitutes the political, economic, social, and religious aspects of man's life. These aspects are integrated into a homogenous and consistent whole, and with the vast universe as well (Mohammed, 2007; Naqvi, 1981). Hence, man as *khalifah* (vicegerent) becomes a trustee (Mohammed, 2007; Naqvi, 1981).

In addition, equilibrium (*al-'adl*) corresponds to the concept of unity. Equilibrium presents the horizontal dimension of Islam. It denotes a balanced sense in all aspects of a person's life (Tilt & Rahin, 2015). Equilibrium relates to social justice where it enforces the true Muslim to act good such as ensuring social balance, doing justice, avoiding oneself from doing bad things, and following the straight path of Islam (Naqvi, 1981). As a *khalifah*, a person must perform and maintain a middle path through social responsibility and justice.

Meanwhile, free will (*ikhtiyar*) is an element owned by each individual which enables him to make choices in situations where there may be opposing issues involved. Free will implies that a *khalifah* has the right to choose and is given the freedom to decide but is nonetheless expected to abide by *Allah*'s command (Muhamad, 2006; Naqvi, 1981). However, Naqvi (1981) maintained that individual freedom is "unrestricted and voluntary". Therefore, it is possible to make the wrong choice even though it is in an individual's best interest to make the right choice.

Furthermore, the axiom of responsibility (*fardh*) is related to free will. It means that free will is not "free" but comes with responsibility (Mohammed, 2007). It sets a limit to what man is free to do since he is responsible for all that he does (Naqvi, 1981). Naqvi

(1994) stated that the two axioms (free will and responsibility) come together as a pair, balancing each other. The author further elaborated that the concept of responsibility has two elements, which are the individual's trustee (*al-amin*) status on earth and the voluntarism aspect. The individual should strive to realise the position of being God's *khalifah* on earth. It involves performing actions that improve the welfare of the least privileged in society, as it is the responsibility of every individual to care for the needy in society. Denying such responsibility is equivalent to a denial of faith (Mohammed, 2007).

According to Saeed, Ahmed, and Mukhtar (2001) and Muhamad (2006), there are four categories of responsibility within the Islamic framework. They are responsibility towards God, responsibility towards society, responsibility towards himself, and responsibility towards the environment. Therefore, by exercising one's responsibilities to oneself, God, society, and environment, the individual is considered as securing his freedom and exercising his faith (Mohammed, 2007).

Besides, Gambling and Karim (1991), quoting from Muhamad (2006), advocated that there are five elements that represent the basic philosophical foundation of the Islamic economic system. These five elements are *tawheed*, *khilafah*, *rububiyyah*, *tazkiyah*, and accountability.

Tawheed/*tawhid*, as discussed earlier, is unity, which is the belief in one God, *Allah*. In addition, *tawhid* is the belief that resources belong to *Allah*. Therefore, under the guidance of the *tawhid* principle, human beings need to have a good relationship with *Allah*; it means all acts are done for the sake of *Allah*, thus leading to the establishment of a good relationship with society and the environment (Muwazir, Muhamad, & Noordin, 2006).

According to Wan Jusoh et al. (2015), a *khilafah* or *khalifah* (vicegerent) is a person that acts as a trustee to administer the earth and to manage *Allah*'s resources. However, the governing and administration of the resources must be in accordance with the *Shariah* principles.

Meanwhile, *rububiyyah* means God's arrangements for the nourishment and direction of things towards a perfect state. According to this concept, there is sufficient sustenance for everything and everybody in order to achieve God's perfect plan for the universe. Within the limits of God's scheme, the individual has a free will to accept or reject whatever is on earth and to choose between good and evil (Muhamad, 2006). This is because the resources provided for everyone are sufficient; hence, greed and self-interest should not exist (Sulaiman & Willet, 2003).

Meanwhile, *tazkiyah* is defined as growth and purification. Sulaiman and Willet (2003), quoting from Gambling and Karim (1991), emphasised that the *tazkiyah* principle is vital in the Islamic economic system. *Tazkiyah* implies that a person performs his/her best to achieve material wellbeing, but it must lead to social justice and community betterment (Alamad, 2017).

Lastly, accountability sets an ethical constraint on human behaviour by making the individual responsible for all his or her actions or inactions on the Day of Judgement (Muhamad, 2006). As such, by being accountable to God (Muwazir et al., 2006), the individual is accountable towards society (Connolly & Kelly, 2011) and the environment (Rankin, Windsor, & Wahyuni, 2011).

In summary, the Islamic worldview elements, as discussed earlier, influence how Islamic banks should run their business operations. Most importantly, the Islamic worldview, particularly with regard to Islamic economics, is different from the conventional worldview, as Islam emphasises the importance of the Hereafter (Chapra, n.d.). Accordingly, the next section demonstrates the basic principles of Islamic banks' operations.

2.3.3 The basic principles of Islamic banks' operations

Islamic banking refers to a banking system which operates in accordance with the *Shariah* law (Dusuki, 2008a) and is known as interest-free banking (Alkali & Buang, 2015). The basic principles of Islamic banking are the prohibition of *riba* (interest), *maysir* (gambling), *gharar* (ambiguity), investment in an unlawful sector, and unlawful trading; while allowing involvement in risk-sharing, application of asset-based financing, and involvement in *irfaq* which relates to *waqf*, *zakat*, *sadaqah*, and *qard hasan* (Platonova, 2013).

Although Islamic banks have to obey the *Shariah* law, as business entities, they are entitled to gain profits (Imam & Kpodar, 2013). Gilani (2015) stressed that it is not unethical for Islamic banks to operate with the objective of making profits. Nevertheless, the profits must be *Shariah*-compliant and obtained in the right way. The next section discusses the differences between Islamic banks and conventional banks.

2.3.4 The differences between Islamic banks and conventional banks

Dusuki (2008a) highlighted the differences between Islamic banks and conventional banks where Islamic banks (i) refer to the *Quran* and *Sunnah* in their operations, (ii) have the business objectives of achieving profit and fulfilling social responsibility, (iii) use asset-backed and equity financing as the basis for their financing instruments, and (iv) practise charity through *zakat* payment. On the contrary, conventional banks are different as (i) the banks' operations are based on secular teaching without adding religious elements, (ii) the objective of the business is to achieve profit maximisation, (iii) the financing instruments rely on an interest-bearing system, and (iv) there is no charity practised through *zakat* payment.

Based on this elaboration in Dusuki (2008a), the operations of Islamic banks are different from those of conventional banks. These differences arise from the Islamic worldview applied by the Islamic banks. Indeed, the operations of Islamic banks with their uniqueness compared to conventional banks show that Islamic banks have the capability to grow in the financial industry. Consequently, the next section describes the domination of Islamic banks and the factors that lead to this domination.

2.4 The domination of the Islamic banking sector

The IFSI is one of the rapidly growing segments in the global financial industry (Hussain, Shahmoradi, & Turk, 2015). The IFSI has been fuelled by the expansion of various sectors, such as Islamic banking, Islamic capital markets, Islamic funds, and Takaful (Grewal, 2015). Within the IFSI, the Islamic banking sector is the most established and a leading sector (Grewal, 2015). It is said that the domination of the Islamic banking sector is due to the growth of assets (Grewal, 2015), a wide range of products and services (EY, 2013), and the demand by the Muslim and non-Muslim population (IFSB, 2015). Hence, further elaboration on these matters is presented in the next subsection.

2.4.1 Asset growth

The Islamic banking sector is the most established and a leading sector, which conquered 78.9% of the global Islamic financial assets (IFSB, 2017). Grewal (2015) noted that the compounded annual growth rate (CAGR) of the global Islamic banking assets was 16.89% between 2008 and 2013. In addition, the global Islamic banking assets in 2013 increased by 16% on a year-over-year (YOY) basis (IFSB, 2015). In the first half of 2014, the global Islamic banking assets were dominated by Iran (40.21%), followed by Saudi Arabia (18.57%) and Malaysia (9.56%). Particularly, the market share of the Islamic banking assets in Malaysia was 23.8% in the first half of 2016 (IFSB, 2017) compared to 23% in the first half of 2015 (IFSB, 2016). Thus, the Islamic banking sector in Malaysia is growing, and there is a need to sustain the Islamic banks' position in order to achieve Vision 2020. The next section elaborates on the wide range of products and services offered by the Islamic banking sector.

2.4.2 A wide range of products and services: Promoting financial inclusion and real economic activities

The wide range of products in the Islamic banking sector could enhance financial inclusion (BNM, 2015a). Arun and Kamath (2015) agreed that financial institutions such as banks are the most appropriate medium for promoting financial inclusion. Financial inclusion refers to the involvement of individuals and organisations that use official financial services (Standard Chartered Bank, 2014). According to Demirguc-Kunt, Klapper, Singer, and Oudheusden (2015), 2 billion people were still unbanked and only 69% of the adult population in East Asia and Pacific regions, which include Malaysia, had an account with the financial institutions.

Islamic banks could promote financial inclusion by using risk-sharing contracts to assist in *Shariah*-compliant microfinance, financing for small-medium enterprises (SMEs), and micro takaful (BNM, 2015a; Mohieldin, Iqbal, Rostom, & Fu, 2012). In addition, Islamic banks could expand financial inclusion by using specific instruments such as *zakat*, *sadaqah*, *waqf*, and *qard al-hasan* to redistribute wealth to the poor in society (BNM, 2015a). The objective is to improve their access to financial services (BNM, 2015a).

Besides, the wide range of products and services could promote real economic activities (BNM, 2015b). BNM (2015b) stated that there are several key principles that promote real economic activities, which are deploying finance in the service of the real economy, applying profit and loss sharing, assisting in the redistribution of wealth and opportunity, and engaging in risk-sharing modes of financing. Firstly, promoting Islamic finance will increase economic growth as the transactions are based on physical assets and can reduce poverty. Secondly, the engagement in profit and loss sharing will reduce financial speculation, increase the productivity of organisations, and generate jobs. Thirdly, the redistribution of wealth and opportunity can improve financial inclusion or access to finance. Lastly, the risk-sharing features of Islamic banks can provide support to poor and small businesses. Thus, due to the wide range of products and services offered by the Islamic banking sector, there are demands from the Muslim and non-Muslim population, as discussed in the next section.

2.4.3 Demands from the Muslim and non-Muslim population

The expansion and encouraging progress of Islamic banks signals the demand for Islamic banking by the Muslim and non-Muslim population (Muhamad & Alwi, 2012). Indeed, the Western countries, such as the USA and Europe, accept Islamic banks

(Alsmadi & Zarour, 2015). Muslim consumers choose Islamic banks because of religion (Gilani, 2015). Meanwhile, non-Muslims prefer Islamic banks due to the real economic transactions and ethical principles which underlie the structuring of the Islamic financial products and services (Abdul Ghani, 2015; Muhamad & Alwi, 2015; Muhamad, Melewar, & Alwi, 2012). Hence, it is believed that ethical values in banking would boost the performance of Islamic banks (Gilani, 2015).

The potentials of the Islamic banks evince the reasons why Islamic banks need to be sustained and continue to exist in the financial industry. IMF (2014) indicated that the banking system is the primary component of the financial system in Malaysia, accounting for 50.6% of the banking assets. Nazim et al. (2013) asserted that Malaysian Islamic banks will foster the development of the IFSI in the near future. Besides, the Malaysian government has supported and encouraged the growth of Islamic banks, as explained in the next section.

2.5 Malaysian Islamic banks

This section reviews the background of Malaysian Islamic banks. Subsection 2.5.1 discusses the development of Islamic banks in Malaysia, while subsection 2.5.2 elaborates on the government support for Malaysian Islamic banks.

2.5.1 Malaysia

Malaysia, located in South East Asia, had a population of approximately 32.63 million in the third quarter of 2019 (Amin, Isa, & Fontaine, 2013; Department of Statistics, 2019a). The population consists of various ethnic groups and multireligious communities (Amin et al., 2013). In detail, the ethnic composition comprised 61.8% Malays, 20.8% Chinese, 6.25% Indians, 0.009% Others, and 10.3% non-Malaysian citizens (Department of Statistics, 2019b). It is thus evident that the majority of the ethnic groups are Malays. In terms of religious affiliation, Muslims are the most dominant population with 61.3%, followed by Buddhists (19.8%), Christians (9.2%), Hindus (6.3%), Confucians, Taoists, and adherents of other traditional Chinese religions (1.3%), Others (0.4%), and unidentified (1%) (Department of Statistics, 2015).

Hence, Malaysia's diversity of culture and religion has opened the door to economic growth whereby both the Muslim and non-Muslim population in Malaysia are attracted to Malaysian Islamic banks (Amin et al., 2013). Therefore, it is essential for the Malaysian Islamic banks to cater to the demands and needs of the Malaysian stakeholders. It is worth noting that the government aspires to achieve Vision 2020, which is to become an entirely developed nation by the year 2020 in economic, political, social, spiritual, psychological, and cultural segments (Mohamad, 1991). It is thus appealing to explore to what extent Malaysia had achieved its target before 2020. Hence, in this light, the researcher desires to make a significant contribution that can help improve the Malaysian economic sector by conducting this research. The next subsection elaborates on the development of Islamic banking and finance in Malaysia.

2.5.2 The development of Islamic banking and finance in Malaysia

Malaysia is the first country in Southeast Asia to initiate Islamic banking and finance (Din, 2012). The development of Islamic banking and finance in Malaysia was executed in three different phases. The first phase can be traced back to the year 1963, with the establishment of Tabung Haji (Sufian, 2007). Tabung Haji's main purpose is to encourage Muslims to save money for the pilgrimage which practice is mandatory to those who can afford to do so (Laldin, 2008). The funds are then invested with the aim of generating returns without adding *riba* (Sufian, 2007).

Later, the development of Islamic banks in Malaysia was triggered by the emergence of Islamic banks in the Middle East and the domination of the Muslim population in the country (Abdull Mutalip, 2006; Sufian, 2007). According to Sufian (2007), in 1980, the Bumiputera Economic Congress had applied to the Malaysian Government to allow the establishment of Islamic banks in Malaysia. Thereupon, the National Steering Committee emerged in 1981 to analyse the implications arising from the establishment of Islamic banks in the country by taking into consideration the legal, religious, and operational aspects. The study conducted by the Committee concluded that it is adequate to establish Islamic banks in Malaysia due to their predictable and feasible features with regard to the operations and making profits. Therefore, the first Islamic bank in the country was established in 1983 under the name of Bank Islam Malaysia Berhad (BIMB). BIMB has been running its stand-alone operation for 10 years.

Next, the industry grew into the second phase in order to promote competition. In 1993, BNM gave permission to the conventional banks to offer Islamic banking products and services via their Islamic banking windows (Abd. Majid & Kassim, 2015). It means the Islamic banking windows operated using the existing infrastructure and brand name of the conventional banks. Initially, the three largest local conventional banks, namely Bank Bumiputra Malaysia Berhad (BBMB), Malayan Banking (Maybank), and United Malayan Banking Corporation (UMBC), were given the licence to operate Islamic windows (Ariff, 2017).

In the third phase beginning from 2002, BNM invited local and foreign-owned conventional banks to convert their Islamic windows into Islamic subsidiaries due to the concern of mixed funds between the conventional and Islamic windows (Ariff, 2017). The aim of the separation was to segregate the Islamic banking activities from conventional activities. As a result, Malaysia is the first country to apply a dual banking system whereby Islamic banks operate side by side with conventional banks in order to generate the country's economic growth (Echchabi & Olaniyi, 2012). The provision for the dual banking system in Malaysia is incorporated in the Central Bank of Malaysia Act (CBA) 2009. Besides, BNM has allowed foreign Islamic banks to operate their business in Malaysia (Abd. Majid & Kassim, 2015). Kuwait Finance House became the first foreign Islamic bank to be granted an Islamic bank operating licence in Malaysia in 2005 (Kuwait Finance House Malaysia Berhad, 2018). Currently, the number of Islamic banks has grown significantly, in line with Malaysia's aim to become a global Islamic finance hub.

The Malaysian government has supported the IFSI, in line with the government's aim to transform the country's position into a fully developed country (Mohamad, 1991) with a more competitive economy by 2020 (BNM, 2011). For instance, BNM introduced the Financial Sector Master Plan 2001–2010 and Financial Blueprint 2011–2020 to serve as a strategic plan in strengthening the Islamic financial system, enhancing the competitiveness of the financial industry, and facilitating the effort to become an international Islamic finance hub (Akhtar Aziz, 2011). Currently, Malaysia is moving towards becoming the centre for Islamic banks as Malaysia has acted as an advisor to Africa and the Commonwealth countries (Bernama, 2019). Besides, Malaysia has also been appointed as the arranger and manager for sukuk issuance in other countries, such as Turkey and Hong Kong. These developments prove that Malaysia is keen to become a global Islamic finance hub (Bernama, 2019). All of these achievements could not have been done without the approval of the Malaysian government. In addition, Malaysia has been ranked fourth in the financial industry in the Global Competitiveness Report (GCI) 2014–2015 (Schwab, 2014). The author asserted that the ranking demonstrates the government's eagerness to ensure that the country becomes a global centre for the Islamic finance industry.

The Malaysian banking system, which operates a dual banking system, consists of 27 conventional banks and 16 Islamic banks (BNM, 2015d). The 16 Islamic banks consist of local full-fledged, foreign full-fledged, local Islamic subsidiaries, and foreign Islamic subsidiaries, as shown in Table 2.1.

Table 2.1: The list of Islamic banks in Malaysia

Type of the Islamic banks	Name of the Islamic banks
Local full-fledged	1. Bank Islam Malaysia Berhad 2. Bank Muamalat Malaysia Berhad
Foreign full-fledged	3. Al Rajhi Banking and Investment Corporation (Malaysia) Berhad 4. Asian Finance Bank Berhad 5. Kuwait Finance House (Malaysia) Berhad
Local Islamic subsidiaries	6. Affin Islamic Bank Berhad 7. Alliance Islamic Bank Berhad 8. AmBank Islamic Berhad (formerly known as AmIslamic Bank Berhad) 9. CIMB Islamic Bank Berhad 10. Hong Leong Islamic Bank Berhad 11. Maybank Islamic Berhad 12. Public Islamic Bank Berhad 13. RHB Islamic Bank Berhad
Foreign Islamic subsidiaries	14. HSBC Amanah Malaysia Berhad 15. OCBC Al-Amin Bank Berhad 16. Standard Chartered Saadiq Berhad

Technically, Ariff (2017) highlighted that the differences in the business operations between full-fledged Islamic banks and Islamic subsidiaries in Malaysia are in terms of the structure and performance. Full-fledged Islamic banks do not have a conventional bank as a parent company. Hence, full-fledged Islamic banks are not influenced by conventional banking in their decision making (Islamic Bankers Resource Centre, 2017). Meanwhile, an Islamic subsidiary has a parent company, which is a conventional bank. Thus, the conventional bank as the parent company might influence the business objective of the Islamic subsidiary, although the Islamic subsidiary bank has an autonomous decision (Islamic Bankers Resource Centre, 2017). In addition, the parent company provides seed capital to the Islamic subsidiary bank (Rosly & Abu Bakar, 2003).

Wan Jusoh and Ibrahim (2017) found that the parent banks were dominant in disclosing their CSR activities in the consolidated reports and ignored the CSR activities carried out by the Islamic subsidiaries. Besides, one of the Islamic banks did not have an annual report, except for the financial statements. The CSR activities of one Islamic bank could only be retrieved from the website page. The authors also highlighted that not all Islamic subsidiaries had their own CSR department. For example, only Maybank Islamic, CIMB Islamic, RHB Islamic, and OCBC Al-Amin had a CSR department. The remaining Islamic subsidiary banks were managed by the Group Corporate Affairs of the Corporate Communication Department. It resulted in the absence of autonomous decisions by the Islamic subsidiary banks.

In the performance aspect, the Islamic subsidiaries achieved better performance compared to the full-fledged Islamic banks. For instance, Ariff (2017) highlighted that as of 2015, the total assets of Islamic banks were dominated by the Islamic subsidiaries (82.06%), while full-fledged Islamic banks only owned 17.94%. Besides, the deposit share of the Islamic subsidiaries and full-fledged banks was 81.80% and 17.90%, respectively. Meanwhile, the financing share of the Islamic subsidiaries and full-fledged Islamic banks was 84.26% and 15.64%, respectively. These numbers show that full-fledged Islamic banks need to be more competitive in order to improve their performance and keep up with Islamic subsidiary banks. Similarly, Islamic subsidiary banks also need to enhance their performance in order to sustain their position in the near future.

It is important to sustain the Islamic banks' position because the IFSB (2015, 2016, 2017) reported that the Malaysian Islamic banks are experiencing slow growth. Specifically, the IFSB (2015) found that the deposit growth rate (15%) and financing growth rate (20%) of the Malaysian Islamic banks in 2013 were moderate. The growth of Islamic banks in Malaysia slowed down by 1.4% between 2014 and 2015 (IFSB, 2016). In addition, the assets of Islamic banks declined to 78.9% in 2017 compared to 79.6% in 2016 (IFSB, 2017).

Moreover, the IFSB (2017) highlighted that the market share of Islamic banking assets in Malaysia was only 23.8%, a shortfall of 16.2% from the 40% target in 2020. Ariff (2017) found that in 2015, the Malaysian banks' assets were dominated by conventional banks at 76.85%, while Islamic banks only owned 23.15%. In addition, the deposit of the conventional banks and Islamic banks was 75.87% and 24.13%, respectively. Furthermore, the financing share of the conventional banks and Islamic banks was 72.88% and 27.12%, respectively. The moderate performance of Malaysian Islamic banks highlights the importance of figuring out their business strategy in order to enhance their performance. This is because the Malaysian government has targeted that by 2020, the Islamic banks will achieve 40% financing share (PEMANDU, 2013) and 40% market share (Muhamad & Alwi, 2015) as well as becoming an international Islamic finance hub (BNM, 2011; PEMANDU, 2013). In view of this mission, it is essential to conduct research on Malaysian Islamic banks in order to achieve the government's target.

2.6 Summary and conclusion

The main premise of this chapter is to explain the issues that triggered the researcher to carry out this research. The issues are the challenges faced by the Islamic banks in Malaysia, which have affected their performance. This chapter also elaborated on the uniqueness of Islamic banks, the domination of Islamic banks, and the development of Islamic banking and finance with the support from the government of Malaysia. All of these points prompted the researcher to study the Islamic banking sector. The next chapter provides a discussion on CSR and CSRD, financial performance, and corporate reputation in view of the assertions in key reports (EY, 2013; SCM, 2011) and by previous scholars (Darus et al., 2014; Galant & Cadez, 2017) that CSR and disclosure of CSR activities are one of the strategies for increasing the business performance of Islamic banks in terms of corporate reputation and financial performance.

CHAPTER THREE: CORPORATE SOCIAL RESPONSIBILITY AND DISCLOSURE, FINANCIAL PERFORMANCE, AND CORPORATE REPUTATION

3.1 Introduction

This chapter is divided into five sections. Section 3.1 is the introduction section, Section 3.2 covers CSR and CSRD, Section 3.3 discusses financial performance, and Section 3.4 elaborates on corporate reputation. Finally, the summary and conclusion of this chapter are presented in Section 3.5.

3.2 Corporate social responsibility (CSR) and corporate social responsibility disclosure (CSRD)

CSR is an essential strategy for organisations (Moura-Leite & Padgett, 2011). According to Roberts (1992), one type of CSR strategy is disclosure. Disclosure of CSR activities or CSRD covers both financial and non-financial information in the social and environmental context (Hackston & Milne, 1996). It is advocated that the involvement in CSR and disclosure of CSR activities will increase the business performance of Islamic banks in terms of corporate reputation and financial performance (Arshad et al., 2012; Mallin et al., 2014).

The disclosure of CSR activities is considered essential for the banking sector as it can improve the sector's image that has been distorted by economic crises (Bhatia, 2012; Burianova & Paulik, 2014). In addition, disclosing CSR activities, which include religious and entity elements, will represent a positive Islamic image (Haniffa & Hudaib, 2007;

Maali, Casson, & Napier, 2006). It will, in turn, reduce the negative perceptions and doubts among the stakeholders (Andrikopoulos, Samitas, & Bekiaris, 2014).

Consequently, organisations' involvement in CSR and CSRD will help foster a good relationship with customers and directly will improve the financial performance of Islamic banks (Platonova et al., 2016; Waddock & Graves, 1997). For instance, the involvement in CSR and disclosure of CSR activities in educating customers regarding financial products and services via financial literacy programmes will establish a good relationship with the customers (Bursa Malaysia Securities Berhad, 2015; Shah, Niazi, & Majid, 2016). Furthermore, Islamic banks' business operations that adhere to the *Shariah* principles will be favoured by the customers (Naser, Jamal, & Al-Khatib, 1999; Muhamad et al., 2012). Consumers will become loyal, intend to purchase more, and recommend the products and services to others as well (Deng & Xu, 2017). Abd Rahim, Jalaludin, and Tajuddin (2011) and Teh, Ong, Pang, Muhammad, and Ong (2019) highlighted that customers are willing to buy the products if the company prioritises on their CSR activities. Abd Rahim et al. (2011) further added that business organisations have the golden opportunity to engage in CSR activities and disclose those activities in order to influence customer buying behaviour.

Besides that, CSR can attract, motivate, and retain talent (Bayoud et al., 2012; Bhattacharya et al., 2008). This assertion is agreed by Roberts and Dowling (2002), who stated that employees will be motivated to become more productive and stay longer in the organisation, and new talents will be attracted to join the organisation. Thus, the involvement in CSR and disclosure of CSR activities will increase the value of the firm (Andrikopoulos et al., 2014) and establish a continuous business operation (Darus et al., 2014). In this respect, Islamic banks have provided and disclosed information on employees' medical benefit, training, and any other information related employees' welfare (Aribi & Gao, 2011; Haniffa & Hudaib, 2007).

3.2.1 CSR and CSRD in Malaysia

Malaysia, an emerging country (Saleh et al., 2011), has targeted to become a developed nation in terms of growth in the economic sector, political structure, equality and justice by 2020 (Mohamad, 1991). Hence, a revolution is needed in the economic, social, and government sector (National Economic Advisory Council, 2009).). Since Vision 2020 is at its final stage, engaging in CSR activities and disclosing those engagements are crucial for the Islamic banks. Based on prior literature, the Malaysian government has shown strong support for engaging in CSR and disclosing those activities.

Firstly, the previous Prime Minister, Najib Razak, had introduced four pillars, which are 1Malaysia, Government Transformation Programme (GTP), Economic Transformation Programme (ETP), and 10th Malaysia Plan as shown in Figure 3.1 in order to achieve Vision 2020 (National Economic Advisory Council, 2009). The four pillars are expected to assist in the economic, social, and government transformation in order to achieve Vision 2020. Hence, CSR has an important role in contributing towards Vision 2020 through the ETP pillar whereby private corporations are considered as the main enablers of economic and social development (Ismail, Alias, & Mohd Rasdi, 2015).

Figure 3.1: The pillars of Malaysia's transformation to achieve Vision 2020
Source adopted from National Economic Advisory Council (2009)

Secondly, the 11th Malaysia Plan 2016–2020 has promoted CSR activities to various sectors such as by providing financing sources to SMEs; assisting the health sector; sharing the responsibilities in the environmental sector among the government, private organisations and society; and promoting the role of Islamic banks in providing financing to Bumiputera entrepreneurs who are involved in the *halal* industry in order to improve the living standards of society by 2020 (Economic Planning Unit, 2015). From the 11th Malaysia plan, it can be seen that the Malaysian government is eager to encourage public and private organisations to be involved in CSR activities. CSR activities are important not only for the business sector but also for the banking sector, which includes Islamic banking. As mentioned earlier, the Malaysian government has a plan to actualise Malaysia as a hub for Islamic banking.

Thirdly, the introduction of the Silver Book on 25 September 2006 marked the critical point that manifested the support from the government towards the disclosure of CSR activities (Wan Abd Rahman, Zain, & Yaakop Yahya Al-Haj, 2011). The government seriously urges organisations to carry out CSR activities and disclose such information to the public. The Silver Book provides a guideline on CSR information disclosure for government-linked companies and it emphasises seven core areas, which are human rights, employee welfare, customer service, supplier partnership, environmental protection, community involvement, and ethical business behaviour (Zahid & Ghazali, 2015). The introduction of the Silver Book is important to assist government-linked companies in engaging actively in social activities which will then be disclosed in their reporting. This move is expected to aspire other organisations to follow the actions of the government-linked companies (Othman, Darus, & Arshad, 2011). Indeed, Amran, Ling, and Sofri (2007) opined that the implementation of the Silver Book will nudge companies in Malaysia to disclose their CSR activities.

Fourthly, the Budget 2007, which was announced in September 2006, required public-listed companies to be involved in CSR activities and disclose those activities in their annual reports (Ahmad Badawi, 2007). It thus marked an important point for the CSR development in Malaysia (Ahmad Badawi, 2007). Besides, in the Budget 2007, the government announced an increase in tax deduction from 5% to 7% for private organisations that are involved in charitable activities and sports (Ahmad Badawi, 2007; Amran et al., 2007). Hence, it shows that the government is eager to support the involvement in CSR and CSRD in Malaysia.

Fifthly, following the announcement of the Budget 2007, Bursa Malaysia took the initiative to develop a CSR guideline for public-listed companies; the guideline consisted of four dimensions, namely communities, environment, workplace, and marketplace and took effect from 31 December 2007 (Haji, 2013; Othman et al., 2011). The guideline prescribed that CSRD was mandatory in the annual reports of all the public-listed companies as a stepping stone to acting responsibly towards the society (Fatima, Abdullah, & Sulaiman, 2015). However, the guideline was only meant for public-listed companies and not for other organisations, including Islamic banks that were not listed on Bursa Malaysia.

Currently, the four CSR dimensions introduced by Bursa Malaysia have been eliminated and replaced with the Sustainability Reporting Guide (Bursa Malaysia Securities Berhad, 2015). The Sustainability Reporting Guide consists of three themes, which are economic, environmental, and social, or known as EES. In this guide, the economic dimension refers to organisations' impact on the economic condition of the stakeholders and on the economic system at the local, national, and global level. The environmental dimension refers to organisations' impact on living and non-living natural systems including land, air, water, and the ecosystem. Meanwhile, the social dimension manifests organisations' impact on the social system within which the organisations operate.

The Sustainability Reporting Guide is more systematic as it highlights which items are relevant for each sector. Here, the researcher refers to the items in the financial services sector. The items in the Sustainability Reporting Guide are derived from the GRI4 Guideline and FTSE4 Good Index. The researcher will not review the GRI4 Guideline as the Sustainability Reporting Guide is adapted from GRI4. Below is the list of the dimensions and descriptions relating to the financial sector that need to be included by the public-listed companies in their annual reports.

Table 3.1: The Sustainability Reporting Guide of Bursa Malaysia

No.	Name of dimensions	Descriptions
1	Economic	1. Procurement practices 2. Community investment 3. Indirect economic impacts
2	Environmental	1. Emissions 2. Waste and effluent 3. Water 4. Energy
3	Social	1. Diversity 2. Human Rights 3. Occupational Health and Safety 4. Anti-competitive behaviour 5. Anti-corruption 6. Labour practices 7. Society 8. Product and services responsibility 9. Supply chain (social) 10. Compliance (social)

Although the Sustainability Reporting Guide provides a systematic guideline for social responsibility disclosure, it does not include any Islamic elements. In addition, it is developed only for public-listed companies. Hence, all local Islamic banks which are subsidiaries of public-listed companies need to disclose their CSR activities based on the Sustainability Reporting Guide (Wan Jusoh & Ibrahim, 2018). Meanwhile, foreign Islamic banks are not bound to follow the guideline (Wan Jusoh & Ibrahim, 2018). However, as mentioned earlier in Chapter Two, some of the local Islamic banks did not disclose their CSR activities as the parent companies controlled the CSR activities disclosure (Wan Jusoh & Ibrahim, 2017). Therefore, an Islamic CSR framework specifically for Malaysian Islamic banks should be established.

Moreover, the introduction of several awards such as the "Most Outstanding Annual Report Award" and the "Malaysian Prime Minister's CSR Award" signifies the regulators' efforts to urge companies to disclose CSR information and improve the CSRD (Haji, 2013). The government is certain that CSRD will increase the profit gained by organisations as well as promoting a good image (Othman et al., 2011). Given that CSRD does increase organisations' performance, an Islamic CSR framework needs to be developed for Malaysian Islamic banks. Research should be conducted to identify the most impactful dimensions that can uplift the business performance of Islamic banks. Only by doing this, the Islamic banks can sustain their operations at their finest.

In addition, BNM has made an announcement on the implementation of VBI. In March 2018, BNM issued a "Strategy Paper on Value-based Intermediation" in collaboration with members of the VBI community of practitioners. The community of practitioners comprises nine Islamic banks, which are Bank Islam, Bank Muamalat, Agrobank, Maybank Islamic, CIMB Islamic, Ambank Islamic, Alliance Islamic, HSBC Amanah, and Standard Chartered Saadiq. In reference to this paper, VBI is an intermediation function that aims to deliver the intended outcomes of *Shariah* through practices, conducts, and offerings that generate positive and sustainable impacts on the economy, community, and environment, consistent with shareholders' sustainable returns and long-term interests (BNM 2018a, p. 6). For instance, in product development, VBI provides a framework on how Islamic banks can develop and structure the end products not only to maximise profits but for the betterment of society as well. As an example, Islamic banks can assist single mothers by providing financing for their food business and training them in order to enhance their entrepreneurship skills.

Therefore, VBI is intended to rebrand the Islamic banking sector by emphasising the *Shariah* principles and delivering the *Shariah* propositions in order to sustain in the long run and create value for other stakeholders. VBI can be implemented with the assistance of the key enablers such as the establishment of a community of practitioners, VBI networks and guidance such as corporate value intent network (CVI), VBI scorecard and other series of guidance. However, not all of the guidance has been established, as it is still under discussion and not binding. In other words, VBI is still new and at an initial stage.

VBI originates from value-based banking, which is led by the Global Alliance for Banking on Values (GABV). The GABV is a non-profit organisation founded in 2009 and is recognised as an independent network of banks that promotes value-based banking (GABV, 2019; Willy, 2018). Value-based banking combines the responsibility towards society and making a reasonable profit in order to generate fair livelihood which covers up the loophole in the mainstream banking (Vienna Group of Citizens, 2015). The principles of value-based banking consist of the triple bottom line approach (people, planet, prosperity), the real economy, client-centred, long-term resilience, and transparency. All of these principles will be embedded in the culture of the banks (GABV, n.d.).

Indeed, the global movement of value-based banking started at the beginning of the financial crisis in 2008 when a few pioneers from different countries started to do sustainable business banking for the benefit of the banks and community such as by providing loans to sustainable projects, individuals, and entrepreneurs to show support for the community and environment; investing in non-speculative projects; and treating employees and customers under the guidance of banking on values via people before profit (New Economy And Social Innovation, 2017). The GABV is a platform for collaboration among the leaders that are committed to value-based banking, such as by providing training and development to deliver sustainable banking practice (GABV, 2019).

Recently, Bank Muamalat has taken the initiative to become a member of the GABV, making it the first Islamic bank in the world to become a GABV member (Willy, 2018). Willy (2018) highlighted that the benefits of becoming a member of the GABV include increased exposure to sustainable banking practices and learning from other GABV members that have established value-based banking practices. Willy (2018) added that Bank Muamalat can share the international sustainable banking practices learnt from VBI's community of practitioners in order to enhance Malaysian Islamic banks' practices so that positive and sustainable impacts on the economy, community, and environment can be generated. For instance, the VBI scorecard has been adapted from the GABV, thus indicating that the GABV for value-based banking is becoming a trendsetter in the establishment of VBI.

3.2.1.1 Previous studies on the Malaysian government's support for CSR and CSRD

Hai-Yap and Thong (1984) conducted a study on CSRD in Malaysia in which they found that only 48.3% that disclose CSR activities which are human resources, product/services to consumers, community involvement and physical environment in the annual report. The most popular theme was information on human resources. This figure is far lower than those recorded in developed countries, whereby the CSRD in the UK and the USA was about 98% and 85%, respectively (Andrew, Gul, Guthrie, & Teoh, 1989). Therefore, it indicates that prior to the introduction of CSR measures by the regulators, the level of CSR activities was quite low as there was no established rules and regulations even though most of the managers acknowledged the importance of CSR activities (Mohd Ghazali, 2007). Previous literature shows that the level of CSRD in Malaysia gradually increased after the announcement of the government's support, the introduction of the Silver Book, and the imposition of Bursa Malaysia's mandatory requirement (e.g., Esa & Mohd Ghazali, 2012; Fatima et al., 2015; Haji, 2013; Wan Abd Rahman et al., 2011; Yusoff, Mohd Azhari & Darus, 2018). Thus, with the issuance of a CSR standard and the government's support, the CSRD can be implemented effectively.

As asserted by Saleh et al. (2011), participation by the government and regulators in promoting the advantages of CSR has gradually increased the engagement of Malaysian organisations in CSR activities. Indeed, these efforts have directly nurtured the organisations' reputation and improved their legitimacy (Mahenthiran, Terpstra-Tong, Terpstra, & Rachagan, 2015). To strengthen the idea that the involvement by the government leads to a higher level of CSRD, empirical evidence from Said, Zainuddin, and Haron (2009) proves that companies with government ownership have a higher tendency to disclose their CSR activities. This argument is supported by Amran and Devi (2008), who stated that government intervention in organisations will influence the disclosure of CSR. Hence, it shows that the government takes CSR as an important element in the country's economic growth.

3.2.1.2 Previous studies on actual CSRD practices in Malaysia

Following the introduction of CSR measures by the regulators in Malaysia, some scholars (e.g., Anuforo, Aripin, & Mohamed, 2018; Anas, Abdul Rashid, & Annuar, 2015; Esa & Zahari, 2017; Hamzah & Abdullah, 2018; Keong, Ramakrishnan & Hishan, 2018; Rosli & Mohd, 2018; Yam 2013; Yang & Yaacob, 2012; Zahid & Ghazali, 2015) had conducted empirical studies on the level of CSRD in terms of the dimensions and items to fill up the gap in academic research. The reviewed literature revealed that different sectors disclosed CSR practices differently.

The empirical studies found that public listed companies tended to focus more on the society dimension (Anuforo et al., 2018; Anas et al., 2015; Rosli & Mohd, 2018; Yang & Yaacob, 2012). However, the top ten property companies (Yam, 2013) and the Malaysian public listed government-linked companies (Keong et al., 2018) focused on both society and the environment. Meanwhile, Zahid and Ghazali (2015) found that environmental disclosure was lower in Malaysian Real Estate Investment Trusts (REITs) and property listed companies. However, for plantation companies, the disclosure of environmental information is important (Hamzah & Abdullah, 2018).

Meanwhile, Esa and Zahari (2017) found that government-linked companies in Malaysia disclosed more on human resource, community involvement, and product or service information theme. In this case, the product or service information theme was considered important by the government-linked companies; in comparison, marketplace information was the least disclosed among the Malaysian public listed companies (Anuforo et al., 2018; Rosli & Mohd, 2018). Similarly, information on products and services was the least disclosed among the Islamic financial institutions in Malaysia (Rashid, Abdeljawad, Ngalim, & Hassan, 2013; Yusoff et al., 2018).

However, Adapa (2013) stated that marketplace information disclosure was higher among the Malaysian Islamic banks. Particularly, Darus et al. (2018) found that product information disclosure was higher and environmental information disclosure was lower among three Islamic commercial Islamic banks (Bank Islam Malaysia Berhad, Bank Kerjasama Rakyat Malaysia, and Bank Muamalat Malaysia). Amran et al. (2017) also found that Malaysian Islamic banks disclosed less environmental information. Moreover, Yusoff et al. (2018) found that Islamic financial institutions in Malaysia disclosed more on workplace information, while environmental information was the least disclosed.

These results imply that due to the absence of an Islamic CSR guideline in Malaysia, the CSR disclosure among companies varies.

Previous studies show that different sectors have different interest in disclosing CSR information. Adnan (2015) highlighted that Islamic banks in Malaysia disclosed different CSR measurements. Specifically, the CSR activities of the Islamic subsidiaries have been ignored as the parent companies (conventional banks) are dominant in disclosing their CSR activities. Hence, most of the analyses by the previous scholars show that the disclosure by Malaysian Islamic banks ranges from low to moderate levels (Arshad et al., 2012; Arshad, Fatah, & Othman, 2014; Masruki et al., 2012).

3.2.1.3 The gaps in CSRD in Malaysia

Based on the literature review, the Malaysian government shows extensive support for CSR activities and disclosure of such activities (Ahmad Badawi, 2007; BNM, 2018a; Bursa Malaysia Securities Berhad, 2015; Economic Planning Unit, 2015; Haji, 2013; Mohamad, 1991; National Economic Advisory Council, 2009; Wan Abd Rahman et al., 2011). The level of CSRD has been increasing following the introduction of the Silver Book, Budget Speech 2007, Bursa Malaysia's guideline (e.g., Esa & Mohd Ghazali, 2012; Fatima et al., 2015; Haji, 2013; Wan Abd Rahman et al., 2011; Yusoff et al., 2018), and the government intervention in companies (Amran & Devi, 2008; Said et al., 2009).

However, previous studies found that although the Malaysian government has issued the standards, still there are inconsistencies in the CSR dimensions and items (e.g., Anuforo et al., 2018; Keong et al., 2018; Hamzah & Abdullah, 2018). This is perhaps because of the nature of the organisations, which are doing business in different sectors. Particularly, organisations tend to disclose CSR information based on the objective of their business operations. In addition, the disclosure of CSR activities among Malaysian Islamic banks also varies (Adnan, 2015; Amran et al., 2017; Darus et al., 2018; Yusoff et al., 2018). The results show that the disclosure of CSR activities is inconsistent from low to moderate levels (e.g., Arshad et al., 2012; Arshad et al., 2014; Masruki et al., 2012). This inconsistency could be due to the absence of a specific guideline for Malaysian Islamic banks (Wan Jusoh & Ibrahim, 2017, 2018). Therefore, it is necessary to search for the right CSRD dimensions and items to be used by the Malaysian Islamic banks in their annual reports.

Since the origin of CSR can be traced back to the Mesopotamian era (since 1700 BC) under King Hammurabi and the "Father of Corporate Social Responsibility", Howard Bowen is from the West (Tripathi & Bains, 2013), it is essential to obtain the Western view on CSR. Thus, the Western or conventional perspective on CSR and CSRD is discussed in the next section.

3.2.2 CSR and CSRD from the conventional perspective

This section discusses CSR based on the opinions of previous scholars. The description of whether CSR is reflective or formative is also discussed. In addition, previous studies on CSR dimensions and items in terms of the content analysis themes and perceptions are presented.

3.2.2.1 Previous scholars' opinions on CSR

The concept of CSR has been recognised since thirty years ago (Khatun & Alautiyat, 2012). During the emergence and awareness stage of CSR activities, various CSR concepts were proposed by the scholars. Frederick (1994) highlighted the transition from CSR1 to CSR2. Fundamentally, the idea of CSR1 is focused on the concept of philosophical and moral obligation, whereby business organisations are obliged to work for the betterment of society.

Meanwhile, CSR2 is defined as “corporate social responsiveness” (Frederick, 1994, p. 154). CSR2 emphasises the ability to respond to social pressure. However, Dabic, Colovic, Lamotte, Painter-Morland, and Brozovic (2016) found a gap between CSR1 and CSR2 as stated by the previous scholars, leading to a shift to CSR3. Frederick (2006, p. 90) portrayed CSR3 as “corporate social rectitude”, in which ethics is key to management decisions and policies.

In contrast, Friedman (1970) highlighted that the fundamentals of CSR should be to make a profit only in accordance with the law and in a mannerly way. Subsequently, Freeman (1984) believed that an organisation should have responsibilities towards the shareholders and stakeholders. Next, Howard Bowen proposed the definition of CSR as a social responsibility of businessmen (Tripathi & Bains, 2013). Based on the above definitions, it shows that the scholars identify CSR differently by using different terms. Therefore, this study has extended the literature review to include Carroll (1979).

Carroll (1979) created a CSR framework that consists of four dimensions, which are economic, legal, ethical, and philanthropic dimensions. Carroll’s (1979) framework is one of the popular frameworks and has been tested over time (Dusuki & Tengku Mohd Yusof, 2008). Below is the CSR pyramid as proposed by Carroll (1979, 1991).

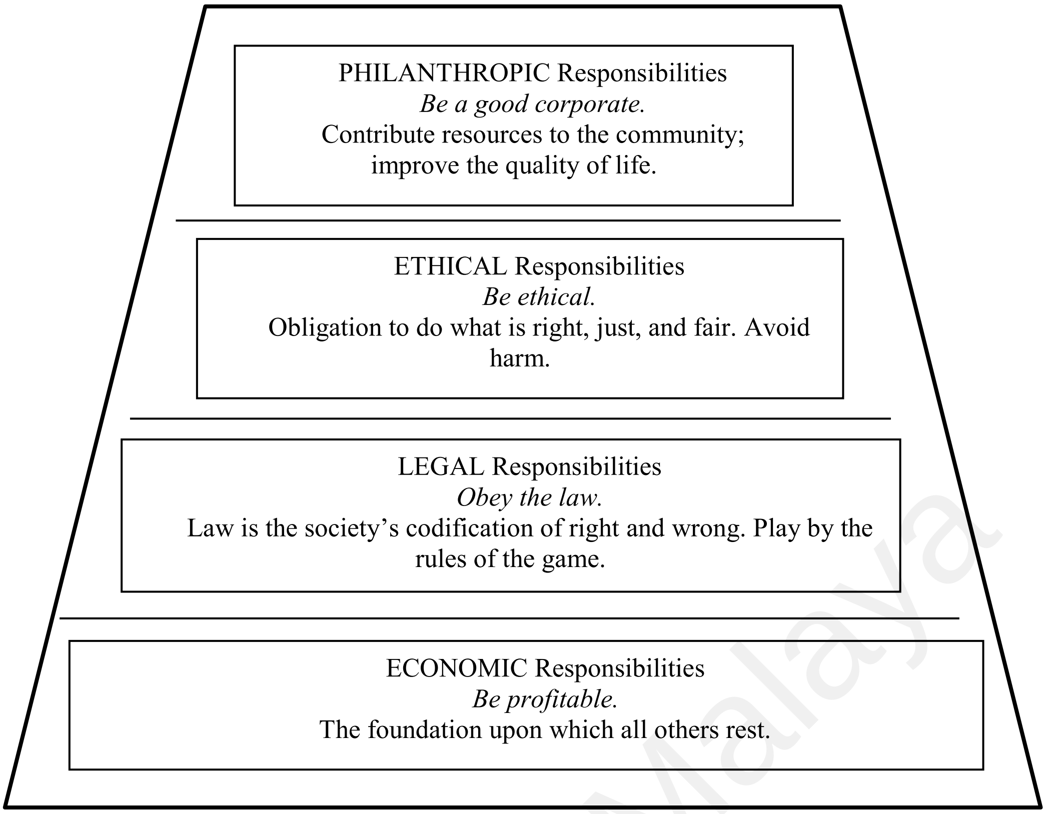


Figure 3.2: Carroll's model (1979)
Source adopted from Carroll (1991)

The above figure shows the CSR pyramid as proposed by Carroll (1991). There are four CSR dimensions that should be taken into account by business organisations, which are economic, legal, ethical, and philanthropic responsibilities. Carroll (1979, 1991) proposed that the economic and legal responsibilities are "required", the ethical responsibilities are "expected", and the philanthropic responsibilities are "desired". It indicates that CSR comprises all of the four responsibilities (economic, legal, ethical, and philanthropic) and does not solely focus on philanthropic responsibilities. Carroll (1991) argued that philanthropic responsibilities are less important compared to the other three categories. A further explanation for each dimension is provided below.

The CSR pyramid shows that economic responsibilities are the most fundamental of all. The economic dimension serves as a basis for the CSR pyramid. Accordingly, business organisations "have a responsibility to produce goods and services that the society wants and to sell them at a profit" (Carroll, 1979, p. 500). Most importantly, the main objective of conducting business is to make a profit. However, there are arguments as to the extent to which organisations should gain profits (Carroll & Shabana, 2010). Carroll (1991) concluded that organisations should be making profits in parallel with obeying the law, being ethical, and becoming a good corporate citizen. The author explained that organisations must target to maximise earnings per share in an appropriate way, to carry out in being as profitable as possible, to be able to be competitive, to operate efficiently, and to be consistent in making profits. Therefore, the whole CSR pyramid should be considered while making decisions by prioritising the economic dimension and acting simultaneously on the other dimensions, namely legal, ethical, and philanthropic dimensions. Similarly, Friedman (1970) explained that organisations should make profits but must comply with the law and act ethically. However, the author did not mention about the obligation of organisations to act voluntarily towards society. Considering these points, it can be said that Carroll's (1979, 1991) model complements the CSR theory with regard to the economic dimension.

Secondly, in terms of legal responsibilities, every business organisation is expected to operate in compliance with the rules and regulations (Carroll, 1979). Society expects that business organisations must fulfil the economic responsibilities that comply with the legal requirements (Carroll, 1991). Consequently, Carroll (1991, p. 41) regarded legal responsibilities as "codified ethics", whereby the dimension represents "partial fulfilment of the social contract between business organisations and the society". In summary, Carroll (1991) viewed that organisations must act in accordance with the rules and regulations, abide by the law, and meet at least the minimum legal requirement when producing goods and services.

Thirdly, ethical responsibilities indicate that business organisations must act ethically even though it is not specifically stated in the existing rules and regulations. The stakeholders expect business organisations to uphold the ethical responsibilities beyond the codified laws. For instance, ethical actions consist of being fair and protecting the rights of the stakeholders (Carroll, 1991).

Lastly, philanthropic responsibilities are charitable activities that business organisations carry out on a voluntary basis, which are not required by law and not expected in the ethical categories (Carroll, 1979). Organisations need to uphold the philanthropic responsibilities considering their significant roles in the community (Carroll, 1991). For example, organisations can contribute funds to arts, education, and community programmes.

Hence, based on the explanation on Carroll's (1979, 1991) model, it seems that the model is suitable to be used as a benchmark in the operationalised definition. However, this model does not provide the CSR measurements due to the different demands and purposes in every country. It is also worth noting that this model does not instil the Islamic elements. In short, most of the previous scholars (e.g., Frederick, 1994; Freeman, 1984; Friedman, 1970) had different opinions regarding CSR. In addition, previous scholars (e.g., Frederick,1994; Freeman, 1984; Friedman, 1970) did not specify whether CSR is reflective or formative. Therefore, in the next section, the reflective and formative construct is explained.

3.2.2.2 Reflective and formative CSR

Ramayah et al. (2018) stated that in a reflective model, the items serve as the representatives of the dimensions. It means that the items are highly correlated and interchangeable in such a way that the removal of one item will not affect the meaning of the dimensions. For example, Jones, Mothersbaugh, and Beatty (2002, p. 262) defined perceived switching cost as “consumers’ perceptions of the time, money, and effort associated with changing service providers.” Ramayah et al. (2018, p. 13) elaborated that the three items constituting reflections or consequences of perceived switching cost in the context of banking services are: (i) in general, it would be a hassle to change banks; (ii) it would take a lot of time and efforts to change banks; (iii) for me, the costs of switching banks are high in terms of time, money, and efforts. The example shows that the characteristics of the items are correlated. Ramayah et al. (2018) asserted that it is a norm for the previous studies to use a reflective model. Some previous scholars agreed that CSR is a reflective model (Bollen, 1989; Bollen & Lennox, 1991; Fortanier, Kolk, & Pinkse, 2011; Martı´nez, P´erez, & Rodrı´guez del Bosque, 2014). As indicated by Alvarado-Herrera et al. (2017), most of the studies reviewed by the authors (e.g., Bigne, Chumpitaz, Andreu, & Swaen, 2005; David, Kline, & Dai, 2005; Salmones, Crespo, & Bosque, 2005) indicated that CSR is a reflective model.

Meanwhile, the formative model implies that the items cause changes in the construct (Mohd Isa & Reast, 2014). In other words, if one item is deleted, the whole construct will be affected. For example, the making of a car without tyres will not form a car. In the CSR terms, for instance, if one of the items in the environmental dimension is deleted, it will affect that dimension. In this case, Mohd Isa and Reast (2014) found that CSR is formative in nature. Ramayah et al. (2018) emphasised that the variables can be measured either reflectively or formatively. The authors explained that the socio-economic status (SES) variable can be represented (reflected) by the level of poverty, crime rate, and inflation. Also, the type of occupation, the level of education, and the income level can cause (form) the SES. Figure 3.3 shows an example of the SES that can be measured using both formative and reflective models.

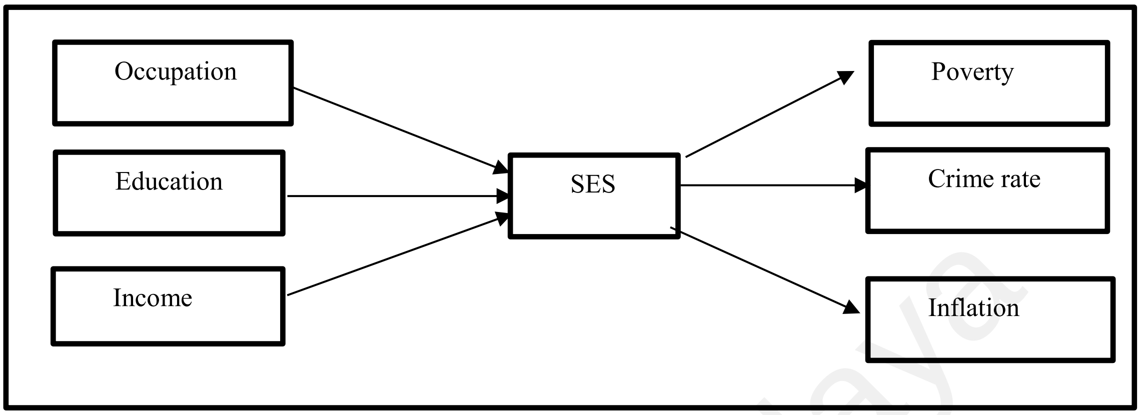


Figure 3.3: SES as measured by both formative and reflective model
Source adopted from Ramayah et al. (2018)

Consequently, it is important to recognise the difference between the reflective and the formative model. This is because misspecification of the model can create bias in the structural model due to reverse causality (Mohd Isa & Reast, 2014; Ramayah et al., 2018). In addition, the model will lead to parameter bias due to incorrect item purification and the effect of fit statistics (Ramayah et al., 2018, p.12). Coltman, Devinney, Midgley, and Venaik (2008) elaborated that proper specification of the measurement model (whether it is a reflective or a formative model) is essential in order to provide a meaningful relationship in the structural model. Hence, a proper specification of the model can create reliable results. The next section provides a critical review of the previous studies on CSR and CSRD in order to ascertain the dimensions that the scholars used and whether they provide a reflective or a formative CSR model.

3.2.2.3 Previous studies on the development of CSR dimensions and items for content analysis

This section reviews the literature on conventional banking CSR concerning the development of the CSR dimensions and items. The purpose of developing CSR dimensions and items is to perform content analysis on the secondary data (e.g., annual reports and websites). The CSR dimensions and items are primarily obtained from the previous literature and by extending with new dimensions and items (Zafar & Sulaiman, 2019).

In this section, the dimensions and items applied are relevant to the conventional banking sector only. In addition, the articles are from ISI and SCOPUS only. Most of the reviewed articles provided a comparison between Islamic and conventional banks. However, this section provides a review of the literature on conventional banks only, which are limited to those published in 2014 and 2015. The reviewed articles are listed in Table 3.2.

Table 3.2: Previous literature on CSR dimensions, elements, and items from the conventional banks' perspective

No	Author	Name of dimensions	Theories or principles	Reflective or formative
1	Jizi, Salama, Dixon, & Stratling (2014)	1.Community involvement 2.Employees 3.Shareholders 4.Environment 5.Society No of items = 31	Agency theory	-
2	Fatma et al. (2014)	1.Customers 2.Employees 3.Shareholders 4.Environment 5.Society No of items = 17	Stakeholder theory	-
3	Andrikopoulos et al. (2014)	1.Environment 2.Ethics 3.Human disclosure No of items = 22	Legitimacy theory	-
4	Krasodomska (2015)	1.Relation with employees 2.Relations with customers and contractors 3.Environmental protection 4.Activities for the local community No of items = 29	Legitimacy theory	-
5	Jain et al. (2015)	1.Ethical standards 2.CSR reporting 3.The environment 4.Products 5.Community 6.Employees 7.Supply chain management 8.Benchmarking No of items = 60	-	-

Based on the analysis, the CSR dimensions and items applied by the banks do not include any Islamic element. In addition, some of the articles (e.g., Jain et al., 2015) provided many dimensions such as ethical standards, CSR reporting, environment, products, community, employees, supply chain management, and benchmarking. Meanwhile, some of the articles (e.g., Andrikopoulos et al., 2014) provided fewer dimensions, which are environment, ethics, and human disclosure. It implies that CSR dimensions are perceived differently by different authors. In fact, the definition of CSR as provided in Subsection 3.2.2.1 is slightly different from what is stated in this section.

It thus shows that there are inconsistencies in CSR dimensions and items in conventional banking as well.

Furthermore, the literature aforementioned did not evaluate whether the CSR framework is reflective or formative. The theories used also vary, such as agency theory, stakeholder theory, and legitimacy theory. Hence, the results imply that CSR in conventional banking varies, which has raised the possibility that the CSR concept from the Islamic perspective can be varied as well. This issue is discussed in Subsection 3.2.3. The next section discusses the perceptions of CSR dimensions and items.

3.2.2.4 Previous studies on the development of CSR dimensions and items based on perception

Previous scholars have conducted studies on the development of CSR measurements based on perception (e.g., Fatma et al., 2014; Kim & Kim, 2010; Maignan & Ferrell, 2000; Turker, 2009). For instance, Kim and Kim (2010) found that public relation practitioners in South Korea perceived that CSR should be profit-oriented, similar to the Friedman approach. Meanwhile, Maignan and Ferrell (2000) found that corporate citizenship consists of four dimensions, which are economic, legal, ethical, and discretionary citizenship, as perceived by American and French managers in the marketing area. Although the two countries perceived the same dimensions, this study did not generalise the findings to other respondents, such as the customers.

Fatma et al. (2014) conducted a study to develop a measurement scale for CSR activities in the Indian banking sector. The study was conducted in several stages to ensure the validity and reliability of the scale. These stages are literature review, content validation, EFA, and CFA. The results indicate that CSR activities are related to the customer, employee, shareholder, environment, and society dimensions. The uniqueness of this study is that the development of the CSR measurement scale is based on the stakeholder theory and bank employees only. Meanwhile, Turker (2009) developed a CSR conceptual framework based on the perceptions of business professionals in Turkey. Turker (2009) also went through several stages, which are literature review, exploratory survey through group discussions, and a pilot survey, which includes EFA. Results showed that the Turkey respondents perceived that CSR has four dimensions, which consist of CSR to social and non-social stakeholders, employees, customers and government.

Therefore, the results obtained by the previous studies show that there are differences in the definition of the CSR dimensions. Although Maignan and Ferrell (2000) found that the USA and France perceived the same CSR dimensions, the respondents comprised managers from the marketing area only, hence limiting the generalisation of the results.

A recent study by Alvarado-Herrera et al. (2017) found that tourism services customers from Mexico and Spain perceived CSR as a reflective model which consist of social, environmental, and economic responsibilities. Later, Latif et al. (2019) conducted a study on customers from the telecommunication industry. The results indicate that CSR is multidimensional, which consists of developmental, ethical relationship building, responsiveness, and information sharing responsibilities. It shows that CSR is perceived differently in different countries and in different business sectors.

Thus, research should be conducted to determine the CSR dimensions in the Malaysian context. Empirical evidence found that country origin has a significant influence on CSR, particularly on CSRD (Wanderley et al., 2008). Hence, it is necessary to obtain the perceptions of the stakeholders in the Malaysian context.

3.2.2.5 The gaps in CSR from a conventional perspective

The extant literature review shows that there have been many attempts to provide a better definition for CSR (e.g., Carroll, 1979; Frederick, 1994; Freeman, 1984; Friedman, 1970). However, there is still no universally accepted CSR definition (Galbreath & Shum, 2012; Hou & Li, 2014; van Beurden & Gössling, 2008; Wood & Jones, 1995). In fact, debates regarding the CSR dimensions are still ongoing (Bagire, Tusiime, Nalweyiso, Kakooza, 2011). Literally, a consensus on the CSR definition can never exist because of the differences in national and geographical contexts (Wanderley et al., 2008). Dahlsrud (2008) argued that there is confusion regarding the CSR definition. In a similar vein, Galant and Cadez (2017) stated that there is no consensus on the CSR dimensions, constructs, and principles. This is due to the unexplainable aspects of CSR in business operation (Dahlsrud, 2008). In fact, most researchers tend to focus only on the definition of the CSR phenomenon (Dahlsrud, 2008). Hence, research is needed to see what types of CSR activities are actually favoured by the stakeholders.

Furthermore, Khurshid et al. (2014) opined that CSR practices vary from one country to another due to differences in culture, atmosphere, and religion. Aksak, Ferguson, and Duman (2016) agreed that the CSR concept shifts according to the context, period, and culture. Besides, Galant and Cadez (2017) outlined that there are difficulties in interpreting CSR due to a lack of agreement in the operationalisation of the CSR concept, lack of reporting standardisation, and CSRD is not mandatory in many jurisdictions.

Moreover, not many studies have conducted a literature review on CSR, especially in the banking sector, to ascertain whether CSR is reflective or formative in nature (see, for example, in Table 3.2). It is important to know whether CSR is reflective or formative in order to avoid bias when running the analysis. The theories applied in the studies also differ. Furthermore, the studies on the perceptions of CSR also vary (e.g., Alvarado-Herrera et al., 2017; Latif et al., 2019). It was found that very few studies indicated whether CSR is reflective and formative.

Since there is no conclusive agreement on the CSR definition from the West, it is necessary to review CSR and CSRD from the Islamic perspective. Besides, this study also focuses on the Islamic banking context; hence, the Islamic view is needed in this study. Therefore, the next section provides a review on CSR and CSRD from the Islamic perspective.

3.2.3 CSR and CSRD from the Islamic perspective

This subsection presents the CSR and CSRD obligations in Islam. In addition, the differences between conventional and Islamic CSR are presented. Previous studies on Islamic CSR in relation to concepts, dimensions and items on content analysis themes and perceptions are discussed. The gaps in CSR and CSRD from the Islamic perspective are also explained.

3.2.3.1 CSR and CSRD obligations in Islam

Islam provides a set of principles that has a direct impact on all aspects of human life, including the development of social and economic activities (Khir et al., 2008). Therefore, CSR is one of the important elements in Islam that direct the way of life in this world.

CSR is considered obligatory in Islam (Taman, 2011; Wan Jusoh et al., 2015). As mentioned by Abu Bakar and Md Yusof (2015), the CSR concept is mentioned many times in the *Quran* (e.g., 47:38; 9:99; 64:16; 2:261; 2:271; 17:100; 64:17–18; 59:7;

34:39). The CSR concept was also emphasised by Prophet Muhammad (*SAW*) in the *Hadith* (Abu Bakar & Md Yusof, 2015). Hence, it is obligatory for Islamic banks to get involved in CSR activities and disclose those activities (Wan Jusoh et al., 2015; Wan Jusoh & Ibrahim, 2018).

3.2.3.2 The differences between Islamic and conventional CSR

The AAOIFI (2010) defines CSR as the involvement of Islamic financial institutions in religious, economic, legal, ethical, and discretionary responsibilities. The involvement of business organisations in CSR is to maintain a relationship with *Allah*, society, and the environment (Abu Bakar & Md Yusof, 2016; Khatun & Alautiyat, 2012). Apart from that, the objective of CSR is to achieve *al-falah*, which is success in this world and the Hereafter (Muhamad & Muwazir, 2008). Consequently, the engagement of business organisations in CSR from the Islamic perspective is seen as a benefit rather than a cost. Hassan and Abdul Latiff (2009) emphasised that CSR involvement will increase the wealth of business organisations. *Allah* promises in the *Quran*, *"Indeed, the men who practise charity and the women who practise charity and [they who] have loaned Allah a goodly loan – it will be multiplied for them, and they will have a noble reward"* (57:18).

Conventional banks are also involved in CSR activities. However, Abu Bakar and Md Yusof (2016) proclaimed that CSR is seen differently by conventional and Islamic perspectives. They gathered six points to assert that the CSR concept from the conventional perspective is different and limited to certain aspects, which are: i) the lack of awareness of moral or religious obligations, ii) limitation in the adoption of social-cultural and religious settings globally, iii) insufficient ethical guidance, iv) focused on materialistic approach, v) limited in uplifting social objectives, and vi) reflects humanistic theories and secular ethics and morality.

Based on the conventional perspective, not all of the organisations intend to involve in CSR activities as CSR is seen as an expense (Hassan & Abdul Latiff, 2009; Khatun & Alautiyat, 2012). In particular, Carroll's (1991) model has been criticised, as Campbell (2007) argued that if the organisation is economically weak, then the organisation is unlikely to be engaged in CSR activities. Visser (2010) highlighted that CSR has failed due to several reasons. Firstly, CSR is only focused on the public relation department rather than being integrated across the business. Secondly, CSR adopts the quality management model, which means organisations set up their own objectives and improve only at the micro-level rather than looking at the macro level, hence not responding to the urgency of the problem. Thirdly, CSR does not always make economic sense. Therefore, in the light of Islam, it is important to instil religious elements in CSR.

Nonetheless, Relaño (2011) contended that conventional banks in the West have run their business operation socially, known as social banking. The author stated that social banking demonstrates that profitability should be measured in terms of financial returns and social benefits. Specifically, there are three features of social banking, which are the triple bottom line (people, profit, planet), transparency maximisation, and human development (Mohd Nor, 2016, p. 44).

Nevertheless, Mohd Nor (2016) highlighted that there are differences between Islamic social banking and conventional social banking. For instance, conventional social banks are involved in community development in order to acquire good knowledge of the regions, projects, and people. Meanwhile, Islamic social banks are involved in community development programmes to promote community bonding and unity. In terms of the internal operation, conventional social banks will ensure that the business and management are transparent, while Islamic social banks will ensure the business operation is transparent and accountable by incorporating the *Shariah* governance. These points show that the *Shariah* principles are embedded within the characteristics of Islamic social banks. Therefore, CSR and CSRD of Islamic banks must also be instilled with Islamic values and *Shariah* principles.

The AAOIFI has issued a CSR standard known as Governance Standard No. 7: Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions. Apart from issuing the CSR standard, the AAOIFI has also provided a definition for the Islamic CSR. The CSR definition provided by the AAOIFI is employed in this research. According to the AAOIFI, CSR in Islamic Financial Institutions (IFIs) consists of religious, economic, legal, ethical, and discretionary responsibilities.

Firstly, the religious responsibilities cover the obligations of IFIs to comply with Islamic laws in their dealings and operations. Secondly, the economic responsibilities urge IFIs to be financially viable, profitable, and efficient. Thirdly, the legal responsibilities refer to the obligations of IFIs to comply with the rules and regulations of the country in which they operate. Fourthly, the ethical responsibilities indicate that IFIs need to act within the societal, religious, and customary norms which are not codified in the laws and regulations. Lastly, the philanthropic responsibilities manifest the expectations of the stakeholders regarding the voluntary activities carried out by IFIs.

The AAOIFI's CSR standard is divided into two, which are mandatory and recommended disclosure requirements, as shown in Table 3.3. The mandatory disclosure consists of the disclosure of policy for screening clients, disclosure of policy for dealing with clients, disclosure of earnings and expenditure prohibited by *Shariah*, disclosure of policy for employee welfare, and disclosure of policy for *zakat*. The voluntary disclosure refers to the disclosure of policy for social, development, and environment-based investment quotas, disclosure of policy for par excellence customer service, disclosure of policy for micro and small businesses and social savings and investments, disclosure of policy for qard hasan, disclosure of policy for charitable activities, and disclosure of policy for *waqf* management.

Table 3.3: The AAOIFI's CSR standard

No	Types of disclosure	Name of dimensions
1	Mandatory	1. Disclosure of policy for screening clients 2. Disclosure of policy for dealing with clients 3. Disclosure of earning and expenditure prohibited by *Shariah* 4. Disclosure of policy for employee welfare 5. Disclosure of policy for zakah
2	Voluntary	1. Disclosure of policy for social, development and environment based investment quotas 2. Disclosure of policy for par excellence customer service 3. Disclosure of policy for micro and small business and social savings and investments 4. Disclosure of policy for *qard hasan* 5. Disclosure of policy for charitable activities 6. Disclosure of policy for *waqf* management.

This standard has loopholes that need to be addressed. Hassan and Harahap (2010) asserted that the AAOIFI should add other elements such as ethical behaviour, customer relation, diversity, and environmental policies besides incorporating the standard with other features of CSR such as transparency, accountability, and partnership. Moreover, the AAOIFI's CSR standard is not adopted in Malaysia (AAOIFI, 2017). This is because of the unsuitability of the AAOIFI's CSR to the Malaysian environment (Mohammed, Mohd Fahmi, & Ahmad, 2015).

3.2.3.3 Previous studies on the concepts of Islamic CSR

Previous scholars have different opinions regarding CSR and Islam. The basis of CSR in Islam is derived from the concept of *taqwa* (Dusuki, 2008b); the concept of *tawhid* (Muhamad & Muwazir, 2008; Muwazir et al., 2006); the four ethical axioms which are unity, equilibrium, free will, and responsibility (Mohammed, 2007; Tilt & Rahin, 2015); the concept of *khalifah* (Wan Jusoh et al., 2015) and the principle of vicegerency; the principle of divine accountability; and the principle of enjoining good and forbidding evil (Farook, 2007).

Adding to this, *maqasid shariah* and *maslahah* are being referred to as a basis for developing a CSR framework, as proposed by Darus et al. (2013). Moreover, Khurshid et al. (2014) extended Carroll's model by referring to the *Quran* and *Sunnah*. Mohd Nor (2012) stated that the Islamic CSR concept is instilled with the elements of moral values, which are important in Islam. It is highlighted that the objective of the moral economy is similar to the Islamic economy, which promotes social justice. Mohd Nor (2012) proposed that Islamic banks should expand their CSR activities to contribute towards social and economic objectives rather than performing solely on charity and *zakat*. Meanwhile, Platonova (2013) stressed on CSR and justice from an Islamic perspective as an alternative to the Western CSR. The author highlighted that the Islamic moral economy is an essential part of CSR. However, the actual practice of Islamic banking and finance contradicts the theory of Islamic moral economy (Platonova, 2013).

Consequently, some of the previous scholars argued on the concepts of CSR and CSRD from the Islamic perspective. For instance, Abu Bakar and Md Yusof (2015) stated that the existing concepts seem to focus only on the *maqasid al-shariah, maslahah*, and *Tawhid* paradigm. Wan Jusoh et al. (2015) argued that some of the concepts give no clear explanation with regard to the status of the CSR concepts and the Islamic banks being legal entities that perform CSR. Furthermore, due to the differences in the cultural context whereby the Malaysian banks operate under a dual banking system, the existence of local and foreign banks, as well as the existence of various races and Muslim and non-Muslim population, there is a need to consider the concepts in relation to the Malaysian Islamic banking context.

3.2.3.4 Previous studies on the development of Islamic CSR dimensions and items

Several scholars have developed Islamic CSR frameworks but with different purposes, different contexts, and different underlying theories and principles. This is perhaps because of the differences in culture, environment, and religion (Aksak et al., 2016; Khurshid et al., 2014; Wanderley et al., 2008).

For instance, Ullah et al. (2014) proposed a socially responsible investment framework which consists of the required (harmful business sector), expected (human and social concern), and desired (environment and nature) dimensions. This socially responsible investment framework is created for Islamic financial institutions and other Islamic business organisations. Alternatively, Khurshid et al. (2014) proposed an Islamic CSR framework based on Carroll's framework with guidance from the *Quran* and *Sunnah*. The authors provided an Islamic CSR framework that consists of economic, legal, ethical, and philanthropic dimensions for both Islamic and non-Islamic business organisations. These two groups of scholars have different objectives and dimensions in proposing the framework.

On the other hand, Hossain, Siwar, and Omar (2014) proposed a CSR framework using social contract theory to mitigate risk in Islamic banks. The dimensions consist of economic, legal, ethical, philanthropic, and have been extended to the environment. Darus et al. (2013) used the principles of *maslahah* and *maqasid al-shariah*, but the authors suggested that there is a need to improvise the proposed Islamic CSR framework. Even though Yusuf and Bahari (2015) used the principle of *maslahah* in the Islamic CSR framework which highlights the differences between Western and Islamic CSR, the framework is only focused on improving the quality of life and eliminating poverty.

Alamer, Salamon, Qureshi, and Rasli (2015) weighed the CSR measurement index differently due to the opinion that the CSR measurement index has different impacts on society. Meanwhile, the CSR measurement index by Alamer et al. (2015) is not specifically designed for the Islamic banks in Malaysia only. Furthermore, the adaption of the literature in deriving the index only came from Islamic literature. Thus, the CSR measurement index by Alamer et al. (2015) is not suitable to be used by the Malaysian Islamic banks as Malaysia has both Muslim and non-Muslim population as well as a dual banking system. In fact, their CSR measurement index did not employ the EFA.

Marsidi, Annuar, and Abdul Rahman (2016) developed a financial, social, and governance index for the Islamic banks in Malaysia. Meanwhile, the current study emphasises CSRD information which consists of the economic, legal, ethical, and philanthropic dimensions (AAOIFI, 2010; Carroll, 1979) and is extended to the religious dimension (AAOIFI, 2010). Although Marsidi et al. (2016) employed the stakeholder theory, the authors did not employ the Islamic principles as a reference in developing the index. In fact, the index was not content validated and the authors did not perform the EFA. Meanwhile, the current study refers to the *Shariah* principles (unity, equilibrium, free will, and responsibility) and the *'urf* principle as the guidelines in adapting the CSR measurement items which have been content validated and analysed using EFA in order to obtain the dimensions and validate the items.

Tilt and Rahin (2015) also provided a conceptual framework for Islamic corporate social reporting. However, the conceptual framework focuses on Islamic business organisations, which are very broad. Furthermore, the authors only applied the four Islamic ethical principles: unity, equilibrium, free will, and responsibility as the basis for Islamic corporate social reporting. Indeed, the present study has taken into account the *Shariah* principles, which include unity, equilibrium, free will, and responsibility. In addition, this study has included the *'urf* principle as a reference in establishing the MIICSRDi for the Malaysian Islamic banking sector.

Apart from this, Muwazir et al. (2006) and Muhamad and Muwazir (2008) applied the *tawhid* concept in proposing an Islamic CSR framework. Issalih et al. (2015) used the concept of maqasid al-shariah to develop an Islamic CSR framework for Islamic business organisations. Thus, their studies are different from the current study, which used *Shariah* principles (unity, equilibrium, free will, and responsibility) and the *'urf* principle as the guidelines in establishing the MIICSRDi in the context of the Malaysian Islamic banking sector that operates in a dual banking system. Thus, appropriate items need to be taken into account due to the existence of conventional banks and non-Muslim society.

3.2.3.5 Previous studies on the development of Islamic CSR dimensions and items for content analysis

As reviewed in subsection 3.2.2.3, this section also reviews the literature that developed CSR dimensions and items in order to perform content analysis on the secondary data. This section specifically reviews Islamic CSR and CSRD literature in order to ascertain whether the dimensions and items used are the same or different among the Islamic CSR and CSRD literature as well as from conventional CSR and CSRD literature.

As shown in Appendix A, there are 29 literature works on Islamic CSR and CSRD from 2006 to 2015. There are articles that provide dimensions (e.g., Abdul Rahman, Md Hashim, & Abu Bakar, 2010); dimensions and elements (e.g., Darus et al., 2013); and dimensions, elements, and items (e.g., Haniffa & Hudaib, 2007; Maali et al., 2006; Muhamad & Muwazir, 2008). In addition, the study by Belal, Abdelsalam, and Nizamee (2015) could not retrieve the CSR disclosure items.

Consequently, the analysis indicates that there are inconsistencies in the dimensions and items of the Islamic CSR framework. The theories and principles used are also varied (such as accountability, stakeholder theory, legitimacy theory, *Shariah* principle, *maslahah* and social capital, *maqasid al-shariah*). Moreover, the studies did not indicate or examine whether the CSR model is reflective or formative from the Islamic perspective. Therefore, there is a necessity to establish an Islamic CSR framework for the Malaysian Islamic banks. In addition, it is essential to ascertain whether the CSR model is reflective or formative in order to avoid misspecification when running the analysis (Coltman et al., 2008).

In particular, Haniffa and Hudaib (2007) developed an Ethical Identity Index (EII) for Islamic banks. Nevertheless, their study is different from the current study because the EII does not include information on the environment. Secondly, the previous literature that Haniffa and Hudaib (2007) adapted is not solely from the banking sector. This is to say, although they adapted both Islamic and conventional literature and standards, the conventional literature does not come solely from the banking sector. For example, they adapted the literature from Guthrie and Parker (1989), in which the CSR measurement items were for Australia's mining or manufacturing industries. Thirdly, the EII that Haniffa and Hudaib (2007) developed was meant for content analysis for the Arabian

Gulf Region countries. Therefore, due to the above reasons, the study conducted by Haniffa and Hudaib (2007) is different from the current study.

Meanwhile, Rashid et al. (2013) developed a CSR framework by specifically focusing on customer-centricity without looking at the environmental aspect as well. Thus, their CSR framework is different from the one developed by the current study. This is because the MIICSRDi focuses on all stakeholders by taking into account the perceptions of internal stakeholders (employees) and external stakeholders (customers). In addition, Rashid et al. (2013) sought information about CSR measurements only from previous Islamic literature, while this study focuses on both Islamic and conventional banking literature by taking into account the *'urf* principle.

Khan (2013) provided a framework for Islamic finance and banking institutions. The concept of this framework makes reference to the Islamic principles of *Shariah*, universal brotherhood, community welfare, socio-economic conditions of contemporary Muslim communities, and Western CSR literature. Although this framework focuses on both Islamic and conventional banking, the CSR framework does not emphasise the environmental dimension. In addition, the purpose of Khan's (2013) framework is to evaluate the CSR practices of Islamic banks by looking at only one Islamic bank in Malaysia. Therefore, the previous study is different from this current study as the current study does not evaluate the current practices of CSR.

All of the three CSR frameworks were not validated by the panels and EFA as compared to the current study (e.g., Haniffa & Hudaib, 2007; Khan, 2013; Rashid et al., 2013). Furthermore, it is important to include the environmental dimension in accordance with the *Khalifah* (vicegerency) principle, which indicates that a person is responsible for taking care of the earth's resources (Wan Jusoh et al., 2015). Specifically, Islamic business organisations should preserve their relationship with *Allah*, society, and the environment (Muhamad & Muwazir, 2008). Meanwhile, Asutay and Harningtyas (2015) developed a *maqasid-al-shari'ah* index to evaluate the social performance of 13 banks from six countries. Hence, their study is different from the present study, as this study is to establish the MIICSRDi to be perceived by the stakeholders of Islamic banks in order to ascertain the suitable items to be included in the annual reports and to determine whether the disclosure will increase the performance of Malaysian Islamic banks.

3.2.3.6 Previous studies on Islamic CSR dimensions and items: Perception

Previous studies found that the CSR practices by Islamic banks are multi-dimensional (Tafti et al., 2012; Yusuf & Bahari, 2015). This is perhaps due to the different geographical contexts (Aksak et al., 2016). Tafti et al. (2012) found that employees from Sarmayeh Bank in Tehran perceived that CSR practices must focus on the company's values, workplace policy, environmental policy, community policy, and market policy. Meanwhile, Yusuf and Bahari (2015) found that in ensuring that economic growth can be sustained in the long run, six CSR dimensions should be present, which are *Shariah* compliance, equality, responsibility in work, the guarantee of welfare, the guarantee of environmental sustainability, and charity for the preservation of virtue. Customers perceived *Shariah* compliance as the main criteria in choosing Acheh's Islamic banks (Bahari & Yusuf, 2014). In the Malaysian context, the stakeholders perceived that investment development, human development, poverty alleviation, and social development are the most effective CSR for Islamic banks, as perceived by the gender, male and female (Babatunde & Adeyemi, 2015). Although Babatunde and Adeyemi (2015) ran the EFA, they did not perform the CFA.

In addition, Muhamad et al. (2014) highlighted six CSR factors which were specifically formulated for Islamic business organisations. They validated the items of Islamic corporate social information using EFA. However, the CSR factors and items were perceived differently, which excluded the economic dimension. The study's respondents consisted of Muslim accountants. Besides, the study was extended by conducting content analysis in order to identify the actual practice of selected Islamic business organisations. Meanwhile, this current study aims to examine whether the CSR framework influences the financial performance of Islamic banks by considering corporate reputation as a mediator.

Bani et al. (2015) extended their study by examining whether managers of full-fledged and subsidiary Islamic banks had different opinions. The results showed that the managers had different opinions on several items, which are qard hasan financing, number of branches and vicinity, availability of e-Ibanking services, and third-party verification of customer services. However, the corporate social performance indicator from the study by Bani et al. (2015) was not validated using EFA and did not have dimensions. On the contrary, in the study by Barom (2015), the items were validated using EFA. Barom (2015) distributed the questionnaire to investors to determine which dimension (*fiqh* injunctions, economic, and social responsibility) is the most significant. The results showed that *fiqh* injunctions are the most important dimension in determining Islamic investment. Therefore, Barom's (2015) study is different as the study aimed to identify which social responsibility dimension is perceived to be fundamental in Islamic investment decisions. In summary, it can be concluded that there are differences between the previous studies and this study.

Regarding the impact of CSR on Islamic banks in the Malaysian context, Abd Rahim et al. (2011) found that respondents perceived that the economic dimension is fundamental in influencing consumer buying behaviour. Meanwhile, Teh et al. (2019) found that respondents perceived that the economic dimension is the least important in consumers' purchasing. In their study, the respondents perceived that the legal dimension is the most important in influencing consumers' purchasing. Particularly, customers preferred the organisations that obey the rules and regulations set up by the governing authorities. Wan Yusoff, Idris, Adeyemi, and Babatunde (2013) also found that Islamic banks' CSR has a positive impact on societal development in Malaysia. To conclude, CSR is found to be important to be investigated further.

3.2.3.7 The gaps in Islamic CSR and CSRD

The Malaysian government supports the involvement in CSR and CSRD (Wan Abd Rahman et al., 2011). In addition, from the Islamic perspective, CSR and CSRD are obligatory (Taman, 2011; Wan Jusoh et al., 2015). However, after analysing the CSR and CSRD from different contexts (conventional and Islamic perspective), it seems that there remain gaps that need to be filled in.

Firstly, the reviewed literature shows that scholars define the concept of Islamic CSR differently, such as the concept of *taqwa* (Dusuki, 2008b); the concept of *tawhid* (Muhamad & Muwazir, 2008; Muwazir et al., 2006); the four ethical axioms which are unity, equilibrium, free will, and responsibility (Mohammed, 2007); the concept of *khalifah* (Wan Jusoh et al., 2015) and the principle of vicegerency; as well as the principle of divine accountability and the principle of enjoining good and forbidding evil (Farook, 2007). Moreover, even though previous scholars have developed the Islamic CSR frameworks, the underlying theories and principles are varied, which have led to differences in the dimensions and items of the Islamic CSR (e.g., Darus et al., 2013; Khurshid et al., 2014; Tilt & Rahin, 2015; Muhamad & Muwazir, 2008; Muwazir et al., 2006). In addition, most of the studies did not validate the items (e.g., Haniffa & Hudaib, 2007; Khan, 2013; Rashid et al., 2013), unlike this study. A critical review of the literature revealed that the scholars did not mention whether the Islamic CSR framework is reflective or formative (see for example, in Appendix A). The reflective or formative classification is essential in order to avoid misspecification when running the analysis.

Therefore, due to the inconsistencies in the CSR dimensions and items normatively, this study reviewed the Islamic CSR and CSRD literature on perception. The aim of the perception study is to perceive which of the Islamic CSR dimensions and items are important. Since Malaysia consists of a multiracial and multireligious population (Amin et al., 2013), it is imperative to look at the perceptions of the stakeholders to cater to their needs and demand in order for the business to succeed. Particularly, perceptions are dominantly driven by experience (Johnston & Heineke, 1998).

However, the perception studies are limited and different from the current study. In particular, the previous studies did not validate the items (e.g., Bani et al., 2015; Muhamad et al., 2014) and the perception of CSR was for different purposes, such as for investment (e.g., Barom, 2015). Hence, this study has extended on the previous studies by exploring the perceptions of stakeholders regarding which Islamic CSR dimensions and items are important in order to increase the business performance of Islamic banks. This is in line with the stakeholder theory, whereby, stakeholders' demand and needs should be emphasised in ensuring the success of the organisation. Furthermore, the dimensions and items of this study have been validated by the expert panel, EFA, and

CFA in ensuring that the dimensions and items are reliable to be used in the Malaysian context.

3.2.4 The importance of studying perception

According to Lee, Park, and Lee (2013), obtaining the perceptions of employees regarding CSR activities is vital in order to increase their loyalty towards the organisation and decrease the turnover rate. Thus, it shows that the voice of employees is important. Besides, Bae and Kim (2013) advocated the necessity to obtain the views of customers regarding organisations' involvement in CSR activities in ensuring that the amount of money that the organisation invests in CSR will not be wasted. Besides, it is also to ensure that the customers favour the CSR activities. In addition, it is better to obtain the views of the stakeholders prior to developing an Islamic framework. For example, in the process of developing a policy document for each product (e.g., the implementation of a VBI scorecard), BNM would invite feedback from the stakeholders regarding several aspects of the VBI scorecard (BNM, 2018b).

Prior literature indicates that there is an absence of an Islamic CSR framework in Malaysia and advocates the establishment of an Islamic CSR framework to serve as guidance for the disclosure of CSR activities in the annual report (Wan Jusoh & Ibrahim, 2018, 2017). However, there are limited studies that determine which CSR dimensions and items are perceived to be important to be included in the annual report and could increase business performance.

Again, Bae and Kim (2013) asserted that it is important to serve the stakeholders' interest, and culture plays an important role that could affect the perception of CSR activities. For instance, in the Malaysian context, the population consists of various religions and races. In addition, Islamic banks in Malaysia must compete with conventional banks. Hence, it is necessary to obtain stakeholders' perceptions in the Malaysian context to identify their best interest so that Islamic banks can perform better in the future. Chaudary et al. (2016) agreed that CSR should be integrated with culture to enhance the performance of the organisation. Apart from this, the involvement in CSR and CSRD will reduce the negative perception and doubt among the stakeholders (Andrikopoulos et al., 2014).

In addition, the existence of the halo effect, which is a tendency to create an impression, stems from the relationship between corporate financial performance and CSR (Orlitzky et al., 2003). The authors emphasised that the involvement in CSR helps the company to become more successful. Galant and Cadez (2017) asserted that CSR plays a crucial role in accelerating financial performance. Therefore, the next section reviews the literature on financial performance concerning the relationship between CSR, CSRD, and financial performance.

3.3 Financial performance

This section provides a review of the concept of financial performance in Subsection 3.3.1. Subsection 3.3.2 discusses the ways to enhance financial performance as well as the empirical research on CSR, CSRD, and financial performance. The methodological issues on financial performance measurements are discussed in Subsection 3.3.3. Lastly, the reason for using subjective assessment is elaborated in Subsection 3.3.4.

3.3.1 The concept of financial performance

Carton and Hofer (2006) highlighted that financial performance is a dominant indicator in empirical strategy and entrepreneurship research. Venkatraman and Grant (1986) explained that financial performance relates to the economic outcomes of organisations such as sales growth, profitability (return on investment [ROI], return on sales [ROS], and return on equity [ROE]), earnings per share, stock market returns, and Tobin's Q. Furthermore, corporate financial performance is normally measured in terms of firms' profitability, market value, or growth (Schuler & Cording, 2006).

Carton and Hofer (2006) defined financial performance as a measure of the change in the financial position of the organisation due to the decisions and implementations made by members of the organisation. Financial performance is important because it can create value for the organisation (Carton & Hofer, 2006). Furthermore, according to Miles and Covin (2000), previous scholars indicated that business strategies should be evaluated using the financial returns that the organisation generates for the shareholders. The authors added that meeting the shareholders' needs forces the organisation to improve its financial performance continually.

These points imply the significance of assessing the financial performance of an organisation. The matter becomes even fundamental as Islamic banks have been recording lower financial performance in the past few years (IFSB, 2015, 2016, 2017). Hence, it is imperative to formulate new strategies that provide alternatives for improving the financial performance of Islamic banks.

3.3.2 How to enhance financial performance: Empirical research on CSR, CSRD, and financial performance

Reports by EY (2013) and SCM (2011) stated that one of the strategies that will enable the Islamic banks to sustain is by getting involved in CSR activities and disclosing those activities in the annual reports. According to Haniffa and Hudaib (2007), previous scholars agreed that the disclosure of corporate information will improve the financial performance of an organisation. This statement is supported by Thompson and Zakaria (2004), who found that developed countries have used CSRD in their strategic planning to improve performance.

In addition, Freeman (1994) highlighted that managers have a fiduciary responsibility towards all the stakeholders. Particularly, meeting the demands and needs of the stakeholders will enhance financial performance (Platonova et al., 2016). For example, the organisations that carry out community programmes (Haniffa & Hudaib, 2007), develop a policy on customer protection (Krasodomska, 2015), and provide brief descriptions of their products and services that are in line with the *Shariah* principles (Mosaid & Boutti, 2012) will receive a positive reaction from the customers who will be attracted to buy the financial products and services offered by the organisations, become loyal, and recommend the financial products and services to others (Deng & Xu, 2017; Metawa & Almossawi, 1998).

Furthermore, organisations that treat the employees well, for example by establishing a policy on the welfare and benefits of the employees (Hassan & Harahap, 2010) will increase the productivity of the employees, and directly, the financial performance of the organisations (Clarkson, 1995). Hence, social responsibility is needed in order to ensure the success of the organisations. Van beurden and Gössling (2008) elaborated that due to

Freeman's (1994) statement, a number of scholars have conducted research on CSR and financial performance. In fact, many of the studies found a positive relationship between CSR and financial performance in the long run.

Capon, Farley, and Hoenig (1990) conducted a meta-analysis of 320 published studies regarding the factors that affect financial performance. The results indicate that environmental, strategic, and organisational factors affect financial performance. In detail, they asserted that CSR, which is a strategic factor, does accelerate financial performance. A meta-analysis of 52 studies conducted by Orlitzky et al. (2003) also found a positive correlation between corporate social performance and corporate financial performance. Similarly, van Beurden and Gössling (2008) found that most of the literature reviewed demonstrated the existence of a positive relationship between corporate social performance and corporate financial performance.

Indeed, empirical studies found that most of the research manifested a positive relationship between CSR and financial performance. Table 3.4 shows that 66% of the empirical research found that there is a positive relationship between CSR and financial performance, 11% found a negative relationship, and 29% found no relationship. Thus, Islamic banks can strategize their business operations by focusing on their involvement in CSR activities and disclosing such activities in the annual reports. This approach is viewed as one of the strategies to increase the financial performance of Islamic banks. Nevertheless, there are methodological issues that need to be reviewed in terms of financial performance measurement and assessment, which are covered in the next section.

Table 3.4: Empirical research on CSR, CSRD, and financial performance

No	Year	Authors	Results			Notes
			Positive	Negative	No relationship	
1	1975	Bowman & Haire	√			-
2	1975	Vance		√		-
3	1978	Alexander & Buchholz			√	-
4	1979	Abbott & Monsen			√	-
5	1985	Aupperle, Carroll, & Hatfield			√	-
6	1996	Hackston & Milne			√	-
7	1998	Brown	√			-
8	1997	Waddock & Graves	√			-
9	1997	Russo & Fouts	√			-
10	2000	Carter, Kale, & Grimm	√			-
11	2000	Dowell, Hart, & Yeung	√			-
12	2000	McWilliams & Siegel			√	-
13	2001	Ruf, Muralidhar, Brown, Janney,& Paul	√			-
14	2005	Schnietz & Epstein	√			-
15	2005	Van de Velde, Vermeir, & Corten			√	Positive but not significant: corporate governance, human resources policy, clients and suppliers and environment
16	2006	Luo & Bhattacharya	√			-
17	2006	Brammer, Brooks, & Pavelin		√		-
18	2007	He, Tian, & Chen	√			-
19	2007	Smith, Yahya, & Amiruddin		√		-
20	2007	Janggu et al.	√			-
21	2010	Aras, Aybars, & Kutlu			√	-
22	2011	Abu Bakar & Ameer	√			-
23	2011	Oeyono, Samy, & Bampton	√			-
24	2011	Saleh et al.	√			-
25	2012	Mosaid & Boutti			√	-
26	2012	Arshad et al.	√			-
27	2012	Samina	√			-
28	2012	Ahmed, Islam, & Hasan			√	-
29	2014	Ahamed, Almsafir & Al-Smadi	√			-
30	2014	Mallin et al.	√			-

Table 3.4, continued

No	Year	Authors	Results			Notes
			Positive	Negative	No relationship	
31	2014	Zaki, Sholihin, & Barokah	√	√		Positive: products and services and commitment towards employees Negative: vision and mission statement, board of directors and top management, *zakat*, charity and benevolent loan.
32	2015	Saeidi et al.	√			-
33	2015	Hafez			√	-
34	2016	Cornett, Erhemjamts, & Tehranian	√			-
35	2016	Cegarra-Navarro et al.	√		√	Positive: Economic Positive but insignificant: Social
36	2017	Nishitani, Jannah, Kaneko, & Hardinsyah	√			-
37	2017	Theodoulidis, Diaz, Crotto, & Rancati	√			-
38	2017	Esteban-Sanchez, Cuesta-Gonzalez, & Paredes-Gazquez	√			Positive: Employee, corporate governance and community Negative: Product
Number of studies reviewed			25	4	11	
Percentage			66%	11%	29%	

3.3.3 Methodological limitations: The lack of uniformity in financial performance measurements

The measurement of financial performance is one of the important aspects in ensuring that the research is valid and reliable. Previous scholars stated that it is essential to identify the most appropriate performance measures in order to understand business success and failure (Chandler & Hanks, 1993; Murphy et al., 1996). Many scholars asserted that company performance is multidimensional in nature (Murphy et al., 1996; Venkatraman & Ramanujam, 1986). However, Carton and Hofer (2006) recognised that there is no consensus as to which is the best measurement for a company's financial performance, as shown in the previous empirical studies. For instance, Maltz, Shenhar, and Reilly (2003) categorised total sales, accounting returns, and sales growth under "financial". In contrast, Rowe and Morrow (1999) concluded that the financial dimension is only for accounting returns. It is worth noting that there have been various attempts to determine financial performance.

Carton and Hofer (2006, p. 7) added that "changing environmental conditions might dictate that different performance dimension priorities exist at different times. For instance, during economic recessions, liquidity may be more crucial than profitability, while during economic booms, profitability and growth may take precedence". Appendix B shows the financial performance measurements used previously. The previous empirical research in Appendix B was done in light of the relationship between CSR, CSRD, and financial performance. The results show that the measurements used for financial performance are varied. McWilliams and Siegel (2000) added that previous studies found some limitations relating to the neglect of the importance of financial performance measures.

Freeman (1984) suggested that the organisation should satisfy the needs of all the stakeholders in order to achieve the organisational objectives. According to Carton and Hofer (2006), Freeman (1984) emphasised that stakeholders are a resource for attaining organisational objectives rather than limitations. They added that Freeman's (1984) perspective is multiconstituency and multidimensional.

Wood and Jones (1995) elaborated that the problem with the narrow view of corporate social performance (CSP) is that only the owners are seen as having the right to evaluate corporate performance, while the management is only concerned about what is relevant to the owners. This supposition contradicts the stakeholder model of the firm, which suggests that all the stakeholders have certain rights in evaluating firm performance. Thus, a variety of firm performance measures might be appropriate and desirable when measuring some aspects of CSP, but a few measures (and no extant measure) could accurately represent the CSP construct as a whole. Hence, the organisation should determine which type of financial performance measures that the stakeholders prefer.

The Islamic banks in Malaysia consist of both large and small Islamic banks (Wahid, 2016). Hence, there is a need for a balanced or equal financial performance measurement for the Islamic banks in order to produce better analysis. Chandler and Hanks (1993) suggested that there are several challenges in finding suitable financial performance measurements for a new venture's performance, which are: i) the absence of traditional financial measures; ii) traditional financial measures may not be suitable for the starting firm which could produce remarkable return due to a small investment base; iii) various measures of financial performance capture different dimensions of performance. In addition, the definition of the variables correlated with firm performance changes as the definition of performance changes; iv) absolute financial performance scores are affected due to difficulties in controlling the industry-related factors; and v) objective measures such as financial breakeven and survival are impractical as they require longitudinal sample design. Thus, a few considerations must be taken into account to analyse the small Islamic banks in Malaysia.

Furthermore, a study done by Ahmad and Seet (2009) attempted to explore the meaning of business success as perceived by the SME business owners in Australia and Malaysia. The authors found that there are four indicators for a successful business in Malaysia through a qualitative approach which are financial and non-financial (lifestyle, social responsibility, and customer satisfaction) criteria clusters, as shown in Table 3.5.

Table 3.5: Measurement of financial and non-financial performance

Indicators	Measurement
Financial	• Profitability • Business growth • Increase in sales • Increase in market share • Low debt levels
Lifestyle (non-financial)	• Personal satisfaction • Control own business • Healthy and happy life • Balance between work and family • Survival in business
Social responsibility (non-financial)	• Creating more jobs for the local community
Customer satisfaction (non-financial)	• Gain customer confidence • Customer listens to our advice • Have satisfied customers

The findings from the research done by Ahmad and Seet (2009) show that when the organisations improve these measures, they will, at the same time, improve their performance.

Therefore, based on the reviewed literature and the current environment which is the Malaysian context as well as the targeted organisations, this study took into account

Ahmad and Seet's (2009) financial performance items. In this study, the researcher looked at the financial items, which are profitability, business growth, increase in sales, and increase in market share in order to measure the financial performance. In addition, Chandler and Hanks (1993) provided empirical evidence that growth and business volume are the most appropriate performance dimensions for business decision making. Also, growth and business volume are appropriate for self-reported measures.

Hence, the financial performance measures for this study are based on the published literature and the stakeholders' expectations, experience effects, and evaluated outcomes (Wood & Jones, 1995). Besides, the measurements were validated by the expert panel and analysed using EFA. In addition, the measurements were confirmed using CFA. The next subsection discusses the assessment used for financial performance.

3.3.4 The reason for using subjective assessment and previous studies on subjective assessment

Günther, Günther, and Hoppe (2004) stated that there are five categories of financial performance, which are accounting-based measures, stock market measures, stock market and accounting-based measures, questionnaire-based measure (perceived performance), and other measures such as shadow prices, rankings, or occupancy rates. The extant literature in Appendix B shows that most of the studies employed objective assessment. In fact, most of the studies have proven that research using objective assessment manifested a positive relationship (See Appendix B). In this regard, this study considered the subjective assessment of financial performance.

Besides, this study used a survey questionnaire for financial performance for several key reasons. Firstly, Wood and Jones (1995) argued based on the stakeholder theory that besides managers, other stakeholders also have the right to evaluate the organisation's performance because they have had their own expectations, experienced the impacts, and evaluated the results. The authors added that previous empirical studies found mismatched variables in the context of stakeholder theory. For instance, ROE, ROI, and similar profitability accounting measures do not indicate the owner's evaluation of a firm's social performance. Although these measures provide information that can be used in decision making by anyone interested in buying, selling, or retaining stock, the information is inadequate with regard to how a company's stakeholder evaluates and consequently acts upon the firm's social performance. In fact, the studies used these measures from the managers perspective, not the owners. In this case, managers represent the great hidden stakeholders in corporate life and in corporate social performance. In summary, it is clear that different stakeholders may set expectations, experience the impact, and evaluate the outcomes (Wood & Jones, 1995). The authors asserted that by using content analysis to analyse the relationship between CSRD and financial performance, stakeholder mismatches occur. They questioned the impact of CSRD on financial performance and asserted that it is more appropriate for the customers to give evaluation rather than the stakeholders.

Secondly, Carton and Hofer (2006) stated that the aim of the annual report is to present the historical actions of the organisations, while both strategy and entrepreneurship fields are interested in the future instead of the past. In addition, there is a lack of data in the annual report on the strategy and entrepreneurship aspects. Furthermore, the measurements used are suitable for subjective evaluation as perceived by employees and customers in order to prevent stakeholder mismatch (Wood & Jones, 1995). According to He et al. (2007), previous scholars stated that self-evaluation measures are valid. Dess and Robinson (1984) justified that subjective performance measures can be used if the objective measures are unavailable. In fact, prior research has also shown subjective performance measures to be a reasonable substitute for objective performance measures and have a significant correlation with objective performance measures (Dawes, 1999; Galbreath & Shum, 2012; Spanos & Lioukas, 2001).

Thirdly, the measurements used for financial performance are appropriate to be analysed by the stakeholders of Islamic banks to avoid data manipulation in the published financial statement (Kirkos, Spathis, & Manolopoulos, 2007). In addition, it is to reduce difficulties in external interpretation and data aggregation (Venkatraman & Ramanujam, 1986). Furthermore, subjective measures more closely reflect the assessment of overall performance (Dess & Robinson, 1984; McGuire, Schneeweis, & Branch, 1990).

Fourthly, this study measured the MIICSRDi and corporate reputation using a survey questionnaire. The survey questionnaire was used to reduce measurement error through the subjective assessment gained from the perceptions of employees and customers (Wood & Jones, 1995).

Lastly, previous studies showed that studies conducted on objective measures manifested a positive relationship between CSR, CSRD, and financial performance. However, there are inconsistencies in the measurements used for financial performance (Murphy et al., 1996; Venkatraman & Ramanujam, 1986). Hence, this study took into account another perspective, that is, subjective performance evaluation. The subjective financial performance evaluation is important in order to determine whether the relationship between CSRD and financial performance exists.

Previous studies that applied subjective assessment have been reviewed. The studies show that there is a positive relationship between CSR and financial performance as perceived by the managers (Cegarra-Navarro et al., 2016; He et al., 2007; Saeidi et al., 2015). The studies examined the relationship in different contexts such as in Spain (Cegarra-Navarro et al., 2016); CSR Association of Indonesia which represents mining, manufacturing, agriculture and electricity, gas and water supply organisations (Nishitani et al., 2017); and manufacturing and consumer product organisations in Iran (Saedi et al., 2015).

One of the reasons for using subjective assessment is the data were not available as they were business secrets (He et al., 2007; Saeidi et al., 2015). In addition, the perceptions of managers were taken into account to obtain a comprehensive evaluation of the organisation (Cegarra-Navarro et al., 2016). The validity of the measurement was tested using reliability scales, content validity, and CFA (He et al., 2007; Saeidi et al., 2015). Therefore, extant literature shows that managers can evaluate the financial performance of organisations.

In addition, some studies obtained the perceptions of customers to evaluate the financial performance of the organisation, which resulted in a positive relationship between CSR and corporate performance as perceived by the customers (Chaudary et al., 2016). In their study, customers evaluated corporate performance based on sales growth, market share, profit growth, and return on investment. The same approach was adopted by Menon, Bharadwaj, and Howell (1996). The customers in this study were ensured to have knowledge and awareness of CSR and green image.

Meanwhile, Al-Hawari (2006) conducted a study on perceived financial performance based on objective and subjective assessments with automated service quality as an independent variable. Subjective assessment was employed because the measure was found to be reasonably reliable and widely used in international marketing and strategy literature. Besides, the use of objective performance measure only, for example, growth, is not the most accurate measure of firm performance (Al-Hawari, 2006). In the study, the customers evaluated the financial performance of the Australian banking sector. Survey questionnaires were distributed to the general public using a face-to-face interview method. The survey questionnaires were also distributed to different banks, credit unions, and building societies in Queensland, Australia. The financial performance measures consisted of asset utilisation, ROA, ROE, and the willingness to increase the level of business.

Therefore, the literature shows that customers can evaluate the financial performance of organisations including those in the banking sector. In fact, Schuler and Cording (2006) proposed that customers can evaluate the relationship between CSR and financial performance. The authors stated that consumers are important stakeholders because their purchase decisions have a direct effect on a company's revenues and overall financial performance. One of the criteria that the customers must fulfil in order to be able to evaluate the relationship between CSR and financial performance is that the customers must be aware of the organisation's social activities (Schuler & Cording, 2006).

Previous studies have examined the relationship between CSR and financial performance as evaluated by managers (Cegarra-Navarro et al., 2016; He et al., 2007; Saeidi et al., 2015) and customers (Chaudary et al., 2016; Schuler & Cording, 2006). However, there is a lack of empirical studies that employed subjective evaluation in examining the relationship between CSR and financial performance, especially from the Islamic banking context.

Consequently, previous scholars advocated that the relationship between CSR and financial performance is positive (e.g., Orlitzky et al., 2003) but not strong enough (Abdullah & Abdul Aziz, 2013; Janggu et al., 2007). Hence, there is a need for an intervening variable, which is corporate reputation, to act as a mediator in the relationship (Galbreath & Shum, 2012; Saeidi et al., 2015). Therefore, the next section reviews the corporate reputation variable.

3.4 Corporate reputation

This section provides a review of the concept of corporate reputation and the previous studies on corporate reputation.

3.4.1 The concept of corporate reputation

Corporate reputation is an overall perception of the stakeholders towards the organisation, either positive or negative (Pomering & Johnson, 2009). Weiss, Anderson, and MacInnis (1999, p. 75) defined corporate reputation as "a global perception of the extent to which an organisation is held in high esteem or regard". Fombrun and Shanley (1990, p. 234) suggested that reputation is the formation of information "into collective judgments that crystallise into reputational orderings of firms in organisational fields". The definition incorporates, first, the "global perception" or universal aspect of reputation. Although an organisation will have different sub-reputations for different aspects of its activities (e.g., for its profitability, or for the quality of its products or services), observers will tend to give an assessment of the organisation's reputation (Fombrun, 1996). The assessment may include both instrumental and normative concerns. Thus, while different stakeholders may hold different views of an organisation's reputation, they are nevertheless "an overall, affective impression" (Hutton, Goodman, Alexander, & Genest, 2001, p. 257).

Corporate reputation becomes important for academicians as well as practitioners (Brammer & Pavelin, 2004). Corporate reputation is significant for the firms to sustain in the long term (Abdullah & Abdul Aziz, 2013). It is said that managers consider corporate reputation as most pertinent among their intangible assets (Gómez-Mejía & Balkin, 2002). Uplifting the reputation is essential because of the competitive markets out there that urge companies to stand out in order to be recognised (Illia & Balmer, 2012). In the Islamic banking scenario, Malaysia is the first country to apply the dual banking system (Echchabi & Olaniyi, 2012). Islamic banks operate side by side with conventional banks in order to generate the country's economic growth. As a result, consumers have an option between Islamic products and conventional products. This situation leads to competition between the two types of banks. In addition, Islamic banks have attracted people from various races and religions in Malaysia (Amin et al., 2013). The Islamic banks and conventional banks, therefore, need to compete to win over customers.

Reputation is perceived to be important as it affects customer behaviour towards the organisation. For example, good products and quality services will lead to customer satisfaction. Hence, the customers will indirectly become loyal to the organisations (Goldberg & Hartwig, 1990; Rao, Agarwal, & Dahlhoff, 2004; Shapiro, 1983). In terms of suppliers, if an organisation has a good reputation, the cost of contracting, negotiating, and monitoring may decrease (Bergh, Ketchen, Boyd, & Bergh, 2010). In addition, with a good reputation, the employees will be motivated to be more productive and stay in the organisations. New talent will also be attracted to join the organisations (Roberts &

Dowling, 2002). Besides, as stated by previous scholars, investors who see that an organisation has a good reputation are more likely to invest in that organisation, and hence, the organisation can charge higher issue prices (Raithel & Schwaiger, 2015). According to Brammer and Pavelin (2004), organisations' reputation will get a boost when they are involved in CSR activities and disclose the activities in the annual report. These companies will attract more customers, recruit the best talent, enhance job satisfaction and motivation of the workers, cause positive media coverage, and receive positive feedback from the financial analysts (Laufer & Coombs, 2006).

Consequently, this study delves into the relationship between CSRD and financial performance by considering corporate reputation as the mediator. The next section reviews the literature on CSR and CSRD, corporate reputation, and financial performance.

3.4.2 Previous studies and the gaps in corporate reputation

Some scholars have proposed corporate reputation as a mediator variable in the relationship between CSR and financial performance (Galbreath & Shum, 2012; Saiedi et al., 2015). Saeidi et al. (2015) argued that the direct relationship between CSR and financial performance is not strong enough, and hence, an intervening variable should be proposed. Therefore, this subsection reviews the literature pertaining to the relationship between i) CSR and corporate reputation and ii) corporate reputation and financial performance.

Pérez (2015) emphasised that CSRD is beneficial to boost up corporate reputation. In particular, the previous studies listed in Appendix C show that there is a positive relationship between CSRD and corporate reputation (e.g., Arshad et al., 2012; Park, 2017; Toms, 2002). As shown in the appendix, 56% of the reviewed studies were conducted on CSRD and corporate reputation. It also shows the analysis on the relationship between corporate reputation and financial performance, where it was found that most of the literature (80%) obtained a positive relationship. Meanwhile, according to Golob, Podnar, Elving, Nielsen, and Thomsen (2013), there is a lack of empirical research on the relationship between CSRD and corporate reputation. Most of the literature (83%) found a positive relationship between CSRD and corporate reputation. Moreover, Sabate and Puente (2003) agreed that the relationship between corporate reputation and financial performance does exist.

Some previous studies proposed corporate reputation as a mediating variable (Blickle, Schneider, Liu, & Ferris, 2011). Accordingly, many empirical studies were conducted using corporate reputation as a mediating variable (Arikan, Kantur, Maden, & Telci, 2016; Galbreath & Shum, 2012; Hur, Kim, & Woo, 2014; Park, 2017; Saeidi et al., 2015; Taghian et al., 2015). The reviewed literature found that corporate reputation does fully mediate (Arikan et al., 2016; Galbreath & Shum, 2012; Hur et al., 2014; Saeidi et al., 2015) and partially mediate (Arikan et al., 2016; Park, 2017) the relationship between CSR and financial performance. The results show that corporate reputation is an important mediator of the relationship.

Besides, the analysis in Appendix C shows that the studies used stakeholder theory (Taghian et al., 2015), resource-based view (Fatma, Rahman, & Khan, 2015), and signalling theory (Galbreath & Shum, 2012) to explain corporate reputation. In particular, previous studies used signalling theory to explain the mediating role of corporate reputation in the relationship between CSR and performance (e.g., Arikan et al., 2016; Galbreath & Shum, 2012). Spence (1973) introduced the signalling theory to recruit quality employees, whereby education becomes an indicator to reduce information asymmetries. Walker (2010) asserted that signalling theory portrays the image of the organisation to the stakeholders, and then the stakeholders respond to form impressions of the organisation. The signalling theory advocates building, maintaining, and defending reputation based on a projected organisational image.

Most of the literature used the survey questionnaire (Arikan et al., 2016; Galbreath & Shum, 2012; Hur et al., 2014; Park, 2017; Saeidi et al., 2015; Taghian et al., 2015). In addition, SEM AMOS is the preferred analysis for examining the mediating role (Galbreath & Shum, 2012; Hur et al., 2014; Saeidi et al., 2015; Taghian et al., 2015).

Nevertheless, the analysis of the literature shows that corporate reputation measurements are varied. For example, different researchers used different corporate reputation measurements, such as Reputation Quotient by Fombrun et al. (2000) (Arikan et al., 2016); reputation scale by Weiss et al. (1999) (Galbreath & Shum, 2012; Saeidi et al., 2015); reputation measurement scale by Newburry (2010) (Hur et al., 2014); and Korea's Most Admired Companies index (Park, 2017).

Apart from this, the respondents used in the previous studies in examining corporate reputation as a mediator are also different, such as customers, employees, and investors in Turkey (Arikan et al., 2016); managing directors of Australian manufacturing and services firms (Galbreath & Shum, 2012); South Korean customers (Hur et al., 2014); and top managers (Saeidi et al., 2015; Taghian et al., 2015). The study by Saedi et al. (2015) examined Iran's manufacturing and consumer product firms, whereas the study by Taghian et al. (2015) was on Australian firms.

Therefore, the reviewed literature implies that further research should be done using other types of corporate reputation measurements that are suitable for the Malaysian Islamic banking context. Furthermore, different types of analysis can be employed, such as PLS-SEM analysis. In addition, employees and customers can become the respondents, similar to Taghian et al. (2015), which found that employees and the public are the most influential key stakeholders.

3.5 Summary and conclusion

This chapter has provided a detailed review of CSR and CSRD, financial performance, and corporate reputation. Firstly, the literature review on CSR and CSRD has been presented. The gaps in CSR and CSRD in Malaysia and in conventional and Islamic perspectives have been elaborated. Besides, the importance of studying the perceptions of CSR and CSRD has been explained. Secondly, this chapter has elaborated the issues related to financial performance measurement and assessment. The chosen financial performance measurement and subjective assessment have been justified. Thirdly, the concept and previous studies of corporate reputation have been reviewed. The gaps in corporate reputation have been identified. Next, the following chapter will explain the theories and hypotheses for this study.

CHAPTER FOUR: THEORIES AND HYPOTHESIS DEVELOPMENT

4.1 Introduction

Chapter Two reviewed the literature on the challenges faced by the financial industry that affect the Malaysian Islamic banks. The importance of Islamic banks has been highlighted, and the Islamic economic worldview as the foundation of Islamic banks has been critically reviewed and analysed. In addition, the reasons for conducting research in the Malaysian Islamic banking context have been explained. The literature indicates that Islamic banks have unique features that differentiate them from conventional banks, Islamic banks dominate the Islamic financial industry, and the Malaysian government supports the development of Malaysian Islamic banks. Notwithstanding, Malaysia is unique as it consists of a multiracial and multireligious population.

To overcome the challenges that affect the performance of Malaysian Islamic banks, reports by EY (2013) and SCM (2011) asserted that one of the strategies is to be involved in CSR activities and disclose such activities in the annual report. It is found that the involvement in CSR and disclosure of such information will increase the corporate reputation and financial performance of Islamic banks (Arshad et al., 2012; Mallin et al., 2014). Thus, in Chapter 3, the literature on CSR, CSRD, financial performance, and corporate reputation have been critically reviewed and analysed. It was found that the Malaysian government supports CSR and CSRD. Nevertheless, there is an absence of an Islamic CSR framework specifically for Islamic banks in Malaysia (Wan Jusoh & Ibrahim, 2018). The Islamic CSR framework is needed in order to distinguish the business operations of Islamic and conventional banks (Darus et al., 2018) and to prevent the negative perception of the stakeholders (Andrikopoulos et al., 2014). In addition, the reviewed literature on CSR, CSRD, financial performance, and corporate reputation shows that there are research gaps that need to be filled in, which leads to the research objectives of this study.

The aim of this chapter is to link all the literature together based on the research objectives and to formulate the hypotheses to be tested for this study. The establishment of the MIICSRDi, the relationship between the MIICSRDi and financial performance, and the role of corporate reputation as the mediator are explained based on the integrated theories.

4.2 Theoretical perspective

The theories and principles applied in this study are to explain the establishment of the MIICSRDi and the relationship between the variables (MIICSRDi, financial performance, and corporate reputation) as perceived by the stakeholders (Beck & Stolterman, 2016). The theories applied in this study are the stakeholder theory and signalling theory. In addition, this study incorporated the Islamic worldview that includes the *Shariah* principles (Islamic economic system: unity, equilibrium, free will, and responsibility, as well as *tazkiyah*) and the *'urf* principle. The integrated theories can be applied, as supported by Mayer and Sparrowe (2013).

4.2.1 Stakeholder theory

Stakeholder theory indicates a relationship between the organisation and different groups of stakeholders that affect and are affected by the organisation's operation (Freeman, 1984). For example, the efficient management of CSR and its relationship with the employees positively affects the firm's financial performance (Berman, Wicks, Kotha, & Jones, 1999).

Donaldson and Preston (1995) proposed three views of stakeholder theory, which are normative: relating to how the management should deal with the stakeholders; instrumental: which describes what happens if the management treats the stakeholders in a certain way (e.g., the relationship between stakeholder management and financial performance); and descriptive or empirical perspective: that focuses on how the management deals with the stakeholders. However, the separation between normative, instrumental, and descriptive views should not exist (Freeman, 1999). Therefore, the normative and instrumental views have been converged in this study, as suggested by Jones and Wicks (1999) and Freeman (1999). Freeman (1994) stated that there is no separation of the theory, which means separation between ethics and business. Particularly, the stakeholder theory explains that ethics is part of doing business (Freeman, Wicks, & Parmar, 2004).

In this study, the MIICSRDi is established as a reflective model for the Islamic banks in Malaysia. In addition, this study examined what happens if the MIICSRDi is established and disclosed in the annual report. It deals with the question of whether the MIICSRDi will increase the financial performance based on stakeholders' perception (Donaldson & Preston, 1995; Jones, 1995). Accordingly, many studies have supported the use of stakeholder theory to explain the relationship between CSR and financial performance (e.g., Arshad et al., 2012; Bayoud et al., 2012; Roberts, 1992; Ruf et al., 2001; Orlitzky et al., 2003; van Beurden & Gössling, 2008). Wood and Jones (1995) stated that currently, the corporate social performance measurement has no underlying logic, and hence, it should be integrated with the stakeholder theory. Therefore, the stakeholder theory is used to explain the development of the MIICSRDi (Hypothesis 1) and the relationship between the MIICSRDi and financial performance as perceived by the stakeholders (Hypothesis 2).

4.2.2 Signalling theory

This study employed signalling theory to explain the mediating role of corporate reputation on the relationship between the MIICSRDi and financial performance (Hypothesis 3). According to this theory, the signaller (e.g., person, product, or organisation) sends signals (either positive or negative communication) to the receivers (parties who observe and interpret the signals, e.g. employees, customers), who consequently utilise the signals to provide feedback to the signaller (Connelly, Certo, Ireland, & Reutzel, 2011).

As such, Islamic banks provide the MIICSRDi as a signal to the receivers (employees and customers), and subsequently, the receivers make judgements and respond accordingly. The stakeholders' judgements of the organisations can be positively influenced and form the foundation of reputation (Fombrun & Shanley, 1990; Galbreath & Shum, 2012).

A firm's reputation is a representation of public opinion, which is dependent upon meeting stakeholders' expectations. Through the ability to demonstrate a high level of CSR signals, the firm will behave in accordance with the stakeholders' expectations. The ability to build a positive reputation is dependent on the continued participation of the stakeholders (Brammer & Pavelin, 2004). A positive reputation is critical to the firm's survival and performance (Clarkson, 1995). Indeed, a favourable reputation that meets the demands and expectations of the stakeholders can accelerate the organisation's performance (Fombrun & Shanley, 1990; Freeman, 1984). Therefore, it is perceived that the MIICSRDi will improve financial performance by positively influencing stakeholders' perceptions, which in turn influence their responses towards the firm. Accordingly, previous studies used signalling theory to explain the mediating role

(Arikan et al., 2016; Galbreath & Shum, 2012). Hence, signalling theory would be able to explain the mediating role of corporate reputation on the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

Islamic banks' operations are based on the Islamic worldview. Therefore, there is a need to integrate the Islamic worldview (*Shariah* principles and *'urf* principle) with the conventional theories (stakeholder theory). The next section explains the *Shariah* principles.

4.2.3 Shariah principles

Shariah can be described as "Islamic law", which is the code of conduct in a Muslim's life (Dusuki, 2012). Dusuki and Abdullah (2007, p. 30) defined *Shariah* as "a complete and integrated code of life encompassing all aspects of life, be they individual or social, both in this world and the Hereafter". As mentioned in Chapter Two, the main sources of *Shariah* principles are the *Quran*, *Sunnah*, *ijma*, and *qiyas* (Haniffa & Hudaib, 2002). The main focus of the *Shariah* principles is to promote: (i) social justice and welfare and (ii) the act of seeking *Allah*'s pleasure through the foundations of moral, social, political, and economic philosophy to achieve success in the world and the Hereafter (Haniffa & Hudaib, 2002). Accordingly, the Islamic economic system is based on the concept of unity, equilibrium, free will, and responsibility (Naqvi, 1981). The description of the four principles is based on the research done by Mohammed (2007) and Tilt and Rahin (2015).

Firstly, the principle of unity involves the relationship with God, society (e.g., employee), and environment (Muhamad & Muwazir, 2008). There is only one God, *Allah*, who owns all of the resources in this world. *Allah* has appointed human beings as His vicegerents (*khalifah*). Therefore, human beings must act as a trustee (*al amin*) to take care of and manage the resources. It is expected that human beings should be trustworthy and truthful, do not hoard wealth greedily, and should not discriminate others. Human beings should always realise that *Allah* entrusts them to manage the resources in this world. Considering this fact, likewise, Islamic business organisations should realise, firstly, the divine mandate bestowed by God, and secondly, the trust by the stakeholders to run the business operations.

With regard to this, CSRD is seen as an appropriate tool in upholding *Allah*'s trust continuously, and hence, gaining trust from the stakeholders as well. Therefore, information such as financial performance review, statement of corporate governance and sustainability governance, employee information, *Shariah* Supervisory Board (SSB) report, products and services information, and information on the main investors that support social welfare activities should be disclosed in the annual report. The disclosure in the SSB report exhibits the Islamic banks' truthfulness in ensuring that the products and services that they provide are in compliance with the *Shariah* principles. Meanwhile, the practice of no wealth hoarding is very much related to the information on the products and services, financial performance review, information on the main investors that support social activities, and statement of corporate governance and sustainability. In addition, the practice of no discrimination is related to employee information on the rights of employees, welfare and benefits, diversity, health, and safety of the working environment. In short, it is expected that these disclosures are demanded by the employees and customers under the basis of the unity principle.

Secondly, the equilibrium principle is related to all aspects of human life. This principle consists of the relationship between man, or an organisation, with other human beings (e.g., employees and customers). It is expected that equilibrium in Islamic banks indicates the practice of fair competition, treating others fairly, and fairness in wage distribution and benevolence (*al-ihsan*). Besides, Islam encourages the circulation of wealth through trade and prohibits interest or usury (*riba*). In other words, Islamic banks are encouraged to expand their capital through trade instead of by getting involved in interest. Lending on interest is harmful to society because the lender, who is likely to be wealthy, lends money to the poor borrower without the fear of making a loss, thus increasing the gap between the rich and the poor. It is crucial for Islamic banks to distribute their profits by means of benevolent loans to the wider society using extra profits in reserve. Benevolent loans can benefit society as well as foster the equitable distribution of wealth. Hence, the MIICSRDi disclosure related to equilibrium is crucial towards indicating that Islamic banks are socially just. Thus, information related to the guideline for staff appointment and appraisal, qard hasan products, and statement on providing excellent services to the customers should be disclosed. It is expected that these disclosures are demanded by the employees and customers under the basis of the equilibrium principle.

Thirdly, the free will principle is related to the freedom of human beings to choose. Man as a trustee of *Allah* can choose to manage resources either ethically or unethically. Consequently, free will relates to the ability of men to manage their relationship with society and the environment. For instance, free will encompasses the contribution to the wellbeing of society, the fulfilment of obligations towards society, and care for unfortunate people and the environment. Thus, information related to the contribution to the community; collaboration with the government and non-governmental organisations (NGO) in charitable activities; the existence, sources and distribution of charitable funds; as well as protecting the environment should be disclosed in the annual report. Furthermore, the free will principle is also related to the freedom of man to make a contract or to break it, such as in a formal contract to perform a certain task when dealing with employees, suppliers, customers, and to be responsible towards them. For example, the statement of appreciation to the stakeholders and shareholders, statement on reviewing prospective customers and suppliers, statement on the assessment and measures taken from customers' feedback and complaints, and the statement on the policy for dealing with suppliers, customers, and insolvent customers are expected to be demanded by the stakeholders of Islamic banks.

Fourthly, the responsibility principle lies in the propositions that arise from three economic axioms, which are unity, equilibrium, and free will. This principle indicates that one is held responsible for his own deeds. According to Islam, every soul is accountable to *Allah*, and hence, faithful actions are taken to gain *Allah*'s favour and blessings. Thus, a man is expected to act responsibly and fulfil the expectations in line with the three economic axioms. In addition, business organisations are required to pay *zakat* in order to contribute to society. The assumption of responsibility makes human beings accountable for their actions. However, it is challenging for Islamic banks to be accountable without disclosing their CSR activities. In relation to the responsibility principle, Islamic banks are expected to demonstrate accountability by running their business operations and making management decisions in line with the *Shariah* principles and by fulfilling their responsibility towards society. As such, the responsibility principle is related to information such as *zakat* information, the profile of the board members and SSB, a statement on the existence of environmental assurance, vision and mission statement, and information on *Shariah* non-compliant events. Thus, it is expected that this information will be demanded by the stakeholders of Islamic banks.

Meanwhile, Gambling and Karim (1991), quoting from Muhamad (2006), found that there are five elements of the Islamic economic system, namely, *tawhid*, *khilafah*, *rububiyyah*, *tazkiyah*, and accountability. In this study, the researcher has used the *tazkiyah* principle to explain the relationship between the MIICSRDi and financial performance. *Tazkiyah* is defined as growth and purification (Muhamad, 2006). Sulaiman and Willet (2003) asserted that *tazkiyah* indicates the concept of change and expansion, which is not included in the Christian law. According to the *tazkiyah* principle, a human being is expected to do the best in his life, to obtain a better material life, and to satisfy the worldly needs. Muhamad (2006) agreed that the principle of *tazkiyah* is encouraged in Islam, but growth, change, and a better material life must lead to social justice and spiritual improvement for the society as well as the individual concerned. Alamad (2017) added that the growth and expansion (e.g., productive work) of the human being for the material life, which must lead to social justice and spiritual enhancement, can be considered as an act of worship only when accompanied with a pure intention to fulfil God's instruction.

Besides, Alamad (2017) explained that there are three conditions for the productive work to be regarded as an act of worship: (1) the action must be undertaken wholeheartedly for the sake of God and not for other reasons (e.g., the love of money or profit maximisation), and although achieving worldly ends and making money in accordance with the guidance of *Shariah* is legitimate, it has to be for the sake of God; (2) the action must be in accordance with the *Shariah* principles, which requires the presence of a religious body as part of the governance of IFIs ; and (3) it must not cause a Muslim to neglect his/her existing obligations (Williams & Zinkin, 2010). Besides, this act should not cause harm to others in society (e.g., financial innovation that does not comply with *Shariah* or results in financial fragility and harm to the economy and society).

Accordingly, the *Shariah* principles encompass the Islamic economic system. The Islamic economic system's principles (unity, equilibrium, free will, and responsibility) are important for this study in order to explain the establishment of the MIICSRDi (Hypothesis 1) and the relationship between the MIICSRDi and financial performance (Hypothesis 2). In addition, *tazkiyah*, which is one of the Islamic economic system's principles, explains the relationship between the MIICSRDi and financial performance (Hypothesis 2).

4.2.4 The *'urf* principle

The *'urf* principle, known as custom, is derived from the Arabic word *'arafa* which means to know (Lambak, Jusoh, & Abd Ghani, 2014). According to Hakim (1994), some of the scholars refer to the *Quran* (7:199) as the basis for the application of the *'urf* principle: *"Take things at their face value and bid to what is customary (or accepted by local tradition) and turn away from the ignorant".* Previous Muslim scholars proposed various definitions for the *'urf* principle, as highlighted by Hakim (1994, p. 109):

- What is accepted by people and is compatible with their way of thinking and is normally adopted by those considered to be of good character (Al-Ghazali, d.111 A. D).
- Action or belief in which persons persist with the concurrence of the reasoning powers and which their natural dispositions agree to accept as right (Al-Jurjani, d. 1413 A.D).
- What is customary to people and which they follow in their sayings, acts and in what they reject (Abdul-Wahab Al Khallaf, d. 1956 A.D).

- The habit (or custom) of people in their sayings or acts (Mustafa Al-Zarka, born 1904 A.D).
- What is customary to people and which they follow in their living pattern (Abdulaziz Al-Khayyat, born 1923).

The *'urf*, which is known as the customary law, is one of the prominent sources that support Islamic law (Bello, Yasin, Hassan, & Bin, 2015). Bello and Hassan (2013) stated that the *'urf* principle is the current practice in the daily life of the people, whether good or bad. For instance, Al-Shafi'i made *ijtihad* on many problems that arose during his stay in Iraq. However, when he moved to Egypt, he changed his mind on certain opinions due to the different customs and practices in Egypt (Bello et al., 2015). It means that the process of Islamic legal deduction continuously happens due to the need to solve contemporary problems. In relation to this matter, the *'urf* could be seen as one of the prominent references for the *fuqaha'* (jurists) in dealing with the arising issues as the *'urf* relates with the current situation. Therefore, the *'urf* plays an important role in Islamic law as well as in Islamic business organisations.

In Islam, *'urf* is customs, to be recognised in an Islamic society, and must be consistent with the *Shariah* principles. Wan Jusoh and Ibrahim (2015) added that the *'urf* principle is the practice of business organisations which is based on the financial system environment that does not contradict the *Shariah* principles. For the Islamic banks to compete with the conventional banks and to sustain in the financial industry, the customary practices of the conventional banks which are not against the *Shariah* principles are referred to, on the basis of the *'urf* principle. For instance, the transaction documents for the sale or purchase of assets may be done using written documentation or verbal recording as accepted by the customary practice (*'urf* principle) (SCM, 2019).

Hence, in this study, the *'urf* principle is employed to explain the establishment of the MIICSRDi (Hypothesis 1) and to explain the relationship between the MIICSRDi and financial performance as perceived by the stakeholders (Hypothesis 2). The next section will present the hypothesis development of this study.

4.3 Hypothesis development

In this section, three hypotheses will be discussed and elaborated further.

4.3.1 The MIICSRDI as a reflective model

Previous studies found that the Malaysian government has issued CSR standards, but still, there are inconsistencies in the CSR dimensions and items (e.g., Anuforo et al., 2018; Keong et al., 2018; Hamzah & Abdullah, 2018). In addition, the disclosure of CSR activities by Malaysian Islamic banks is also inconsistent (e.g., Amran et al., 2017; Darus et al., 2018; Yusoff et al., 2018). In particular, the levels of CSRD among Malaysian Islamic banks are from low to moderate levels (e.g., Arshad et al., 2012; Arshad et al., 2014; Masruki et al., 2012). This is perhaps because of the absence of an Islamic CSR framework for Malaysian Islamic banks (Wan Jusoh & Ibrahim, 2018).

From the conventional perspective, previous scholars have proposed several CSR definitions (e.g., Carroll, 1979; Freeman, 1984), but there is no consensus on one CSR definition (Galbreath & Shum, 2012). Apart from this, the CSR dimensions and items that were developed for content analysis in the studies on CSR for the banking sector are inconsistent (e.g., Jain et al., 2015; Krasodomska, 2015). Similarly, stakeholders' perceptions of CSR also vary (e.g., Alvarado-Herrera et al., 2017; Latif et al., 2019). This is perhaps due to the studies were conducted in different countries. Moreover, very few studies in the CSR banking sector indicate whether CSR is a reflective or a formative model. Nevertheless, some previous authors asserted that CSR is a reflective model (Martı´nez et al., 2014; Alvarado-Herrera et al., 2017). As mentioned in Subsection 3.2.2.2, it is important to know whether CSR is reflective or formative to avoid any bias when running the analysis.

From the Islamic perspective, CSR and CSRD are obligatory in Islam (Taman, 2011). However, extant literature found that there are inconsistencies regarding the concept of CSR in Islam (see section 3.2.3.3). In addition, previous scholars have developed Islamic CSR frameworks, but the underlying theories and principles are varied, which have led to diverging Islamic CSR dimensions and items (see Subsections 3.2.3.4 and 3.2.3.5). This phenomenon could be attributed to the different contexts, cultures, places, and time horizons where the CSR framework development occurred (Aksak et al., 2016). Besides, most of the studies on developing the Islamic CSR dimensions and items did not validate the items (e.g., Haniffa & Hudaib, 2007; Khan, 2013; Rashid et al., 2013), unlike this study. In addition, there is a dearth of studies that indicate whether the Islamic CSR measurement for the banking sector is reflective or formative (e.g., Appendix A). Ramayah et al. (2018) stated that it is a norm for the previous studies to indicate the model as reflective.

Furthermore, there are limited studies that provide empirical evidence regarding which dimensions and items of the Islamic CSR framework can be employed (e.g., Bani et al., 2015; Barom, 2015; Muhamad et al., 2014). Hence, it is necessary to establish the MIICSRDi specifically for Malaysia's Islamic banks. In this study, the MIICSRDi is expected to be a reflective model in reference to the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *'urf* principle, as explained in Subsections 4.2.1, 4.2.3 and 4.2.4. Therefore, the following hypothesis has been formulated:

H_1: The MIICSRDi is a reflective model.

4.3.2 The relationship between the MIICSRDi and financial performance

Most of the previous literature found a positive relationship between CSRD and financial performance (e.g., Brown 1998; Cegarra-Navarro et al., 2016; Nishitani et al., 2017). Some scholars stated that maintaining a good relationship with the stakeholders will boost the financial performance of the organisations (Simpson & Kohers, 2002; Platonova et al., 2016; Waddock & Graves, 1997). For instance, Clarkson (1995) stated that the implementation of CSR activities is based on market forces, namely productivity and customer satisfaction. Jamali (2008) concurred that the performance of organisations will depend on how the employees are being treated. Meanwhile, Metawa and Almossawi (1998) highlighted that customers have the power to convey positive or negative messages about the organisation as well as to repurchase the products. If the customers are dissatisfied, they will likely change to other banks, which will damage the reputation of the Islamic banks due to the negativity spread by the customers. Jamali (2008) stressed that in the first place, an organisation is established to meet the demand of the customers. This statement is in line with the stakeholder theory which is integrated with the *Shariah* principles (unity, equilibrium, free will, responsibility) and the *'urf* principle in this study. The establishment of the MIICSRDi will increase the financial performance of Islamic banks as perceived by the stakeholders. Hence, the *Sharia*h principle (*tazkiyah*) has also been integrated with the stakeholder theory to explain the relationship between the MIICSRDi and financial performance. According to *tazkiyah*, human beings are expected to do the best in their lives, to obtain a better material life, and to satisfy their worldly needs.

However, other scholars claimed that there is a negative relationship between CSRD and financial performance (e.g., Brammer et al., 2006; Smith et al., 2007; Vance, 1975). In addition, some scholars found no relationship between CSRD and financial performance (e.g., Abbot & Monsen, 1979; Ahmed et al., 2012; Aras et al., 2010). Therefore, there are inconclusive results from the studies done on the relationship between CSRD and financial performance. There are also inconsistent results in the studies conducted on Islamic CSRD and financial performance in the Islamic banking sector (Arshad et al., 2012; Hafez, 2015; Mallin et al., 2014; Mosaid & Boutti, 2012; Samina, 2012; Zaki et al., 2014). Hence, in the context of Islamic banks, there is still no consensus regarding the relationship between Islamic CSRD and financial performance.

In particular, each of the CSR dimensions has a different impact on financial performance. Some of the CSR dimensions show positive and negative relationships with financial performance. For example, Qiu, Shaukat, and Tharyan (2016) found that there is no relationship between environmental disclosure and profitability. This is agreed by Mallin et al. (2014), who stated that the environmental dimension does not have a relationship with, and is not significant towards financial performance. Meanwhile, Qiu et al. (2016) found that social disclosure has a correlation with financial performance. From the Islamic perspective, Mallin et al. (2014) highlighted that dimensions that are in compliance with the *Shariah* principles, such as the provision of interest-free products, treatment of *zakat*, maintaining good relations with employees, involvement in charity, and social activities have positive impacts on business performance. However, these findings contradict the study by Zaki et al. (2014), which asserted that only two out of six dimensions are positively related to financial performance. The results show that the products, services, and commitment towards employees are positively related to financial performance, while the disclosure of the vision and mission statement, board of directors and top management, *zakat*, charity and benevolent loans as well as SSB are negatively related to financial performance.

Huang and Watson (2015) agreed that there are inconsistencies in the results; thus, it is impossible to make any further conclusion regarding these two variables (Khojastehpour & Johns, 2014). One of the main reasons behind the mixed results is the different measures used in the previous studies (Chen, Feldmann, & Tang, 2015; Orlitzky et al., 2003). This is supported by Usman and Amran (2015), who elaborated that the occurrence of mixed results is due to the different measurements for both CSR and financial performance. Meanwhile, Ingram and Frazier (1980) found a negative relationship between CSRD and financial performance due to the lack of external observation in CSRD. Furthermore, most of the previous studies are based on objective assessment, which has been found to produce mixed results (e.g., Arshad et al., 2012; Saleh et al., 2011; Samina, 2012). Therefore, there is a need to ensure that the measurements for the MIICSRDi and financial performance are being referred to stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *úrf* principle, which are suitable in the Malaysian Islamic banking context and have been validated.

The results from the studies that used subjective assessment indicate that CSRD does have a relationship with financial performance. However, there is a lack of empirical evidence that employed subjective assessment especially in research pertaining to Islamic banking (e.g., Cegarra-Navarro et al., 2016; He et al., 2007; Nishitani et al., 2017; Saeidi et al., 2015). Hence, it is necessary to delve into the Islamic perspective and conduct a study on the relationship between CSRD and financial performance for the benefit of the Islamic banking sector. Therefore, the following hypothesis has been formulated:

H_2: There is a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

4.3.3 Corporate reputation as a mediator

Most of the empirical studies found the existence of a positive relationship between CSRD and financial performance (e.g., Arshad et al., 2012; Mallin et al., 2014). However, the results are still inconclusive (Saeidi et al., 2015). Some scholars argued that the relationship between CSRD and financial performance is unsettled (Galbreath & Shum, 2012; Margolis & Walsh, 2003). Saeidi et al. (2015) added that it is crucial to include influential variables in order to obtain reliable results. Golob et al. (2013) emphasised that the act of analysing the relationship between CSRD and corporate reputation is still nascent. Consequently, previous scholars suggested that corporate reputation acts as a mediator in the relationship (Arikan et al., 2016; Galbreath & Shum, 2012; Hur et al., 2014; Park, 2017; Saeidi et al., 2015; Taghian et al., 2015).

As mentioned in the earlier chapter, corporate reputation plays an important role in affecting customer behaviour (Goldberg & Hartwig, 1990; Rao et al., 2004; Shapiro, 1983), suppliers (Bergh et al., 2010), employees (Roberts & Dowling, 2002), and investors (Raithel & Schwaiger, 2015). According to Brammer and Pavelin (2004), organisations' reputation will improve when the organisations are involved in CSR activities and disclose the activities in the annual reports. It is said that these companies will be able to attract more customers, recruit the best talent, enhance job satisfaction and motivation of the workers, cause positive media coverage, and receive positive feedback from the financial analysts (Laufer & Coombs, 2006). Certainly, the benefits of making the CSRD are to influence the public view and to protect the organisations' image. The disclosure of CSR activities provides information to the stakeholders on the progress of

CSR activities, which may help the organisations to build their reputation (Unerman, 2008). This is in line with the signalling theory, whereby the MIICSRDi will provide signals to the stakeholders to interpret the information positively.

Previous literature that studied the direct relationship between CSRD and corporate reputation showed positive results (Fatma et al., 2015; Lai, Chiu, Yang, & Pai, 2010; Toms, 2002). Furthermore, some studies found that there is a positive relationship between corporate reputation and financial performance (Miles & Covin, 2000; Roberts & Dowling, 2002; Raithel & Schwaiger, 2015). In addition, existing literature reveals that there is a positive outcome of having a good reputation. For example, according to Kotha, Rajgopal, and Rindova (2001) and Roberts and Dowling (2002), organisations with a better reputation will show higher performance in terms of sales growth and return on assets (ROA). Accordingly, Cabral (2012) stated that an organisation's performance depends on the reputation of the organisation.

Limited empirical studies have been conducted on corporate reputation as a mediator in Islamic banks. Nevertheless, in the Western world, some researchers have conducted empirical research on corporate reputation as a mediator. Most of the studies show that corporate reputation does give a partial (Arikan et al., 2016; Park, 2017) and full mediation effect (Arikan et al., 2016; Galbreath & Shum, 2012; Hur et al., 2014; Saeidi et al., 2015). In particular, corporate reputation mediates the relationship between CSR and financial performance (Galbreath & Shum, 2012; Saeidi et al., 2015; Taghian et al., 2015). Overall, the results imply that corporate reputation does mediate the relationship between CSRD and financial performance. Nonetheless, the lack of empirical research on Islamic banking has led the researcher to conduct a study on corporate reputation as a mediator in the relationship between CSRD and financial performance. Thus, the following hypothesis has been formulated:

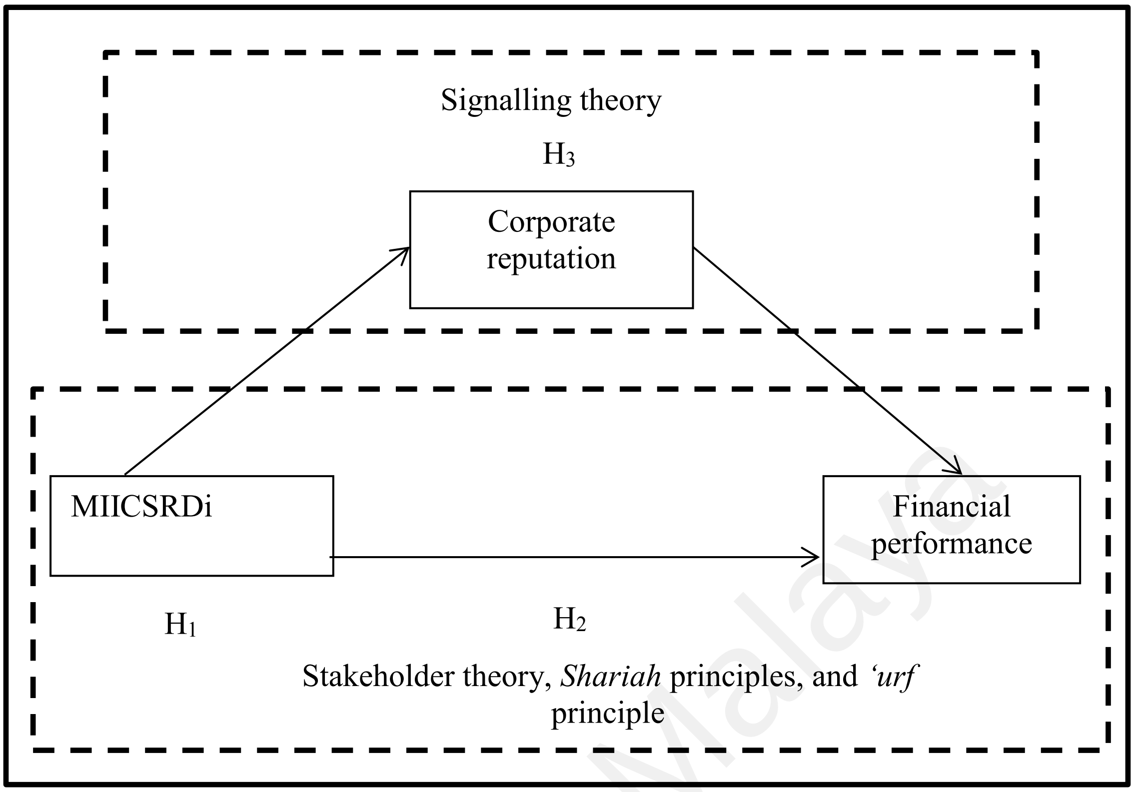
H_3: Corporate reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

4.4 Research framework

This section explains the research framework in response to the background of the study and research problem in Section 1.2, 1.3 and 4.1. The hypotheses tested in this study which synthesised all the literature that has been critically reviewed are based on the research objectives.

The first objective is to establish the MIICSRDi as a reflective model based on the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility) and the *'urf* principle. The second objective is to examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders based on the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *'urf* principle. Besides that, this study examined the influence of corporate reputation as a mediator between the MIICSRDi and financial performance as perceived by the stakeholders. The underlying theory used to examine the role of corporate reputation as a mediator is the signalling theory.

With this information, the research framework that establishes the MIICSRDi and explains the relationship between corporate reputation and financial performance as perceived by the stakeholders has been developed, as illustrated below.



H_1: Stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and *'urf* principle

H_2: Stakeholder theory and *Shariah* principle (unity, equilibrium, free will, responsibility, and *tazkiyah*) and *'urf* principle

H_3: Signalling theory

Figure 4.1: The research framework

4.5 Summary and conclusion

This chapter has provided a discussion on the research framework. The research framework is based on the previous literature that explains the relationship between the variables which leads to the hypotheses of this research. As such, the discussion on the establishment of the MIICSRDi made reference to the integrated theories, which are stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *'urf* principle. Meanwhile, the relationship between the MIICSRDi and financial performance as perceived by the stakeholders made reference to the integrated theories comprising stakeholder theory, *Shariah* principles (unity, equilibrium, free will, responsibility, and *tazkiyah*), and the *'urf* principle. Finally, the signalling theory is used to explain the role of corporate reputation as the mediator in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. The next chapter discusses the research methodology employed in this study.

CHAPTER FIVE: RESEARCH DESIGN AND METHODOLOGY (PART I)

5.1 Introduction

This chapter provides a discussion of the research philosophy, research approach, how the research was designed as well as the techniques and procedures on how the data were collected and analysed. In particular, Saunders, Lewis, and Thornhill (2009) termed it as a "research onion" that consists of six aspects, namely research philosophy, research approaches, research design (strategies, research choices, and time horizons) as well as techniques and procedures. Therefore, based on Saunders et al. (2009), the structure of this chapter begins with Section 5.2, which covers the research philosophy. The section elaborates on the philosophy used in social science, Islamic perspective, and the philosophical stance of this study. Section 5.3 discusses the research approaches used in this study. Next, Sections 5.4 explains the research process in order to eliminate bias from the empirical research, followed by the research design for this study. Subsequently, Section 5.5 onwards discusses the techniques and procedures for data collection and analysis. In particular, Section 5.5 describes the population and target population of this study, followed by the sampling procedure in Section 5.6 and the research instrument in Section 5.7. Lastly, Section 5.8 provides a summary and conclusion of the chapter.

5.2 Research philosophy

This section reviews the literature relating to the research philosophy in social science in order to better understand the advantages and disadvantages of the alternative research philosophies. The research philosophy from the Islamic perspective is reviewed and the philosophical assumptions underlying this study are determined.

Prior to the 1970s, research in accounting was dominated by normative studies (Laughlin, 1995). However, the trend shifted to descriptive studies by means of empirical research in order to better understand the function of accounting practices. Nevertheless, Laughlin (1995) argued that empirical research is partial and incomplete, as there is a need for theoretical and methodological choices. Hence, the author pointed out that it is necessary to take a stance on theoretical and methodological issues before one begins with empirical research. Peixinho and Coelho (2005) agreed that to produce a high-quality research design, the researcher must have his own stand on the philosophical belief which can only be achieved by having an understanding of ontological and epistemological positions. Yet, being unconscious about the assumptions of the philosophical, methodological, and underlying theories portrays the incapability of the researcher as a true scholar (Lukka, 2010). Laughlin (1995) suggested that there are two stages in making choices. In the first stage, the researcher extracts information from different schools of thought and makes his position, which can be within a range of key continuums before undertaking any empirical investigation. In the second stage, the researcher associates with actual schools of thought that propose different positions on these continuums. Therefore, by taking into account Laughlin's (1995) suggestions, the main objective of this section is to elaborate the various positions of social science's research philosophy approach in carrying out research in order to identify the advantages and disadvantages of the alternative approaches.

Laughlin (1995) stated that Burrell and Morgan (1979) contributed the most in designing an abstracted classification schema to comprehend the broad streams of social science approach to empirical research. Burrell and Morgan (1979) suggested a subjectivist approach and an objectivist approach to social science. Figure 5.1 shows the four assumptions in relation to social science, which are ontology, epistemology, human nature, and methodology.

The subjectivist approach to social science		Assumption		The objectivist approach to social science
Nominalism	⟵	Ontology	⟶	Realism
Anti-positivism	⟵	Epistemology	⟶	Positivism
Voluntarism	⟵	Human nature	⟶	Determinism
Ideographic	⟵	Methodology	⟶	Nomothetic

Figure 5.1: Assumptions about the nature of social science
Source adopted from Holden and Lynch (2004)

Firstly, ontology refers to the reality of the subject. Realism can be regarded as independent from human interpretation, whereby the answer is objective and predictable. On the other hand, nominalism asserts that reality must only be obtained from the human mind, not independently. Secondly, epistemology refers to the nature of the ways to obtain knowledge. From the view of positivists, a researcher can gain information by finding the variables and explaining the predicted relationship between them. In contrast, anti-positivists do not acknowledge the underlying causal relationship as they place more emphasis on obtaining the experience from the real actors in the industries. Thirdly, when conducting research, human nature is concerned about the ways the research adapts with the environment. Determinism prioritises the external environment and forces, whereas voluntarism emphasises action to be in accordance with free will and autonomy. The three philosophical assumptions, which are ontology, epistemology, and human nature, have direct impacts on the usage of the methodology. The methodology is an investigation to carry out research. If researchers view the social world from the perceptive of positivists, they have to apply the nomothetic methodology which refers to a scientific methodology. On the other hand, for the subjectivist viewers, they have to use an ideographic approach in emphasising subjective information and each individual view.

Burrell and Morgan (1979) inspired various authors such as Chua (1986), Hopper and Powell (1985), and Laughlin (1995) to explore the paradigm in accounting research. For instance, Hopper and Powell (1985) adapted and modified the framework proposed by Burrell and Morgan (1979) through three categories of paradigm in accounting research, which are mainstream, interpretive, and critical. In the mainstream accounting research, positivism and functionalism are known to be objective with regard to the social world and thus preferring to seek the variables and explain the causal effect of the relationship among the variables (Hoque, 2006). On the other hand, interpretive accounting research is leaning more towards conducting research in a natural setting to obtain answers. Interpretive researchers prefer to explore the ways accounting practices work by obtaining information from the practitioners whose actions are more subjective as different people have different opinions. The interpretive aspect can provide a better picture of what is actually happening in the real world. It will also inform the academicians about the current issues and problems that occur in the accounting world to pave the way for future actions to the academicians (Hoque, 2006). Meanwhile, for critical research, its main concern is regarding social justice and its application for the betterment of society. Critical research is less concerned about the technicality of accounting practices but stresses on the involvement in human issues as accounting system relates to human interaction. Frankfurt School and Habermas are known to employ the critical theory (Hoque, 2006).

On the other hand, Laughlin (1995) argued for other alternatives of research paradigm for accounting research. He proposed to take the "middle-range" thinking between extreme subjectivism and objectivism, which is based on German's critical, theoretical perspectives. The "balance" of German's critical theory which Laughlin (1995) referred to is a balance of views in approaching the theoretical theories (ontology and epistemology), methodological theories (human nature and methodology), and changes (society assumption). An example is a balanced perspective between extreme relativism and nominalism, whereby there are flexibility and openness in the society assumptions (Gallhofer, Haslam & Yonekura, 2013).

Abdel-khalik and Ajnkya (1979) proposed that the research approaches can be categorised into two different types, namely scientific method (positivist) approach and naturalistic (or interactive) approach. It is claimed that Abdel-khalik and Ajnkya's (1979) stance of the methodological approach in accounting research is considered as one of the influential stances (Muhamad, 2006). The scientific method can be employed by establishing a theoretical construct and hypotheses which are verified using empirical testing (Abdel-khalik & Ajnkya, 1979). Abdel-khalik and Ajnkya (1979) explained that in the scientific method, the problem definition and conceptual structure should be developed prior to developing the hypotheses or performing empirical testing. The authors asserted that the theoretical structure should include the identification of the independent and dependent variables whereby some forms of relationships between them should be suggested. The scientific method further requires a structured form of research design and a set of controls. These elements are essential in order to provide strength (internal validity) to the verification of causality. Accordingly, they form the vital elements in constructing the theory and verifying the hypotheses. Positivist researchers prefer quantitative data and often use experiments, survey, and statistics in their research (Muhamad, 2006). Abdel-khalik and Ajynkya (1979) and Muhamad (2006) strongly recommended the scientific method in conducting empirical research so that researchers can avoid subjective interpretation. Meanwhile, the naturalistic approach views that the behaviours or phenomena usually interact in the natural setting (Abdel-khalik & Ajynkya, 1979). The naturalistic approach relates to the unstructured interview, participant observation, and unobtrusive method.

Apart from this, since the theoretical framework of this study has been integrated with the Islamic worldview, it is important to understand the research approach from the Islamic perspective. However, the current methodology employed by the researchers is influenced by the Western perspective and does not come from the foundation of Islam (Ali, 2008). For instance, Western philosophers, especially those that employ the positivistic paradigm, reject the existence of God as the Creator of the world (Alias & Hanapi, 2015; Mohamad Zain, 2000). Therefore, there are limitations in terms of understanding reality and obtaining knowledge. Alias and Hanapi (2015) and Salleh (2008) emphasised that an Islamic methodology is needed and the present methodology must be modified in light of the main sources, such as the *Quran*, *Hadith*, and Islamic research of the past and present, to bring about a comprehensive Islamic methodology procedure.

Ibn al-Haytham, who is also known as the "Father of Scientific Method", was responsible for proposing a framework for scientific methodology in Islam (Ali, 2008; Ismail, 2006). Ibn al-Haytham's contribution is important for the researchers in order to provide truly holistic research for Islamic papers (Alias & Hanapi, 2015). Alias and Hanapi (2015) asserted that based on Ibn-al Haytham's framework, *tasawwur* (worldview) is based upon the concept of *tawhid*. The ontology implies the theory of existence which is associated with the existence of *Allah*. Epistemology is the knowledge that the researchers obtain, which basically comes from divine revelations (*wahyu*), particularly the *Quran*. In addition, Ghosh (1995) discussed the epistemological foundation of Islamic Political Economy (IPE). Figure 5.2 illustrates the stock-flow diagram of the Islamic epistemological process. Accordingly, the process of epistemological foundation as illustrated by Ghosh (1995) can also be used in this study. Firstly, the *Quran* is the main source of reference in the epistemological process. Secondly, the *Sunnah* is used as a complementary source that provides clarification besides the *Quran*. Meanwhile, *shura* is a legislative body that makes decisions pertaining to problems or questions on political, economic or social matters through participatory democracy known as the shuratic process. On the other hand, there is a system of accepted Islamic law and order, known as *Shariah*, which can be helpful in judging and considering the problems at hand. The discursive processes of knowledge emanating from these interactions are then put into discussions, interpretations, and formalisation through the participatory process of *ijtihad* (majority support). The process of i*jtihad* is a very open process subsuming factual information, evidence and counter-evidence, and opinions and observations. *Ijtihad* derives the rule from the *Quran* and *Sunnah*. The process of discussion and interaction about a particular problem or question will ultimately settle when a complete consensus (*ijma'*) in the community is achieved. The accepted *ijma'* will then be passed as the rule of life (*ahkam*) in the Islamic system, whereby this rule is considered workable, rational, and pragmatic. Therefore, the epistemological process has to go through the *Quran*, *Sunnah*, *shura*, *Shariah*, *ijtihad*, *ijma'*, and *ahkam*.

Consequently, Alias and Hanapi (2015) stressed that the analytical tools that the researchers have to apply consist of physical and metaphysical aspects. Generally, the purpose of following Islamic methodology principles is to obtain *Allah*'s blessing.

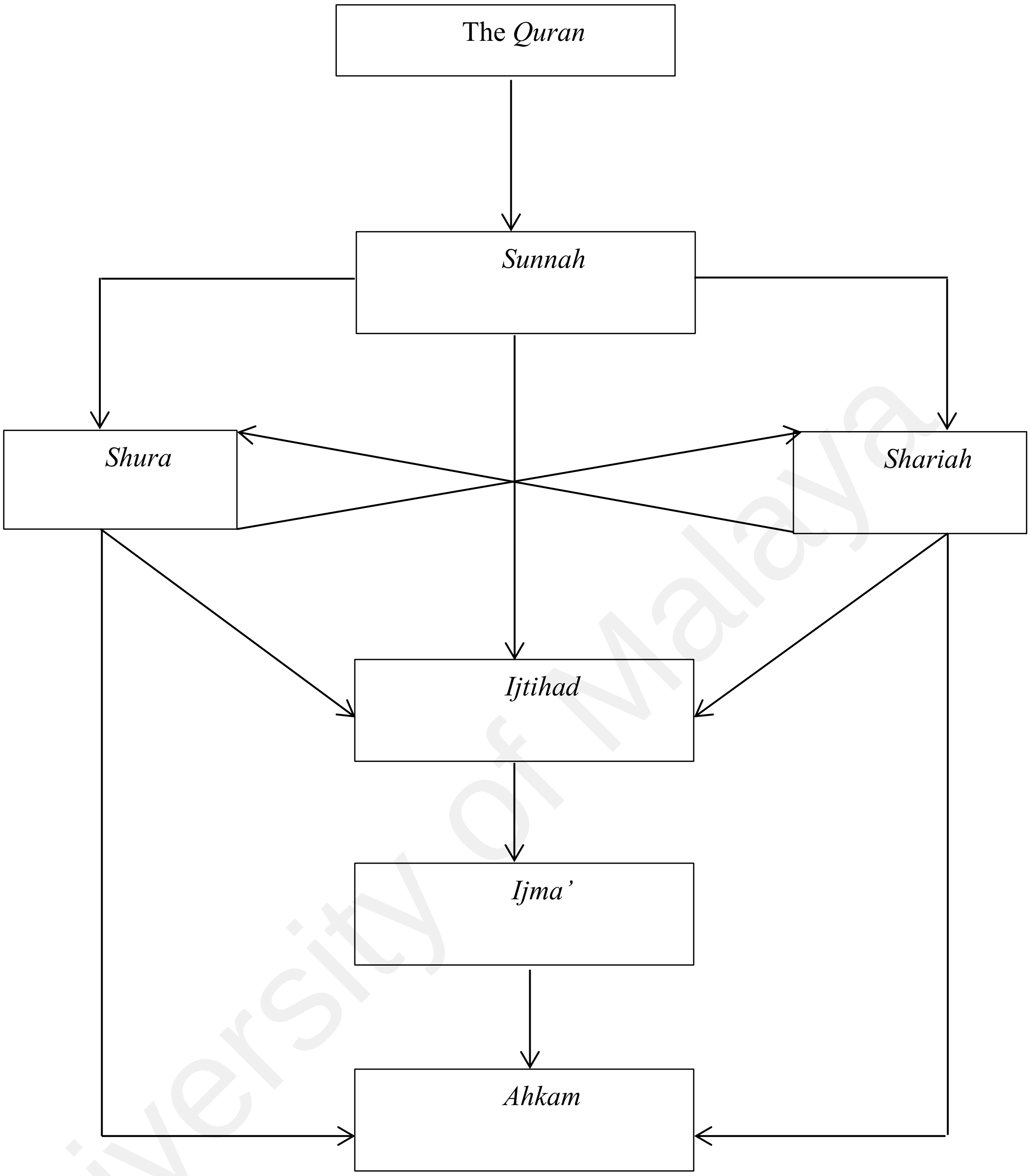


Figure 5.2: Stock-flow diagram of Islamic epistemological process
Source adopted from Ghosh (1995)

5.2.1 Philosophical stance of this study

Having considered the above research philosophy, both conventional and Islamic perspectives were taken into consideration in carrying out this study. In particular, this study undertook the positivist approach based on the suggestions by Burrell and Morgan (1979) and Abdel-khalik and Ajnyka (1979). Inanga and Schneider (2005) emphasised that positivists describe the real-world situation that involves the problem statement, observation, and followed by deriving several hypotheses to test the relationship. The positivist approach has its advantages as it has the ability to predict based on observations. However, if the observation is biased, then the prediction can be faulty (Inanga & Schneider, 2005). Nevertheless, Coetsee (2010) argued that science is supposed to be a process of trial and error. A hypothesis or a model is not an absolute truth, and as long as the hypothesis is not rejected, it can be considered as true. In addition, Abdel-khalik and Ajynkya (1979) and Muhamad (2006) strongly recommended using the scientific method in conducting empirical research so that researchers can avoid subjective interpretations. Therefore, the next section discusses the research approach.

5.3 Research approach

Saunders et al. (2009) advocated that there are two research approaches, which are deductive and inductive. Guided by the positivist approach, this study employed a deductive approach. Saunders et al. (2009, p. 127) stated that the deductive approach involves the scientific principles, moving from theory to data, the need to explain the causal relationships between variables, the collection of quantitative data, the application of controls to ensure the validity of data, the operationalisation of concepts to ensure the clarity of definitions, a highly structured approach, researcher’s independence of what is being researched, and the necessity to select samples of sufficient size in order to generalise the conclusions. Therefore, in a deductive approach, the theory and hypotheses are developed and research is designed to test the hypotheses. Hence, the next section describes the research process and the research design for this study.

5.4 Research process and research design

This section describes the research process based on the suggestion by Abdel-khalik and Ajynkya (1979) and Sekaran (2003) regarding the positivist and deductive approaches. In addition, the research design for this study is discussed.

Abdel-khalik and Ajynkya (1979) suggested that the scientific method (positivist) requires a sequential structure to provide good research. It challenges the argument by Laughlin (1995) that empirical research is partial and incomplete. Hence, the sequential structure should eliminate bias in order to come up with good research. The steps are provided below (Abdel-khalik & Ajynka, 1979, p. 10):

1. Identify the research problem
2. Develop the conceptual and theoretical structure, including causal links and chains
3. Operationalise the theoretical constructs and relationships, and state the specific hypotheses to be tested
4. Construct the research design
5. Implement the design by sampling and gathering data
6. Analyse observations in order to test the hypotheses
7. Evaluate results
8. Consider and specify limitations and constraints

According to Abdel-khalik and Ajynkya (1979), steps 1 and 2 lead to the theory construction. Meanwhile, steps 3 and 8 relate to the verification of the hypotheses. Sekaran (2003) also described and summarised the process for business research. The steps proposed by Abdel-khalik and Ajynka (1979) and Sekaran (2003) are more or less the same. The only difference is that the steps by Abdel-khalik and Ajynka (1979) are focused on scientific research, while Sekaran's (2003) steps are focused on business research. Therefore, this study followed the research process by Abdel-khalik and Ajynka (1979) and Sekaran's (2003) steps in order to avoid the empirical research bias as argued by Laughlin (1995).

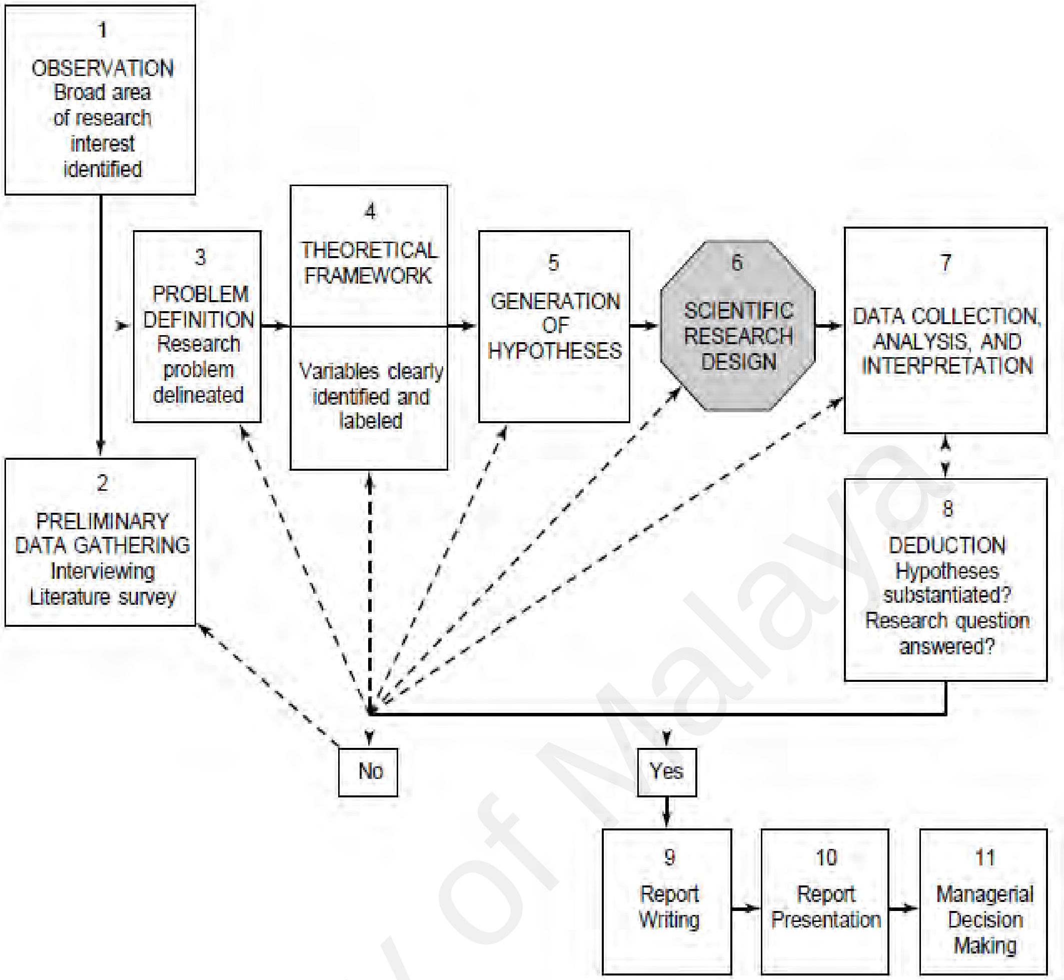


Figure 5.3: Research process
Source adopted from Sekaran (2003)

Furthermore, this section elaborates the research design of this study. According to Sekaran (2003), the research design is how the researcher collects, analyses, and interprets data in order to provide answers to the problem. Saunders et al. (2009) asserted that the research design should be consistent with the research objectives, questions, and research philosophy. The elements of the research design consist of research strategy, research choice, and time horizon (Saunders et al., 2009). Therefore, the next subsection discusses the research design of this study.

5.4.1 The research design of this study

The main objective of this study is to examine the impact of the MIICSRDi on financial performance, with corporate reputation as the mediator based on the perception of the stakeholders. As indicated earlier, Abdel-khalik and Ajynka (1979) and Muhamad (2006) recommended using the scientific method (positivist approach) in conducting empirical research to avoid subjective interpretations. In addition, this study is based on the deductive approach (Saunders et al., 2009). Therefore, this study employed explanatory research which involves hypothesis testing to explain the relationship between the variables (Saunders et al., 2009; Sekaran, 2003).

Besides, this study employed the quantitative method using a survey questionnaire. According to Hussey and Hussey (1997), the survey questionnaire is used to see what the selected groups of respondents do, think, or feel. Saunders et al. (2009) added that data obtained from a survey questionnaire are standardised and easy to make a comparison, explain, and understand. In particular, the data can be analysed using descriptive and inferential statistics (Saunders et al., 2009). In fact, data gained from the survey questionnaire can produce a model and explain the reasons for a particular relationship (Saunders et al., 2009). Furthermore, Cohen, Manion, and Morrison (2011) stated that the survey questionnaire can collect more data at one time, involves low cost, and is easy to handle. Hence, it is suitable for this study, which is cross-sectional. A cross-sectional study is designed to gather the data at once to answer the research questions due to its lower cost and less time taken compared to a longitudinal study (Sekaran & Bougie, 2010).

In addition, most of the CSRD studies used secondary data to perform the content analysis, as mentioned in the literature review section (e.g., Belal et al., 2015; Maali et al., 2006; Rashid et al., 2013). Therefore, the survey questionnaire can assist the researcher to obtain better results from a different perspective. Indeed, some previous studies, such as Bani et al. (2015), Fatma et al. (2014), Kim and Kim (2010), Maignan and Ferrell (2010), and Turker (2009) used the survey questionnaire to develop the CSR measurement. However, these studies developed the CSR measurement in different contexts as mentioned earlier in Chapter Three. Abd Rahim et al. (2011) stated that the survey questionnaire is used to obtain the stakeholders' views. Bani et al. (2015) highlighted that a 5-point Likert scale is applied in order to sort out the relevance of each of the items. Hence, a survey questionnaire is more suitable to be employed to achieve the objective of this study.

Saunders et al. (2009) mentioned that the last phase of the research onion is to describe the techniques and procedures on how the data are collected and analysed. Hence, the next section onwards will be discussing the techniques and procedures for data collection and analysis. In particular, the population and target population of the study is described in the next section.

5.5 Population and target population of the study

A population is a group of organisations or individuals that have the same characteristics as decided by the researcher (Creswell, 2012). Studying the population is the most important step in the early stages of the sampling process. In this study, the Islamic banks in Malaysia were chosen as the population. The explanation on the chosen population, which consists of Malaysian Islamic banks, has been provided earlier in Chapter One, Section 1.2, followed by a detailed explanation in Chapter Two.

Meanwhile, the target population is the group used in the study to provide the findings for the phenomena being studied (Creswell, 2012; Thompson, 2012). The target population is the employees and customers of Islamic banks in Malaysia. They were chosen due to their role as the primary stakeholders that represent the internal and external stakeholders (Clarkson, 1995). Clarkson (1995) highlighted that the primary stakeholder group is vital in sustaining the survival of the organisation. Maignan and Ferrell (2000) emphasised that in order to obtain a precise evaluation, survey questionnaires should be distributed to multi-informants, which in this study is the employees and customers of the Malaysian Islamic banks. Chun and Davies (2006) stated that employees can be categorised as internal stakeholders, while customers can be categorised as external stakeholders. Accordingly, the term employees and customers have been employed in this study only for the heuristic purpose (Jones, 1995).

The employees of the Islamic banks were chosen due to their essential role in the organisations. According to Farooq, Farooq, and Jasimuddin (2014), employees are primary stakeholders who implement CSR strategies and are directly engaged in CSR activities. This statement is agreed by Greenwood (2007), who stated that employees have the power to influence the organisations' strategies and operations thus leading to the success or failure of the organisations. The employees involved in this research are the middle managers from three departments, which are the Finance Department, Corporate Communication Department, and *Shariah* Department, as well as the branch managers. The Finance Department and Corporate Communication Department were chosen due to the employees' familiarity with the annual report and CSR activities. Meanwhile, the *Shariah* Department was selected in view of its important role in providing advisory and performing research on *Shariah* matters. In addition, the branch managers were chosen due to their familiarity with the day-to-day operations and their face-to-face dealings with the customers.

Meanwhile, Turker (2009) highlighted that customers are the most significant group among the stakeholders that support the organisations' business by ensuring the long-term survival and performance of the organisations. Besides, the customers of the Islamic banks were chosen because of their authority in the act of repurchasing the products and conveying positive messages (Metawa & Almossawi, 1998). The authors highlighted that dissatisfied customers will likely change to another Islamic bank, and this will damage the reputation of the Islamic banks due to the negative words being spread by the customers. Meanwhile, Schuler and Cording (2006) stated that customers can evaluate the relationship between CSR and financial performance as long as they are aware of the organisation's activities. Hence, this study has set the criteria in relation to the customers' background. The selected customers of the Islamic banks must possess a bachelor's degree in accounting and finance as well as being familiar with the CSRD topic. In addition, the customers themselves must be willing to participate and are interested in answering the questionnaire. The criteria were set to ensure that the customers have adequate knowledge to answer the questionnaire.

The target population, which is the employees and customers, was taken only from the headquarters, which are in Klang Valley, Malaysia. This is because the headquarters are their main office, and any significant decision making must be approved by the headquarters. Moreover, the customers that are involved in business dealings usually deal with the headquarters. Bogdan and Biklen (2003) explained that a good and suitable research area has the criteria of accessibility, good interaction with the respondents, and data quality assurance. Thus, distributing the survey questionnaire to the headquarters is the most suitable area for the research. The next section elaborates on the sampling procedure.

5.6 Sampling procedure

After determining the target population, the sample size and sampling method should be chosen accordingly. The research sample represents a part of the target population which is chosen based on the sampling method used (Creswell, 2012; Thompson, 2012). The sample size needed in this study is 335 respondents. This number of samples was identified based on the rule of thumb derived from Hair, Black, Babin, and Anderson (2010). According to Hair et al. (2010), the sample size can be determined by using the desired ratio of 5 observations per variable. In total, 67 questions were formulated for the MIICSRDi (Section A), financial performance (Section B), and corporate reputation (Section C). By multiplying 67 and 5, the total number of required respondents is 335, which is the sample size.

The reason for using the rule of thumb by Hair et al. (2010) is to minimise the chances of overfitting the data. In particular, it is to ensure that the data are sufficient, precise, and accurate to be used for this research (Hair et al., 2010). The required sample size could provide robust results and increase the precision from the statistical method used (Hair et al., 2017). Secondly, the researcher could not provide a proper sampling frame due to the difficulty in accessing information about the respondents. The human resource (HR) representatives that distributed the survey questionnaire to the selected employees were reluctant to provide the list of employees in the departments. Besides, the Islamic banks did not provide the number of employees in the departments on their website. Although the list of Islamic bank branches can be retrieved from the Islamic banks' websites, some Islamic banks did not update the list. Apart from this, the researcher could not access the customer information since the Islamic banks are bound by the duty of secrecy as prescribed in IFSA (2013), Division 4.

Thirdly, the results of the G-Power analysis show that the sample size of 335 is deemed to be sufficient. Hair et al. (2017) stated that the sample size should also be determined by the power analysis, which is the G-Power analysis 3.1.3. This is because the framework model is complex (Hair et al., 2017). Hence, G-Power analysis 3.1.3 could be applied to calculate the required sample size (Faul, Erdfelder, Lang, & Buchner, 2007). The required sample size is determined through the effect size (f^2), significance level (α), desired statistical power ($1 - ß$), the number of tested predictors, and the total number of predictors (Faul et al., 2007). In this research, priori power analysis was chosen as the type of power analysis. Next, referring to the standard values by Cohen (1988), the effect size is $f^2 = 0.15$, the significance level is $\alpha = 0.05$, and the desired statistical power is $1 - ß = 0.95$. In addition, the number of tested predictors is one, which is financial performance. Meanwhile, the total number of predictors is two, which are the MIICSRDi and corporate reputation. Figure 5.4 shows the results of the G-Power analysis. Based on the results, the required sample size is 89. Therefore, a sample size of 335 is sufficient and can be used. In particular, the rule of thumb by Hair et al. (2010) is supported.

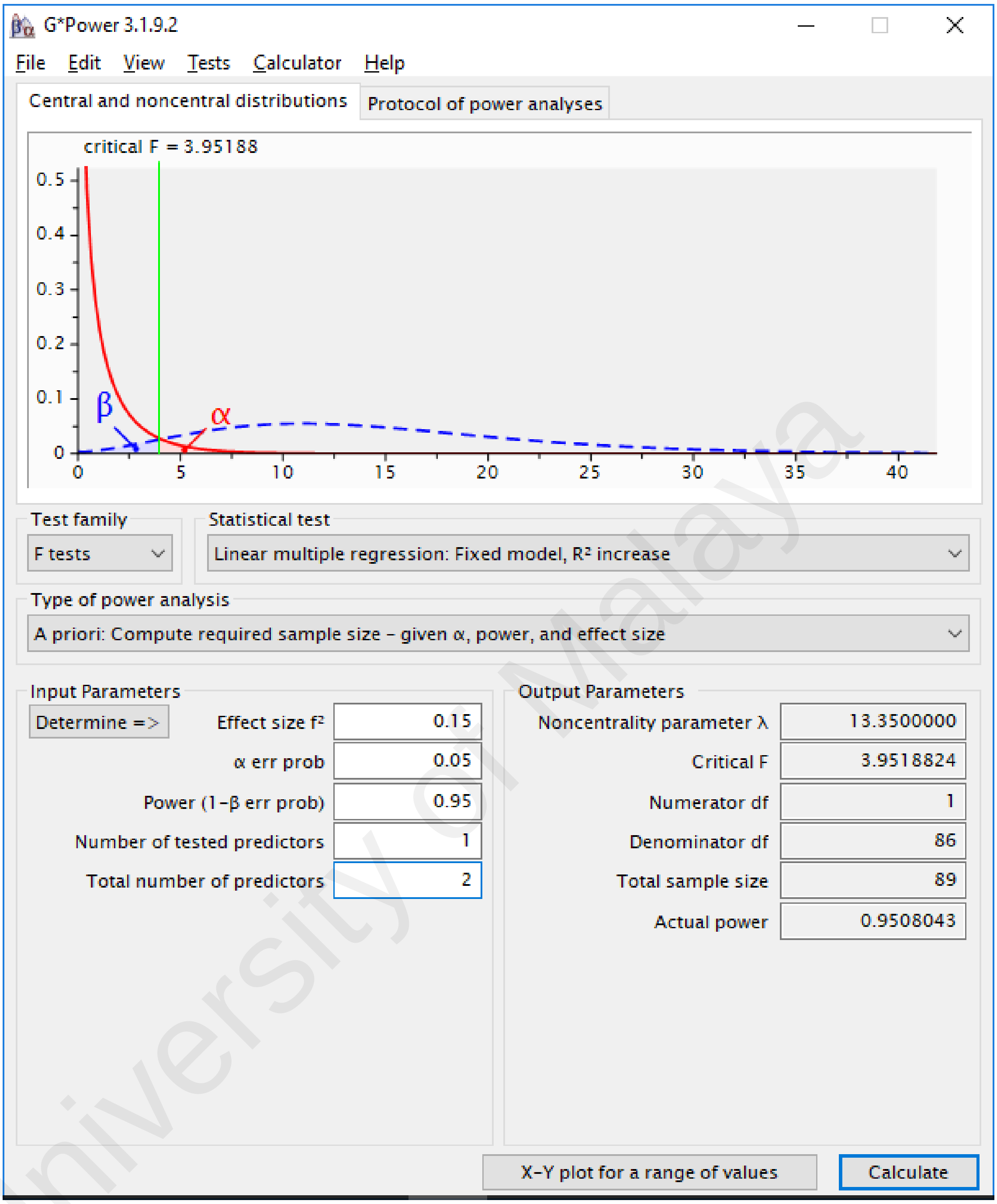


Figure 5.4: G-power to determine the sample size

Besides, this study employed non-probability sampling, specifically the purposive sampling method. This method was used due to the difficulty in providing the sampling frame (Rowley, 2014). Secondly, the survey questionnaire was distributed only to the most suitable respondents who have expertise and judgement in the subject area (Rowley, 2014; Sarstedt, Bengart, Shaltoni, & Lehmann, 2017; Saunders et al., 2009; Sekaran, 2003). Schuler and Cording (2006) proposed that customers can perceive the relationship between CSR and financial performance. One of the criteria set by Schuler and Cording (2006) is that the customers must be aware of the organisations' social activities. Despite the question regarding generalisability, the selected respondents are likely to provide valuable data to this study (Rowley, 2014; Saunders et al., 2009; Sekaran, 2003) and to reduce research bias (Smith & Noble, 2014).

Consequently, for the employees, the researcher distributed the questionnaires to the HR representatives to be passed to the middle managers among the three departments, which are Finance, Corporate Communication, and *Shariah*, as well as the branch managers of the Islamic banks. The HR representatives' assistance was needed due to the difficulty to access and distribute the questionnaires personally to the employees of the Islamic banks because of security issues. According to Daymon and Holloway (2002) and Saunders et al. (2009), the gatekeepers are the persons that have the power to grant or hinder access to the relevant respondents for the research. The gatekeepers may hold a position or may have an unofficial gatekeeping role (Daymon & Holloway, 2002). In this study, the gatekeepers refer to the HR representatives.

As for the customers, the researcher personally approached them and asked whether they were interested to participate in answering the questionnaire. If a customer was interested in participating, the researcher sought the customer's background whereby the customer must have a bachelor's degree in accounting and finance as well as awareness of the CSRD area. The next section elaborates more on the questionnaire used as the research instrument in this study.

5.7 Research instrument

The research instrument for this study is the questionnaire. Hence, the discussion in this section is related to the operational definition, how the items were developed, and the validity and reliability of the items. The references for developing the scale for the items were taken from Churchill (1979), Turker (2009), and Fatma et al. (2014), which consist of (i) defining the instruments, (ii) adaption of the items based on the proposed definitions, theory, and principles, (iii) the process of analysis and refinement of the items, and (iv) the filtered items have been validated by the expert panel and through EFA and CFA.

5.7.1 Operational definition

The operational definition refers to the terms used to describe the scope of this study. The terms used in this study are as follows:

1. MIICSRDi

The MIICSRDi, referring to Carroll's (1979) and AAOIFI's (2010) definition, covers the economic, legal, ethical, philanthropic, and religious aspects. This study sought the perceptions of the stakeholders (employees and customers) regarding which of the MIICSRDi items are suitable to be included in the annual report of Malaysian Islamic banks.

2. Business performance

In order to ascertain the outcomes of the MIICSRDi, business performance is taken into account in view of the literature discussed in Chapter Three. Business performance can be divided into two categories, which are financial performance and non-financial performance (Santos & Brito, 2012; Venkatraman & Grant, 1986). In this study, the non-financial performance is corporate reputation (Brik, Rettab, & Mellahi, 2011; Shin & Ellinger, 2013).

a) Financial performance

The financial performance measurements consist of market share, sales, profitability, and business growth in order for the business to succeed and survive in the long run (Ahmad & Seet, 2009; Cegarra-Navarro et al., 2016; Chaudary et al., 2016). This study obtained the perceptions of the stakeholders (employees and customers) regarding the financial performance of the Malaysian Islamic banks if the banks disclose the MIICSRDi.

b) Corporate reputation

The corporate reputation measurements are a mix of the opinions of the organisation's stakeholders, which are employees, customers, suppliers, investors, community, government, and other stakeholders either positive or negative (Pomering & Johnson, 2009; Post & Griffin, 1997). Particularly, corporate reputation is regarded as how well the Islamic banks meet the needs of the stakeholders (Taghian et al., 2015). This study gathered the perceptions of the stakeholders (employees and customers) regarding the corporate reputation of the Malaysian Islamic banks if they disclose the MIICSRDi.

5.7.2 Adaption of the MIICSRDi and items for financial performance and corporate reputation

This section describes the adaption of the MIICSRDi and items for financial performance and corporate reputation from the literature review. This section is divided into three sections, namely Section A (MIICSRDi), Section B (financial performance), and Section C (corporate reputation).

5.7.2.1 Section A: MIICSRDi

The first stage in developing the MIICSRDi is to conceptualise the measurements according to the proposed definitions, theory, and principles (Churchill, 1979; Turker, 2009). The main purpose is to obtain better measurements by explaining precisely what is included in the definitions, theory, and principles of the variables (Turker, 2009). The proposed definitions were referred to Carroll (1979) and AAOIFI (2010). As such, the MIICSRDi must be in line with Carroll's (1979) and AAOIFI's (2010) definitions. According to Carroll (1979), CSR activities refer to the responsibilities of the organisations in economic, legal, ethical, and philanthropic aspects. Meanwhile, AAOIFI (2010) asserted that CSR involves religious, economic, legal, ethical, and discretionary responsibilities.

To make the MIICSRDi more comprehensive, its establishment is based on the theory and principles. The stakeholder theory is applied to this study, whereby the items must be related to the needs of the stakeholders which lead to the success of the organisations. In addition, the items must relate to the *Shariah* principles (unity, equilibrium, free will, and responsibility). Furthermore, the items must be in accordance with the *'urf* principle, which is the customary practices of the conventional banks that do not contradict the *Shariah* principles.

In particular, Carroll's (1979) definition was referred to as a parameter in developing the MIICSRDi because Islamic and Western CSR have a common humanitarian ground. Since the financial system in Malaysia operates a dual banking system, the Islamic banks need to maintain and sustain their position in parallel with the conventional banks. Therefore, it is necessary to refer to the customary practices of the conventional banks that are not against the *Shariah* principles. In addition, Caroll's (1979) model has been tested many times and it is one of the famous frameworks from the Western perspective (Dusuki & Tengku Mohd Yusof, 2008). In fact, Hossain et al. (2014) and Abd. Rahim et al. (2011) used Carroll's (1979) model in their study to test in the Islami banking context. Besides, this study referred to AAOIFI (2010) because AAOIFI (2010) has issued a CSR standard for IFIs globally.

The stakeholder theory describes the objective, moral and philosophical guideline of the firms' operations (Donaldson & Preston, 1995). The stakeholder theory emphasises that organisations that meet the demands and needs of the stakeholders will be able to enhance their financial performance (Berrone et al., 2007; Donaldson & Preston, 1995; Platonova et al., 2016). Therefore, the criteria for the establishment of the MIICSRDi referred to the stakeholders' needs as well. Indeed, the stakeholder theory has been found suitable to be applied in CSR in the banking context (Fatma et al., 2014; Pérez, Garcia de los Salmones, & Rodriguez del Bosque, 2013). Furthermore, this study incorporated the Islamic worldview which consists of the *Shariah* principles and *'urf* principle.

The *Shariah* principles relating to Islamic economics are unity, equilibrium, free will, and responsibility (Mohammed, 2007; Naqvi, 1981; Tilt & Rahin, 2015). For that reason, the MIICSRDi in this study portrays the development of the CSR items that were adapted from the existing selected standard, literature, and selected annual reports based on Carroll's (1979) and AAOIFI's (2010) definitions, stakeholder theory, and *Shariah* principles (unity, equilibrium, free will, and responsibility).

In addition, according to CBA (2009), Malaysia recognises and applies a dual banking system, which consists of conventional and Islamic banks. Since Islamic banking is a niche area compared to conventional banking (Ariff, 2017), Islamic banks need to sustain their position in the financial industry. To sustain, the Islamic banks must compete by referring to the *'urf* principle, which is the customary practices of the conventional banks that are not against the *Shariah* principles. Besides, since the Malaysian population consists Muslims and non-Muslims (Echchabi & Olaniyi, 2012), Islamic banks need to cater to the needs and demands of the non-Muslims by adopting the best market practices which are not against the *Shariah* principles. Therefore, integration came into the picture in developing the CSR items. Integration refers to the combination of the Islamic and conventional CSR items in the Malaysian banking context.

The second stage of the study involved listing down the items based on the definitions and the underlying theory and principles (Churchill, 1979; Turker, 2009). The items are from the international Islamic CSR standard (AAOIFI, 2010), local CSR standard (Bursa Malaysia Securities Berhad, 2015), the literature on Islamic CSR and conventional banking CSR as well the annual report of Bank Islam Malaysia Berhad and Maybank for the year 2015. A literature search is needed to gain a complete and comprehensive review of the CSR items (Churchill, 1979; Webster & Watson, 2002; The Writing Center, 2019).

Specifically, the collation and adaption of the items were taken from Governance Standard No.7: Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions (IFI) (AAOIFI, 2010) and Sustainability Reporting Guide: Financial Sector (Bursa Malaysia Securities Berhad, 2015). This is due to their established positions in the international and local CSR standards and the inclusion of the Islamic and conventional elements. GRI4 was excluded from this study because the Sustainability Reporting Guide: Financial Sector has adapted GRI4 and modified it to suit the environment of the public-listed financial companies in Malaysia. Dabic et al. (2016) agreed that CSR practices are different in every industry.

In addition, the reviewed literature was obtained from the Web of Science, Scopus, and Google Scholar with a specific focus on the banking sector. The reviewed literature for the Islamic perspective was for the articles published from 2002 to 2015 due to the limitation of the research focus on the Islamic perspective. Meanwhile, the literature review for the conventional perspective covered the period of 2011 through 2016. The review period was restricted in order to obtain up-to-date information regarding the CSRD items. The selection of the articles is based on the CSR literature that provides the CSR dimensions and items which enable the development of a framework and performance of disclosure analysis. Even though the article by Khurshid et al. (2014) is not focused on disclosure, it was selected because it employed Carroll's (1979) model and incorporated the *Shariah* principles. Given that Carroll's (1979) model is well-known as asserted by Dusuki and Tengku Mohd Yusof (2008), the researcher considered to include it in this research to identify the contents of the article. Besides, only articles written in the English language were used in this study.

Moreover, the researcher referred to the annual report of 2015 issued by Bank Islam and Maybank to understand the CSR environment in the Malaysian banking sector. Both Bank Islam and Maybank are deemed as highly reputable in Malaysia. In addition, the items from the annual report and sustainability report of Bank Islam and Maybank that are considered relevant to the banking environment were adapted. The relevant items from the report were adapted only when there is an absence in the selected CSR standards and selected previous literature review.

Table 5.1 shows the list of 36 references used in developing the MIICSRDi. The 36 references encompass international and local CSR standards, selected reviewed literature (literature on Islamic CSR, literature on the comparison between Islamic banking CSR and conventional banking CSR, and literature on CSR in conventional banking), Bank Islam Annual Report 2015 (Bank Islam Malaysia Berhad, 2015), and Maybank Sustainability Report 2015 (Maybank, 2015).

Table 5.1: List of references for the MIICSRDi

No	Selected CSR standards and literature	References
1	International CSR standard (Islamic elements)	Governance Standard No.7: Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions (IFI) (AAOIFI, 2010).
2	Local CSR standard (Conventional elements)	Bursa Malaysia Sustainability Reporting Guide: Financial Sector (Bursa Malaysia Securities Berhad, 2015).
3	Islamic CSR literature	Maali et al. (2006); Haniffa & Hudaib (2007); Muwazir et al. (2006); Hassan & Harahap (2010); Aribi & Gao (2011); Farook, Hassan, & Lanis (2011); Paino, Bahari, & Bakar (2011); Samina (2012); Zubairu, Sakariyau, & Dauda (2012); Mosaid & Boutti (2012); Abdul Rahman & Bukair (2013); Rashid et al. (2013); Kamla & Rammal (2013); Khan (2013); Darus et al. (2014); Khurshid et al. (2014); Aribi & Arun (2015); Alamer et al. (2015); Issalih et al. (2015); Yusuf & Bahari (2015).
4	Literature on the comparison between Islamic banking CSR and conventional banking CSR	Aribi & Gao (2010); Sobhani, Amran, & Zainuddin (2012); Sharif & Rashid (2014); Ullah & Rahman (2015); Nobanee & Ellili (2016).
5	Literature on conventional banking CSR	Andrikopoulos et al. (2014); Fatma et al. (2014); Grougiou, Leventis, Dedoulis & Owusu-Ansah (2014); Jain et al. (2015); Jizi et al. (2014); Kiliç, Kuzey, & Uyar (2015); Krasodomska (2015).
6	Islamic bank's annual report	Bank Islam Malaysia Berhad (2015).
7	Conventional bank's annual report	Maybank (2015).

Meanwhile, Table 5.2 presents the number of items adapted and collated from the selected CSR standards and literature. As mentioned earlier, the relevant items were adapted only when there is an absence in the selected CSR standards and previous literature reviewed. In this case, only one item from Maybank Sustainability Report 2015 (Maybank, 2015) was adapted due to its relevance. In total, 1,643 items were collated and adapted in this study.

Table 5.2: The number of items adapted and collated from the selected standards and literature

No	Types of selected standards and literature	Number of items
1	Governance Standard No.7: Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions (IFI) (AAOIFI, 2010)	94
2	Bursa Malaysia Sustainability Reporting Guide: Financial Sector (Bursa Malaysia Securities Berhad, 2015)	50
3	Literature on Islamic CSR	923
4	Literature on comparing Islamic banking CSR and conventional banking CSR	331
5	Literature on conventional banking CSR	244
6	Maybank Sustainability Report 2015	1
	Total	1,643

At the third stage, the processes of analysis and refinement were conducted. The analysis was done by eliminating redundant items. For example, the item "Commitments in operating within *Shariah* principles/ideals" in Mosaid and Boutti (2012) and Zubairu et al. (2012) was already included in Haniffa and Hudaib (2007). This is because Mosaid and Boutti (2012) and Zubairu et al. (2012) adapted the instruments from Haniffa and Hudaib (2007). Therefore, the items derived from Mosaid and Boutti (2012) and Zubairu et al. (2012) were eliminated and only the items from Haniffa and Hudaib (2007) were retained.

In addition, similar or overlapping items were combined. For instance, the items "employee medical assistance" (Ullah & Rahman, 2015) and "insurance for employee" (Yusuf & Bahari, 2015) can be categorised under "employee welfare" (Bursa Malaysia Securities Berhad, 2015; Haniffa & Hudaib, 2007; Muwazir et al., 2006).

Some items were eliminated because they are inappropriate in the context of the *Shariah* principles and *'urf* principle. For example, items such as "gay and lesbian policies" (Grougiou et al., 2014) and "financial assistance to freedom fighter" (Ullah & Rahman, 2015) were eliminated. The item "gay and lesbian policies" (Grougiou et al.,

2014) was deleted as it contradicts the *Shariah* principles. Meanwhile, "financial assistance to freedom fighter" (Ullah & Rahman, 2015) was eliminated because it is too political. In total, 182 items were eliminated.

Next, the process was rerun (eliminating redundant items, combining similar or overlapping items, eliminating the items that are against the *Shariah* principles and *'urf* principle) to ensure that the items obtained are comprehensive. Again, the process of rerunning the analysis was referred to AAOIFI's (2010) and Carroll's (1979) definitions, stakeholder theory, *Shariah* principles, and the *'urf* principle. As a result, 109 items were retained, as shown in Appendix D. The 109 items were validated by seven experts who reviewed and commented on the MIICSRDi instruments. The expert panel members have more than five years of experience in their position. They consist of academicians, a practitioner, regulators, and a proofreader.

The results of the content validation are explained in the content validation section, 5.7.3. The next section discusses the adaption of the financial performance items.

5.7.2.2 Section B: Financial performance

The adaption of the financial performance items is based on the understandability of the measurements and their suitability within the context of this study, as mentioned by Singla, Kitch, Weissman, and Campbell (2006). Wahid (2016) mentioned that Islamic banks consist of small and large banks. Therefore, it is necessary to find suitable financial performance measurements parallel with the environment of small and large Islamic banks in Malaysia in order to provide better analysis. In addition, Ahmad and Seet (2009) suggested that it is highly recommended to use multiple items because of the subjective evaluation used, which is the perception of financial performance.

The financial performance items were adapted from Ahmad and Seet (2009). This is because Ahmad and Seet (2009) found that managers perceived that the meaning of business success in Malaysia consists of five financial performance items, which are market share, sales, profitability, business growth, and low debt level. Moreover, these financial performance items were evaluated by managers and customers in previous studies (e.g., Ahmad & Seet, 2009; Cegarra-Navarro et al., 2016; Chaudary et al., 2016). Therefore, this study adapted the financial performance items from Ahmad and Seet (2009), Cegarra-Navarro et al. (2016), and Chaudary et al. (2016). The items for financial performance in this study consist of market share, sales, profitability, business growth, and low debt level.

The market share item represents the organisations' strength (Taghian et al., 2015). Ahmad and Seet (2009) revealed that both profitability and sales growth indicate the capability to survive in the long run. Chandler and Hanks (1993) provided empirical evidence that growth and business volume are the most appropriate performance dimensions in business decision making. Preston and Sapienza (1990) added that the connection between stakeholders' performance and corporate growth is an issue of some interest in itself. It is also believed that sales growth, rather than profitability or any other stakeholders' objectives, becomes the ultimate goal and source of status and benefit for managers. These results suggest that the successful pursuit of the interests of shareholders, employees, and customers is entirely consistent with sales growth with the exception of community and environmental interests. Meanwhile, maintaining a low debt level through lesser borrowings determines business success (Ahmad & Seet, 2009). The five items were validated by the seven expert panel members in section 5.7.3. The next section describes the adaption of the corporate reputation item.

5.7.2.3 Section C: Corporate reputation

The adaption of the corporate reputation measurements is based on Fombrun and Shanley (1990), Dowling (1994), Helm (2007), and Post and Griffin (1997). As cited by Bennett and Kottasz (2000, p. 227), the definitions proposed by Fombrun and Shanley (1990), Dowling (1994), and Post and Griffin (1997) are shown in Table 5.3.

Table 5.3: The definitions of corporate reputation

Authors	Definitions
Fombrun and Shanley, (1990)	Reputation is a representation of the cumulative judgements of a constituency group over time, based upon socially constructed perceptions of an organisation's substantive and symbolic actions.
Dowling (1994)	Corporate reputation is the evaluation (respect, esteem, estimation) in which an organisation's image is held by people.
Post and Griffin (1997)	Corporate reputation is a synthesis of the opinions, perceptions, and attitudes of an organisation's stakeholders, employees, customers, suppliers, investors, community members, activists, media, and other stakeholders.

Helm (2007) stated that reputational perceptions must be balanced with the stakeholders' groups. A total 11 corporate reputation items are relevant and meet the needs of each of the stakeholder groups (Caruana, 1997; Fombrun et al., 2000; Helm, 2007; Jalil & Rahman, 2014; Rayner, 2003; Taghian et al., 2015). In detail, five items were taken from Fombrun et al. (2000), one item from Taghian et al. (2015), two items from Caruana (1997), one item from Helm (2007), one item from Jalil and Rahman (2014), and one item from Rayner (2003).

The corporate reputation items that were perceived to be significant by the stakeholders in the previous studies and have been adapted for this study are "innovative products and services" (Fombrun et al., 2000) and "products and services must be in line with the *Shariah* principles" (Jalil & Rahman, 2014). Furthermore, the organisation must disclose any information that relates to maintaining its sustainability (Fombrun et al., 2000) and the prospect for future growth (Fombrun et al., 2000). Scholars also asserted that the organisation must have a strong management team (Caruana, 1997), provide a positive working environment, and disclose information that shows excellent leadership in the annual report in order to be perceived positively by the stakeholders (Fombrun et al., 2000). In addition, Taghian et al. (2015) highlighted that the organisation must be socially responsible, participate in philanthropic activities (Caruana, 1997), and protect the environment (Helm, 2007). Besides, the organisation must comply with the relevant laws and regulations (Rayner, 2003).

Consequently, the newly adapted scales were modified with relevance sentences to suit the study. These 11 items are perceived to encompass the best interest of every stakeholder in order to define corporate reputation, based on previous scholars' opinions (Fombrun & Shanley, 1990; Dowling, 1994; Helm, 2007; Post & Griffin, 1997). The 11 items were validated by the expert panel. The next section describes the content validation for the MIICSRDi, financial performance, and corporate reputation.

5.7.3 Content validation

This section describes the content validation of the MIICSRDi and financial performance and corporate reputation items. This section is divided into three sections, which are Section A (MIICSRDi), Section B (financial performance), and Section C (corporate reputation).

Content validation was applied in this study to reduce the measurement error and to determine whether the instruments are actually suitable to be measured (Field, 2010). According to Sekaran (2003), a panel of judges can confirm the content validity of the instruments. The instruments were validated by various experts such as academicians, a practitioner, and regulators, who came from the International Centre of Education in

Islamic Finance (INCEIF), University Malaysia Terengganu (UMT), RHB Islamic Bank, and the United Nations (UN). Some of the expert panel members requested to keep their institution anonymous due to confidentiality reasons. The academicians, practitioner, and regulators were selected because of their expertise in the topic of the study as well as their familiarity with the banking industry. In addition, they were customers of Islamic banks. Meanwhile, one expert panel member contributed to the editing of the words. The expert panel members have more than five years of experience in their respective fields. Therefore, seven sets of questionnaires were distributed to the expert panel members. The panel members identified whether the instruments are relevant to the research objectives and whether the instruments need to be reduced or added as well as commenting on the wording and sequence of the sentences. Content validation is important in ensuring that the instruments are reliable and suitable for the environment, which is the Malaysian Islamic banks. The content validation was conducted from 13 September 2016 until 3 October 2016. The time frame is long due to the particularity of the panel in validating the content. Appendix E shows a summary of the expert panel's comments and the actions taken by the researcher.

The comments made by the expert panel and the feedback from the comments are discussed in the next subsections. The following subsections discuss the content validation of the MIICSRDi, financial performance, and corporate reputation in further detail, starting with the MIICSRDi.

5.7.3.1 Section A: MIICSRDi

From the content validation, the comments in Appendix E show that most of the MIICSRDi items are relevant. However, from the 109 MIICSRDi items (in Appendix D), the expert panel found that almost 50% of the contents are inappropriate, too many, and lengthy. The expert panel suggested that the items should be grouped into similar categories to eliminate the redundancy. In addition, some of the expert panel members stated that the language and jargon used must be clear and understandable to the respondents. For instance, the Islamic words used must be clear to ensure that the respondents understand them. Following the comments made by the expert panel and the supervisor, the researcher reduced the MIICSRDi by combining the items into similar categories. Again, the criteria in refining the items were based on AAOIFI's (2010) and Carroll's (1979) definitions, stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *'urf* principle. As a result of the content validation and improvisation, 59 MIICSRDi items were retained. The 59 items, which were approved by the expert panel, are attached in Appendix F.

The 59 MIICSRDi items (in Appendix F) needed to be analysed using EFA, which is discussed in the EFA section. The next subsection describes the content validation of the financial performance items.

5.7.3.2 Section B: Financial performance

The financial performance items seemed relevant, but the wording needed to be modified. In addition, one financial performance item was deleted as the expert panel suggested that the interpretation of the item can be misleading. The deleted item is the "low debt" item. Hence, only four items are appropriate to represent financial performance, namely market share, sales, profitability, and business growth. Besides, the expert panel advised that the items needed to be reworded to make it easier for the respondents to understand them. The final four financial performance items after content validation and rewording are shown in Table 5.4. In addition, EFA needed to be performed on the items.

Table 5.4: Financial performance items after content validation and before EFA

No.	Items	References
B1	The overall market share of an Islamic bank increases.	Ahmad & Seet (2009); Cegarra-Navarro et al. (2016); Chaudary et al. (2016)
B2	The demand for and sales of products of an Islamic bank will increase.	Ahmad & Seet (2009); Cegarra-Navarro et al. (2016); Chaudary et al. (2016)
B3	The overall profit of an Islamic bank will improve.	Ahmad & Seet (2009); Chaudary et al. (2016)
B4	The Islamic bank's business will grow.	Ahmad & Seet (2009)

The next section discusses the content validation of perceived corporate reputation.

5.7.3.3 Section C: Corporate reputation

Based on the content validation, the corporate reputation items are also relevant. However, amendments needed to be made to the items due to grammatical error. Besides, the language used for the corporate reputation items was improvised to make it easier for the respondents to answer the questionnaire. The expert panel agreed that the 11 items are relevant to be included in the questionnaire.

Table 5.5: Corporate reputation items after content validation and before EFA

No	Items	References
C1	An Islamic bank is involved with philanthropic activities.	Caruana (1997)
C2	An Islamic bank is a socially responsible organisation	Taghian et al. (2015)
C3	An Islamic bank is committed to protecting the environment.	Helm (2007)
C4	An Islamic bank provides innovative products and services.	Fombrun et al. (2000)
C5	An Islamic bank strives to show that all products and services are *Shariah*-compliant.	Jalil & Rahman (2014)
C6	An Islamic bank strives to ensure that its organisation maintains sustainability.	Fombrun et al. (2000)
C7	An Islamic bank shows excellent leadership.	Fombrun et al. (2000)
C8	An Islamic bank has strong prospects for future growth.	Fombrun et al. (2000)
C9	An Islamic bank provides a positive working environment to work for	Fombrun et al. (2000)
C10	Islamic banks have strong management.	Caruana (1997)
C11	Islamic banks comply with relevant laws and regulations.	Rayner (2003)

Thus, 11 corporate reputation items were validated by the expert panel. These 11 items were then analysed using EFA. The next section elaborates on the EFA for MIICSRDi, financial performance, and corporate reputation.

5.7.4 EFA

According to Field (2010), factor analysis is used to understand the formation of the variables, to construct the questionnaire by measuring the underlying variables, to reduce data to a more practicable size and at the same time to maintain the main points as good as possible. Taherdoost, Sahibuddin, and Jalaliyoon (2014) elaborated that factor analysis reduces data into a smaller set which allows the refinement of the dimensions and theory. Therefore, factor analysis is an important tool to reduce a large number of items and categorise the items into factors that are highly related to each other. Factor analysis comprises two categories, which are EFA and CFA (Williams, Onsman, & Brown, 2010).

EFA can be applied when the researchers have a little theoretical basis in specifying the number of factors used and deciding which items best fit in the factors (Matsunaga, 2010; Pett, Lackey, & Sullivan, 2003; Taherdoost et al., 2014). Previous studies, as mentioned in Chapter Three, show that the factors vary for each study, and some of the studies were not validated. EFA is the most frequently used analysis to explore the psychometric properties of an instrument (Osborne, 2015). In contrast, Williams et al. (2010) elaborated that CFA is suitable to be applied when the researcher has expectations of the theory, expectations of prior empirical research and theory, and expectations about the number of factors used. Hence, CFA is applicable to confirm the theory and to test the hypotheses (Hair et al., 2010).

In summary, EFA assists in the development of the factors and determines the underlying constructs for a set of measured factors. In addition, EFA can group items based on the strength of the items. In this study, EFA was used to refine the items and to provide a comprehensive set of questionnaire and framework (MIICSRDi, financial performance, and corporate reputation). It is important that the instruments should be statistically validated in order to suit the Islamic banking sector in the Malaysian environment. Hence, EFA is an adequate tool to use in this study, and it should be done before conducting the actual study.

Before analysing the data using EFA, the questionnaire was distributed to the middle managers from various departments of one Islamic bank (local Islamic subsidiary A). Regarding the administration of the questionnaire, it was forwarded to the HR representatives. Furthermore, the contents of the questionnaire were explained to the HR representatives before the questionnaire was distributed to the middle managers. The HR representatives agreed to explain the contents of the questionnaire to the middle managers. All the questions raised by the HR representatives were clarified. The process of collecting data for the EFA took place from August 2016 until September 2016. After the data collection was completed, the EFA was performed from 17 October 2016 until 28 October 2016.

Before proceeding with the EFA, it is necessary to consider the suitability of the EFA data (Bryman & Cramer, 2001). There are two important issues concerning the EFA that need to be considered in determining whether the particular data set is suitable for performing the EFA. The two important issues are sample size and the strength of the relationship between variables or items (Pallant, 2013).

Choosing the appropriate sample size has been a significant issue in the EFA. There are rules and guidelines for determining the suitable sample size. Comrey and Lee (1992) provided the scale of sample adequacy, which consists of 50 - very poor, 100 - poor, 200 - fair, 300 - good, 500 - very good, and 1000 or more - excellent. Some scholars suggested that the sample size should include at least 100 respondents (Bryman & Cramer, 2001; Coakes & Steed, 2003; Hair et al., 2010). However, other scholars stated that a sample size of 50 respondents is adequate and thus considered the absolute reasonable minimum to do the EFA (de Winter et al., 2009; Hogarty, Hines, Kromrey, Ferron, & Mumford, 2005; Jung & Lee, 2011). Nonetheless, Gorsuch (1983) and Kline (1979) argued that at least 100 respondents is acceptable for the EFA.

Therefore, in this study, 165 respondents comprising 165 employees of an Islamic bank were obtained by the researcher. According to Fatma et al. (2014), "banking employees may not represent the population but are a good subset of middle-income population" (p. 13). The 165 employees are the middle managers from various departments of an Islamic bank. The 165 employees are acceptable as stated by previous scholars and closer towards fair following the scale by Comrey and Lee (1992). Therefore, 165 employees are sufficient to validate the instruments.

Furthermore, Field (2010) proposed that the Kaiser-Meyer-Olkin measure of sampling adequacy (KMO) can be used to determine the adequacy of the sample size. The KMO can be calculated for individual and multiple variables as the ratio of the squared correlation between variables to the squared partial correlation between variables (Field, 2010, p. 647). The KMO index should range from 0 to 1, with a minimum value of 0.6 for good factor analysis (Pallant, 2013). Hair et al. (2010) recommended a specific guideline in interpreting the KMO measure: 0.80 or above, meritorious; 0.70–0.80, middling; 0.60–0.70, mediocre; 0.50–0.60, miserable; and below 0.50, unacceptable. Therefore, in this study, the KMO test was done to determine the adequacy of the sample size. Table 5.6 (MIICSRDi), Table 5.7 (financial performance), and Table 5.8 (corporate reputation) show the results of the tests.

Table 5.6: KMO and Bartlett's Test to determine the adequacy of the sample size and the strength of the relationship between items: MIICSRDi

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.830
Bartlett's Test of Sphericity	Approx. Chi-Square	7616.814
	Df	1770
	Sig.	.000

As shown in Table 5.6, the KMO value for MIICSRDi is 0.830, which exceeds the recommended value of 0.60 (Kaiser, 1970, 1974; Hair et al., 2010). Following the guideline provided by Hair et al. (2010), the value of 0.830 is considered reasonably good, which is meritorious. Next, the KMO value for financial performance is shown in Table 5.7.

Table 5.7: KMO and Bartlett's Test to determine the adequacy of the sample size and the strength of the relationship between items: Financial performance

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.908
Bartlett's Test of Sphericity	Approx. Chi-Square	1139.206
	Df	36
	Sig.	.000

The KMO value for financial performance in Table 5.7 is 0.908, which exceeds the recommended value of 0.60 (Kaiser, 1970, 1974; Hair et al., 2010). Following the guideline provided by Hair et al. (2010), the value of 0.908 is considered reasonably good, which is meritorious. Next, Table 5.8 shows the KMO value for corporate reputation.

Table 5.8: KMO and Bartlett's Test to determine the adequacy of the sample size and the strength of the relationship between items: Corporate reputation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.897
Bartlett's Test of Sphericity	Approx. Chi-Square	1201.606
	Df	55
	Sig.	.000

The KMO value for corporate reputation in Table 5.8 is 0.897, which exceeds the recommended value of 0.60 (Kaiser, 1970, 1974; Hair et al., 2010). Following the guideline provided by Hair et al. (2010), the value of 0.897 is considered reasonably good, which is meritorious.

The second issue is pertaining to the strength of the inter-correlations among items. Indeed, there must be relationships among the variables in a data set in order to do EFA. The Bartlett's test of sphericity should be significant ($p < 0.05$) to be accepted to proceed with the EFA (Coakes & Steed, 2003; Hair et al., 2010; Pallant 2013). Besides, previous scholars have recommended inspecting the correlation matrix for evidence that the coefficients are greater than 0.3 (Coakes & Steed, 2003; Hair et al., 2010; Pallant, 2013). In addition, another approach to measure the sample adequacy is by inspecting the anti-image correlation matrix on individual items (Coakes & Steed, 2003). Coakes and Steed (2003) recommended 0.5 and above as acceptable.

Therefore, based on the recommendation by previous scholars (Coakes & Steed, 2003; Hair et al., 2010; Pallant 2013), Bartlett's Test, correlation matrix and anti-image correlation matrix were done to confirm the suitability of the data in order to use the EFA. Table 5.6 (MIICSRDi), 5.7 (financial performance), and 5.8 (corporate reputation) show the results of the tests.

In Table 5.6, Bartlett's Test of Sphericity (Bartlett, 1954) is significant ($p < 0.05$), which supports the factorability of the correlation matrix. A visual inspection of the correlation matrix displays the existence of many coefficients of 0.3 and above. Furthermore, an inspection of the anti-image correlation matrix displays that all measures of sampling adequacy are above the acceptable level of 0.5 (ranging from 0.699-0.908). Therefore, it is concluded that it is appropriate to do the EFA for the MIICSRDi.

In Table 5.7 Bartlett's Test of Sphericity (Bartlett, 1954) is significant ($p < 0.05$), which supports the factorability of the correlation matrix. A visual inspection of the correlation matrix displays the existence of many coefficients of 0.3 and above. Furthermore, an inspection of the anti-image correlation matrix displays that all measures of sampling adequacy are above the acceptable level of 0.5 (0.913–0.957). Therefore, it is concluded that it is appropriate to do the EFA for financial performance.

In Table 5.8 Bartlett's Test of Sphericity (Bartlett, 1954) is significant ($p <0.05$), which supports the factorability of the correlation matrix. A visual inspection of the correlation matrix displays the existence of many coefficients of 0.3 and above. Furthermore, an inspection of the anti-image correlation matrix displays that all measures of sampling adequacy are above the acceptable level of 0.5 (0.880–0.920). Therefore, it is concluded that it is appropriate to do the EFA for corporate reputation. The next subsection discusses the analysis using the EFA for MIICSRDi, financial performance, and corporate reputation in detail.

5.7.4.1 Section A: MIICSRDi

The 59 MIICSRDi items were subjected to principal component analysis (PCA) using SPSS version 22. Pett et al. (2003) recommend using PCA to establish the preliminary solution in EFA. Netemeyer, Bearden, and Sharma (2003) added that if the researchers intend to reduce the items, PCA should be useful.

In this study, orthogonal rotations were chosen because the researcher expected that the factors should be independent and not correlated (Field, 2010; Yong & Pearce, 2013). Among the orthogonal rotations (varimax, quartimax, and equamax), varimax was used. The varimax rotation method provides a simple structure which maximises factor simplicity (Forina, Armanino, Lanteri, & Leardi, 1988). Yong and Pearce (2013) explained that the varimax rotation method reduces the number of items that have high loadings on each factor and works to make small loadings even smaller. To the best of the researcher's knowledge, the varimax rotation is the most widely used of all (e.g., Bryman & Cramer, 2001; Foster, 1998; Hair et al., 2010). Therefore, a simple structure indicates that the data are easier to be interpreted and provided with the most widely used method, and hence, the varimax rotation method is significant in the EFA procedure.

Various techniques can be used to decide the number of factors to be retained. Referring to previous scholars (e.g., Bryman & Cramer, 2001; Hair et al., 2010; Pallant, 2013), the most quoted techniques in determining the factors to be retained are Kaiser's criterion or the eigenvalue rule and Cattell's scree test. Pallant (2013) demonstrated that it is most appropriate to use Cattell's scree test. Cattell recommended that the factors above the elbow or break in the plot contribute the most explanation for the variance in the data set. The ideal pattern in a scree plot is a steep curve followed by a bend and then a flat or a horizontal line.

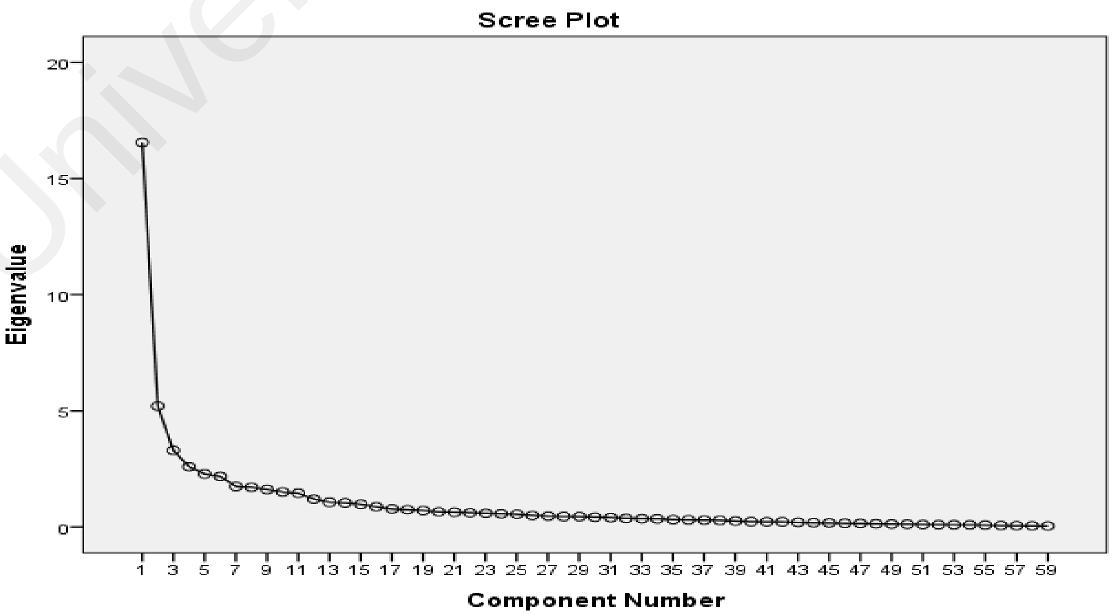


Figure 5.5: Scree plot for the MIICSRDi

The scree plot in Figure 5.5 shows the existence of two breaks. The first break exists between the sixth and seventh factor. The second break is between the 11th and 12th factor. As explained by Pallant (2013), Cattell recommended retaining the factors above the break. Therefore, six factors were retained. The total variance explained for the six factors (first break) is 54.43%. However, Malhotra (2010) proposed that the extracted components should account for at least 60% of the variance. Referring to Table 5.10, if 11 factors are retained (second break), the total variance explained would be 68.04%. Therefore, the 11 factors adequately explain the variance, with the contributed variance of: factor 1 (28.05%), factor 2 (8.82%), factor 3 (5.59%), factor 4 (4.40%), factor 5 (3.87%), factor 6 (3.69%), factor 7 (2.96%), factor 8 (2.90%), factor 9 (2.73%), factor 10 (2.56%), and factor 11 (2.46%). Also, referring to Kaiser (1960), it is recommended to retain the factors with an eigenvalue greater than 1. All of the 11 factors have the eigenvalue greater than 1, as displayed in Table 5.9.

Table 5.9: MIICSRDi after analysing using the EFA

MIICSRDi	Factor loading	Eigen-value	Variance (%)	Cumulative (%)
Factor 1: Managing the environmental issues		16.55	28.05	28.05
1. Total amount of non-hazardous waste generated to preserve the environment. (A57)	.806			
2. Emissions level generated from the acquired electricity, heating, cooling, and steam to reduce the level of pollution. (A56)	.799			
3. Initiative in using recycled materials in order protect the environment. (A54)	.765			
4. Description of the environmental programme to promote environmental sustainability. (A55)	.739			
5. Initiative in reducing water consumption to conserve the environment. (A58)	.705			
6. Projects financed by Islamic banks that may harm the environment. (A53)	.673			
7. Initiative in managing energy saving consumption to support energy efficiency. (A60)	.661			
8. Statement of providing low profit rate to support green projects. (A52)	.634			
9. Statement of the environmental objectives and policies that comply with the laws and regulations. (A50)	.536			
10. Statement of the investment policy on the environmental friendly projects. (A51)	.531			
Factor 2: Islamic business operations and strategy		5.20	8.82	36.87
1. Vision and mission statement of the commitment to ensure that all products and services including returns are in compliant with *Shariah* principles. (A22)	.725			
2. *Zakat*-related information; sources and distribution, balance of undistributed *zakat*, attestation from the Shariah Supervisory Board on distributed and undistributed *zakat* and whether Islamic banks are required to pay *zakat* on behalf of the shareholders and depositors. (A28)	.717			
3. General statement of corporate social responsibility (CSR) that is guided by *Shariah* principles. (A23)	.673			
4. Brief description of products and services that are in line with *Shariah* principles. (A36)	.661			
5. Code of ethical conduct clearly communicated. (A25)	.656			
6. *Shariah* Supervisory Board (SSB) report. (A24)	.624			
7. Information on *Shariah* non-compliance events, earnings and expenditures prohibited by *Shariah* principles; nature and reasons undertaking of the events, how the prohibited earnings and expenditures disposed, and Islamic banks' strategy to find viable, permissible alternatives of similar *Shariah* non-compliant events in the near future. (A29)	.572			
8. Introduction and description of new, innovative products and services that are in line with *Shariah* principles. (A37)	.534			
9. Statement of the existence of research and development activities to develop innovative *Shariah* products. (A27)	.486			

Table 5.9, continued

MIICSRDi	Factor loading	Eigen-value	Variance (%)	Cumulative (%)
Factor 3: Employee welfare and benefits		3.30	5.59	42.46
1. Policy and actions taken in education and training for employees to further enhance their knowledge and skills. (A20)	.802			
2. Statement of the policy and actions taken using *Shariah* principles as a guideline for staff appointments and appraisals. (A19)	.785			
3. Policy and actions taken to ensure the welfare and benefits of employees. (A18)	.784			
4. Policy and actions taken to ensure the rights of employees. (A17)	.742			
5. Policy and actions taken to ensure employees' safe and healthy working environment conducive to *Shariah* principles. (A21)	.650			
Factor 4: Philanthropic information		2.60	4.40	46.86
1. Employees' involvement in local community affairs (volunteering work). (A44)	.727			
2. Participation along with the government, NGOs, and charitable organisations in social activities, health, education, culture, and sports. (A42)	.726			
3. Corporate awards and recognition in philanthropic activities received by Islamic banks. (A41)	.683			
4. Main investors that support social welfare activities. (A43)	.636			
5. Statement of charity collection on behalf of the third parties to be distributed to charitable activities. (A46)	.570			
6. Statement of the existence of Islamic banks' charitable funds. (A45)	.516			
Factor 5: Organisation strength		2.28	3.87	50.73
1. Total number and percentage of employees by age group and gender. (A14)	.854			
2. Total number and percentage of employee turnover by age group and gender. (A15)	.852			
3. The percentage of employee diversity according to gender, age group, ethnicity, religion and disability. (A16)	.700			
Factor 6: Good governance		2.18	3.69	54.43
1. Statement of corporate governance and sustainability governance. (A12)	.724			
2. The profile of the organisation, board of members, management team and *Shariah* Supervisory Board (SSB). (A11)	.666			
3. Statement of the existence of social and environmental assurance services provided for Islamic banks. (A13)	.619			
Factor 7: Financial highlights and computation		1.75	2.96	57.39
1. Amount of *Shariah* non-compliant events, earnings and expenditures prohibited by *Shariah* principles. (A6)	.807			
2. Total monetary value of penalty and total number of non-monetary sanctions for non-compliance with laws and regulations. (A7)	.732			
3. Amount of *zakat* paid and computation. (A5)	.551			
4. The review of financial performance and comparative financial performance in previous years. (A4)	.478			

Table 5.9, continued

MIICSRDi	Factor loading	Eigen-value	Variance (%)	Cumulative (%)
Factor 8: Compliance and responsibilities		1.71	2.90	60.28
1. Statement of the policy for reviewing prospective customers and suppliers in line with *Shariah* principles. (A30)	.781			
2. Statement of the policy on assessment and measures taken from customers' feedback and complaints. (A31)	.747			
3. Statement of the policy for dealing with suppliers and actions taken on supplier non-compliance in relation to social impact assessment. (A32)	.624			
Factor 9: Management of sources and charity fund		1.61	2.73	63.02
1. Description of donations (charity) and charitable activities. (A48)	.825			
2. Description of the sources of Islamic banks' charitable funds. (A47)	.626			
3. The policy on the *waqf* (endowment) management. (A49)	.616			
Factor 10: Customer protection		1.51	2.56	65.58
1. The policy on customer data protection. (A34)	.693			
2. Description in organising financial literacy programme for customers. (A35)	.679			
3. Statement of the policy for dealing with customers and insolvent customers according to *Shariah* principles. (A33)	.598			
Factor 11: Islamic ethical values		1.45	2.46	68.04
1. The policy on the *qard hasan* products (interest free loan). (A38)	.754			
2. Statement of the policy for marketing in accordance with *Shariah* principles. (A40)	.539			
3. The policy for providing continuous excellent services to customers. (A39)	.474			

The analysis was set at the factor loading value of 0.3 in SPSS. Hair et al. (2010) considered a factor loading value of 0.30 as acceptable. Referring to the guideline by Hair et al. (2010), the analysis started at the first item on the first factor and moved horizontally from left to right, targeting the highest loading. As a result, 52 MIICSRDi items were obtained. The factor loading for each item is between 0.474 and 0.854. Hair et al. (2010) stated that a factor loading of 0.40 and above is considered significant for interpretative purposes. Therefore, it shows that all the items have a strong relationship with the factors.

As shown in Table 5.9, the 11 factors seem to be adequate as they explain 68.04% of the MIICSRDi. Moreover, all the 11 factors have the eigenvalues of greater than one. Hence, all the 11 factors should be retained (Malhotra, 2010). The 11 factors consist of 52 items comprising Factor 1 (10 items), Factor 2 (9 items), Factor 3 (5 items), Factor 4 (6 items), Factor 5 (3 items), Factor 6 (4 items), Factor 7 (3 items), Factor 8 (3 items), Factor 9 (3 items), Factor 10 (3 items), and Factor 11 (3 items).

Based on the EFA results, seven items were deleted due to (i) the items were cross loading between the factors, (ii) the communalities of the items were lower, (iii) the items were in the factor that had been excluded from the MIICSRDi due to Cattell's scree test, and (iv) the items did not represent the characteristics of the factors (Hair et al., 2010). Furthermore, the factors should have at least three items to be labelled (Yong & Pearce, 2013). The EFA analysis is attached in Appendix G.

The deleted items are listed in Table 5.10. The results imply that these items are not suitable for the Malaysian Islamic banking environment. This is consistent with Khurshid et al. (2014) and Aksak et al. (2016), who stated that the CSR measurement is based on the culture, environment, religion, and the transition period. Dusuki and Tengku Mohd

Yusof (2008) stated that the cultural factor contributes to the differences in the CSR preferences in the Malaysian environment. The results also imply that an item (A10) is not suitable under Factor 6 (Good governance). This is because item A10 is focused on the Islamic banks' socio-economic role in another developing country, whereas good governance is focused on the Islamic banks' profile.

Table 5.10: Items that were deleted

No	Items
1	Percentage of the procurement practices, locally. (A1)
2	Amount spent for the betterment of the communities and environment that are external to the Islamic banks. (A2)
3	Amount spent for the betterment of the beneficiaries (receivers) that are internal to the Islamic banks. (A3)
4	Position of the global economy and domestic economy, which has an impact on Islamic banks. (A8)
5	Current or expected impact on communities and local economies due to the Islamic banks' role in socio-economic aspects, including the equitable distribution of wealth. (A9)
6	Current or expected impacts on the Islamic banks' role in socio-economic aspects for another developing country. (A10)
7	Statement of the appreciation to shareholders and stakeholders (A26)

All of the factors were renamed based on the characteristics of the groups, as suggested by Kinnear and Gray (1997). The final names of the 11 factors are summarised in Table 5.11, as agreed by the expert panel.

Table 5.11: The names of the 11 factors

No.	Factors
Factor 1	Managing the environmental issues
Factor 2	Islamic business operations and strategy
Factor 3	Employee welfare and benefits
Factor 4	Philanthropic information
Factor 5	Organisation's strength
Factor 6	Good governance
Factor 7	Financial highlight and computation
Factor 8	Compliance and responsibilities
Factor 9	Management of sources and charity fund
Factor 10	Customer protection
Factor 11	Islamic ethical values

The explanation for each factor, which the researcher renamed to "dimension", is provided in Table 5.12.

Table 5.12: Dimensions and descriptions

No.	Dimension	Descriptions
1	Managing the environmental issues	Islam encourages the protection of the environment due to the value of God's creation (Khurshid et al., 2014). Aribi and Arun (2015) accentuated that the nature of the earth belongs to *Allah* and as vicegerent of *Allah*, a person is accountable to preserve and protect the environment as stated in the *Quran*. Hassan and Harahap (2010) highlighted that it is prohibited by Islam to create harm to the environment if it can potentially damage the individual or community. Islamic banks are not directly involved in the destruction of the environment (Maali et al., 2006). However, previous scholars advocated that banks have a "catalytic role" in influencing the environmental situation (Douglas, Doris, & Johnson, 2004; Hassan & Harahap, 2010; Sobhani et al., 2012). Catalytic is defined as the involvement in the environmental situation, but being a catalytic is not the main actor. Therefore, there is a need for Islamic banks to disclose information that may affect society (Fatma et al., 2014; Maali et al., 2006).
2	Islamic business operation and strategy	Muhamad et al. (2014) found that Islamic business policy and operation are important to be disclosed in the annual reports. Islamic business operation should be committed towards *Allah*'s orders and obligation as well as towards the stakeholders (Rashid et al., 2013). In addition, Abu Bakar and Md Yusof (2015) emphasised that in order to achieve barakah and *al-falah* in this life and the Hereafter, Muslims' business operation should be pro-actively involved in CSR activities by strategically managing their business operations in accordance with the *Shariah* law.
3	Employee welfare and benefits	Employees are the most important assets of an organisation (Haniffa & Hudaib, 2007). Aribi and Gao (2011) emphasised that employee-related disclosure is among the most popular themes in CSR. Jizi et al. (2014) agreed that the majority of the banks' annual reports disclose 87% of information about their employees. Islam also highlights the importance of the organisations' responsibilities in handling their employees. As taken from Muhamad and Muwazir (2008) in Al-Bukhari and Muslim, the Prophet *saw* said: *"Those who work for you are your brothers. Allah has made them your assistants"*. Thus, organisations should treat their employees fairly (Muhamad & Muwazir, 2008).
4	Philanthropic information	This dimension involves purely voluntary activities beyond the law and ethical responsibilities (Carroll, 1979). The *Quran* (4:114) states that "*No good is there in much of their private conversation, except for those who enjoin charity or that which is right or conciliation between people. And whoever does that seeking means to the approval of Allah – then We are going to give him a great reward*." Besides, Islamic banks should urge the employees to be involved in charitable programmes in order to boost up their motivation to stay in the organisations (Hendriks, 2013; Martindale, 2016). Apart from that, Muhamad and Muwazir (2008) emphasised that Islamic banks should support the government's policies regarding social responsibility towards society. Meanwhile, Islamic banks should disclose the awards that they have received due to their contribution to philanthropic activities (Sharif & Rashid, 2014). This information will notify the stakeholders that Islamic banks are playing their supportive role in philanthropic activities. In addition, the existence of a charitable fund and collecting fund is a part of Islamic banks' initiatives to show their concern about catastrophic events such as tsunami, flood, and others.
5	Organisation's strength	The items are related and focused on employee information (Bursa Malaysia Securities Berhad, 2015; Kiliç et al., 2015). This information is important to inform the potential employees about the organisation. With this information, the potential employees may consider whether to apply for a position in the organisations. In addition, it provides information to investors. With low employee turnover and diversity of their background, it shows that the organisation provides higher productivity.

Table 5.12, continued

No	Dimension	Descriptions
6	Good governance	Good governance is a system whereby an organisation is directed, administered or controlled (Choudhury & Alam, 2013). From the conventional literature, good governance is not a part of CSR (e.g., Jain et al., 2015; Krasodomska, 2015). However, in Islamic CSR literature, it is important to disclose the governance elements due to the Islamic bank's accountability towards *Allah*. The *Quran* (21:73) states that *"And We made them leaders guiding Our command. And We inspired to them the doing of good deeds, establishment of prayer, and giving of Zakah, and they were worshippers of Us*." Haniffa and Hudaib (2007) asserted that current and prospective shareholders and depositors would like be informed who has the power in the decision making from the economic aspects as well as in governing Islamic banks' operation.
7	Financial highlights and computation	Carroll (1979) stated that economic activities are the most important dimension in CSR for they help business organisations earn a profit. AAOIFI (2010) agreed that with regard to economic responsibility, Islamic banks must become financially viable, profitable, and efficient. However, the economic dimension must be in compliance with the *Shariah* principles, whereby Islamic banks should earn profits without harming others and by avoiding unlawful transactions (Khurshid et al., 2014).
8	Compliance and responsibilities	Compliance and responsibilities mean that the business operations must be in line with *Shariah* as well as obey the rules of the regulators and the internal rules that have been set up by the organisation. It is important for Islamic banks to inform the customers and suppliers about the nature of their business prior to their engagement and dealings with the relevant parties. Furthermore, Islamic banks are also accountable to the regulators, which may influence their operations (Bani et al., 2015). The regulators have the power to dominate Islamic banks' business operations and social responsibilities. Therefore, by disclosing information that relates to *Shariah* compliance, the Islamic banks provide information to the regulators and other stakeholders that the organisations are aware of the compliance matter that has an impact on society. Besides, resolving customer complaints and disclosing the information will strengthen the relationships between both parties. Bursa Malaysia Securities (2015) agreed that a proper grievance tool will stop the damage or negative impact on society.
9	Management of sources and charity fund	This dimension informs the stakeholders about the difference between conventional banks and Islamic banks. This information is focused on the donations and charitable activities, sources of charity fund and the policy on *waqf* (endowment) management. The donations and activities that can be focused on include social, education, health, art, culture, and sports aspects. Besides, the source of charity fund is derived from *gharamah. Gharamah* is a monetary penalty caused by the delay in financing payments by the customers without the need to prove the actual loss. The *gharamah* amount cannot be recognised as an income and must be channelled to charitable organisations. It is a requirement for Islamic banks to submit their reports on *gharamah* allocation to Jabatan Perbankan Islam dan Takaful, Bank Negara Malaysia. This report should also be disclosed in the annual report in order to inform about the source of charity fund and the amount used in the charity that is derived from the gharamah account. Besides, AAOIFI (2010) and Khan (2013) suggested that Islamic banks should carry out and disclose information on *waqf* funds to help the poor and needy people. Indeed, Bank Islam has been involved in *waqf*, whereby it becomes an intermediary in managing the *waqf* fund (Bank Islam Malaysia Berhad, 2015).

Table 5.12, continued

No	Dimension	Descriptions
10	Customer protection	Customers are important to the Islamic banks' business operation in ensuring that the banks are sustainable in the long term. Therefore, it is crucial for Islamic banks to be concerned about their customers. It is expected that the items regarding the policy on customer data protection, financial literacy programmes to the customers, and policy in dealing with insolvent clients should be disclosed in the annual reports. Currently, in Malaysia, customer information is protected by the Personal Data Protection Act (PDPA) 2010. For instance, Maybank has informed its stakeholders in the annual reports that it complies with the PDPA. Bank Islam has also disclosed their concern on customers' data protection by stating it in the code of ethics in the duty of confidentiality (Bank Islam Malaysia Berhad, 2015). Apart from that, financial literacy programmes relate to educating customers about financial products and services (Bursa Malaysia Securities Berhad, 2015). The relevancy of financial literacy to the customers is to address the customers' concern or lack of understanding about the products and services, thus facilitating the customers to make better financial decisions. Furthermore, the social responsibilities of Islamic banks are to protect the customers from the financial burden. Islam encourages the financiers (Islamic banks) to give extra time to the debtors to repay their debts and to remit the debt as stated in the *Quran*. Indeed, in the *Quran* (2:280), it is stated that "*If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew"*
11	Islamic ethical values	Carroll (1979) proposed that organisations must have ethical responsibilities that are not in the rules and regulations. Ethics in Islam can be defined as a good character or behaviour of a person in accordance with the *Shariah* principles that can ensure the stability of the Islamic banks (Syed & Metcalfe, 2015). Islam prohibits the principle of al-ghayah tubarrirul wasilah (to accomplish something, everything is permissible) (Ismail & Zali, 2014). Therefore, the workers of Islamic banks, specifically employees, are encouraged to have good ethics in every aspect for the business to operate ethically. This dimension indicates that Islamic ethical values relate to the policy of qard hasan products whereby Islamic banks should assist individuals that need help and eliminate the differences between the low- and the high-class level of society (Kamla & Rammal, 2013). In fact, Haniffa and Hudaib's (2007) ethical perspective is to promote justice and welfare so that society can achieve *Allah*'s blessing and attain success in this world and the Hereafter. Accordingly, the marketing strategy for the products and services must be in accordance with the *Shariah* principles (AAOIFI, 2010; Abdul Rahman & Bukair, 2013). For instance, Bank Islam has emphasised this matter by stating the role of the *Shariah* Supervisory Council to approve their marketing advertisements which have to be in accordance with the *Shariah* principles (Bank Islam Malaysia Berhad, 2015). Furthermore, the provision of customers should be taken care of ethically in accordance with *Shariah* principles. For example, Islamic banks should provide facilities for disabled customers (Krasodomska, 2015), online banking (Sobhani et al., 2012), and offer gifts to customers whenever necessary (Jizi et al., 2014). In addition, Islamic banks could give more contributions by establishing female branches in view of today's environment and circumstances (Haniffa & Hudaib, 2007; Mosaid & Boutti, 2012; Rashid et al., 2013). This dimension will inform the stakeholders that Islamic banks have the initiative to provide and improve their service to the customers.

Thus, the study developed 11 dimensions and 52 MIICSRDi items. The next section discusses the EFA for financial performance.

5.7.4.2 Section B: Financial performance

The PCA method, through the application of varimax, was done on four financial performance items. The scree plot in Figure 5.6 shows the existence of one break. This break exists due to two factors. As demonstrated by Pallant (2013), Cattell recommended that only the factors above the break need to be retained. Therefore, in this study, only one factor should be retained. In addition, by referring to Kaiser (1960), it is recommended to retain the factors with eigenvalue greater than 1. The first factor has the eigenvalue of 5.89, but the second factor has the eigenvalue of .814. Therefore, only the first factor should be retained for financial performance. Moreover, Malhotra (2010) proposed that the extracted components should account for at least 60% of the variance. The first factor alone explains 69.57% of the variance.

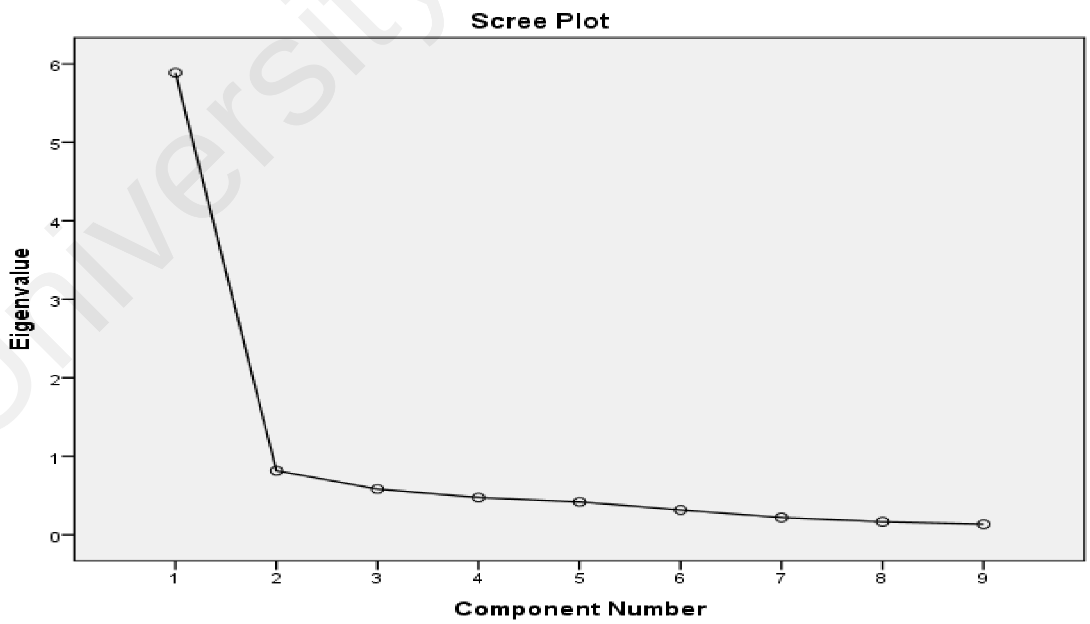


Figure 5.6: The scree plot for financial performance

In addition, based on the analysis in Table 5.13, the factor loading for each item is between 0.812 and 0.872. Therefore, it shows that all the items have a strong relationship with each of the components. Hair et al. (2010) emphasised that a factor loading value of more than 0.50 is considered significant to strengthen the items in the questionnaire or instruments.

Table 5.13: Financial performance after analysing using EFA

Financial performance	Factor loading	Eigen-value	Variance (%)	Cumulative (%)
Factor: Financial performance		2.78	69.57	69.57
1. The overall profit of Islamic banks will improve. (B3)	.872			
2. Islamic banks' business will grow. (B4)	.829			
3. The demand and sales of products by Islamic banks will increase. (B2)	.822			
4. The overall market share of an Islamic bank will increase. (B1)	.812			

Hence, financial performance has one dimension with four items. The EFA for corporate reputation is discussed in the next section.

5.7.4.3 Section C: Corporate reputation

The PCA method, through the application of varimax, was conducted on 11 corporate reputation items. The scree plot in Figure 5.7 shows the existence of 1 break or elbow. The break exists due to two factors. Malhotra (2010) proposed that the extracted components should account for at least 60% of the variance. The two factors explain a total of 67.89% of the variance, of which factor 1 contributes 57.23% and factor 2 contributes 10.66%. Referring to Kaiser (1960), it is recommended to retain the factors with eigenvalue greater than 1. In Table 5.16, the eigenvalue for factor 1 and factor 2 is 6.30 and 1.17, respectively. Therefore, it is evident that both factors should be retained. These two factors were renamed based on the characteristic of the factors.

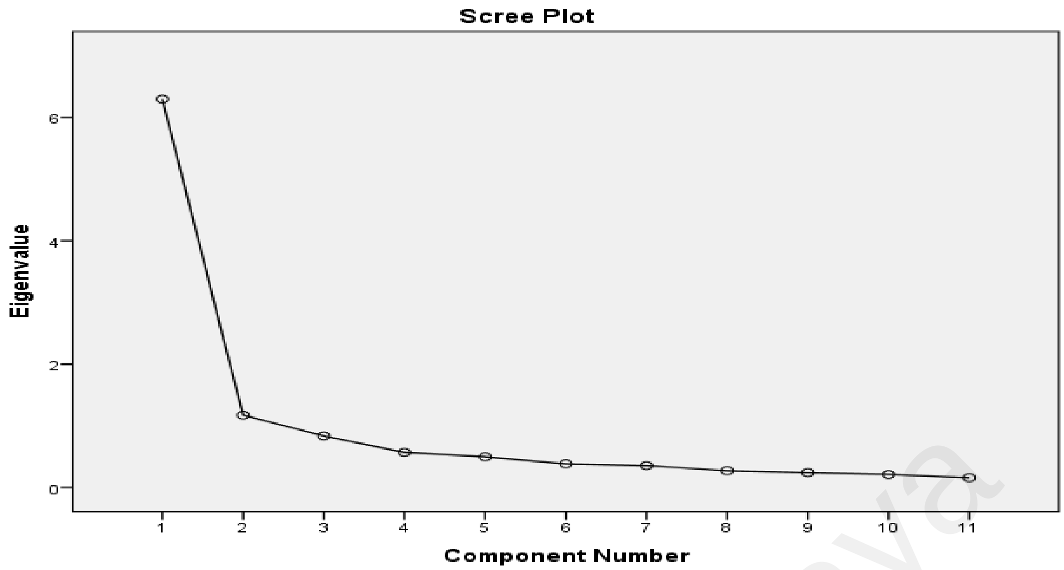


Figure 5.7: The scree plot for corporate reputation

In addition, based on the analysis in Table 5.14, the factor loading for each item is between 0.65 and 0.872. Hair et al. (2010) emphasised that a factor loading value of more than 0.50 is considered significant to strengthen the items in the questionnaire or instruments. Therefore, it shows that all the items have a strong relationship with each component. The EFA results indicate one corporate reputation item (C11) needs to be deleted. This is because the items are cross-loading of 0.5 for both factors. The cross-loading shows that the items are strong for both factors (See Appendix G). Matsunaga (2010) explained that an item should be retained only if the factor loading is higher compared to the others. Therefore, the researcher deleted the item. Hence, 10 corporate reputation items are suitable to be used in the questionnaire.

Table 5.14: Corporate reputation after analysing using EFA

Corporate reputation	Factor loading	Eigen-value	Variance (%)	Cumulative (%)
Factor 1: Management reputation		6.30	57.23	57.23
1. An Islamic bank has strong prospects for future growth. (C8)	.857			
2. An Islamic bank provides a positive working environment. (C9)	.796			
3. Islamic bank strives to ensure that its organisation is maintaining sustainability. (C6)	.785			
4. Islamic bank shows an excellent leadership. (C7)	.772			
5. An Islamic bank complies with relevant laws and regulations. (C11)	.745			
6. An Islamic bank strives to show that all products and services are *Shariah* compliant. (C5)	.650			
Factor 2: Social reputation		1.17	10.66	67.89
1. An Islamic bank is committed to protecting the environment. (C3)	.872			
2. An Islamic bank is a socially responsible organisation. (C2)	.766			
3. An Islamic bank provides innovative products and services. (C4)	.726			
4. An Islamic bank is involved with philanthropic activities. (C1)	.715			

In addition, Table 5.15 describes the two dimensions of corporate reputation, which are management reputation and social reputation.

Table 5.15: Dimensions and descriptions of corporate reputation

No.	Dimensions	Descriptions
1	Management reputation	Islamic banks should give more focus on the internal aspects and business operation such as ensuring that the products and services comply with *Shariah* principles, maintaining sustainability, showing excellent leadership, developing strong prospects for future growth, and providing a positive working environment to the employees in line with relevant laws and regulations (Fombrun et al., 2000; Jalil & Rahman, 2014; Rayner, 2003).
2	Social reputation	Social reputation represents the way Islamic banks portray themselves as socially responsible organisations that protect the environment, provide innovative products and services, represent social banks, and organise charity events (Caruana, 1997; Fombrun et al., 2000; Helm, 2007; Taghian et al., 2015).

Therefore, the EFA shows that corporate reputation has two dimensions, which are management reputation and social reputation. The next section discusses the pilot study that was conducted to ensure that the questionnaire is easily understood by the participants.

5.7.5 Pilot study

A pilot study is vital and needs to be conducted in order to avoid misinterpretation of the format and wording used in the instruments (Sekaran, 2003). Since the target population for the actual study is the employees and customers of Islamic banks, the researcher conducted a pilot study on 30 employees and 30 customers of an Islamic bank. The data from the 30 employees and 30 customers of the Islamic bank were not used for the actual study. The questionnaire should be tested on whom the questionnaire is at least relevant (Hussey & Hussey, 1997; Muhamad, 2006). In other words, it is not essential for the pilot test to be done on the representative sample in the actual study (Barbie, 2001; Muhamad, 2006). In this pilot study, the 30 employees were the middle managers from various departments of one Islamic bank (local Islamic subsidiary, A). Particularly, the 30 data (employees) from the EFA was used to test the reliability of the instruments. Meanwhile, the 30 customers consisted of postgraduate students, academicians, and practitioners who were customers of the same Islamic bank (local Islamic subsidiary, A).

The data collection process (customers) for the pilot study took 1 week (10 October 2016 until 15 October 2016). The researcher distributed the questionnaires to the customers and re-gathered the answered questionnaires on the same day. The questionnaires were distributed personally to the customers at A’s branches. The customers were briefed before they answered the questionnaire. All the questions raised by the customers were clarified. Meanwhile, for the employees, the researcher took 30 data (employees) from the EFA which were collected earlier from August 2016 until September 2016). As mentioned in the EFA section, the researcher distributed the questionnaires to the HR representatives, who were briefed about the questionnaires prior to distributing them to the middle managers. All the questions raised by the HR representatives were clarified, and the HR representatives agreed to explain the questionnaires to the respondents.

The analytical process for the pilot study (both employees and customers) was conducted using IBM SPSS within 1 week (11 November 2016 until 14 November 2016). During the analysis of the pilot study, the researcher received comments on the wording, terms used, and sequencing of the questions. Hence, the questionnaire was subsequently amended before being distributed for the actual study. Overall, the respondents commented that they understood the objectives of the questionnaire and the questionnaire itself.

The final step in the EFA process is to determine the Cronbach's alpha coefficients for all the retained dimensions. Coakes and Steed (2003) suggested that Cronbach's alpha is important in ensuring that all the retained dimensions are reliable. The authors highlighted that factor analysis and reliability are complementary procedures in scale construction and definition. Therefore, Table 5.16 until 5.21 show the Cronbach's alpha values for the dimensions for MIICSRDi, financial performance, and corporate reputation. Nunnally (1978) and Hair et al. (2010) proposed that a Cronbach's alpha value of 0.70 is considered acceptable. Therefore, the internal consistency reliability values for the scales in this study are acceptable and reliable. Details of the reliability test are elaborated in the following subsections.

5.7.5.1 Section A: MIICSRDi

As shown in Table 5.16, the reliability values for the MIICSRDi dimensions for the employees are above 0.70. Hence, the scales are acceptable and reliable to be used in this study.

Table 5.16: Reliability test for the MIICSRDi: Employees

Dimensions	No. of items	Cronbach's alpha
Managing the environmental issues	10	0.932
Islamic Business Operations and Strategy	9	0.926
Employee welfare and benefits	5	0.902
Philanthropic information	6	0.901
Organisation's strength	3	0.908
Good governance	3	0.898
Financial highlights and computation	4	0.796
Compliance and responsibilities	3	0.883
Management of sources and charity fund	3	0.686
Customer protection	3	0.862
Islamic ethical values	3	0.762

Besides, Table 5.17 on the next page shows that the reliability values for the MIICSRDi dimensions for the customers are above 0.70. Hence, the scales are acceptable and reliable to be used in this study.

Table 5.17: Reliability Test for the MIICSRDi: Customers

Dimensions	No. of items	Cronbach's alpha
Managing the environmental issues	10	0.914
Islamic Business Operations and Strategy	9	0.903
Employee welfare and benefits	5	0.871
Philanthropic information	6	0.848
Organisation's strength	3	0.843
Good governance	3	0.819
Financial highlights and computation	4	0.795
Compliance and responsibilities	3	0.828
Management of sources and charity fund	3	0.788
Customer protection	3	0.707
Islamic ethical values	3	0.914

The next section explains the reliability values for the financial performance dimension for both employees and customers.

5.7.5.2 Section B: Financial performance

As shown in Table 5.18, the reliability value for the financial performance dimension for the employees is above 0.70. Hence, the scale is acceptable and reliable to be used in this study.

Table 5.18: Reliability test for financial performance: Employees

Dimension	No. of items	Cronbach's alpha
Financial performance	4	0.903

In addition, Table 5.19 shows that the reliability value for the financial performance dimension for the customers is above 0.70. Hence, the scale is acceptable and reliable to be used in this study.

Table 5.19: Reliability test for financial performance: Customers

Dimension	No. of items	Cronbach's alpha
Financial performance	4	0.858

The next section elaborates the reliability values for the corporate reputation dimensions for both employees and customers.

5.7.5.3 Section C: Corporate reputation

As shown in Table 5.20, the reliability values for the corporate reputation dimensions for the employees are above 0.70. Hence, the scales are acceptable and reliable to be used in this study.

Table 5.20: Reliability test for corporate reputation: Employees

Dimensions	No. of items	Cronbach's alpha
Management reputation	6	0.937
Social reputation	4	0.782

Moreover, Table 5.21 shows that the reliability values for the corporate reputation dimensions for the customers are above 0.70. Hence, the scales are acceptable and reliable to be used in this study.

Table 5.21: Reliability test for corporate reputation: Customers

Dimensions	No. of items	Cronbach's alpha
Management reputation	6	0.849
Social reputation	4	0.751

5.8 Summary and conclusion

This chapter discussed the research design and methodology used in conducting this research. Firstly, this chapter explained the philosophical aspect and the stance taken by the researcher in this study. Secondly, the researcher explained the research approach used for this study. The research process and research design were explained briefly. The purpose of using a survey questionnaire was justified. Apart from that, the population, target population, and sampling procedure were discussed. Besides, the research instrument in terms of the operational definition of the variables, the development of the instruments, content validation, EFA, and the pilot study were demonstrated for each of the variables (MIICSRDi, financial performance, and corporate reputation). Thus, based on the validity and reliability tests, there are 11 MIICSRDi dimensions with 52 items, one financial performance dimension with four items, and two corporate reputation dimensions with 10 items. The next chapter discusses the conceptual framework and hypotheses following the results of the validity and reliability tests.

CHAPTER SIX: RESEARCH DESIGN AND METHODOLOGY (PART II)

6.1 Introduction

This chapter reviews the conceptual framework and hypotheses after instrument validation by the experts, EFA, and pilot study. The instruments for the MIICSRDi, financial performance, and corporate reputation were used to develop a questionnaire and to run the test for the actual study. In detail, Section 6.2 portrays the conceptual framework and hypotheses, Section 6.3 explains the design of the questionnaire, and Section 6.4 elaborates how the questionnaire was distributed to the respondents. The statistical techniques used in this study are explained in Section 6.5. Lastly, Section 6.6 provides the summary and conclusion of the chapter.

6.2 Conceptual framework and hypotheses

Based on the content validation and EFA, the results show that the MIICSRDi have 11 dimensions with 52 items, financial performance has one dimension with four items, and corporate reputation has two dimensions with 10 items. Therefore, the following hypotheses were formulated to test at 0.01 level of significance:

H_1: The MIICSRDi is a reflective model which represents 11 dimensions.

- H_{1a}: The MIICSRDi positively represents the managing the environmental issues dimension.
- H_{1b}: The MIICSRDi positively represents the Islamic business operations and strategy dimension.
- H_{1c}: The MIICSRDi positively represents the employee welfare and benefits dimension.

H_{1d}: The MIICSRDi positively represents the philanthropic information dimension.

H_{1e}: The MIICSRDi positively represents the organisation's strength dimension.

H_{1f}: The MIICSRDi positively represents the good governance dimension.

H_{1g}: The MIICSRDi positively represents the financial highlights and computation dimension.

H_{1h}: The MIICSRDi positively represents the compliance and responsibilities dimension.

H_{1i}: The MIICSRDi positively represents the management of sources and charity fund dimension.

H_{1j}: The MIICSRDi positively represents the customer protection dimension.

H_{1k}: The MIICSRDi positively represents the Islamic ethical values dimension.

H_2: There is a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_3: Corporate reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_{3a}: Management reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_{3b}: Social reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

Figure 6.1 shows the conceptual framework for this study. The next section is to discuss the questionnaire design as the items used for the questionnaire have been validated.

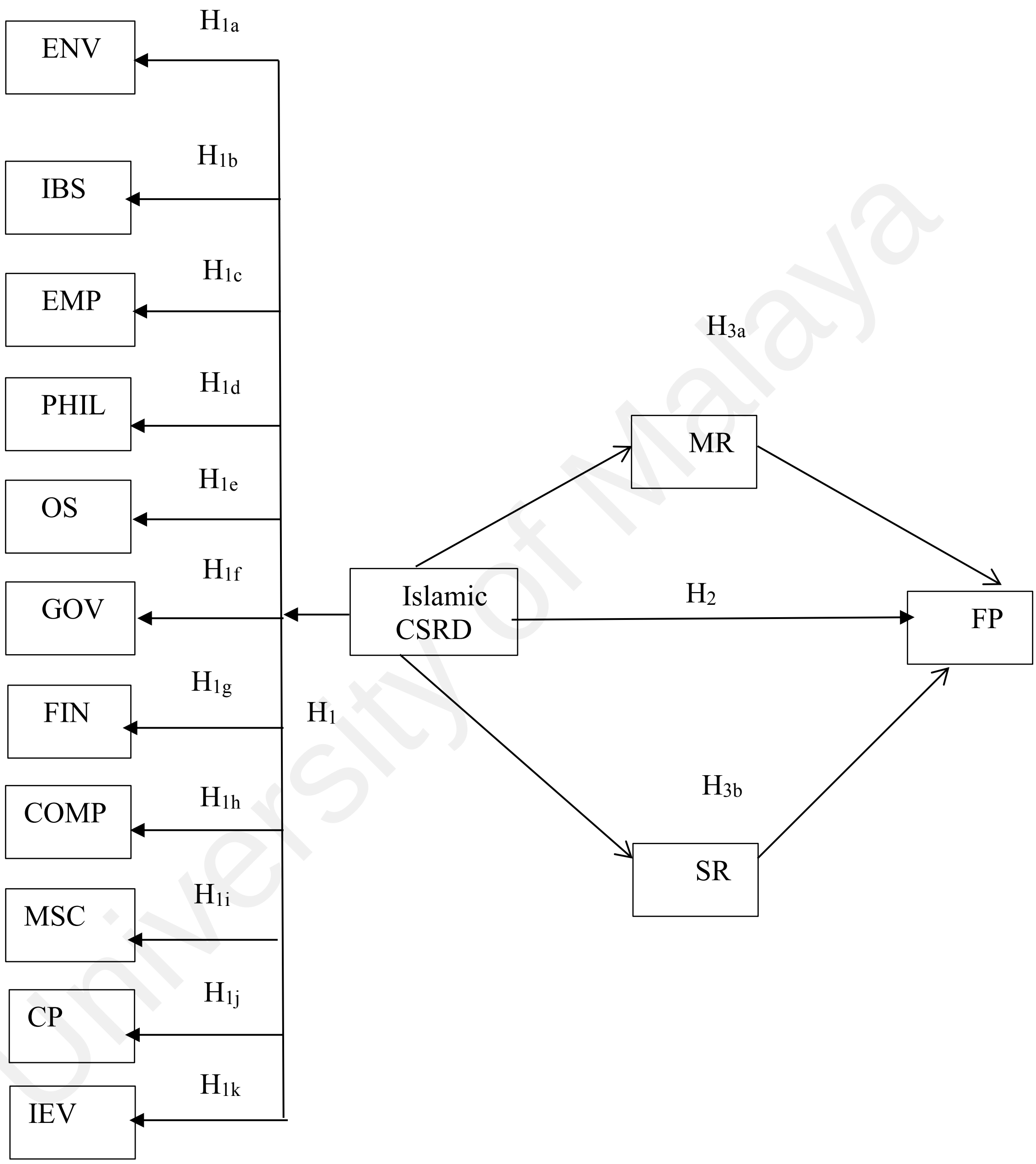


Figure 6.1: Conceptual framework

ENV = managing the environmental issues; IBS= Islamic business operations and strategy; EMP = employee welfare and benefits; PHIL = philanthropic information; OS = organisation’s strength; GOV = good governance; FIN = financial highlights and computation; COMP = compliance and responsibilities; MSC = management of sources and charity fund; CP = customer protection; IEV = Islamic ethical values; Islamic CSRD = MIICSRDi; MR = management reputation; SR = social reputation; FP = financial performance.

6.3 Questionnaire design

The questionnaire is divided into four sections, which are Section A, Section B, Section C, and Section D. Section A is the MIICSRDi (independent variable), Section B is the financial performance (dependent variable), Section C is the corporate reputation (mediator), and Section D is the demographic profile of the respondents.

A close-ended type of questionnaire was used for the three main sections, which are Sections A, B, and C. The close-ended questionnaire was chosen to make it easier for the respondents to answer the questions in order to increase the response rate. In addition, a close-ended questionnaire makes data analysis more objective and convenient (Sekaran & Bougie, 2010). A 5-point Likert scale was applied in Sections A, B, and C, from strongly disagree (1) to strongly agree (5). The 5-point Likert scale was used because the 5-point Likert scale is sufficient enough to cover the range of responses, is easy to use, and provides a middle option (Darbyshire & McDonald, 2004). According to Lietz (2010), the middle option is important in order to increase the validity and reliability of the response scale.

The questionnaire was set in English as the prospective respondents would consist of the employees and customers of the Islamic banks. Hence, the researcher felt that most of the respondents would have no problem with the English language due to their position and education background. In addition, English is a common language in the banking industry and a medium of instruction among the universities in Malaysia. Moreover, the questionnaire was set in English to avoid any misinterpretation of the accounting jargon when translating into the national language (Bahasa Melayu). The following subsections provide brief descriptions of the introduction to the questionnaire, Section A

(MIICSRDi), Section B (financial performance), Section C (corporate reputation), and Section D (demographic profile).

6.3.1 Introduction to the questionnaire

The purpose and content of the questionnaire as well as the time estimated to complete all the questions were recapitulated in the first page of the questionnaire. To assist the respondents in completing the questionnaire, a few important points were highlighted, and the contact details of the researcher were provided.

6.3.2 Section A: MIICSRDi

This section relates to the respondents' perception of whether the MIICSRDi information should be disclosed in the Islamic bank's annual report. The MIICSRDi information consists of 11 dimensions, which are managing the environmental issues, Islamic business operations and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlight and computation, compliance and responsibilities, management of sources and charity fund, customer protection, and Islamic ethical values. The MIICSRDi information consists of 52 questions.

6.3.3 Section B: Financial performance

This section relates to the respondents' perceptions of financial performance. In particular, this section is to seek the respondents' perceptions as to whether the disclosure of the MIICSRDi information (which the respondents have selected in Section A) will enhance the financial performance of the Malaysian Islamic banks. This section consists of four questions.

6.3.4 Section C: Corporate reputation

Section C is regarding the respondents' perceptions of corporate reputation. Specifically, this section is to pursue the respondents' perceptions of whether the MIICSRDi information (which the respondents have selected in Section A) will enhance the corporate reputation of the Malaysian Islamic banks. This section consists of ten questions.

6.3.5 Section D: Demographic profile

The purpose of the demographic profile is to obtain the descriptive statistics of the respondents. This information is important in order to identify the background and characteristics of the respondents. The demographic profile of the respondents will provide information that can facilitate the researcher in analysing the findings. The demographic profile consists of gender, race, religion, age, academic qualification, professional qualification, department or branch of an Islamic bank, and whether the respondent is a customer of an Islamic bank. In addition, the respondents can provide their contact information if they want to be contacted.

The demographic profile was included in the last section of the questionnaire so that the respondents would not be biased when filling up the main questions in Sections A, B, and C. This approach is agreed by Lietz (2010) that the demographic profile should be put at the end of the questionnaire to prevent negative feelings among the respondents when filling up personal information, which may have an impact when answering the questionnaire.

6.4 Questionnaire administration

Upon receiving an acceptable result from the pilot test and approval of its reliability by the supervisor, the researcher distributed the questionnaires to the HR representatives and customers at the headquarter of the Islamic banks. Each questionnaire set was attached with a cover letter endorsed by the Graduate School of Business, University of Malaya. The cover letter describes the nature of the study. The cover letter is attached in Appendix H and I. The confidentiality of information is clearly stated in the letter. The researcher also briefed the HR representatives and customers personally regarding the contents of the questionnaire. The HR representatives agreed to explain the contents of the questionnaire to the employees. All the queries from the HR representatives and customers regarding the questionnaire received immediate responses from the researcher. In addition, the researcher emphasised the importance of the respondents' participation. Confidentiality was also highlighted during the briefing in order to obtain the respondents' trust. The process of collecting data took one month from March 2017 until April 2017.

The employees of the Islamic banks were selected from 15 out of 16 Islamic banks in Malaysia. This is because the remaining one Islamic bank was already used for sampling the respondents for the EFA and pilot study. Out of the 15 Islamic banks, only 10 Islamic banks consisting of full-fledged Islamic banks and Islamic subsidiaries participated in this study. Twenty questionnaires for the employees were distributed to each of the 10 Islamic banks. The researcher approached the HR representatives of the Islamic banks for the purpose of distributing the questionnaire to the Finance, Corporate Communication, and *Shariah* departments as well as to the branch managers. The HR representatives were responsible for distributing and collecting the questionnaires. To control the distribution of the questionnaires, the researcher put a time limit by requiring the respondents to return the questionnaires after one week.

As for the customers, the questionnaires must be distributed to the customers who possess a bachelor's degree in accounting and finance and who are familiar with the CSRD topic. These criteria were suggested by Schuler and Cording (2006). In addition, the customers must be willing to participate and are interested in answering the questionnaire. This is to ensure that the customers have adequate knowledge to answer the questionnaire. From the 16 Islamic banks, 15 Islamic banks were on the list to receive the questionnaire, as one Islamic bank was already used for the pilot study. Besides, since only 10 Islamic banks were willing to participate in the survey conducted with the employees, the researcher distributed the questionnaires to the customers equally at the headquarters of the 10 Islamic banks. In particular, the researcher distributed 20 questionnaires to each of the 10 Islamic banks and re-gathered the answered questionnaires on the same day. The researcher waited for the customers to fill in the questionnaires. The returned questionnaires from the customers of the 10 Islamic banks were examined thoroughly by the researcher to ensure that the questionnaires were fit to be analysed. Table 6.1 presents the types and numbers of Islamic banks: local full-fledged (1), foreign full-fledged (3), local Islamic subsidiary (4), and foreign Islamic subsidiary (2) where the researcher had distributed the questionnaires to the employees and customers.

Table 6.1: The types and numbers of Islamic banks for the distribution of the questionnaires

	Number of local full-fledged	**Number of foreign full-fledged**	**Number of local Islamic subsidiaries**	**Number of foreign Islamic subsidiaries**	**Total Islamic banks**
Employees	1	3	4	2	10
Customers	1	3	4	2	10

Table 6.2 demonstrates the number of questionnaires distributed to the employees and customers based on the type of Islamic banks in Malaysia (local full-fledged, foreign full-fledged, local Islamic subsidiary, and foreign Islamic subsidiary).

Table 6.2: The number of questionnaires distributed to the employees and customers

	Number of questionnaires				**Total**
	Local full-fledged	**Foreign full-fledged**	**Local Islamic subsidiary**	**Foreign Islamic subsidiary**	
Employees	20	60	80	40	200
Customers	20	60	80	40	200
Total	40	120	160	80	400

From the 400 distributed questionnaires (200 questionnaires for the employees and 200 questionnaires for the customers), 395 questionnaires were returned with the response rate of 98.8%, which is explained in Chapter 7 (Section 7.2).

6.5 Statistical techniques

The primary data of this study were collected from the employees and customers of Islamic banks to obtain their perceptions of the MIICSRDi, financial performance, and corporate reputation. To analyse the collected data, the researcher used descriptive and inferential statistic methods. The descriptive statistic method was employed to detect the presence of any violation of the assumptions among the variables for the inferential statistics. In addition, this method was used to summarise the respondents' profile. Meanwhile, the inferential statistic method was employed to test the hypotheses. Prior to analysing the data, the researcher had to conduct preliminary data analysis (treatment of missing values and outliers). Hence, the statistical tools employed by the researcher are the Statistical Package for the Social Sciences (SPSS) software version 21 and Partial Least Squares Structural Equation Modeling (SmartPLS version 3.0).

6.5.1 Data processing

In the first step, data screening and preliminary analysis were performed to assess the missing values and outliers, normality, multicollinearity, and common method bias. In addition, descriptive statistics were employed to describe the profile of the respondents. The descriptive statistics were run using SPSS version 22.

6.5.2 Structural equation modeling (SEM) and PLS-SEM analysis

Structural equation modeling (SEM) is a second-generation technique of the multivariate analysis method (Hair et al., 2017). Hair et al. (2017) reported that the second-generation techniques aim to overcome the weaknesses of the first-generation techniques. Lowry and Gaskin (2014) elaborated that the first-generation techniques (e.g., correlation, regression, ANOVA, or *t*-test) provide limited modelling capabilities specifically in terms of causal modelling. Particularly, multiple regression equation is tested one at a time using SPSS under the first-generation techniques (Ramayah et al., 2018). Meanwhile, the second-generation techniques' strength is in modelling, whereby SEM is able to offer flexible causal-modelling including for complex models. Specifically, SEM can test the multiple regression equation simultaneously (Ramayah et al., 2018). In fact, SEM has a unique combination of two types of techniques, which are factor analysis and multiple regression analysis (Hair et al., 2010). Furthermore, SEM can accommodate several mediating effects (Preacher & Hayes, 2008).

There are two types of SEM, which are covariance-based SEM (CB-SEM) and variance-based SEM (PLS-SEM). In this study, the researcher used the partial least squares (PLS-SEM) method (Wold, 1985). PLS-SEM is considered to be the most appropriate technique to be used due to several reasons. Firstly, PLS-SEM is suitable for building or predicting a theory rather than for theory testing (Hair et al., 2017). Secondly, PLS is useful for prediction (Chin, 1998; Rigdon, 2012). Thirdly, PLS is capable of handling a structural model that has many constructs and indicators (Chin, 1998; Hair et al., 2017). Furthermore, PLS-SEM will minimise the amount of unexplained variance (Hair et al., 2017). Besides, PLS-SEM does not necessarily require the data to be normal (Esposito-Vinzi, Trinchera, & Amato, 2010). It is confirmed in this research that the data are normally distributed. Lastly, PLS-SEM can accommodate a minimum sample size (Hwang, Malhotra, Kim, Tomiuk, & Hong, 2010). Although the sample size used in this study is 349 respondents, this study has undergone a normality test, leading to the possibility of data reduction. Hair et al. (2017) explained that a larger sample size will increase the precision of the PLS-SEM estimations. The PLS-SEM method is analysed using SmartPLS version 3.0.

6.6 Summary and conclusion

The conceptual framework has been presented in this chapter. There are 11 hypotheses for the MIICSRDi, one hypothesis to examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders, and two hypotheses to examine management reputation and social reputation as the mediators. Moreover, the questionnaire design and administration has been explained in this chapter. The questionnaire set is attached in Appendix J. Furthermore, the statistical techniques used have also been demonstrated. The analysis of the actual data is discussed in Chapter Seven.

CHAPTER SEVEN: RESULTS AND DISCUSSION

7.1 Chapter Overview

This chapter presents the results of the analysis of the data collected from the stakeholders, which include the employees and customers of Islamic banks in Malaysia. In Section 7.2, the response rate is discussed. Section 7.3 presents the data examination and preliminary data analysis. Meanwhile, Section 7.4 summarises the background information of the respondents. The profile of the respondents was analysed using the Statistical Package for the Social Sciences (SPSS) software version 22 and SmartPLS 3.0 for Multigroup Analysis (MGA) to test the differences between the employees' perceptions and the customers' perceptions in Section 7.5. In Section 7.6, the types of Islamic banks (full-fledged, foreign full-fledged, local Islamic subsidiary, foreign Islamic subsidiary) is analysed to see whether the perceptions, based on each type of Islamic banks, have any significant difference. Next, Section 7.7 describes the descriptive statistics of the latent constructs and items. Sections 7.8 until 7.10 present the results of hypothesis testing, which was analysed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) software or SmartPLS 3.0. Assessments of the measurement and structural models were conducted. In this chapter, the results of the measurement model assessment are demonstrated in terms of individual item's reliability, convergent validity, internal consistency reliability, and discriminant validity. Meanwhile, the results of the structural model assessment are demonstrated in terms of the significance of the path coefficients, effect size, the level of the *R*-squared values, and the predictive relevance model. The findings of the complementary PLS-SEM analysis on the mediating effects of corporate reputation (management reputation and social reputation) on the structural model are also presented. Next, Section 7.11 summarises the research findings. Section 7.12 provides a discussion of the overall findings of the study based on the research objectives. Lastly, Section 7.12 provides the summary and conclusion of this chapter.

7.2 Response rate

A total of 400 questionnaires were distributed to 200 employees and 200 customers of 15 Islamic banks in Malaysia. The duration to gather the questionnaires from the employees and customers was 1 week and within one day, respectively. The answered questionnaires that were returned by the customers were 200 (100% response rate). Meanwhile, the answered questionnaires that were returned by the employees were 195 (97.5% response rate) because five employees were not in the office for the whole week. Therefore, the researcher decided to collect all the 195 questionnaires rather than wait for the five employees to come back to the office in order to ease the gatekeepers' task. The 395 returned questionnaires, representing a total response rate of 98.8%, needed to be examined to ensure that the questionnaires can be used for the analysis. Although Sekaran (2003) stated that almost 100% response rate is ensured as the questionnaire was self-administered, there were several circumstances that could not be avoided. Table 7.1 shows the target groups, distributed questionnaires, returned questionnaires, and response rates for this study.

Table 7.1: Target groups, distributed questionnaires, returned questionnaires, and response rates

	Questionnaires		Response rate (%)
	Distributed	Returned	
Employees	200	195	97.5
Customers	200	200	100
Total	400	395	98.8

Table 7.2 shows the returned questionnaires and response rates based on the type of Islamic banks (local full-fledged, foreign full-fledged, local Islamic subsidiary, and foreign Islamic subsidiary).

Table 7.2: The number of questionnaires returned by the employees and customers and response rates

	Number of returned questionnaires				Total	Response rate (%)
	Local full-fledged	Foreign full-fledged	Local Islamic subsidiary	Foreign Islamic subsidiary		
Employees	15	60	80	40	195	97.5
Customers	20	60	80	40	200	100
Total	40	120	160	80	395	98.8

7.3 Data examination and preliminary data analysis

This section elaborates the data examination and preliminary analysis in terms of multicollinearity test, assumptions of normality, the test of linearity, the test of outliers, and common method variance.

7.3.1 The evaluation of missing data

According to Hair et al. (2010), failure to complete the questionnaires can be categorised as missing data. In this research, some questionnaires were considered invalid as a significant part of the questionnaires was not completed by the respondents. As a result, only 349 questionnaires can be used and are fit to be analysed. Table 7.3 demonstrates the distributed, returned, and complete and usable questionnaires.

Table 7.3: Summary of the target groups, distributed, returned, and usable questionnaires

	Questionnaires		
	Distributed	Returned	Usable
Employees	200	195	175
Customers	200	200	174
Total	400	395	349

Table 7.4 shows the complete and usable questionnaires based on the type of Islamic banks (local full-fledged, foreign full-fledged, local Islamic subsidiary, and foreign Islamic subsidiary).

Table 7.4: The number of complete and usable questionnaires

	Number of complete and usable questionnaires				Total
	Local full-fledged	**Foreign full-fledged**	**Local Islamic subsidiary**	**Foreign Islamic subsidiary**	
Employees	15	50	72	38	175
Customers	20	44	78	32	174
Total	35	94	150	70	349

7.3.2 Test of outliers: Mahalanobis distance

Outliers are defined as "observations or subsets of observations which appear to be inconsistent with the remainder of the data" (Barnett & Lewis, 1994, p. 7). Particularly, outliers are extreme values that are different from the majority of the data set (Osborne & Overbay, 2004). According to Osborne and Overbay (2004), outliers occur due to several factors, which are (i) error in the data collection, recording or entry by the researcher; (ii) respondents purposely report incorrect data in answering the survey questionnaire; (iii) samples that are different from the target population; and (iv) outliers can also occur from the samples of the correct target population. Therefore, due to these factors, it is necessary to conduct the outliers test to ensure that the data are relevant.

Outliers can be analysed using the Mahalanobis distance through SPSS in the multiple regression program (Pallant, 2013). According to Grande (2015) and Pallant (2013), cases that have values below 0.001 and values above 1 are considered as outliers. After conducting the test, six outliers were deleted, namely cases number 36, 327, 213, 52, 113, and 84. Therefore, following the test, there are 343 respondents altogether equivalent to

85.8% of the distributed questionnaires that can be used and further analysed. Table 7.5 shows a summary of the number of questionnaires (cases) used for this research.

Table 7.5: Summary of the number of questionnaires used for this research

Descriptions	Employees	Customers	Total	Percentages (%)
Distributed questionnaires	200	200	400	100
Returned questionnaires	195	200	395	98.8
Less: Incomplete questionnaires	(20)	(26)	(46)	11.6
Usable questionnaires before test of outliers	175	174	349	87.3
Less: Outliers questionnaires	(2)	(4)	(6)	1.5
Usable questionnaires after test of outliers	173	170	343	85.8

Table 7.6 shows the number of questionnaires after testing for the outliers for each type of Islamic banks.

Table 7.6: The number of questionnaires after testing for outliers

	Number of questionnaires after testing for outliers				**Total**
	Local full-fledged	**Foreign full-fledged**	**Local Islamic subsidiary**	**Foreign Islamic subsidiary**	
Employees	15	49	72	37	**173**
Customers	20	42	77	31	**170**
Total	35	91	149	68	**343**

7.3.3 Test of normality

Even though Reinartz, Haenlein, and Henseler (2009) have provided evidence that PLS-SEM can analyse data that are extremely non-normal, Hair, Sarstedt, Ringle, and Mena (2012) proposed that scholars should perform a normality test on the data. According to Chernick (2011), highly skewed data will increase the standard bootstrap errors, which in turn will have the tendency to lower the statistical significant path coefficient (Hair et al., 2012). Therefore, this study assessed the normality of the data collected. Field (2010) highlighted that for a study that has a large sample of 200 or more, it is suggested to assess the shape of distribution visually rather than assessing the value of skewness and kurtosis statistics. Pallant (2013) emphasised that with a large sample, skewness and kurtosis are too sensitive. Hence, the author suggested that histogram should be used to evaluate the normality of the data collected. Therefore, based on the recommendations by Field (2010) and Pallant (2013), the histogram and normal probability plot were examined to ensure that the normality assumption is not violated.

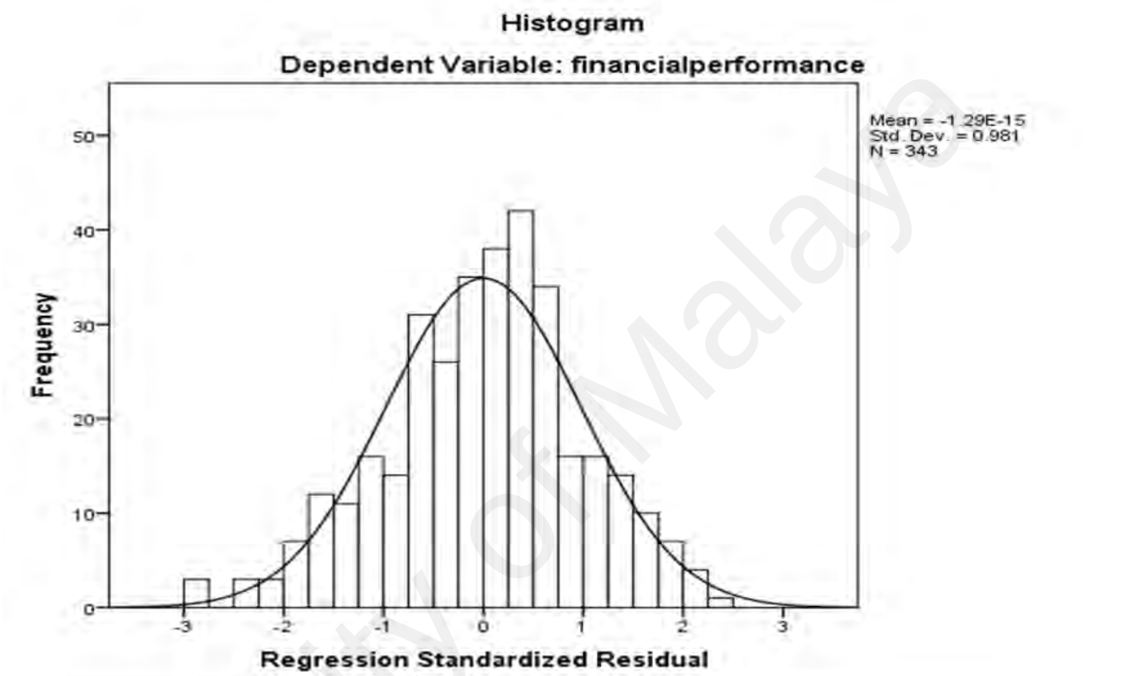


Figure 7.1: Histogram and normal probability plot

Figure 7.1 demonstrates that the data have a normal pattern since all the bars on the histogram are close to a normal curve. Hence, the normality assumption is not violated in this research.

7.3.4 Multicollinearity test

Multicollinearity implies that a variable can be described by other variables. The presence of multicollinearity among the exogenous latent constructs will affect the estimation of the regression coefficient and cause difficulties in explaining the effect of each exogenous latent variable in the regression variate (Chatterjee & Yilmaz, 1992; Hair, Money, Samouel, & Page, 2007). Specifically, the latent variable via construct is a variable that is theoretical in nature, whereby the variable cannot be measured and observed directly. To measure the latent variable, it is necessary to know the items representing the variable (Hair et al., 2017).

To detect multicollinearity, the researcher applied two methods which are correlation matrix and tolerance where the variance inflated factor (VIF) value of the exogenous latent constructs was examined (Chatterjee & Yilmaz, 1992; Pallant, 2013). In this case, the exogenous latent constructs include the mediator variables as well (Sigall & Mills, 1998). Firstly, the correlation matrix of the exogenous latent constructs was examined. Hair et al. (2007) proposed that multicollinearity exists when the correlation values of the exogenous latent constructs are above 0.90. Table 7.7 shows the correlation matrix of all the exogenous latent constructs. As displayed in the table, the correlation values between the exogenous latent constructs are below 0.90, as suggested by Hair et al. (2007). Thus, this analysis implies that the exogenous latent constructs are independent and not highly correlated.

Table 7.7: Correlation Matrix of the Exogenous Latent Constructs

	1	2	3	4	5	6	7	8	9	10	11	12	13
ENV	1	.500**	.506**	.540**	.450**	.157**	.369**	.334**	.455**	.531**	.484**	.407**	.454**
IBS	.500**	1	.564**	.543**	.266**	.490**	.654**	.426**	.517**	.497**	.605**	.487**	.472**
EMP	.506**	.564**	1	.418**	.343**	.185**	.365**	.558**	.559**	.398**	.525**	.420**	.301**
PHIL	.540**	.543**	.418**	1	.305**	.272**	.438**	.321**	.429**	.638**	.554**	.417**	.421**
OS	.450**	.266**	.343**	.305**	1	.002	.143**	.312**	.390**	.199**	.280**	.232**	.277**
FIN	.157**	.490**	.185**	.272**	.002	1	.432**	.145**	.188**	.371**	.229**	.358**	.340**
GOV	.369**	.654**	.365**	.438**	.143**	.432**	1	.171**	.291**	.372**	.367**	.429**	.417**
COMP	.334**	.426**	.558**	.321**	.312**	.145**	.171**	1	.449**	.326**	.412**	.298**	.288**
CP	.455**	.517**	.559**	.429**	.390**	.188**	.291**	.449**	1	.413**	.631**	.302**	.277**
MSC	.531**	.497**	.398**	.638**	.199**	.371**	.372**	.326**	.413**	1	.478**	.394**	.351**
IEV	.484**	.605**	.525**	.554*	.280**	.229**	.367**	.412**	.631**	.478**	1	.407**	.364**
MR	.407**	.487**	.420**	.417**	.232**	.358**	.429**	.298**	.302**	.394**	.407**	1	.632**
SR	.454**	.472**	.301**	.421**	.277**	.340**	.417**	.288**	.277**	.351**	.364**	.632**	1

Note. N = 349. ENV = Managing the environmental issues; IBS = Islamic business operations and strategy; EMP = Employee welfare and benefits; PHIL = Philanthropic information; OS = Organisation's strength; GOV = Good governance; FIN = Financial highlights and computation; COMP = Compliance and responsibilities; MSC = Management of sources and charity fund; CP = Customer protection; IEV = Islamic ethical values; MR = Management reputation; SR = Social reputation.
$*p < 0.05$; $**p < 0.01$

After conducting the correlation matrix for the exogenous latent constructs, VIF and tolerance were analysed in order to examine the multicollinearity issue. Referring to Pallant (2013), multicollinearity exists if the tolerance value is less than 0.1 and the VIF value is above 10. Table 7.8 exhibits the tolerance and VIF values for the exogenous latent constructs.

Table 7.8: Tolerance and Variance Inflation Factors (VIF*)*

Exogenous latent constructs	Collinearity Statistics	
	Tolerance	VIF
Managing the environmental issues	0.478	2.093
Islamic business operations and strategy	0.320	3.123
Employee welfare and benefits	0.461	2.170
Philanthropic information	0.459	2.179
Organisation's strength	0.705	1.418
Good governance	0.505	1.980
Financial highlight and computation	0.638	1.568
Compliance and responsibilities	0.616	1.623
Management of sources and charity fund	0.478	2.090
Customer protection	0.483	2.071
Islamic ethical values	0.441	2.267
Management reputation	0.509	1.963
Social reputation	0.510	1.962

Based on the guideline by Pallant (2013) and Hair et al. (2007), Table 7.8 shows that multicollinearity does not exist among the exogenous latent constructs. The results display that all the tolerance values are above 0.10 and the VIF values are below 10.

7.3.5 Common method variance (CMV)

Common method variance (CMV) in the survey research method is often considered as a potential problem in behavioural research (Podsakoff, Mackenzie, Lee, & Podsakoff, 2003). Nevertheless, Mackenzie and Podsakoff (2012) highlighted that the survey research method is still important in research. According to Mackenzie and Podsakoff (2012):

> Survey research is needed to examine the extent to which causal relationships observed in experimental studies hold over variations in persons, settings, treatment manipulations, and outcome variables. This is important because there

> are some phenomena that consistently show up in a lab setting that do not generalise. Second, there are some important phenomena that can only be studied in field settings because: they cannot be effectively or ethically manipulated in a lab setting; the real world setting to which one wishes to generalise is complex and cannot be adequately replicated in a lab setting; some subject populations maybe unwilling to participate in a lab study; and/or some important outcome variables (e.g., sales, profitability, loyalty, repeat purchase, satisfaction based on product usage, etc.) are difficult to capture in lab settings. (pp. 553–554)

Therefore, this study used the survey research method regardless of its potential bias. In accordance with the guideline provided by Podsakoff et al. (2003), this study adopted several procedures to minimise the effects of CMV. Podsakoff et al. (2003) suggested that CMV can be controlled by the design of the study's procedure and statistical control. Firstly, the respondents were informed that there is no right or wrong answer to the items in the questionnaire. Secondly, the respondents were given the assurance that the answers are to be treated confidentially. Thirdly, the items were carefully validated by the experts and a pilot study was conducted to reduce the ambiguity and vagueness of the items, which will reduce the CMV.

Podsakoff et al. (2003) also stated that social desirability is one of the potential causes of CMV. Hence, Nederhof (1985) suggested that a combination of several methods such as imposing force choice items and self-administration on the customers and through mail survey (emailed by the gatekeeper to the employees) should be the best choice available. In terms of the statistical control, common method variance was tested using Harman's one-factor (or single-factor) test (Podsakoff et al., 2003). Common method bias is asserted to be present if all factors lead to a single factor (Podsakoff et al., 2003). In this study, PCA with varimax rotation explains that all the self-reported items show 16-factor structures with a cut-off eigenvalue of 1. The 30% variance explained by a single factor shows that CMV is not a major concern in this study (less than 50% cut-off point) (Podsakoff, MacKenzie, & Podsakoff, 2012). The results were obtained by analysing the unrotated single factor constraint of factor analysis (See appendix K).

7.4 Profile of the respondents

The analysis of the respondents' profile is depicted in Table 7.9. The total number of respondents for this research is 343. The respondents consist of 173 employees and 170 customers of Islamic banks. The job positions of the 173 employees of the Islamic banks are the middle manager level of *Shariah*, Finance, and Corporate Communication departments and the branch managers. However, the description regarding the department of the employees could not be disclosed because during the pilot study, the majority of the respondents requested that such information not to be disclosed. Therefore, the researcher did not include the question regarding their department during the actual study.

In terms of gender, 177 (51.6%) of the respondents were male and 166 (48.4%) were female. The majority of the respondents were Malay with 311 respondents (90.7%). The remaining respondents were 13 Chinese (3.8%), 6 Indian (1.7%), and 13 others (3.8%). A total of 328 respondents (95.6%) were Muslims, while the rest were Buddhists (2%), Hindus (0.9%), and Christians (1.5%). Consequently, it is undeniable that the majority of the Malaysian population consists of Muslims (Department of Statistics, 2015) and Malays (Department of Statistics, 2019).

Table 7.9: Profile of the Respondents (*N* = 343)

Background variables	Categories	Frequency	Percentage (%)
1. Respondents	Employee	173	50.4
	Customer	170	49.6
2. Gender	Male	177	51.6
	Female	166	48.4
3. Race	Malay	311	90.7
	Chinese	13	3.8
	Indian	6	1.7
	Other	13	3.8
4. Religion	Islam	328	95.6
	Buddhist	7	2.0
	Hindu	3	0.9
	Christian	5	1.5
	Other	-	-
5.Age	20 to 24 years	-	-
	25 to 29 years	-	-
	30 to 34 years	99	28.9
	35 to 39 years	158	46.1
	40 to 44 years	49	14.3
	45 to 49 years	20	5.8
	50 to 54 years	11	3.2
	Above 55 years	6	1.7
6.Academic qualification	SPM	-	-
	STPM	-	-
	Diploma	9	2.6
	Bachelor's degree	261	76.1
	Master's degree	66	19.2
	PhD	7	2.0
7.Work experience	1 to 3 years	-	-
	4 to 6 years	-	-
	7 to 9 years	77	22.4
	10 to 12 years	159	46.4
	13 to 15 years	21	6.1
	Above 16 years	86	25.1

In terms of age, 158 respondents (46.1%) were in the 35–39 years old group, which represents the highest number of respondents in this research. The remaining 99 respondents (28.9%) were 30–34 years old, 49 respondents (14.3%) were 40–44 years old, 20 respondents (5.8%) were 45–49 years old, 11 respondents (3.2%) were 50–54 years old, and 6 respondents (1.7%) were above 55 years old.

The majority of the respondents possessed a bachelor's degree (76.1%), followed by a master's degree (19.2%), diploma (2.6%), and PhD (2.0%). Besides, the respondents' work experience is categorised into 1–3 years, 4–6 years, 7–9 years, 10–12 years, 13–15 years, and above 16 years. The majority of the respondents (46.4%) had 10–12 years of working experience. Meanwhile, the remaining respondents' work experience were above 16 years (25.1%), 7–9 years (22.4%), and 13–15 years (6.1%).

7.4.1 Profile of the employees

Table 7.10: Profile of the Employees (*n* = 173)

Background variables	Categories	Frequency	Percentage (%)
1. Gender	Male	87	50.3
	Female	86	49.7
2. Race	Malay	151	87.3
	Chinese	8	4.6
	Indian	3	1.7
	Other	11	6.4
3. Religion	Islam	166	96
	Buddhist	2	1.2
	Hindu	2	1.2
	Christian	3	1.7
	Other	-	-
4.Age	20 to 24 years	-	-
	25 to 29 years	-	-
	30 to 34 years	79	45.7
	35 to 39 years	55	31.8
	40 to 44 years	24	13.9
	45 to 49 years	11	6.4
	50 to 54 years	4	2.3
	Above 55 years	-	-
5.Academic qualification	SPM	-	-
	STPM	-	-
	Diploma	9	5.2
	Bachelor's degree	120	69.4
	Master's degree	43	24.9
	PhD	1	0.6
6.Work experience	1 to 3 years	-	-
	4 to 6 years	-	-
	7 to 9 years	57	32.9
	10 to 12 years	68	39.3
	13 to 15 years	9	5.2
	Above 16 years	39	22.5

Table 7.10 illustrates the analysis of the employees' profile. In terms of gender, 87 (50.3%) respondents were male and 86 respondents (49.7%) were female. The vast majority of the employees were Malay (87.3%), while the remaining were Chinese (4.6%), Indian (1.7%), and Others (6.4%). Consequently, the majority of the employees were Muslims (96%), followed by Buddhists (1.2%), Hindus (1.2%), and Christians

(1.7%). This is consistent with data from the Department of Statistics (2015), which show that most of the Malaysian population are Muslims. Besides, the Malays form the majority of the population in Malaysia (Department of Statistics, 2019).

Regarding the employees' age, 70 employees (45.7%) were in the 30–34 years old group. Meanwhile, 55 employees (31.8%) were 35–39 years old, 24 employees (13.9%) were 40–44 years old, 11 employees (6.4%) were 45–49 years old, and 4 employees (2.3%) were 50–54 years old.

In terms of the academic qualification, the majority of the employees (69.4%) possessed a bachelor's degree, followed by a master's degree (24.9%), diploma (5.2%), and PhD (0.6%). The majority of the employees had worked in the specific Islamic bank for 10–12 years (39.3%), while the remaining had worked in the Islamic bank for 7–9 years (32.9%), above 16 years (22.5%), and 13–15 years (5.2%).

7.4.2 Profile of the customers

Table 7.11 portrays the profile of the customers. The descriptive statistics show that 52.9% of the respondents were male customers and 47.1% were female customers. The majority of the customers were Malay (94.1%), while the remaining were Chinese (2.9%), Indian (1.8%), and Others (1.2%). Islam is the religion adhered to by the majority of the customers (95.3%). There remaining customers were adherents of other religions, such as Buddhists (2.9%), Christians (1.2%), and Hindus (0.6%). Idris et al. (2011) and Wan Ahmad, Ab Rahman, Ali, and Che Seman (2008) agreed that most of the Malays and Muslims are customers of Islamic banks.

Table 7.11: Profile of the Customers (*n* = 170)

Background variables	Categories	Frequency	Percentage
1. Gender	Male	90	52.9
	Female	80	47.1
2. Race	Malay	160	94.1
	Chinese	5	2.9
	Indian	3	1.8
	Other	2	1.2
3. Religion	Islam	162	95.3
	Buddhist	5	2.9
	Hindu	1	0.6
	Christian	2	1.2
	Other	-	-
4.Age	20 to 24 years	-	-
	25 to 29 years	-	-
	30 to 34 years	20	11.8
	35 to 39 years	103	60.6
	40 to 44 years	25	14.7
	45 to 49 years	9	5.3
	50 to 54 years	7	4.1
	Above 55 years	6	3.5
5.Academic qualification	SPM	-	-
	STPM	-	-
	Diploma	-	-
	Bachelor's degree	141	82.9
	Master's degree	23	13.5
	PhD	6	3.5
6.Working experience	1 to 3 years	-	-
	4 to 6 years	-	-
	7 to 9 years	20	11.8
	10 to 12 years	91	53.5
	13 to 15 years	12	7.1
	Above 16 years	47	27.6

Regarding the customers' age, the majority of them were in the 35–39 years old group (60.6%). The remaining respondents were 40–44 years old (14.7%), 30–34 years old (11.8%), 45–49 years old (5.3%), 50–54 years old (4.1%), and above 55 years old (3.5%).

All of the customers possessed at least a bachelor's degree. This is because the researcher has set the requirement that the customers must possess a bachelor's degree or above in order to participate in the survey. A total of 141 customers (82.9%) held a bachelor's degree, 23 customers (13.5%) had a master's degree, and 6 customers (3.5%) had a PhD.

With regard to work experience, the majority of the customers had worked for 10–12 years (53.5%). The remaining customers had worked for 16 years or more (27.6%), 7–9 years (11.8%), and 13–15 years (7.1%).

7.5 Analysis of the stakeholders' perception

Different stakeholders have different perceptions (Dusuki, 2008a). Hence, according to Matthews (2017), an analysis can be conducted to ascertain whether there are different perceptions among the stakeholders by using multigroup analysis prior to conducting a separate analysis. Multigroup analysis (MGA) or between group analysis is applied using PLS-SEM (Ghozali & Latan, 2015; Matthews, 2017). This analysis is used to determine whether there are significant differences in group-specific parameter estimates (e.g., outer weights, outer loadings, and path coefficients) (Henseler & Chin, 2010; Matthews, 2017). An MGA assessment should be conducted to reduce the misinterpretation of the results and to ensure that the constructs' measure is equal across the groups (Matthews, 2017). Two approaches can be used to compare the path coefficients of the groups. which are PLS-MGA procedure and permutation test (Garson, 2016; Matthews, 2017). The following subsections display the results using the two approaches.

7.5.1 PLS-MGA

PLS-MGA is a non-parametric test in which a significant difference is indicated by a *p*-value of less than 0.05. Furthermore, the path coefficient must be larger than 0.95 (Garson, 2016).

Table 7.12: PLS-MGA

	Path Coefficients-diff (| Employee- Customer |)	p-Value (Employee) vs Customer)
Islamic CSRD -> FP	0.001	0.498
Islamic CSRD -> MR	0.028	0.665
Islamic CSRD -> SR	0.020	0.594
MR -> FP	0.001	0.500
SR -> FP	0.078	0.278

Note. Islamic CSRD = MIICSRDi; FP = financial performance; MR = management reputation; SR = social reputation.

The results in Table 7.12 show that there is no significant difference between the employees and the customers (p > 0 .05). Therefore, the research model is perceived to be the same for both the employees and the customers.

7.5.2 Permutation algorithm (MICOM) test

The permutation algorithm test is applied to show significant inter-group differences when assessing a composite model (Garson, 2016, p. 182). The permutation test results are displayed in Table 7.13. The results show that there is no significant difference as the p-values are larger than 0.05. Therefore, since there is no significant difference in the perceptions between the employees and the customers, it is not necessary to analyse the respondents' perceptions differently. Thus, the same PLS structural path model can be applied to both the employees and the customers (Garson, 2016; Wong, 2016; Matthews, 2017).

Consequently, the questionnaire is suitable to be answered by both the employees and the customers, which are the main stakeholders of Islamic banks. It means that both employees and customers can influence the performance of the organisations (Clarkson, 1995; Hallowell, 1996; Wallace, Chernatony, & Buil, 2013). This is in line with the stakeholder theory, which describes the stakeholder as " any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman, 1984, p. 46).

The insignificant difference in the perceptions between the employees and customers is probably because the majority of the respondents are Malays and Muslims, as indicated by the respondents' profile in section 7.4. It is consistent with Turker's (2009) statement that the demographic information of the respondents supports the generalisation of the findings. The majority of the respondents are Malays and Muslims because the Malaysian population is dominated by Malays and Muslims (Department of Statistics, 2015; 2019). In addition, it is also in line with the studies that reported that the majority of the employees and customers who choose Islamic banks are Malays and Muslims (Idris et al., 2011; Wan Ahmad et al., 2008).

Table 7.13: Permutation test

	Path Coefficients Original (Employee)	Path Coefficients Original (Customer)	Path Coefficients Original Difference (Employee-Customer)	Path Coefficients Permutation Mean Difference (Employee-Customer)	5.00%	95.00%	Permutation p-Values
Islamic CSRD -> FP	0.172	0.171	0.001	-0.009	-0.212	0.204	0.461
Islamic CSRD -> MR	0.571	0.598	-0.028	0.001	-0.108	0.119	0.36
Islamic CSRD -> SR	0.546	0.566	-0.02	-0.001	-0.147	0.143	0.396
MR -> FP	0.313	0.314	-0.001	0.005	-0.208	0.206	0.488
SR -> FP	0.240	0.162	0.078	0.004	-0.211	0.232	0.286

Note. Islamic CSRD= MIICSRDi; FP = financial performance; MR = management reputation; SR = social reputation

7.6 Analysis of the types of Islamic banks

This study collected data from different types of Islamic banks, which are local full-fledged, foreign full-fledged, local Islamic subsidiary, and foreign Islamic subsidiary. Therefore, it is necessary to do an analysis to see whether there are different perceptions among the stakeholders from the different types of Islamic banks. The analysis was done using ANOVA. The analysis is for the MIICSRDi, financial performance, management reputation, and social reputation.

Table 7.14: Analysis on the types of Islamic banks

		Sum of squares	df	Mean square	F	Sig.
MIICSRDi	Between Groups	.806	9	.090	.472	.893
	Within Groups	63.234	333	.190		
	Total	64.041	342			
FP	Between Groups	5.148	9	.572	1.354	.208
	Within Groups	140.663	333	.422		
	Total	145.811				
MR	Between Groups	1.464	9	.163	.516	.863
	Within Groups	104.929	333	.315		
	Total	106.393	342			
SR	Between Groups	3.358	9	.373	1.199	.294
	Within Groups	103.578	333	.311		
	Total	106.936	342			

Note. FP = financial performance; MR = management reputation; SR = social reputation

The results show that there is no significant difference between the different types of Islamic banks, namely local full-fledged, foreign full-fledged, local Islamic subsidiary, and foreign Islamic subsidiary for MIICSRDi ($F = 4.72, p = 0.893$), financial performance ($F = 1.35, p = 0.208$), management reputation ($F = 0.516, p = 0.863$), and social reputation ($F = 1.199, p = 0.294$). This is because the Sig. value is more than .05. Therefore, it is not necessary to analyse the results differently.

The insignificant difference in the perceptions between the different types of Islamic banks is probably because the majority of the respondents are Malays and Muslims, as indicated by the respondents' profile in section 7.4. Although Bani et al. (2015) asserted that there are significant differences in the perceptions of managers between full-fledged Islamic banks and Islamic subsidiary banks, in this study, only 3 items out of 50 show a significant difference. Hence, it shows that there is no significant difference between the four types of Islamic banks. The majority of the respondents are Malays and Muslims because the Malaysian population is dominated by Malays and Muslims (Department of Statistics, 2015, 2019). In addition, this is also in line with the studies that reported that the majority of the employees and customers who choose Islamic banks are Malays and Muslims (Idris et al., 2011; Wan Ahmad et al., 2008).

7.7 Descriptive statistics of the latent constructs

The descriptive statistics of the latent constructs in this research include the name of the dimensions, items, mean, and standard deviation, as shown in Tables 7.15–7.18.

7.7.1 The level of MIICSRDi as perceived by the stakeholders: Dimensions and items

Descriptive analysis (mean and standard deviation) is used to explain the MIICSRDi based on the perceptions of the employees and customers of Islamic banks. The mean score of the employees' and the customers' perceptions was determined using a 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. The level of MIICSRDi was analysed based on eleven dimensions, which are managing the environmental issues, Islamic business operations and strategy, employee welfare and benefits, philanthropic information, organisation's strength, financial highlights and computation, good governance, compliance and responsibilities, customer protection, management of sources and charity fund, and Islamic ethical values. The eleven dimensions were categorised for both the employees and the customers of the Islamic banks. Next, the mean score for each dimension was examined and compared. This is to determine the highest and the lowest level of the MIICSRDi preferred by the employees and customers of the Islamic banks. The analysis is shown in Table 7.15.

Table 7.15: The level of MIICSRDi dimensions as perceived by the stakeholders

Dimensions for the MIICSRDi	Total		
	Mean	SD	Rank
Managing the environmental issues	3.53	0.56	10
Islamic business operations and strategy	4.12	0.48	3
Employee welfare and benefits	3.84	0.68	7
Philanthropic information	3.88	0.57	6
Organisation's strength	3.28	0.88	11
Financial highlights and computation	4.17	0.58	1
Good governance	4.14	0.59	2
Compliance and responsibilities	3.69	0.52	9
Customer protection	3.84	0.62	8
Management of sources and charity fund	4.00	0.63	5
Islamic ethical values	4.01	0.61	4
MIICRSDi	3.78	0.40	-

Note. SD = standard deviation

Based on Table 7.15, the level of MIICSRDi for Islamic banks is M = 3.78, SD = 0.400 as perceived by the employees and customers. Meanwhile, the mean score for each dimension is as follows: managing the environmental issues (M = 3.53), Islamic business operation and strategy (M = 4.12), employee welfare and benefits (M = 3.84), philanthropic information (M = 3.88), organisation's strength (M = 3.28), financial highlights and computation (M = 4.17), good governance (M = 4.14), compliance and responsibilities (M = 3.69), customer protection (M = 3.84), management of sources and charity fund (M = 4.00), and Islamic ethical values (M = 4.01). Based on the findings, the dimension of financial highlights and computation shows the highest mean score (M = 4.17, SD = 0.58), followed by good governance (M = 4.14, SD = 0.59) and Islamic business operations and strategy (M = 4.12, SD = 0.48). Meanwhile, the lowest dimension of all is Organisation's strength (M = 3.28, SD = 0.88).

Next, Table 7.16 displays the level of MIICSRDi items as perceived by the employees and customers. Based on the table, the findings show that the review of financial performance and comparative financial performance in previous years (A1, M = 4.31, SD = 0.66) and the amount of *zakat* paid and computation (A2, M = 4.31, SD = 0.67) are the most preferred items by the employees and customers among the 52 MIICSRDi items. This evidence implies that both the employees and the customers perceived that Islamic banks should be concerned about their financial and religious business operations. These findings are consistent with Aribi and Arun (2015), who found that the managers of Islamic financial institutions perceived that Islamic banks have religious and financial roles that need to be fulfilled. Islamic banks have the responsibility to run their business operations in accordance with the *Shariah* principles. Meanwhile, on the financial side, Islamic banks manage large funds to undertake social roles (Aribi & Arun, 2015). As highlighted by Riaz, Raheel, and Sadiq (2014), financial position is important to customers when choosing an Islamic bank. Caroll (1979) emphasised that the economic dimension is the most important among all the four dimensions. Based on the CSR pyramid, an organisation should prioritise its business operation by making profits and at the same time, obey the law, be ethical, and be active in philanthropic activities (Carroll, 1991).

Table 7.16: The level of MIICSRDi items as perceived by the stakeholders

MIICSRDi	Total		
	Mean	**SD**	**Rank**
A1: The review of financial performance and comparative financial performance in previous years.	4.31	0.66	1
A2: Amount of *Zakat* paid and computation.	4.31	0.67	1
A3: Amount of *Shariah* non-compliance events, earnings and expenditures prohibited by *Shariah* principles.	4.16	0.83	7
A4: Total monetary value of fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	3.92	0.85	17
A5: The profile of the organisation, board of members, management team, and *Shariah* Supervisory Board (SSB).	4.24	0.70	4
A6: Statement of corporate governance and sustainability governance.	4.15	0.70	8
A7: Statement of the existence of social and environmental assurance services provided for Islamic banks.	4.04	0.73	12
A8: Vision and mission statement of the commitment to ensure that all products and services including returns are in compliance with *Shariah* principles.	4.28	0.72	3
A9: General statement of corporate social responsibility (CSR) that is guided by *Shariah* principles.	4.17	0.69	6
A10: *Shariah* Supervisory Board (SSB) report.	4.29	0.70	2
A11: Code of Ethical Conduct clearly communicated.	4.05	0.76	11
A12: Statement of the existence of research and development activities to develop innovative *Shariah* products.	3.85	0.76	21
A13: *Zakat* related information; sources and distribution, balance of undistributed *Zakat*, attestation from the *Shariah* Supervisory Board on distributed and undistributed *Zakat* and whether Islamic banks require to pay *Zakat* on behalf of shareholder and/or depositors.	4.21	0.70	5
A14: Information on *Shariah* non-compliance events, earnings and expenditures prohibited by *Shariah* principles; nature and reasons undertaking of the events, how the prohibited earnings and expenditures had been disposed, and Islamic banks strategy to find viable, permissible alternatives of similar *Shariah* non-compliance events in the near future.	4.04	0.82	12
A15: Brief description of products and services that are in line with *Shariah* principles.	4.15	0.73	8
A16: Introduction and description of new, innovative products and services that are in line with *Shariah* principles.	4.08	0.71	9
A17: Statement of the policy for reviewing prospective customers and suppliers that are in line with *Shariah* principles.	3.78	0.69	23
A18: Statement of the policy on assessment and measures taken from customers' feedback and complaints.	3.67	0.67	29
A19: Statement of the policy for dealing with suppliers and actions taken on supplier non-compliance in relation to social impact assessment.	3.60	0.65	32
A20: Policy and actions taken to ensure the rights of employees.	3.83	0.82	22
A21: Policy and actions taken to ensure the welfare and benefits of employees.	3.88	0.82	19
A22: Statement of the policy and actions taken using *Shariah* principles as a guideline for staff appointments and appraisals.	3.78	0.83	23
A23: Policy and actions taken in education and training for employees to further enhance their knowledge and skills.	3.92	0.77	17
A24: Policy and actions taken to ensure employees' safe and healthy working environment conducive to *Shariah* principles.	3.83	0.79	22
A25: Total number and percentage of employees by age group and gender.	3.23	0.94	37
A26: Total number and percentage of employee turnover by age group and gender.	3.25	0.95	36
A27: The percentage of employee diversity according to gender, age group, ethnicity, religion and disability.	3.35	1.00	35
A28: Statement of the policy for dealing with customers and insolvent customers according to *Shariah* principles	3.71	0.79	27

Table 7.16, continued

MIICSRDi	Total		
	Mean	SD	Rank
A29: The policy on customer data protection.	4.06	0.79	10
A30: Description in organizing financial literacy programme for customers.	3.74	0.81	25
A31: The policy on the *Qard Hasan* products (interest free loan	4.04	0.80	12
A32: The policy for providing continuous excellent services to customers	4.00	0.77	14
A33: Statement of the policy for marketing in accordance with *Shariah* principles	3.99	0.73	15
A34: Corporate awards and recognition in philanthropic activities received by Islamic banks.	3.90	0.78	18
A35: Participation along with the government, NGOs, and charitable organisations in social activities, health, education, culture, and sports.	3.97	0.73	16
A36: Main investors that support social welfare activities.	3.78	0.78	23
A37: Employees' involvement in local community affairs (volunteer work).	3.73	0.82	26
A38: Statement of the existence of Islamic banks' charitable funds.	4.00	0.74	14
A39: Statement of charity collection on behalf of the third parties to be distributed to charitable activities.	3.90	0.75	18
A40: Description of the sources of Islamic banks' charitable funds.	4.00	0.75	14
A41: Description of donations (charity) and charitable activities.	4.02	0.72	13
A42: The policy on the *waqf* (endowment) management.	3.97	0.73	16
A43: Statement of the environmental objectives and policies that comply with the laws and regulations	3.87	0.79	20
A44: Statement of the investment policy on the environmental friendly projects.	3.76	0.83	24
A45: Statement of providing low profit rate to support green projects.	3.69	0.88	28
A46: Projects financed by Islamic banks that may harm the environment.	3.66	1.02	30
A47: Initiative in using recycled materials in order to protect the environment.	3.64	0.86	31
A48: Description of the environmental programme to promote environmental sustainability.	3.78	0.79	23
A49: Emissions level generated from the acquired electricity, heating, cooling, and steam to reduce the level of pollution.	3.56	0.88	33
A50: Total amount of non-hazardous waste generated to preserve the environment	3.56	0.90	33
A51: Initiative in reducing water consumption to conserve the environment.	3.54	0.89	34
A52: Initiative in managing the energy saving consumption to support energy efficiency	3.60	0.84	32

Note. SD = standard deviation

7.7.2 The level of financial performance as perceived by the stakeholders

The descriptive statistics of the financial performance as perceived by the stakeholders after selecting the MIICSRDi are shown in Table 7.17. Overall, the mean score for perceived financial performance is high (M = 4.00, SD = 0.65). Meanwhile, Table 7.17 presents that the stakeholders perceived that the disclosure of the selected MIICSRDi items in the annual report will lead to the Islamic bank's business growth at the first place (B4, M = 4.12, SD = 0.71), followed by the demand and sales of products by the Islamic bank will increase (B2, M = 4.03, SD = 0.74), the overall market share of the Islamic bank will increase (B1, M = 3.93, SD = 0.75), and lastly, the overall profit of the Islamic bank will improve (B3, M = 3.91, SD=0.77).

Table 7.17: The level of financial performance and items as perceived by the stakeholders

Financial performance items	Total		
	Mean	SD	Rank
B1: The overall market share of Islamic bank will increase.	3.93	0.75	3
B2: The demand and sales of products by Islamic bank will increase	4.03	0.74	2
B3: The overall profit of Islamic bank will improve	3.91	0.77	4
B4: Islamic bank's business will grow.	4.12	0.71	1
Financial performance	4.00	0.65	-

7.7.3 The level of corporate reputation as perceived by the stakeholders: Dimensions and items

Table 7.18 illustrates that the total mean score for corporate reputation, as perceived by the stakeholders, is high (M = 4.10, SD = 0.51). Besides, the two dimensions of corporate reputation, namely management reputation (M = 4.17) and social reputation (M = 4.00), also have high mean scores.

Table 7.18: The level of corporate reputation dimensions as perceived by the stakeholders

Dimensions for corporate reputation	Total	
	Mean	SD
Management reputation	4.17	0.56
Social reputation	4.00	0.56
Corporate reputation	4.10	0.51

Note. SD = standard deviation

Meanwhile, Table 7.19 displays that the socially responsible stakeholders perceived that the disclosure of selected MIICSRDi items in the annual report shows that at the first place, Islamic banks' products and services are *Shariah*-compliant, followed by Islamic banks follows laws and regulations, and Islamic banks have a strong prospect for future growth.

Table 7.19: The level of corporate reputation items as perceived by the stakeholders

Corporate reputation	Total		
	Mean	**SD**	**Rank**
C1: An Islamic bank is a socially responsible organisation.	4.15	0.65	4
C2: An Islamic bank is involved in philanthropic activities.	3.89	0.72	9
C3: An Islamic bank is committed to protecting the environment.	3.89	0.74	9
C4: An Islamic bank provides innovative products and services.	4.08	0.66	8
C5: An Islamic bank strives to show that all products and services are *Shariah* compliant.	4.28	0.72	1
C6: An Islamic bank strives to ensure that its organisation is maintaining sustainability.	4.13	0.65	6
C7: An Islamic bank shows an excellent leadership.	4.12	0.70	7
C8: An Islamic bank has strong prospects for future growth.	4.16	0.66	3
C9: An Islamic bank provides a positive working environment to employees.	4.14	0.70	5
C10: An Islamic bank complies with relevant laws and regulations.	4.22	0.67	2

Note. SD = standard deviation

7.8 The evaluation of PLS-SEM results

According to Henseler, Ringle, and Sinkovics (2009) and Hair et al. (2017), there are two stages of the PLS-SEM evaluation, which are assessing the measurement model (outer model assessment) and assessing the structural model (inner model assessment). Table 7.20 depicts the steps for evaluating the PLS-SEM results.

Table 7.20: The evaluation of PLS-SEM results

Stages	Descriptions
Stage 1a: Reflective Measurement Models	• Individual item reliability • Internal consistency (Cronbach's alpha, composite reliability) • Convergent validity (indicator reliability, AVE) • Discriminant validity (Fornel-Larcker criteria, cross-loading, HTMT)
Stage 1b: Formative Measurement Models	• Convergent validity • Collinearity between indicators • Significance and relevance of outer weights
Stage 2: Evaluation of the Structural Model	• Coefficients of determination (R^2) • Predictive relevance (Q^2) • Size and significance of path coefficients • f^2 effect sizes • Q^2 effect sizes • Testing the mediating effects

According to Wan Afthanorhan (2013), the measurement model is generally used for CFA, and the requirement should be achieved in order to obtain a reliable and valid model. In this study, assessing the measurement model was conducted in Stage 1 (a and/or b). In the second stage, the hypotheses were tested by assessing the structural model. Prior to evaluating the measurement and structural model, the researcher must determine whether the measurement model is reflective or formative in nature.

7.8.1 Evaluation of the reflective measurement model

The decision to use the reflective model is based on Coltman et al. (2008). Firstly, it is because of the nature of the constructs. Accordingly, the measurements used are a standard conceptualisation in the area of Islamic banking, CSRD, corporate reputation, and financial performance literature. In other words, the latent constructs are a realist interpretation which the measurements are accepted, and the latent constructs exist as independent entities (Borsboom, Mellenbergh, & van Heerden, 2003).

Secondly, in a reflective model, the constructs influence their indicators that explain their intercorrelations (Mohd Isa & Reast, 2014; Roy, Tarafdar, Ragu-Natham, &

Marsillac, 2012). It means that a change in a construct will cause a change in the indicators (Coltman et al., 2008; Jarvis, Mackenzie, & Podsakoff, 2003). Specifically, Rossiter (2002) added that the indicators represent the consequences or effects of the constructs.

Thirdly, the indicators share a mutual theme and are interchangeable (Coltman et al., 2008). In other words, deleting an indicator should not modify the conceptual domain of the construct (Coltman et al., 2008; Jarvis et al., 2003). This is because a reflective model is a unidimensional construct. Thus, by removing a single indicator, all the features of the unidimensional construct should be sufficiently represented by the remaining indicators (Mohd Isa & Reast, 2014). Finally, according to Edwards (2011), all of the constructs are treated as the outcomes. This is justified for the usage of the reflective measurement model. The reflective model has been used for the higher order component of the MIICSRDi and lower order components (11 dimensions of the MIICSRDi, two dimensions of corporate reputation which are management reputation and social reputation, and financial performance).

7.8.2 Evaluation of the reflective-reflective higher-order construct

Higher-order constructs, hierarchical component models, or hierarchical latent variable models are "explicit representations of multidimensional constructs that exist at a higher level of abstraction and are related to other constructs at a similar level of abstraction completely mediating the influence from or to their underlying dimensions" (Becker, Klein, & Wetzels, 2012, p. 362). Hair et al. (2017) added that the higher-order model involves compiling the lower order components into a single multidimensional higher-order construct. In addition, Becker et al. (2012) highlighted that a higher-order construct is a general concept represented by the lower order constructs. The use of higher-order constructs is to increase parsimony and to reduce model complexity (Becker et al. 2012; Edwards, 2001; Hair et al. 2017). This study contains 11 MIICSRDi dimensions, which have been analysed using the EFA. Thus, the model is considered complex due to its many dimensions. Therefore, this study used higher-order constructs that comprise the observable lower-order components (LOCs) and unobservable higher-order components (HOCs) (Wong, 2016). Consequently, this study is designed as a reflective-reflective model for the MIICSRDi due to the justification in Subsection 7.6.1 and empirical evidence for the reflective-reflective model in Subsection 7.6.2.1. Figure 7.2 shows the reflective-reflective model for the MIICSRDi.

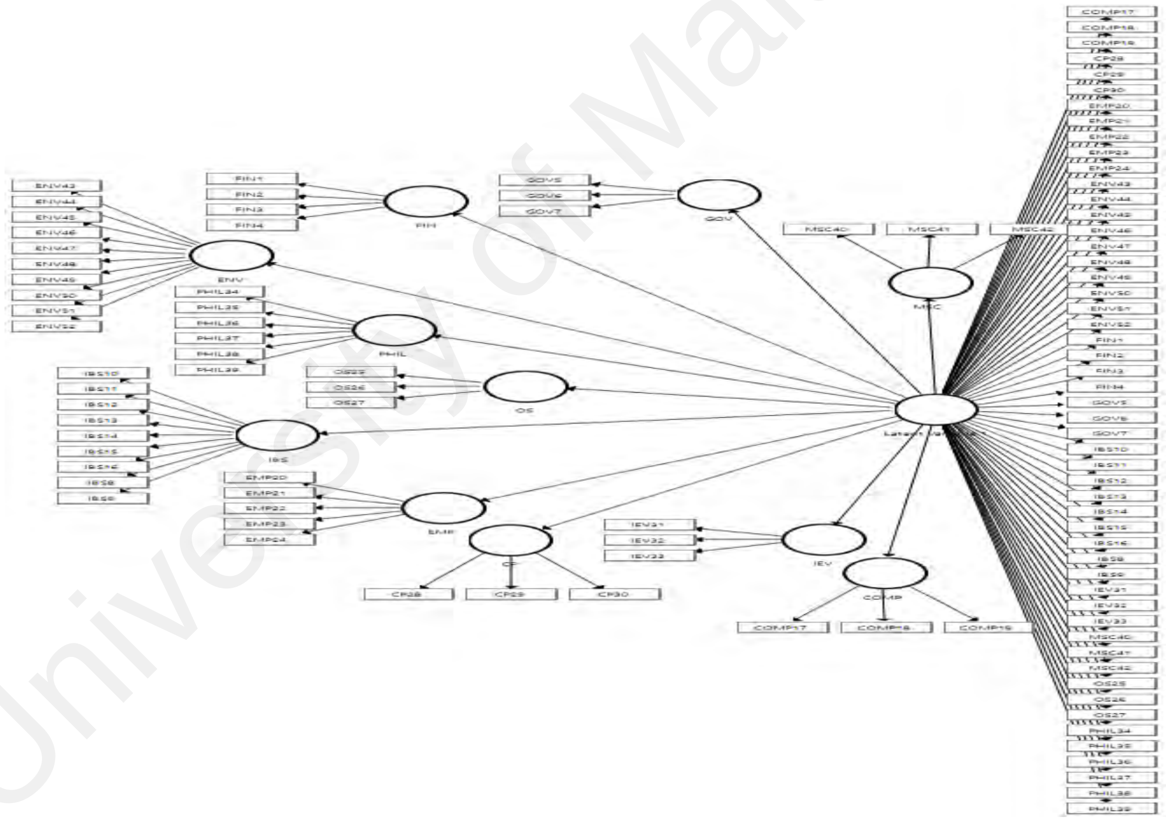


Figure 7.2: Reflective-reflective model for the MIICSRDi

ENV = managing the environmental issues; IBS = Islamic business operations and strategy; EMP = employee welfare and benefits; PHIL = Philanthropic information; OS = organisation’s strength; GOV = good governance; FIN = financial highlights and computation; COMP = compliance and responsibilities; MSC = management of sources and charity fund; CP = customer protection; IEV = Islamic ethical values.

7.8.2.1 Empirical evidence of the relative-reflective higher-order construct

The empirical evidence was obtained based on the suggestion made by Coltman et al. (2008). It states that empirical evidence should be evaluated prior to determining whether the higher-order model should be reflective or formative. Therefore, Table 7.21 and Table 7.22 show the results of the reflective-reflective higher-order constructs and reflective-formative higher-order constructs for the MIICSRDi.

Table 7.21: Reflective-reflective higher order constructs for the MIICSRDi

	Original Sample (ß)	Standard Deviation	T Values	P Values	Results
COMP <- Islamic CSRD	0.603	0.037	16.437	0.000	Significant
CP <- Islamic CSRD	0.715	0.031	22.989	0.000	Significant
EMP <- Islamic CSRD	0.75	0.029	26.641	0.000	Significant
ENV <- Islamic CSRD	0.76	0.023	32.381	0.000	Significant
FIN <- Islamic CSRD	0.508	0.048	10.689	0.000	Significant
GOV <- Islamic CSRD	0.643	0.035	18.166	0.000	Significant
IBS <- Islamic CSRD	0.770	0.022	34.395	0.000	Significant
IEV <- Islamic CSRD	0.762	0.024	32.209	0.000	Significant
MSC <- Islamic CSRD	0.728	0.028	25.943	0.000	Significant
OS <- Islamic CSRD	0.469	0.048	9.82	0.000	Significant
PHIL <- Islamic CSRD	0.765	0.025	31.008	0.000	Significant

Table 7.22: Reflective-formative higher order constructs for the MIICSRDi

	Original Sample (ß)	Standard Deviation	T Values	P Values	Results
COMP -> Islamic CSRD	0.163	0.087	1.862	0.031	Significant
CP -> Islamic CSRD	-0.130	0.101	1.283	0.100	Not significant
EMP -> Islamic CSRD	0.127	0.093	1.373	0.085	Not significant
ENV -> Islamic CSRD	0.262	0.093	2.809	0.003	Significant
FIN -> Islamic CSRD	0.309	0.083	3.707	0.000	Significant
GOV -> Islamic CSRD	0.210	0.081	2.601	0.005	Significant
IBS -> Islamic CSRD	0.113	0.096	1.186	0.118	Not significant
IEV -> Islamic CSRD	0.140	0.088	1.590	0.056	Not significant
MSC -> Islamic CSRD	0.015	0.095	0.162	0.436	Not significant
OS -> Islamic CSRD	0.126	0.075	1.680	0.047	Significant
PHIL -> Islamic CSRD	0.142	0.101	1.402	0.081	Not significant

Most of the dimensions are not significant if analysed using a reflective-formative model. Therefore, in this study, the results indicate that the higher-order constructs for the MIICSRDi are more suitable for the reflective-reflective model. The MIICSRDi reflects 11 dimensions, namely managing the environmental issues, Islamic business operation and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlights and computation, compliance and responsibilities, management of sources and charity fund, customer protection, and Islamic ethical values.

This is in line with the assurance given by Martı´nez et al. (2014) that CSR is a reflective-reflective model. Although Mohd Isa and Reast (2014) found that CSR is formative in nature, Fortanier et al. (2011) stressed that CSRD is reflective due to the characteristics mentioned by Coltman et al. (2008). It is noted that from the Islamic CSR and CSRD of the Islamic banks (e.g., Appendix A) and conventional banks (e.g., Table 3.2) that have been discussed earlier, MIICSRDi is the first reflective model among the CSR and CSRD literature in Appendix A and Table 3.2.

7.9 Evaluation of the measurement model

The evaluation of the measurement model or outer model involves determining individual items' reliability, internal consistency reliability, content validity, convergent validity, and discriminant validity (Hair et al., 2017; Henseler et al., 2009). Figure 7.3 demonstrates the reflective-reflective measurement model prior to assessing the model thoroughly and after assessing the model.

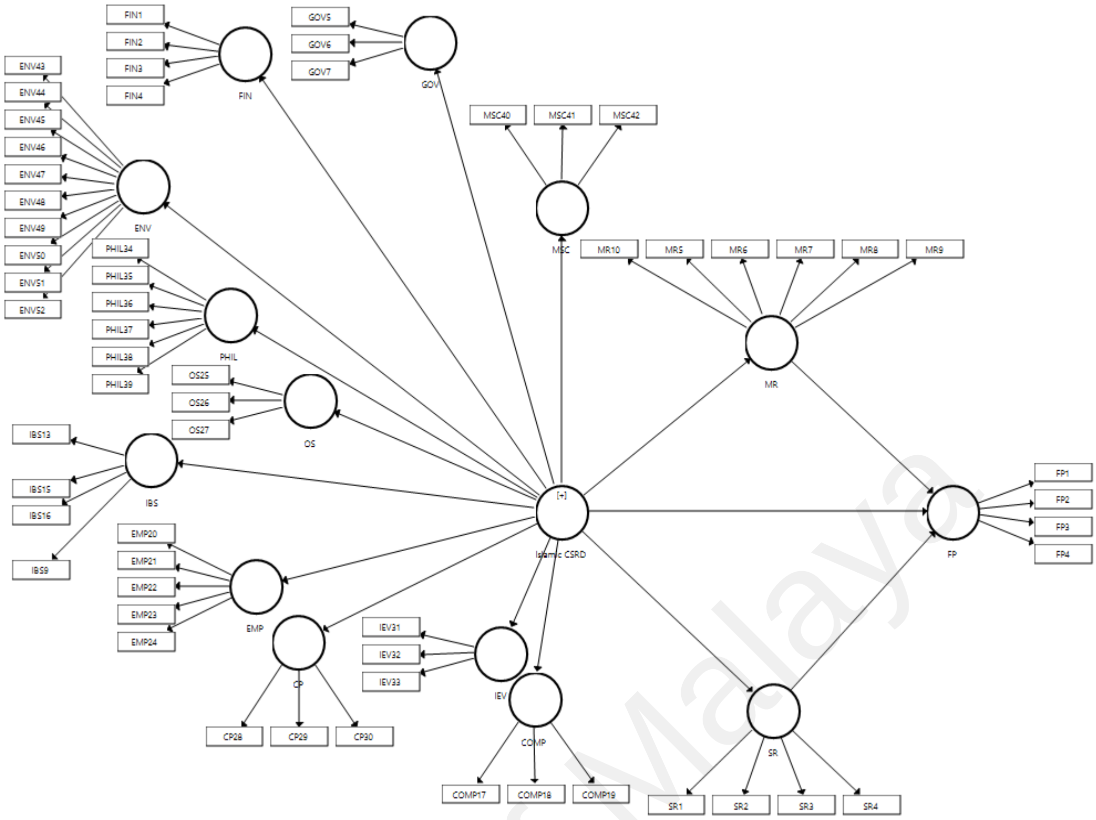


Figure 7.3: Measurement model

ENV = managing the environmental issues; IBS= Islamic business operations and strategy; EMP = employee welfare and benefits; PHIL = philanthropic information; OS = organisation's strength; GOV = good governance; FIN = financial highlights and computation; COMP = compliance and responsibilities; MSC = management of sources and charity fund; CP = customer protection; IEV = Islamic ethical values; MR = management reputation; SR = social reputation; FP = financial performance.

7.9.1 Internal consistent reliability and convergent validity

There are two types of internal consistency reliability measurement, which are Cronbach's alpha and composite reliability (Hair et al., 2017; Peterson & Kim, 2013). According to Hair et al. (2017), Cronbach's alpha indicates that all items are equally reliable, whereby all of the items have equal outer loadings on the construct. Ghozali and Latan (2015) explained that Cronbach's alpha underestimates the reliability value. Meanwhile, PLS-SEM prioritises the items according to their individual reliability. Therefore, Ghozali and Latan (2015) suggested that composite reliability should be used to measure internal consistency reliability. Chin (1998) emphasised that composite reliability "is a closer approximation under the assumption that the parameter estimates are accurate" (p. 320). The composite reliability which value is more than 0.70 is acceptable for confirmatory research (Ghozali & Latan, 2015; Hair et al., 2017). Hence, the higher the value, the higher is the level of reliability. In this measurement model, the composite reliability values are in the range of 0.817–0.941. The values for Cronbach's alpha and composite reliability are shown in Table 7.23.

In this research, convergent validity was evaluated by examining the outer loadings of each construct's items (Duarte & Raposo, 2010; Hair et al., 2017) and the average variance extracted (AVE) (Fornell & Larcker, 1981; Hair et al., 2017). The outer loadings indicate how much of the associated indicators are captured by the construct they have in common. Hence, the higher the outer loadings, the higher the indicator has in common with the construct (Hair et al., 2017). According to Hair et al. (2017), the common rule of thumb for outer loadings should be 0.708 or higher. The indicators that have outer loadings below 0.40 should be deleted (Hair et al., 2017). In this reflective measurement model, the outer loadings are between 0.581 and 0.926. Hair et al. (2017) highlighted that the indicators with outer loadings between 0.40 and 0.70 should be considered to be retained if the composite reliability and AVE have met the threshold requirement (Hair et al., 2017). This is consistent with Hair et al. (2010) and Nunnally (1978), who stated that the items that have outer loadings of more than 0.50 can be retained.

In this case, all of the constructs met the requirement of composite reliability. In addition, all of the constructs met the requirement of AVE, which is above 0.50 (Barclay, Higgins, & Thompson, 1995; Hair et al., 2017; Urbach & Ahleman, 2010) except for Islamic business operations and strategy. The AVE for Islamic business operations and strategy is 0.426, as shown in Table 7.23. Therefore, the researcher examined the Islamic business operations and strategy items in order to consider any deletion so that the AVE can increase and meet the required minimum value of 0.50. The assessment in Table 7.23 demonstrates five items from the Islamic business operations and strategy that should be deleted, namely IBS12 (0.581), IBS14 (0.583), IBS8 (0.642), IBS 11 (0.642), and IBS10 (0.667). Figure 7.4 portrays the results of consistent internal reliability and convergent validity. Besides, Table 7.23 also shows the results of internal consistent reliability and convergent validity.

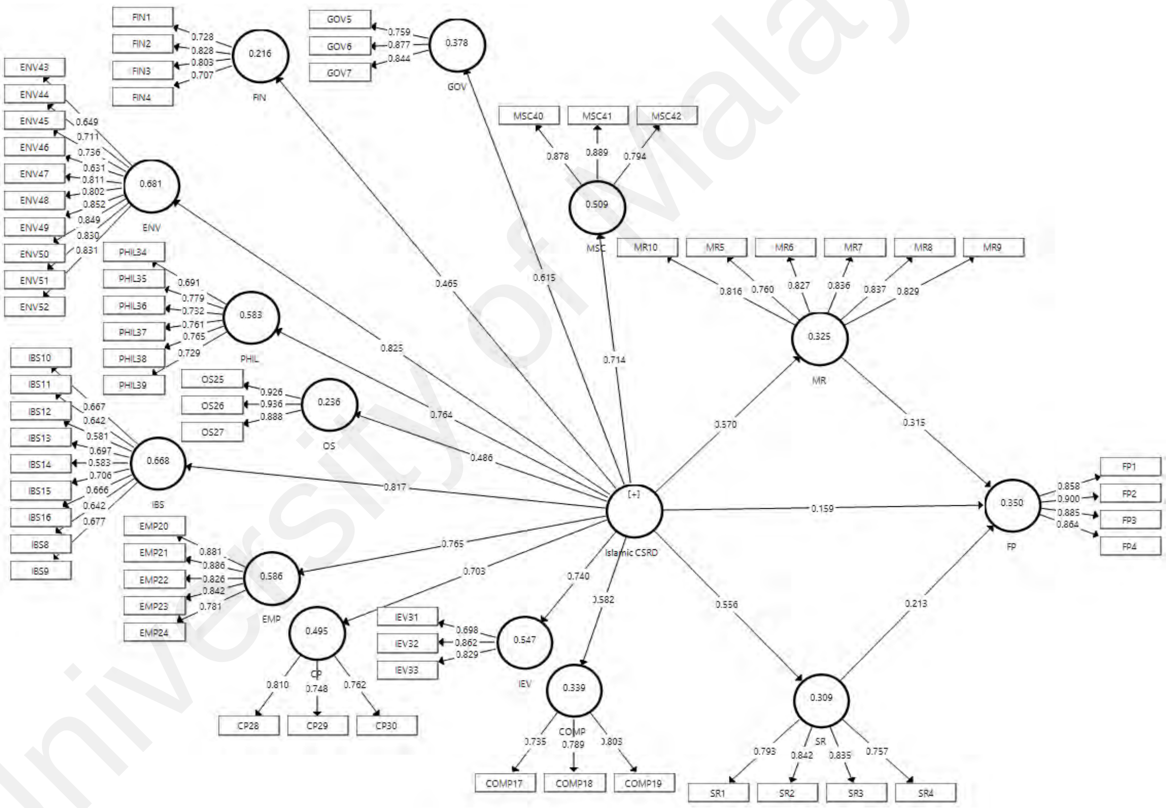


Figure 7.4: Internal consistency values and convergent validity

ENV = managing the environmental issues; IBS= Islamic business operations and strategy; EMP = employee welfare and benefits; PHIL = philanthropic information; OS = organisation’s strength; GOV = good governance; FIN = financial highlights and computation; COMP = compliance and responsibilities; MSC = management of sources and charity fund; CP = customer protection; IEV = Islamic ethical values; MR = management reputation; SR = social reputation; FP = financial performance.

Table 7.23: Internal consistent reliability values and convergent validity

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE> 0.5)
Managing the environmental issues	ENV43	0.649	0.924	0.937	0.599	Yes
	ENV44	0.711				
	ENV45	0.736				
	ENV46	0.631				
	ENV47	0.811				
	ENV48	0.802				
	ENV49	0.852				
	ENV50	0.849				
	ENV51	0.830				
	ENV52	0.831				
Islamic business operations and strategy	IBS8	0.642	0.831	0.869	0.426	No
	IBS9	0.677				
	IBS10	0.667				
	IBS11	0.642				
	IBS12	0.581				
	IBS13	0.697				
	IBS14	0.583				
	IBS15	0.706				
	IBS16	0.666				
Employee welfare and benefits	EMP20	0.881	0.899	0.925	0.713	Yes
	EMP21	0.886				
	EMP22	0.826				
	EMP23	0.842				
	EMP24	0.781				

Table 7.23, continued

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE> 0.5)
Philanthropic information	PHIL34	0.691	0.838	0.881	0.552	Yes
	PHIL35	0.779				
	PHIL36	0.732				
	PHIL37	0.761				
	PHIL38	0.765				
	PHIL39	0.729				
Organisation's strength	OS25	0.926	0.905	0.941	0.841	Yes
	OS26	0.936				
	OS27	0.888				
Good governance	GOV5	0.759	0.771	0.867	0.686	Yes
	GOV6	0.877				
	GOV7	0.844				
Financial highlights and computation	FIN1	0.728	0.768	0.851	0.590	Yes
	FIN2	0.828				
	FIN3	0.803				
	FIN4	0.707				
Compliance and responsibilities	COMP17	0.735	0.669	0.819	0.602	Yes
	COMP18	0.789				
	COMP19	0.803				

Table 7.23, continued

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE> 0.5)
Management of sources and charity fund	MSC40	0.878	0.814	0.890	0.731	Yes
	MSC41	0.889				
	MSC42	0.794				
Customer protection	CP28	0.810	0.665	0.817	0.599	Yes
	CP29	0.748				
	CP30	0.762				
Islamic ethical values	IEV31	0.698	0.712	0.840	0.639	Yes
	IEV32	0.862				
	IEV33	0.829				
Management reputation	MR5	0.760	0.901	0.924	0.669	Yes
	MR6	0.827				
	MR7	0.836				
	MR8	0.837				
	MR9	0.829				
	MR10	0.816				
Social reputation	SR1	0.793	0.821	0.882	0.652	Yes
	SR2	0.842				
	SR3	0.835				
	SR4	0.757				
Financial performance	FP1	0.858	0.899	0.930	0.769	Yes
	FP2	0.900				
	FP3	0.885				
	FP4	0.864				

The items IBS12 (0.581), IBS14 (0.583), IBS8 (0.642), IBS 11 (0.642), and IBS10 (0.667) were deleted since they are not suitable to be categorised under the dimension of Islamic business operations and strategy as well as to represent the CSR. Firstly, the item "Vision and mission statement of the commitment to ensure that all products and services including returns are in compliance with the *Shariah* principles" were not perceived well by the respondents. This result is parallel with the studies by Haniffa and Hudaib (2007) and Rashid et al. (2013) that conducted the content analysis method. Their results showed that most of the Islamic banks did not disclose information regarding their vision and mission statement (Haniffa & Hudaib, 2007; Rashid et al., 2013). Zubairu et al. (2012) found that most of the Islamic banks disclosed the vision and mission statement, but only in Saudi Arabia. Besides, Rashid et al. (2013) found that Malaysia has the lowest ranking in disclosing the vision and mission statement. Hence, the result of the desired and actual practice of the vision and mission statement parallels the context of Islamic banks in Malaysia. Haniffa and Hudaib (2007) asserted that the failure to disclose such information is because either the management knows that its operation does not comply with the *Shariah* principle or the management is oblivious to the importance of disclosing such information, as Islamic banks should truly abide by the Islamic rules. In fact, BNM (2018a) emphasised that the current vision and mission statement of the Islamic banks is only to guide the internal conduct and relationship with the stakeholders, which is not backed by an implementation plan and measurable key performance indicators (KPIs).

Secondly, the SSB report was deleted. This is because the analysis shows that this item is not suitable to be included under the dimension of Islamic business operation and strategy and MIICSRDi even though it is the third most favoured item by the respondents based on the mean analysis in the descriptive statistics section. Besides, the SSB report is already mandatory in the guidelines on Financial Reporting for Islamic Banks

(BNM/RH/GL002-2) issued by BNM (2005). Therefore, the SSB report shall be included in the annual report in compliance with the Financial Reporting for Islamic Banks guideline and not under MIICSRDi in the Malaysian context.

Thirdly, the code of ethical conduct was also omitted because the item is more related to conventional banks. Aribi and Gao (2010) found that most of the conventional banks disclosed the code of ethical conduct, unlike the Islamic banks. Similarly, Andrikopoulos et al. (2014) mentioned that the disclosure of information regarding such item happened among the conventional banks only. Since the Malaysian financial system consists of a dual banking system, Islamic banks need to be on par with the conventional banks in order to maintain their competitiveness. However, most of the Islamic banks have disclosed the information relating to the Islamic values by acknowledging the name of *Allah* and His Prophet (*SAW*), praising *Allah*, and stating the verses from the *Quran*.

Fourthly, the respondents viewed that the statement on the existence of research and development activities to develop innovative *Shariah* products is not important. Empirical evidence from previous studies shows that the disclosure of research and development activities is inconsistent (e.g., Darus et al., 2014; Hassan & Harahap, 2010). Hassan and Harahap (2010) showed that Islamic banks in seven countries, including Malaysia, were in favour of disclosing research and development activities. However, Darus et al. (2014) found that Islamic banks in Indonesia had not improved in disclosing such activities. Khan (2013) agreed that Islamic banks did not actively promote their research and development activities to endorse brand differentiation. Hence, the disclosure of research and development activities is not important because the respondents viewed that Islamic banks do not provide better products. Another reason that can be inferred is the research and development statement is mainly about product strategizing and does not necessarily focus on customer drive or how to improve service to serve the customers better (Ruohonen, 1991). It is worth noting that service quality is deemed important by the respondents (Ali & Raza, 2015).

Lastly, although the statement on *Shariah* non-compliant events is important, it seems that the respondents viewed that this item should not be included. This is because, in the Malaysian Islamic banking context, this item is already included in the SSB report (e.g., Bank Islam Malaysia Berhad, 2015). In a similar vein, Guideline on Financial Reporting for Islamic Banking Institutions (BNM/RH/GL 002-23) issued by BNM (2013) and Guideline on Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL_012_3) issued by BNM (2015e) assert that the explanation on *Shariah* non-compliant events is to be included in the SSB report. Therefore, providing double information could irritate the respondents and is costly to the management.

As a result, after deleting the items, the AVE for Islamic business operations and strategy increases to 0.561, as shown in Table 7.24. The remaining items that have outer loadings between 0.631 and 0.697 are retained as the requirement for the composite reliability, and therefore, AVE has been met. As for the final results, the outer loadings for the reflective measurement model are between 0.631 and 0.937. Table 7.24 displays the results of refined internal consistent reliability and convergent validity.

Table 7.24: Refined internal consistent reliability and convergent validity values

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE>0.5)	Items deleted due to lower loadings and to increase AVE
Managing the environmental issues	ENV43	0.646	0.924	0.937	0.600	Yes	
	ENV44	0.708					
	ENV45	0.736					
	ENV46	0.631					
	ENV47	0.812					
	ENV48	0.802					
	ENV49	0.854					
	ENV50	0.851					
	ENV51	0.831					
	ENV52	0.832					
Islamic business operations and strategy	IBS9	0.681	0.736	0.836	0.561	Yes	IBS8 (0.642) IBS10(0.667) IBS11(0.642) IBS12(0.581) IBS 14(0.584)
	IBS13	0.708					
	IBS15	0.807					
	IBS16	0.792					
Employee welfare and benefit	EMP20	0.881	0.899	0.925	0.713	Yes	
	EMP21	0.886					
	EMP22	0.826					
	EMP23	0.841					
	EMP24	0.782					

Table 7.24, continued

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE>0.5)	Items deleted due to lower loadings and to increase AVE
Philanthropic information	PHIL34	0.690	0.838	0.881	0.552	Yes	
	PHIL35	0.779					
	PHIL36	0.735					
	PHIL37	0.760					
	PHIL38	0.764					
	PHIL39	0.729					
Organisation's strength	OS25	0.926	0.905	0.941	0.841	Yes	
	OS26	0.937					
	OS27	0.887					
Good governance	GOV5	0.755	0.771	0.867	0.686	Yes	
	GOV6	0.877					
	GOV7	0.847					
Financial highlights and computation	FIN1	0.729	0.768	0.851	0.589	Yes	
	FIN2	0.830					
	FIN3	0.798					
	FIN4	0.707					
Compliance and responsibilities	COMP17	0.732	0.669	0.82	0.603	Yes	
	COMP18	0.793					
	COMP19	0.802					

Table 7.24, continued

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE>0.5)	Items deleted due to lower loadings and to increase AVE
Management of sources and charity fund	MSC40	0.879	0.814	0.89	0.731	Yes	
	MSC41	0.890					
	MSC42	0.792					
Customer protection	CP28	0.810	0.665	0.817	0.598	Yes	
	CP29	0.752					
	CP30	0.757					
Islamic ethical values	IEV31	0.701	0.712	0.84	0.639	Yes	
	IEV32	0.861					
	IEV33	0.827					
Management reputation	MR5	0.760	0.901	0.924	0.669	Yes	
	MR6	0.828					
	MR7	0.836					
	MR8	0.837					
	MR9	0.829					
	MR10	0.816					

Table 7.24, continued

Constructs	Items	Outer loadings	Cronbach's alpha	Composite Reliability	AVE	Convergent validity (AVE>0.5)	Items deleted due to lower loadings and to increase AVE
Social reputation	SR1	0.793	0.821	0.882	0.652	Yes	
	SR2	0.843					
	SR3	0.835					
	SR4	0.756					
Financial performance	FP1	0.858	0.899	0.930	0.769	Yes	
	FP2	0.900					
	FP3	0.885					
	FP4	0.864					

7.9.2 Discriminant validity

Discriminant validity identifies that the construct is different from the other constructs (Duarte & Raposo, 2010; Hair et al., 2017). Thus, discriminant validity analysis indicates that the construct is unique, stands on its own, and does not represent other constructs. There are three types of discriminant validity assessment, which are cross loadings, Fornell-Larcker criterion, and heterotrait-monotrait ratio (HTMT) (Hair et al., 2017). Firstly, the cross loadings in Table 7.25 can be analysed by comparing the indicator loadings with cross loadings (Chin, 1998). The author stated that the indicator loadings should be higher than the cross loadings.

Table 7.25: Cross loadings

	COMP	CP	EMP	ENV	FIN	FP	GOV	IBS	IEV	MR	MSC	OS	PHIL	SR
COMP17	**0.732**	0.303	0.451	0.306	0.083	0.222	0.153	0.360	0.360	0.248	0.228	0.268	0.276	0.183
COMP18	**0.793**	0.364	0.425	0.318	0.093	0.213	0.113	0.301	0.310	0.228	0.298	0.246	0.261	0.259
COMP19	**0.802**	0.391	0.480	0.300	0.178	0.290	0.188	0.308	0.325	0.274	0.279	0.214	0.280	0.295
CP28	0.373	**0.810**	0.487	0.386	0.113	0.219	0.260	0.388	0.524	0.238	0.325	0.286	0.364	0.238
CP29	0.374	**0.752**	0.486	0.469	0.202	0.265	0.179	0.393	0.495	0.278	0.348	0.441	0.346	0.263
CP30	0.301	**0.757**	0.397	0.311	0.204	0.178	0.271	0.325	0.469	0.217	0.266	0.207	0.325	0.208
EMP20	0.538	0.481	**0.881**	0.511	0.169	0.272	0.351	0.402	0.451	0.370	0.408	0.285	0.397	0.270
EMP21	0.474	0.459	**0.886**	0.444	0.191	0.256	0.354	0.329	0.412	0.397	0.331	0.251	0.368	0.262
EMP22	0.533	0.480	**0.826**	0.388	0.176	0.288	0.311	0.445	0.369	0.383	0.340	0.288	0.346	0.305
EMP23	0.455	0.503	**0.841**	0.492	0.177	0.272	0.392	0.451	0.513	0.411	0.369	0.337	0.406	0.350
EMP24	0.460	0.580	**0.782**	0.482	0.148	0.262	0.336	0.472	0.540	0.403	0.317	0.411	0.409	0.295
ENV43	0.370	0.444	0.462	**0.646**	0.339	0.38	0.427	0.491	0.517	0.497	0.563	0.295	0.469	0.423
ENV44	0.307	0.460	0.456	**0.708**	0.280	0.308	0.406	0.449	0.502	0.426	0.516	0.247	0.475	0.419
ENV45	0.272	0.341	0.329	**0.736**	0.214	0.273	0.268	0.373	0.447	0.305	0.469	0.430	0.525	0.351
ENV46	0.330	0.368	0.297	**0.631**	0.247	0.230	0.158	0.350	0.384	0.236	0.356	0.296	0.344	0.320
ENV47	0.308	0.333	0.419	**0.812**	0.172	0.240	0.246	0.328	0.378	0.256	0.430	0.309	0.429	0.365
ENV48	0.281	0.415	0.476	**0.802**	0.145	0.192	0.316	0.367	0.428	0.308	0.433	0.312	0.480	0.376
ENV49	0.306	0.377	0.440	**0.854**	0.079	0.219	0.238	0.291	0.362	0.295	0.380	0.419	0.425	0.359
ENV50	0.321	0.380	0.423	**0.851**	0.085	0.267	0.227	0.286	0.320	0.300	0.360	0.458	0.415	0.367
ENV51	0.289	0.400	0.464	**0.831**	0.119	0.316	0.296	0.318	0.364	0.288	0.395	0.408	0.438	0.344
ENV52	0.279	0.394	0.461	**0.832**	0.115	0.295	0.283	0.293	0.350	0.275	0.383	0.422	0.437	0.329
FIN1	0.034	0.161	0.195	0.101	**0.729**	0.165	0.430	0.319	0.191	0.342	0.286	-0.051	0.249	0.299
FIN2	0.144	0.221	0.189	0.224	**0.830**	0.258	0.431	0.418	0.322	0.357	0.415	-0.003	0.295	0.328
FIN3	0.061	0.150	0.075	0.151	**0.797**	0.230	0.283	0.270	0.136	0.226	0.273	-0.048	0.158	0.223
FIN4	0.208	0.135	0.146	0.219	**0.707**	0.216	0.281	0.287	0.136	0.224	0.301	0.097	0.257	0.257

Table 7.25, continued

	COMP	CP	EMP	ENV	FIN	FP	GOV	IBS	IEV	MR	MSC	OS	PHIL	SR
FP1	0.300	0.276	0.299	0.321	0.264	**0.858**	0.3100	0.321	0.311	0.465	0.307	0.164	0.314	0.420
FP2	0.259	0.275	0.285	0.329	0.283	**0.900**	0.300	0.332	0.303	0.483	0.317	0.201	0.293	0.461
FP3	0.294	0.217	0.271	0.313	0.226	**0.885**	0.235	0.278	0.251	0.465	0.287	0.228	0.287	0.452
FP4	0.244	0.244	0.268	0.281	0.229	**0.864**	0.256	0.327	0.289	0.479	0.298	0.159	0.318	0.438
GOV5	0.078	0.214	0.286	0.187	0.471	0.220	**0.755**	0.437	0.327	0.366	0.264	0.043	0.323	0.257
GOV6	0.174	0.250	0.349	0.294	0.403	0.238	**0.877**	0.462	0.274	0.332	0.350	0.101	0.321	0.334
GOV7	0.214	0.281	0.383	0.421	0.326	0.311	**0.847**	0.549	0.329	0.380	0.328	0.245	0.406	0.408
IBS13	0.306	0.364	0.306	0.351	0.472	0.295	0.456	**0.708**	0.416	0.393	0.430	0.061	0.383	0.368
IBS15	0.369	0.415	0.409	0.292	0.262	0.268	0.354	**0.807**	0.468	0.348	0.309	0.122	0.362	0.264
IBS16	0.352	0.408	0.453	0.370	0.224	0.281	0.333	**0.793**	0.491	0.340	0.347	0.233	0.409	0.267
IBS9	0.213	0.244	0.318	0.368	0.341	0.229	0.626	**0.681**	0.343	0.270	0.370	0.163	0.397	0.364
IEV31	0.362	0.440	0.311	0.442	0.279	0.311	0.191	0.407	**0.701**	0.332	0.422	0.165	0.377	0.304
IEV32	0.341	0.526	0.466	0.449	0.180	0.264	0.357	0.530	**0.861**	0.315	0.366	0.290	0.455	0.310
IEV33	0.326	0.570	0.517	0.378	0.197	0.220	0.334	0.439	**0.827**	0.361	0.356	0.259	0.485	0.299
MR10	0.254	0.239	0.379	0.325	0.306	0.398	0.360	0.393	0.340	**0.819**	0.333	0.156	0.351	0.480
MR5	0.235	0.218	0.336	0.305	0.340	0.478	0.342	0.342	0.352	**0.753**	0.345	0.125	0.293	0.508
MR6	0.243	0.272	0.339	0.383	0.344	0.463	0.363	0.351	0.320	**0.827**	0.345	0.211	0.389	0.564
MR7	0.292	0.254	0.425	0.350	0.263	0.400	0.332	0.373	0.351	**0.841**	0.320	0.203	0.379	0.528
MR8	0.317	0.270	0.395	0.325	0.333	0.497	0.372	0.394	0.355	**0.833**	0.281	0.213	0.359	0.531
MR9	0.240	0.307	0.414	0.359	0.291	0.415	0.359	0.366	0.344	**0.833**	0.341	0.228	0.352	0.549
MSC40	0.283	0.313	0.339	0.475	0.380	0.244	0.318	0.401	0.337	0.312	**0.879**	0.124	0.592	0.282
MSC41	0.302	0.326	0.364	0.477	0.343	0.288	0.359	0.409	0.412	0.329	**0.890**	0.211	0.624	0.324
MSC42	0.302	0.406	0.371	0.480	0.370	0.350	0.301	0.437	0.465	0.384	**0.792**	0.203	0.477	0.329
OS25	0.273	0.352	0.331	0.431	-0.027	0.199	0.169	0.160	0.243	0.219	0.195	**0.926**	0.306	0.247
OS26	0.315	0.342	0.366	0.433	0.016	0.236	0.163	0.187	0.255	0.254	0.178	**0.937**	0.327	0.304

Table 7.25, continued

	COMP	CP	EMP	ENV	FIN	FP	GOV	IBS	IEV	MR	MSC	OS	PHIL	SR
OS27	0.269	0.439	0.333	0.418	0.017	0.156	0.132	0.190	0.330	0.167	0.207	**0.888**	0.301	0.243
PHIL34	0.191	0.295	0.278	0.344	0.194	0.265	0.331	0.344	0.399	0.370	0.341	0.252	**0.690**	0.288
PHIL35	0.223	0.272	0.294	0.394	0.207	0.271	0.341	0.380	0.448	0.314	0.413	0.142	**0.779**	0.270
PHIL36	0.297	0.340	0.340	0.444	0.234	0.285	0.190	0.305	0.406	0.280	0.479	0.294	**0.735**	0.318
PHIL37	0.271	0.351	0.426	0.513	0.201	0.231	0.394	0.383	0.364	0.304	0.456	0.390	**0.760**	0.346
PHIL38	0.256	0.362	0.366	0.425	0.290	0.226	0.349	0.491	0.408	0.366	0.606	0.198	**0.764**	0.332
PHIL39	0.314	0.363	0.320	0.440	0.300	0.271	0.292	0.400	0.442	0.304	0.620	0.228	**0.729**	0.315
SR1	0.160	0.231	0.196	0.280	0.372	0.436	0.305	0.263	0.275	0.504	0.274	0.136	0.299	**0.798**
SR2	0.209	0.258	0.271	0.412	0.327	0.406	0.368	0.359	0.307	0.459	0.403	0.223	0.413	**0.832**
SR3	0.309	0.291	0.321	0.499	0.231	0.356	0.365	0.356	0.323	0.482	0.313	0.289	0.346	**0.830**
SR4	0.337	0.217	0.342	0.346	0.257	0.427	0.289	0.376	0.319	0.619	0.198	0.280	0.304	**0.767**

Note. COMP = compliance and responsibilities; CP = customer protection; EMP = employee welfare and benefits; ENV = managing the environmental issues; FIN = financial highlights and computation; FP = financial performance; GOV = good governance; IBS= Islamic business operations and strategy; IEV = Islamic ethical values; MR = management reputation; MSC = management of sources and charity fund; OS = organisation's strength; PHIL = philanthropic information; SR = social reputation

Table 7.25 illustrates the comparison between the indicator loadings and other reflective indicators. The analysis displays that all the indicator loadings are greater than the cross loadings. Thus, the analysis suggests that the requirement for discriminant validity has been met. However, further analysis using Fornell-Larcker criterion and HTMT should be performed to ascertain the robustness of the reflective measurement model.

Secondly, discriminant validity is measured using AVE, as suggested by Fornell and Larcker (1981). The analysis can be achieved by comparing the squared correlation of the paired construct with the AVE of each construct (Fornell & Larcker, 1981). Fornell and Larcker (1981) proposed the use of AVE with a score of 0.50 or more. In addition, the square root of the AVE should be greater than the correlations among the constructs (Hair et al., 2010; 2017). As shown in Table 7.26, the values of AVE are between 0.743 and 0.917, which are acceptable.

Table 7.26: Fornell-Larcker criterion

	COMP	CP	EMP	ENV	FIN	FP	GOV	IBS	IEV	MR	MSC	OS	PHIL	SR
COMP	**0.776**													
CP	0.455	**0.773**												
EMP	0.583	0.595	**0.844**											
ENV	0.397	0.509	0.552	**0.774**										
FIN	0.154	0.223	0.204	0.233	**0.768**									
FP	0.313	0.289	0.320	0.355	0.286	**0.877**								
GOV	0.195	0.303	0.415	0.377	0.472	0.314	**0.828**							
IBS	0.416	0.480	0.499	0.462	0.432	0.359	0.588	**0.749**						
IEV	0.427	0.643	0.545	0.528	0.270	0.329	0.373	0.576	**0.799**					
MR	0.322	0.319	0.466	0.417	0.382	0.539	0.433	0.452	0.420	**0.818**				
MSC	0.346	0.408	0.420	0.559	0.426	0.345	0.382	0.487	0.474	0.400	**0.855**			
OS	0.312	0.412	0.375	0.466	0.003	0.215	0.169	0.195	0.301	0.233	0.211	**0.917**		
PHIL	0.351	0.447	0.458	0.578	0.322	0.346	0.426	0.519	0.552	0.433	0.661	0.340	**0.743**	
SR	0.317	0.308	0.352	0.475	0.367	0.505	0.410	0.421	0.380	0.644	0.365	0.289	0.421	**0.807**

Note. Entries shown in boldface represent the square root of the AVE.COMP = Compliance and responsibilities; CP = Customer protection; EMP = Employee welfare and benefits; ENV = Managing environmental issues; FIN = Financial highlights and computation; FP = Financial performance; GOV = Good governance; IBS = Islamic business operations and strategy; IEV = Islamic ethical values; MR = Management reputation; MSC = Management of sources and charity fund; OS = Organisation's strength; PHIL = Philanthropic information; SR = Social reputation.

Thirdly, discriminant validity can be assessed by examining the HTMT. According to Kline (2011) and Gold, Malhotra, and Segars (2001), the HTMT value must not be more than 1. Table 7.27 portrays the HTMT results in which the values are not more than 1. Hence, discriminant validity has been established. Thus, the three tests, namely cross loading, Fornell-Larcker, and HTMT, show that the reflective measurement model meets the discriminant validity requirement.

Table 7.27: HTMT

	COMP	CP	EMP	ENV	FIN	FP	GOV	IBS	IEV	Islamic CSRD	MR	MSC	OS	PHIL	SR
COMP															
CP	0.676														
EMP	0.752	0.762													
ENV	0.506	0.639	0.600												
FIN	0.221	0.305	0.238	0.272											
FP	0.402	0.368	0.356	0.387	0.340										
GOV	0.260	0.424	0.491	0.424	0.617	0.371									
IBS	0.591	0.680	0.610	0.558	0.564	0.441	0.778								
IEV	0.624	0.930	0.673	0.652	0.352	0.416	0.499	0.793							
Islamic CSRD	0.741	0.878	0.815	0.883	0.550	0.497	0.693	0.866	0.893						
MR	0.415	0.407	0.517	0.453	0.451	0.600	0.521	0.555	0.527	0.614					
MSC	0.469	0.550	0.489	0.641	0.525	0.402	0.478	0.629	0.628	0.813	0.468				
OS	0.401	0.518	0.413	0.510	0.091	0.238	0.187	0.237	0.371	0.559	0.256	0.245			
PHIL	0.465	0.594	0.522	0.650	0.387	0.400	0.524	0.657	0.715	0.862	0.499	0.791	0.387		
SR	0.423	0.414	0.407	0.545	0.454	0.586	0.506	0.542	0.498	0.627	0.743	0.450	0.333	0.506	

Note. Discriminant validity is achieved at HTMT 1.00. COMP = compliance and responsibilities; CP = customer protection; EMP = employee welfare and benefits; ENV = managing environmental issues; FIN = financial highlights and computation; FP = financial performance; GOV = good governance; IBS = Islamic business operations and strategy; IEV = Islamic ethical values; Islamic CSRD = MIICSRDi; MR = Management reputation; MSC = Management of sources and charity fund; OS = Organisation's strength; PHIL = philanthropic information; SR = social reputation.

7.10 Evaluation of the structural model

This section displays the results of the structural model and hypothesis testing. This study applied the PLS standard bootstrapping procedure with 5000 bootstrap samples and 343 cases to assess the significance of the path coefficients (Hair et al., 2017; Henseler et al., 2009). Figure 7.5 illustrates the full structural model, which includes the mediator variables (management reputation and social reputation).

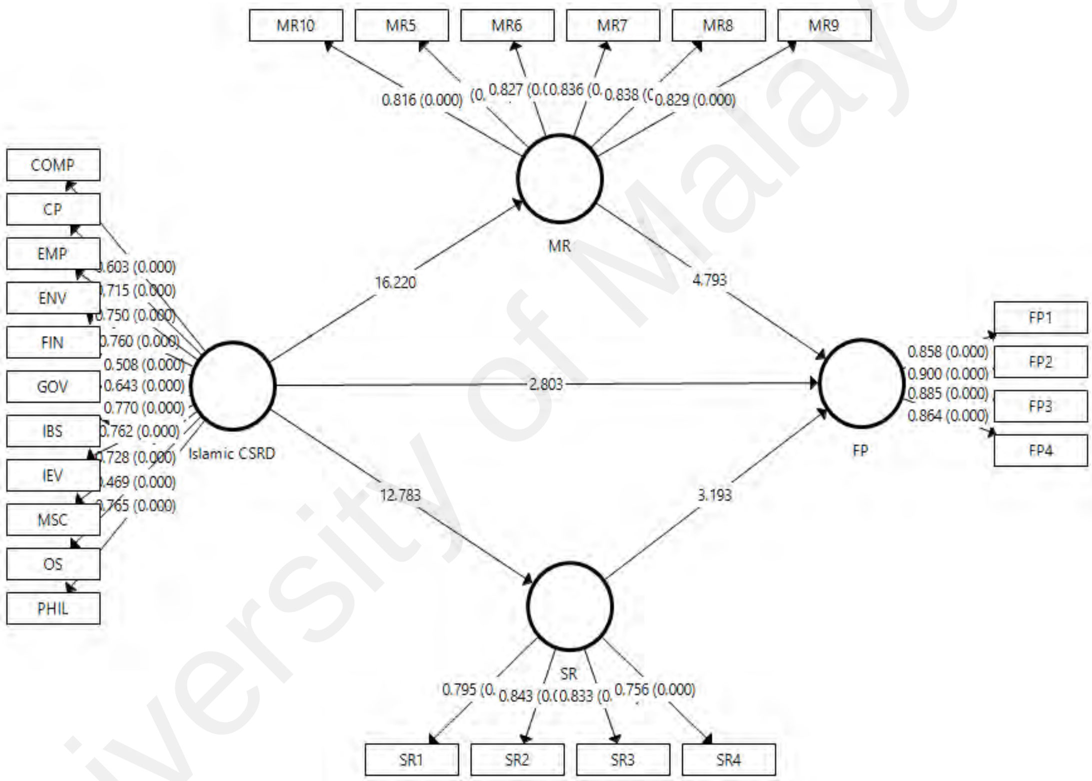


Figure 7.5: Structural model with the mediators (full model*)*

ENV = Managing the environmental issues; IBS = Islamic business operations and strategy; EMP = Employee welfare and benefits; PHIL = Philanthropic information; OS = Organisation's strength; GOV = Good governance; FIN = Financial highlights and computation; COMP = Compliance and responsibilities; MSC = Management of sources and charity fund; CP = Customer protection; IEV = Islamic ethical values.

7.10.1 Collinearity Assessment

Collinearity is examined to ensure that it does not bias the regression results (Hair, Risher, Sarstedt, & Ringle, 2019). To assess collinearity, the researcher looked at the inner VIF values. It was found that the inner VIF values for all the exogenous constructs are below the threshold of 5 (Hair et al., 2017). Besides, Diamantopoulos and Siguaw (2006) suggested that the VIF value should be below 3.3. Indeed, collinearity among the exogenous constructs is not a critical issue in the structural model. Therefore, all the exogenous constructs meet the collinearity assessment. Table 7.28 illustrates the VIF values for the constructs.

Table 7.28: Collinearity assessment

	FP	Islamic CSRD	MR	SR
FP				
Islamic CSRD	1.636		1	1
MR	1.926			
SR	1.85			

Note. FP = financial performance; MR = management reputation; SR = social reputation

7.10.2 Structural model's path coefficient (direct effect)

The structural model's path coefficient (direct effect) was conducted to answer the research objectives (RO1 and RO2) and to test hypotheses 1(a, b, c, d, e, f, g, h, i, j, k) and hypothesis 2, as follows:

RO1: To establish the MIICSRDi as a reflective model for the Islamic banks in Malaysia.

H_1: The MIICSRDi is a reflective model which represents 11 dimensions.

H_{1a}: The MIICSRDi positively represents the managing the environmental issues dimension.

H_{1b}: The MIICSRDi positively represents the Islamic business operations and strategy dimension.

H_{1c}: The MIICSRDi positively represents the employee welfare and benefits dimension.

H_{1d}: The MIICSRDi positively represents the philanthropic information dimension.

H_{1e}: The MIICSRDi positively represents the organisation’s strength dimension.

H_{1f}: The MIICSRDi positively represents the good governance dimension.

H_{1g}: The MIICSRDi positively represents the financial highlights and computation dimension.

H_{1h}: The MIICSRDi positively represents the compliance and responsibilities dimension.

H_{1i}: The MIICSRDi positively represents the management of sources and charity fund dimension.

H_{1j}: The MIICSRDi positively represents the customer protection dimension.

H_{1k}: The MIICSRDi positively represents the Islamic ethical values dimension.

RO2: To examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_2: There is a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

Table 7.29 presents the results of the structural model path coefficient (direct effect) to answer research objective one (H_1) and research objective two (H_2).

Table 7.29: Structural model assessment of the direct relationship

Hypothesis	Relationship (Direct effect)	Original Sample (ß)	Standard deviation	T values	P values	Findings
H_{1a}	ENV <- Islamic CSRD	0.760	0.023	33.021	0.000**	Supported
H_{1b}	IBS <- Islamic CSRD	0.770	0.024	31.542	0.000**	Supported
H_{1c}	EMP <- Islamic CSRD	0.750	0.029	26.179	0.000**	Supported
H_{1d}	PHIL <- Islamic CSRD	0.765	0.024	31.560	0.000**	Supported
H_{1e}	OS <- Islamic CSRD	0.469	0.047	10.049	0.000**	Supported
H_{1f}	GOV <- Islamic CSRD	0.643	0.037	17.382	0.000**	Supported
H_{1g}	FIN <- Islamic CSRD	0.508	0.045	11.338	0.000**	Supported
H_{1h}	COMP <- Islamic CSRD	0.603	0.036	16.664	0.000**	Supported
H_{1i}	MSC <- Islamic CSRD	0.728	0.028	25.918	0.000**	Supported
H_{1j}	CP <- Islamic CSRD	0.715	0.033	21.959	0.000**	Supported
H_{1k}	IEV <- Islamic CSRD	0.762	0.023	32.461	0.000**	Supported
H_2	Islamic CSRD -> FP	0.169	0.060	2.803	0.003*	Supported

*Note.*ENV = managing the environmental issues; IBS = Islamic business operations and strategy; EMP = employee welfare and benefits; PHIL = philanthropic information; OS = organisation's strength; GOV = good governance; FIN = financial highlights and computation; COMP = compliance and responsibilities; MSC = management of sources and charity fund; CP = customer protection; IEV = Islamic ethical values; Islamic CSRD=MIICSRDi *p<0.05, one tailed. **p<0.01, one tailed.

The results in Table 7.29 show that the MIICSRDi does portray the 11 dimensions of managing the environmental issues, Islamic business operations and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlights and computation, compliance and responsibilities, management of sources and charity fund, customer protection, and Islamic ethical values, which support hypothesis 1a (ß = 0.760, t = 33.021, p < 0.01); hypothesis 1b (ß = 0.770, t = 31.542, p < 0.01); hypothesis 1c (ß = 0.750, t = 26.179, p < 0.01); hypothesis 1d (ß = 0.765, t = 31.560, p < 0.01); hypothesis 1e (ß =0.469, t = 10.049, p < 0.01); hypothesis 1f (ß = 0.643, t = 17.382, p < 0.01); hypothesis 1g (ß = 0.508, t = 11.338, p < 0.01); hypothesis 1h (ß = 0.603, t =16.4664, p < 0.01); hypothesis 1i (ß = 0.728, t = 25.918, p < 0.01); hypothesis 1j (ß = 0.715, t = 21.959, p < 0.01); and hypothesis 1k (ß = 0.762, t =

32.461, $p < 0.01$). Particularly, Islamic business operations and strategy is the most influential dimension favoured by the stakeholders.

Furthermore, Hypothesis 2, which predicted a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders, is supported (ß = 0.169, $t = 2.803$, $p < 0.01$).

7.10.3 Assessment of variance explained in the dependent variable: Coefficient of determination (R^2)

In PLS-SEM analysis, the model's predictive power is assessed by the *R*-squared value (Hair et al., 2017). The *R*-squared value is known as the coefficient of determination (Hair et al., 2017; Henseler et al., 2009). It illustrates the amount of variance in the endogenous construct explained by all of the exogenous constructs (Hair et al., 2017). Falk and Miller (1992) proposed 0.10 as the minimum the R^2 value. Meanwhile, Chin (1998) suggested that the R^2 is 0.67 (significant), 0.33 (moderate), and 0.25 (small). Besides, Hair et al. (2017) suggested that the R^2 is 0.75 (strong), 0.50 (moderate), and 0.25 (small/weak). Table 7.21 shows the R^2 values of the endogenous constructs.

Table 7.30: Variance explained in the endogenous variable

Latent variables (endogenous)	R^2
FP	0.353
MR	0.332
SR	0.304

Note. FP = financial performance; MR = management reputation; SR = social reputation.

As exhibited in Table 7.30, the research model indicates the R^2 value of 35.3% (moderate) for financial performance, which is the dependent variable. This suggests that the three exogenous constructs: MIICSRDi, social reputation, and management reputation can explain 35.3% of the variance in the endogenous construct, which is financial performance. As for the mediator variables, the research model explains 30.3%

(moderate) of the total variance in social reputation and 32.3% (moderate) of the total variance in management reputation. This suggests that the MIICSRDi explains 30.4% of the variance in social reputation and 33.2% in management reputation as perceived by the stakeholders. Therefore, all of the endogenous latent variables show acceptable R^2 values that are considered substantial (Chin, 1998; Falk & Miller, 1992).

7.10.4 Ascertaining effect size (f^2)

The effect size, f^2, is to evaluate the effect of specific exogenous constructs that contribute to an endogenous construct by means of a change in the R-squared value if it is deleted from the model (Chin, 1998; Wong, 2016). The rules of thumb for the effect size are 0.02 (small), 0.15 (medium), and greater than 0.35 (large) (Cohen, 1988). Table 7.31 illustrates the results of the effect size of the exogenous latent variables on the endogenous latent variables.

Table 7.31: Effect size of exogenous variables

Latent constructs		f^2	Effect size
Exogenous constructs	**Endogenous constructs**		
Islamic CSRD	FP	0.027	Small to medium
MR	FP	0.076	Small to medium
SR	FP	0.038	Small to medium
Islamic CSRD	MR	0.497	Large
Islamic CSRD	SR	0.438	Large

Note. Islamic CSRD = MIICSRDi; FP = financial performance; MR = management reputation; SR = social reputation.

As illustrated in Table 7.31, the MIICSRDi has a small to medium effect (2.7%) on financial performance. Management reputation and social reputation also have a small to medium effect on financial performance at 7.6% and 3.8%, respectively.

Meanwhile, the MIICSRDi has a large effect on both management reputation (49.7%) and social reputation (43.8%). This shows that both management reputation and social reputation are essential in this study as perceived by the stakeholders.

7.10.5 Blindfolding and predictive relevance, Q^2

In this research, the researcher examined Stone-Geisser's Q^2 value to test the predictive relevance of the research model (Geisser, 1974; Stone, 1974). The Stone-Geisser test of predictive relevance is used as an additional evaluation of goodness-of-fit in partial least squares structural equation modelling (Duarte & Raposo, 2010). Q^2 is a cross-validated redundancy measure. The Q^2 value is obtained by using the blindfolding procedure. The blindfolding procedure is only applied to endogenous latent variables that have a reflective measurement model operationalisation (Sattler, Völckner, Riediger, & Ringle, 2010, p.320). Therefore, since all the endogenous latent variables in this research are reflective, the blindfolding procedure was applied. Particularly, Q^2 was applied to evaluate the predictive relevance of the research model (Chin, 2010; Ringle, Sarstedt, & Straub, 2012). The evaluation of Q^2 is fundamental because it assesses if the data points of the indicators in the reflective measurement model of the endogenous construct can be predicted accurately (Wong, 2016). According to Henseler et al. (2009), a research model with Q^2 value of greater than zero is considered to have predictive relevance.

Table 7.32: Construct cross-validated redundancy

	Q^2 (=1-SSE/SSO)
FP	0.255
Islamic CSRD	NIL
MR	0.210
SR	0.186

Note. Islamic CSRD = MIICSRDi; FP = financial performance; MR = management reputation; SR = social reputation.

Table 7.32 shows that the cross-validation redundancy measure, Q^2, for the three endogenous latent variables are above zero. Therefore, the model has predictive relevance as perceived by the stakeholders (Chin, 1988; Henseler et al., 2009).

7.10.6 Mediation analysis

This research performed the mediation analysis of social reputation and management reputation by applying SEM using PLS-SEM analysis. A mediation test involves a third variable that plays an intervening role in the relationship between the independent and dependent variables (Nitzl, Roldan, & Cepeda, 2016). Particularly, the mediation test is applied to ascertain whether the mediator variable can significantly support the effects of the independent variables on the dependent variables (Ramayah, Lee, & In, 2011).

In this study, the mediation test was based on the PLS bootstrapping approach. Hence, the hypotheses were tested using the PLS-SEM technique (Wold, 1985). The PLS-SEM technique is used due to its ability to test a complex model and the indirect effect of the model (Chin, 2010). In addition, PLS-SEM employs a path analysis and tests the direct and indirect effect. At the same time, it is compared to other mediation techniques (e.g., Baron & Kenny, 1986). Accordingly, through the new software of SmartPLS 3.0 (version 3.2.7) issued on 18 September 2017, the researcher found that the mediation analysis can be run automatically under the category of specific indirect effect. In comparison, with SmartPLS 2017 (version 3.2.6), the mediation analysis needs to be calculated manually which involves the results of indirect effect and direct effect (Nitzl et al., 2016).

Therefore, the mediation test was conducted to answer the research objective 3 and to test hypotheses 3a and 3b, as follows:

RO3: To examine the mediation role of corporate reputation in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_3: Corporate reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_{3a}: Management reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

H_{3b}: Social reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

Table 7.33 demonstrates that for hypotheses $H_{3}a$ and H_{3b}, there are significant mediation relationships. For hypothesis H_{3a}, management reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders (ß = 0.178, t = 4.5681, $p < 0.01$). Also, the 95% Bootstrap Confidence Interval (CI) does not straddle 0 in between (LL = 0.099, UL = 0.249). Furthermore, social reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders (ß = 0.117, t = 3.309, $p < 0.01$). In addition, the 95% Bootstrap Confidence Interval (CI) does not straddle 0 in between (LL = 0.047, UL = 0.183). Hence, both the mediation hypotheses are statistically supported.

Table 7.33: Mediation results

Hypothesis	Relationship	Original Sample (β)	Standard deviation	T values	P values	Confidence interval		Findings
						LL	UL	
H3a	Islamic CSRD -> MR -> FP	0.178	0.038	4.681	0.000**	0.099	0.249	Supported
H3b	Islamic CSRD -> SR -> FP	0.117	0.035	3.309	0.000**	0.047	0.183	Supported

Note. ENV = managing the environmental issues; IBS = Islamic business operations and strategy; EMP = employee welfare and benefits; PHIL = philanthropic information; OS = organisation's strength; GOV = good governance; FIN = financial highlights and computation; COMP = compliance and responsibilities; MSC = management of sources and charity fund; CP = customer protection; IEV = Islamic ethical values. *$p<0.05$, two tailed. **$p< 0.01$, two tailed.

7.10.7 Type of mediation and magnitude

Variance accounted for (VAF) evaluates the strength of partial mediation (Hair et al., 2017; Nitzl et al., 2016). VAF determines the extent to which the mediation process explains the dependent variable's variance (Nitzl et al., 2016; p.17). According to Carrión, Nitzl, and Roldán (2017), determining the type of mediation and its magnitude is the second step in the mediator analysis for PLS-SEM. Table 7.34 illustrates the results of the mediation effect and VAF.

Table 7.34: Mediation effect and VAF

Direct effect (C')	Indirect effect		Total effect (C)	Variance Accounted For (VAF)	Magnitude (%)
	M1 (MOT)	M2 (KNO)			
0.169	0.178	0.117	0.464	0.636	63.58

Note. M1 = management reputation; M2 = social reputation

Table 7.34 shows that VAF is 63.58%. Therefore, it is partial mediation, as VAF that is larger than 20% and less than 80% can be categorised as typical partial mediation (Nitzl et al., 2016). In addition, Zhao, Lynch, and Chen (2010) stated that if the direct effect is significant, the mediation is considered as partial mediation.

7.11 Summary of the results

Table 7.35 summarises all the results for the research hypotheses.

Table 7.35: Summary of hypothesis testing

Hypothesis	Brief description of hypotheses	Summary of results
H_1	The MIICSRDi is a reflective model which represents 11 dimensions.	Results from EFA and PLS-SEM (measurement model); H_1 is supported.
H_{1a}	The MIICSRDi positively represents the managing the environmental issues dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1a} is supported.
H_{1b}	The MIICSRDi positively represents the Islamic business operations and strategy dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1b} is supported. Islamic business operations and strategy is the most influential dimension among the MIICSRDI.
H_{1c}	The MIICSRDi positively represents the employee welfare and benefits dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1c} is supported.
H_{1d}	The MIICSRDi positively represents the philanthropic information dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1d} is supported.
H_{1e}	The MIICSRDi positively represents the organisation's strength dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1e} is supported.
H_{1f}	The MIICSRDi positively represents the good governance dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1f} is supported.
H_{1g}	The MIICSRDi positively represents the financial highlights and computation dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1g} is supported.
H_{1h}	The MIICSRDi positively represents the compliance and responsibilities dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1h} is supported.
H_{1i}	The MIICSRDi positively represents the management of sources and charity fund dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1i} is supported.
H_{1j}	The MIICSRDi positively represents the customer protection dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1j} is supported.
H_{1k}	The MIICSRDi positively represents the Islamic ethical values dimension.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1k} is supported.
H_2	There is a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders.	Results from EFA and PLS-SEM (measurement model and structural model); H_{1k} is supported.
H_{3a}	Management reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.	Results from EFA and PLS-SEM (measurement model, mediation analysis); H_{3a} is supported. Management reputation has the highest mediation. Results from VAF: management reputation has the highest partial mediation role in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

Table 7.35, continued

Hypothesis	Brief description of hypotheses	Summary of results
H_{3b}	Social reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.	Results from EFA and PLS-SEM (measurement model, mediation analysis); H_{3b} is supported. Results from VAF: social reputation partially mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

Accordingly, the 15 hypotheses have been tested. The summary of the findings in Table 7.35 shows that all of the hypotheses are supported. Next, the results of hypothesis testing are discussed further in section 7.12.

7.12 Interpretation of the results

This section presents the discussion on the findings for each research objective.

7.12.1 To establish the MIICSRDi as a reflective model for the Islamic banks in Malaysia

The hypothesis testing supports that the MIICSRDi reflects all the dimensions, namely managing the environmental issues, Islamic business operations and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlights and computation, compliance and responsibilities, management of sources and charity fund, customer protection, and Islamic ethical values for the Malaysian Islamic banks as perceived by the stakeholders. This is parallel with the previous scholars that asserted that CSR is a reflective model (Alvarado-Herrera et al., 2017; Martı´nez et al., 2014). A study by Alvarado-Herrera et al. (2017) found that CSR, which consists of social, environmental, and economic aspects, is a reflective model. A study by Garcı ́a de los Salmones et al. (2005), which adapted Carroll's model, also found that it is a reflective model.

However, the previous studies discussed in Chapter Three (see Appendix A and Table 3.2) did not find whether the remaining dimensions, specifically from the conventional and Islamic banking sector, are reflective or formative. Hence, this study contributes that the MIICSRDi as a reflective model represents all of the 11 dimensions in the Malaysian Islamic banking context. The MIICSRDi can be used as a benchmark for future research. In Chapter Three, the researcher highlighted that in a reflective model, the deletion of one item will not affect the definition of the dimension (Coltman et al., 2008). Therefore, the MIICSRDi as a reflective model can be applied to other countries as well. For example, the MIICSRDi can be applied in Indonesia and based on the *'urf* principle, if one item (e.g., managing the environmental issues) is not suitable in the Indonesian context, then the item can be deleted and it will not affect the dimension's definition.

Furthermore, the MIICSRDi shows that CSR information is beyond social information. This is in line with Carroll's (1979) model. Jain et al. (2015) and Krasodomska (2015) highlighted that from the conventional perspective, good governance is not part of CSR. However, Alamer et al. (2015), Darus et al. (2014), and Hassan and Harahap (2010) emphasised that good governance falls under CSR activities from the Islamic perspective. Previous empirical studies found that the information regarding the board members and SSB is relevant as perceived by the Muslim accountants (Muhamad et al., 2014). This information is essential so that the stakeholders will be kept informed of the leaders who run the business operation (Haniffa & Hudaib, 2007). Haniffa and Hudaib (2007, p. 102) asserted that the "confidence in the *Shariah* scholars is the bedrock of Islamic banking and any doubts concerning their integrity and ability to handle complex financial systems and keep the operation Islamic-compliant may lead to a loss of confidence in the system". Nevertheless, Hassan and Harahap (2010) stated that not all information has been disclosed by the Malaysian Islamic banks. Therefore, the management needs to improve the banks' disclosure of this information. Hence, this study contributes towards the voice of the respondents as the disclosure of good governance is essential and it is a part of MIICSRDi. Indeed, if good governance does not exist, trust issues will emerge among the stakeholders towards the leaders and the operation of the Islamic banks.

Another example is the financial highlights and computation dimension. This dimension demonstrates the figures on relevant information. It is predicted that this information reflects the CSR definition, as agreed by Bursa Malaysia Securities Berhad (2015), Carroll (1979), and Sobhani et al. (2012). The findings are also parallel with the empirical study done by Abd Rahim et al. (2011). The authors found that the respondents perceived that economic information is fundamental in influencing consumer buying behaviour. The items in the financial highlights and computation dimension include the review of financial performance and comparative financial performance in previous years, the amount of *zakat* paid and its computation, the amount related to *Shariah* non-compliant events, earnings and expenditures prohibited by the *Shariah* principles, total monetary value of fines, and the total number of non-monetary sanctions that are non-compliant with laws and regulation. This evidence implies that both types of stakeholders perceived that Islamic banks should be concerned about their financial and religious business obligations. This statement is consistent with Aribi and Arun (2015), who found that the managers of Islamic financial institutions perceived that Islamic banks have a religious and financial role that needs to be fulfilled. Islamic banks have the responsibility to run their business operation in accordance with the *Shariah* principles. On the financial side, Islamic banks manage large funds to undertake social roles (Aribi & Arun, 2015). As highlighted by Riaz et al. (2014), financial position is important to customers when choosing an Islamic bank. Carroll (1979) emphasised that the economic dimension is the most important among all the four dimensions. Based on the CSR pyramid, an organisation should prioritise its business operation by making profits and at the same time obey the law, be ethical, and be active in philanthropic activities (Carroll, 1991).

In addition, all of the hypotheses are supported by the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility) and *'urf* principle. Since PLS-SEM analysis is used to predict a theory (Hair et al., 2017) as explained in Chapter Six, the integration of the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility) and *'urf* principle can be used as a reference for the MIICSRDi. For instance, based on the stakeholder theory, the respondents demanded that all of the 11 dimensions of the MIICSRDi be disclosed in the annual report. Specifically, Khan, Halaby, and Samy (2009) found that respondents, for instance, financial analysts, managers, shareholders, employees, suppliers, and customers perceived that managing the environmental issues is important in CSR. In addition, the respondents perceived that banks have the ability to make the country green and pollution-free in many ways (Khan et al. 2009). However, a lack of environmental disclosure has been found among the banking institutions (Khan et al., 2009; Mallin et al., 2014; Nobanee & Ellili, 2016; Samina, 2012). Surprisingly, Nobanee and Ellili (2016) found that there is a low level of environmental disclosure among banks. The authors highlighted that conventional banks disclosed more environmental information in the annual report compared to Islamic banks. This contradicts the view that the environment should be emphasised as perceived by the respondents. Yusuf and Bahari (2015) agreed that the assurance of environmental sustainability is considered a fundamental criterion for CSR to make an impact on society, based on the review of previous literature and as perceived by the experts (e.g., academicians, *Shariah* advisors, directors, bank researchers of the central bank) in Islamic banking in Indonesia (Yusuf & Bahari, 2015). The lack of disclosure on environmental information is probably because the organisation does not understand the stakeholders' demand (Gunawan, 2010). Besides, many organisations are still making disclosure according to their interest, as Islamic banks in Malaysia have not yet had a special framework for CSR (Gunawan, 2010; Wan Jusoh & Ibrahim, 2017).

The results also indicate that the business operation of Islamic banks is different from that of conventional banks. This is because the MIICSRDi is also based on the *Shariah* principles (unity, equilibrium, free will, and responsibility) and *'urf* principle.

The unity principle explains that businessmen should not discriminate their employees and have to be mindful of the employees' rights (Tilt & Rahin, 2015). The results are parallel with the findings by previous scholars (Aribi & Arun, 2015; Maali et al., 2006). Maali et al. (2006) stated that having a social justice relationship with the employees is important, while providing education and training is significant as Islam encourages the act of seeking knowledge. Haniffa and Hudaib (2007) added that it is important for the employees to have adequate knowledge of the underlying Islamic banking and financial principles in order to maintain their position in the competitive banking sector. Maali et al. (2006) stressed that disclosing employee and welfare information is prominent, through which one can determine whether Islamic banks have violated the *Shariah* principles in terms of dealing with the employees. Indeed, employees are a valuable asset which should be taken care of or given consideration to (Haniffa & Hudaib, 2007; Wan Abd Rahman et al., 2011).

Furthermore, providing continuous excellent service is perceived to be important in CSR, which is in line with the principle of brotherhood and justice via equilibrium (Yusuf & Bahari, 2015). The results show that the Islamic ethical values dimension reflects the MIICSRDi. This is parallel with Carroll's (1979) theory that ethical responsibilities should fall under CSR. Carroll (1979) explained that ethical responsibilities are beyond obeying laws and regulations. Khurshid et al. (2014) elaborated that ethical responsibilities must be in accordance with the *Shariah* principles. The elements in the Islamic ethical values are the policy on qard hasan products (interest-free loan), a statement that the policy for marketing is in accordance with the *Shariah* principles, and the policy for providing continuous excellent services to the customers.

Meanwhile, managing the environmental issue is related to the free will principle. This principle indicates that a business person can choose to act either ethically or unethically for the environment. In this situation, the respondents perceived that Islamic banks should protect the environment and disclose all the environmental items in the annual report. This result is parallel with the study done by the previous scholars (Hassan & Harahap, 2010; Maali et al., 2006; Muhamad & Muwazir, 2008) who stated that for Islamic banks, the environmental dimension should be categorised under CSR. Maali et al. (2006) elaborated that although Islamic banks would not cause direct harm to the environment since the destruction of the environment will always be linked to the industries, the Islamic banks should not assist in financing activities for projects that may cause harm to the environment. Another reason is that Islam prohibits humans from destroying the physical environment, which is believed to have great impacts on society.

Meanwhile, from the responsibility perspective, it is important for Islamic banks to review potential customers and suppliers, complaints, and actions taken on suppliers which are non-*Shariah* compliant. As a trustee, a person is obliged to take care of and manage the shareholders' financial resource and society's economic resource to his best capabilities (Dusuki, 2008b; Wan Jusoh et al., 2015). This is because a person must fulfil two layers of responsibilities, which are the responsibility to *Allah* and the responsibility to society and the environment (Muhamad & Muwazir, 2008; Rashid et al., 2013). Wan Jusoh et al. (2015) added that in order to be responsible, a person must comply with the principle of "enjoining good and forbidding evil". This is done to attain the blessing of *Allah* and to achieve success in this world and the Hereafter. For instance, Islamic banks are expected to screen their potential customers and suppliers before conducting a business transaction. This is because, if the Islamic banks accept customers that are involved in gambling business operation and other unlawful activities, the Islamic banks will indirectly be affected, if not in this world, then in the Hereafter. Besides, Islamic banks should not accept potential customers or deal with suppliers that will cause harm to the environment.

This study also supported the *'urf* principle. This is because respondents from different countries perceive the disclosure of the employee dimension differently. In particular, Fatma et al. (2014) found that employees perceived that the item regarding employee safety at the workplace is fundamental in measuring CSR activities in the Indian banking sector. Aribi and Arun (2015) realised that there is limited employee information in the annual report of IFIs in Bahrain because it is voluntary information. Conversely, Wan Abd Rahman et al. (2011) and Yam (2013) discovered that employee information is the second most important CSR theme in Malaysia. In particular, Bani et al. (2015) stressed that the managers of Islamic banks in Malaysia perceived that employee information on attending training is essential under the CSR. Furthermore, Muhamad et al. (2014) discovered that Muslim accountants in Malaysia perceived that employee information reflects Islamic corporate social reporting. Thus, it shows that in Malaysia, disclosing employee information and welfare benefits is fundamental in representing the MIICSRDi. Again, this is in line with the *'urf* principle, which indicates that different places have different practices. Chaudary et al. (2016) asserted that culture plays an important role in integrating CSR activities.

Lastly, the results from research objective one demonstrate that the Islamic business operations and strategy dimension is the most influential dimension. It consists of information on the products and services of Islamic banks, a general statement on CSR that is in line with the *Shariah* principles, and *zakat*-related information that is guided by the *Shariah* principles. The previous studies shown in Appendix A did not include this dimension under CSR. Nevertheless, the empirical study by Muhamad et al. (2014) agreed that this dimension is under CSR. However, the present study is different from the study done by Muhamad et al. (2014) because this study took into account the perceptions of employees and customers in relation to CSR in the Islamic banking context. Meanwhile, Muhamad et al. (2014) only conducted a factor analysis to extract the main dimensions of Islamic CSR as perceived by the Muslim accountants in Malaysia.

7.12.2 To examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders

This section answers research objective two, which is to examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. In general, the finding proves that there is a positive and significant relationship between the MIICSRDi and financial performance as perceived by the stakeholders. This finding is consistent with the previous literature (Ahamed et al., 2014; Jin & Drozdenko, 2010; Mallin et al., 2014; Platonova et al., 2016; Saleh et al., 2011; Waddock & Graves, 1997).

Similarly, Taghian et al. (2015) agreed that the adoption of CSR as one of the organisation's business strategies will enhance the performance of the organisation. This finding is consistent with the study done by Qiu et al. (2016), which found that the disclosure of social and environmental information is seen as part of the business approach that aims to increase non-financial and financial performance. Haniffa and Cooke (2005) indicated that Malaysian companies use the annual report as a strategy tool to improve the organisations' image and legitimise their activities.

Although previous studies found the existence of a positive relationship between CSRD and financial performance, different methodologies were used in their studies. Most of the studies used the content analysis method (Mallin et al., 2014; Zaki et al., 2014). Conversely, the empirical study done by Aupperle et al. (1985) found that there is no significant relationship between CSR and corporate profitability. Hence the authors proposed a study that uses other methods to assess the relationship by using employees' perceptions rather than CEOs' perceptions. Thus, in the present study, the researcher took into account the perceptions of employees and customers. The reasons for using perception rather than assessing the actual financial performance have been discussed in Chapter Three, Sections 3.2.4 and 3.3.4. The positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders is expected, as the middle managers from the *Shariah*, Finance, and Corporate Communication departments and the branch managers are more familiar with the internal operations and foresee that the disclosure of CSR information will increase the financial performance of Islamic banks. This study is in line with Lee et al. (2013) and Lindgreen, Swaen, and Johnston (2009). Lee et al. (2013) found the existence of a statistically significant relationship between CSR activities and performance as perceived by employees. According to Lindgreen et al. (2009), managers perceived that CSR activities related to philanthropy and the environment have a positive relationship with organisations' performance. Thus, this indicates that the managers realised the importance of CSR in reaching out towards the stakeholders, which can increase the profit of the company and improve the chance of business survival in the long run (Lindgreen et al., 2009). Similarly, previous studies found that there is a positive relationship relating to customers' perception (Chaudary et al., 2016).

The integrated theories, as mentioned earlier in Chapter Four, support the findings. The stakeholders perceived that the MIICSRDI with the integration of the theories which are stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility) and *'urf* principle can enhance the financial performance of Islamic banks. Consequently, the finding is parallel with the stakeholder theory which explains the stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman, 1984, p. 46). Galant and Cadez (2017) echoed that the better the organisation manages its relationship with the stakeholders, the higher the profits to be generated by the organisation. In detail, stakeholder theory highlights that any organisation which attends to the needs of the stakeholders will have better financial performance (Berrone, et al., 2007; Donaldson & Preston, 1995; Platonova et al., 2016). Furthermore, the stakeholder perspective views the organisation as being at the centre of a network of relationships with various other incorporate stakeholders such as the shareholders, consumers, employees, business partners, governments, media, local communities, and the environment (Neville, Bell, & Mengüç, 2005). Thus, the views of the stakeholders via employees and customers are fundamental in achieving sustainability in the long run. Arshad et al. (2012) supported the view that an organisation needs to develop a stakeholder orientation, whereby the organisation should meet the demands of multiple stakeholders. The authors proposed that Islamic CSRD can be used as a strategic tool to strengthen the stakeholder relations and support the organisation, which in turn will increase the firm's performance. Indeed, customers' perception is deemed to be important (Lou & Bhattacharya, 2006) as customers are concerned about CSR initiatives, which is in accordance with the stakeholder theory.

Berman et al. (1999) justified how sound customer relationship management will have a significant impact on financial performance. For instance, by meeting the demands of the customers such as providing information that the Islamic banks follow the rules and guideline of the *Shariah* principles, it will lead to customer satisfaction, trust, and confidence towards the Islamic banks (Ali & Raza, 2015; Naser et al., 1999; Muhamad et al., 2012; Osman, Ali, Zainuddin, Wan Rashid, & Jusoff, 2009). Besides, Dusuki and Abdullah (2007) found that customers perceived that good quality service (e.g. handling customer complaints) will establish a good reputation and influence their selection of the banks. In addition, customers would also want to be informed of who is running the business operation in order to make them feel secure (Haniffa & Hudaib, 2007). Besides, the disclosure of employee information might attract customers to join the Islamic banks as employees. Indirectly, such disclosure will attract customers to deal with the Islamic banks, hence enhancing the financial performance of the banks.

Given that employees are involved in the organisation and they contribute towards the success of the organisation, fostering a good relationship with the employees is also important. For example, motivated employees may spread positive facts about the organisations, become loyal to the organisation, and have better productivity, resulting in higher organisational performance (Taghian et al., 2015). Furthermore, information regarding employee diversity is prominent in the MIICSRDi (Darus et al., 2014;

Krasodomska, 2015). Mayer, Warr, and Zhao (2017) added that the act of providing information on employee diversity would enhance the innovation of the organisation.

This study used Islamic measures of CSR and financial performance that are in accordance with the *Shariah* principles and *'urf* principle. This is because previous empirical studies used conventional CSR measures and similar or broader measures of financial performance to examine the relationship between CSR, CSRD, and financial performance (Aupperle et al., 1985; Brammer et al., 2006; Saleh et al., 2011; Vance, 1975). The *Shariah* principles aim to promote economic and social welfare as well as to achieve barakah and success in this world and the Hereafter (Haniffa & Hudaib, 2002). This is in line with the *tazkiyah* principle, whereby a person is expected to do the best in his life, including gaining material possessions and fulfilling his worldly needs, all of which are in line with the *Shariah* principles (Sulaiman & Willet, 2003; Muhamad, 2006).

Meanwhile, in line with the *'urf* principle, the measurements of CSR and financial performance are in accordance with the environment of the dual banking system in Malaysia. This is consistent with Singhapakdi, Karande, Rao, and Vitell (2001), who stated that the variations in perceptions can be explained by the differences among countries in terms of culture, economic environment, and legal and political environment. Singhapakdi et al. (2001) added that there are country differences in perceiving ethics and social responsibility towards attaining organisational effectiveness including profit. Lee et al. (2013) highlighted the importance of culture whereby the organisation should strengthen its CSR capabilities and the content of the CSR activities should be consistent with its culture. Meanwhile, Chaudary et al. (2016) found that customers perceived CSR to be impactful on financial performance. However, the authors highlighted that CSR activities should be integrated with culture since spending on CSR activities without giving due consideration to the cultural element is a waste of money. Hence, the results implied that firms should explore the needs and demands of the customers early on. Lee et al. (2013) explained that corporate performance will be higher if the firm is concerned about the CSR activities that it has engaged in and the culture from the employees' perception. This is consistent with the *'urf* principle, which is a traditional way of behaving or doing something in a particular place, time, or society. The *'urf* principle is a custom, which is to say, part of the culture. The *'urf* principle clarifies that the MIICSRDi is able to meet the employees' and the customers' needs and demand, which action is likely to increase financial performance. This implies that Islamic banks need to communicate about their CSR activities in a transparent and consistent manner (Bhattacharya et al., 2008).

In this study, culture refers to the Malaysian banking environment. Thus, *'urf* plays a prominent role in the Malaysian financial market, especially in the Islamic banking sector. It is highlighted that the *'urf* principle is the product of the nature of people and their culture (Hallaq, 2009)

7.12.3 To examine the mediation role of corporate reputation in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders

The EFA and CFA results confirmed that there are two dimensions of corporate reputation as perceived by the stakeholders, which are management reputation and social reputation. This result is in line with the findings by Schultz, Mouritsen, and Gabrielsen (2001). However, the study by Shultz et al. (2001) was based on the Danish ranking system. In addition, the authors stated that reputation changes over time. Therefore, the present study contributes to the knowledge of corporate reputation in the Malaysian Islamic banking context.

The results indicate that management reputation and social reputation partially mediate the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. This is because stakeholders perceived that there is a positive relationship between the MIICSRDi and financial performance. In other words, the MIICSRDi accelerates financial performance. It is also worth noting that a positive management reputation and social reputation can act as a cushion when there is sudden market panic (Jones, Jones, & Little, 2000). Management reputation is focused on internal aspects of the business operations, such as the products and services comply with the *Shariah* principles, maintaining sustainability, showing excellent leadership, pursuing a strong prospect for future growth, and providing a positive working environment to the employees that comply with relevant laws and regulations. Meanwhile, social reputation represents the way Islamic banks portray themselves as socially responsible organisations that organise charity events. Indeed, most of the Islamic banks conduct social activities such as charity, environmental campaign, *zakat*, human capital, and community development (Mohd Nor & Hashim, 2014).

The findings that corporate reputation plays a partial mediating role is in line with the previous scholars (e.g., Park, 2017). Meanwhile, Galbreath and Shum (2012) found that management reputation fully mediated the relationship between CSR and financial performance. Previous studies considered reputation as a mediator but the relationship was examined with different variables. For example, Arikan et al. (2016) found that management reputation fully mediated the relationship between CSR and organisation commitment, employee satisfaction, investors' loyalty, purchase intention, and the intention to seek employment. Besides, the empirical study conducted by Mohd Nor and

Hashim (2014) found that managers perceived that the emphasis on social events will create a good image and increase the level of awareness about CSR. Hence, the enhancement of social reputation leads to a positive relationship between CSRD and financial performance.

Furthermore, stakeholders perceived that management reputation has a higher partial mediation effect in the relationship between the MIICSRDi and financial performance. Therefore, Islamic banks will be able to enhance their financial performance when they are focused on management reputation. This is consistent with the study by Schultz et al. (2001), which found that management reputation was more prominent than social reputation as perceived by the stakeholders in Denmark.

Therefore, referring to the signalling theory, Islamic banks should focus more on the internal aspects of the business operations. Hence, this information will provide a signal to the stakeholders, who in turn will a have a positive perception (Connelly et al., 2011; Fombrun & Shanley, 1990; Galbreath & Shum, 2012).

According to Lai et al. (2010), managers must pay attention to reputation in order to improve the financial performance of the company. The authors reminded that reputation can be easily demolished once it is tarnished. This is consistent with the suggestion by Raithel and Schwaiger (2015) that a firm should cater to the demands of employees and customers by focusing on the non-financial aspect of reputation, such as product and service quality, convenient workplace environment, and engagement in social responsibility activities. This is because the respondents perceived that a good management reputation will lead to a significant positive relationship between CSRD and financial performance. Hence, a good reputation may attract customers to establish a relationship with the bank. Moreover, a good reputation arising from good employee management will motivate the employees to increase their productivity (Rose & Thomsen, 2004).

7.13 Summary and conclusion

This chapter has presented an analysis of the results and explained the response rate for the survey questionnaire distributed. Besides, data examination and preliminary data analysis have been discussed in order to determine the number of usable data to be analysed. The profile of the respondents comprising the employees and customers has been summarised. Furthermore, the descriptive statistics for the MIICSRDi, perceived financial performance, and perceived corporate reputation have been presented. Besides, MGA analyses have been run in order to determine the need to conduct a separate analysis. The results revealed that there is no significant difference in the perceptions of the employees and customers pertaining to the MIICSRDi, financial performance, management reputation, and social reputation. In summary, it was evident that a separate analysis was not required for both the employees and the customers. In addition, the results showed that there is no significant difference between the four types of Islamic banks regarding the perceptions of MICSRDi, financial performance, management reputation, and social reputation. The hypothesis testing proves that the MIICSRDi is a reflective model which presents 11 dimensions. Moreover, there is a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders. Besides, the results show that both management reputation and social reputation mediate the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. Management reputation has a higher partial mediation effect compared to social reputation. In addition, the model is shown to have predictive relevance (Q^2), which means this research model can be tested in other contexts. The next chapter presents the summary and conclusion of this study.

CHAPTER EIGHT: SUMMARY AND CONCLUSION

8.1 Introduction

This research aimed to establish the MIICSRDi as a reflective model for the Malaysian Islamic banking sector. In particular, this study examined the influence of the MIICSRDi on financial performance as perceived by the stakeholders. In addition, this study sought to determine the role of corporate reputation, namely management reputation and social reputation as a mediator in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. This study narrowed down its scope to the Malaysian Islamic banking context.

The collapse of the world's largest banks has shed uncertainties on the sustainability and stability of the financial industry (Jan & Marimuthu, 2015). Moreover, the current challenges in the global financial industry have affected the performance of the financial industry, including Malaysian Islamic banks (IFSB 2015, 2016, 2017). Indeed, Islamic banking is still a niche market. However, Islamic banks are the leading sector in the IFSI. Islamic banks could promote financial inclusion and real economic activities (BNM2015a; BNM2015b). To remain successful in the sector, key reports and previous literature suggested that Islamic banks should be involved in CSR activities and disclose such activities in the annual report (EY, 2013; SCM, 2011; Darus et al., 2014; El-Halaby & Hussainey, 2015; Platonova et al., 2016). Previous literature claimed that CSRD will enhance the business performance of Islamic banks in terms of financial performance (Arshad et al., 2012; Mallin et al., 2014; Platonova et al., 2016) as well as their corporate reputation (Bayoud et al., 2012; Roberts & Dowling, 2002; Taghian et al., 2015).

However, there is an absence of an Islamic CSR framework created for Islamic banks in Malaysia (Wan Jusoh et al., 2015; Wan Jusoh & Ibrahim, 2017). Hence, Wan Jusoh and Ibrahim (2017) asserted that it is necessary to establish an Islamic CSR framework for the Islamic banks in Malaysia. In addition, very few empirical studies have been conducted on the perceptions of Islamic CSRD.

Several studies have been done to determine the relationship between CSRD and financial performance but using different measurements and methods (e.g., Esteban-Sanchez et al., 2017; Saleh et al., 2011; Zaki et al., 2014). Previous scholars asserted that there is a weak positive relationship between CSR and financial performance (Abdullah & Abdul Aziz, 2013; Galbreath & Shum, 2012; Janggu et al., 2007; Saeidi et al., 2015). Hence, this relationship should be incorporated with other intervening variables such as corporate reputation (Galbreath & Shum, 2012; Saeidi et al., 2015). However, there is scant research focusing on reputation as a mediator in the relationship between CSRD and financial performance (e.g., Arikan et al., 2016; Galbreath & Shum, 2012). Therefore, it is justified to use corporate reputation as a mediator in this study.

This chapter consists of eight sections. Section 8.2 presents a summary of the research findings. Section 8.3 provides the discussion on the items that relate to the most important dimension, which is the Islamic business operation and strategy dimension. Section 8.4 explains the contributions to the theoretical knowledge followed by the implications on practice in Section 8.5. Next, Section 8.6 elaborates the limitations of the study. Recommendations for further research are discussed in Section 8.7. Finally, Section 8.8 provides the conclusion for this study.

8.2 Summary of the research findings

Prior to analysing the data, this study conducted MGA because a selected sample of employees and customers was chosen to represent the internal and external stakeholders. Thus, the MGA from the PLS-SEM analysis was employed to determine whether there is any significant difference in the perceptions between the two groups of stakeholders. The MGA results revealed that there is no significant difference in perceptions between the employees and customers. In addition, an analysis of the four types of Islamic banks was done, which shows that there is no significant difference among the four types of Islamic banks in terms of employees' and customers' perceptions. Therefore, the results indicate that the MIICSRDi, financial performance, and corporate reputation can be perceived by both internal and external stakeholders who can influence the performance of the organisations (Clarkson, 1995; Hallowell, 1996; Wallace et al., 2013).

In summary, the findings of this study have established the MIICSRDi with 11 dimensions and 47 items as a reflective model. The findings indicate that the MIICSRDi influences financial performance with corporate reputation as a partial mediator as perceived by the stakeholders. This section explicates the key findings from the study based on the research objectives. This study was driven to achieve the following research objectives:

1. To establish the MIICSRDi as a reflective model for the Islamic banks in Malaysia.

2. To examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

3. To examine the mediation role of corporate reputation in the relationship between the MIICSRDi and financial performance as perceived by the stakeholders.

8.2.1 The MIICSRDi as a reflective model for the Malaysian Islamic banks

The first objective of this study is to establish the MIICSRDi as a reflective model for the Malaysian Islamic banking sector. The results of the content validation and EFA, which were presented in Chapter Five, proposed that there are 11 dimensions and 52 items of the MIICSRDi based on the stakeholder theory, *Shariah* (unity, equilibrium, free will, and responsibility) and the *'urf* principle. EFA was conducted based on 165 employees of Islamic banks in Malaysia, leading to the deletion of seven items. The remaining 52 items were categorised into 11 dimensions, namely managing the environmental issues, Islamic business operation and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlights and computation, compliance and responsibilities, management of sources and charity fund, customer protection, and Islamic ethical values.

The CFA using PLS-SEM analysis as described in Chapter Four led to the further deletion of five items, resulting in 47 MIICSRDi items. The analysis depicted that the MIICSRDi is a reflective model with 11 dimensions. In relation to this, the Islamic business operations and strategy dimension obtained the highest beta (ß = 0.770). It shows that the items relating to products and services, *zakat*, and the general statement of CSR being guided by the *Shariah* principles should be disclosed.

8.2.2 The relationship between the MIICSRDi and financial performance as perceived by the stakeholders

The second objective of this study is to examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. As noted earlier, CSRD has a positive and significant relationship with financial performance (e.g., Ahamed et al., 2014; Jin & Drozdenko, 2010; Mallin et al., 2014; Platonova et al., 2016; Saleh et al., 2011; Waddock & Graves, 1997). In this study, the underlying theory used is the stakeholder theory and Islamic philosophical foundation which includes the *Shariah* principles (unity, free will, equilibrium, responsibility, and *tazkiyah*) and the *'urf* principle. The theory which suits the Malaysian Islamic banking context was employed to examine the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. Subsequently, this study applied the survey method and PLS-SEM analysis to validate the objective.

The findings in Chapter Seven show that there is a significant positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders. The results obtained from the PLS-SEM analysis (ß = 0.169, $t = 2.803$, $p < 0.01$) portray the stakeholders' perception that the MIICSRDi influences the financial performance of Islamic banks in Malaysia.

In addition, the findings are in line with the stakeholder theory, whereby the financial performance of the organisation will be accelerated whenever the organisation fulfils the needs of the stakeholders (Berrone, et al., 2007; Donaldson & Preston, 1995; Platonova et al., 2016). Furthermore, the findings show that the MIICSRDi, which is based on the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, and responsibility), and the *'urf* principle can be employed to improve the financial performance of Islamic banks. In fact, the MIICSRDi leads to growth and purification, and therefore, is in line with the *tazkiyah* principle. Sulaiman and Willet (2003) and Muhamad (2006) asserted that every human being is expected to do the best in his life, obtain a better material life, and satisfy the worldly needs which must be in line with God's rule.

8.2.3 Corporate reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders

The third objective of this study is to examine whether corporate reputation mediates the relationship between the MIICSRDi and financial performance as perceived by the stakeholders. The results of the content validation and EFA, which were presented earlier in Chapter Five, proposed that there are two dimensions of corporate reputation, which are management reputation and social reputation.

Management reputation in this study implies that Islamic banks show a strong prospect for future growth, provide a positive working environment to the employees, maintain sustainability, manifest excellent leadership, comply with relevant laws and regulations, and offer products and services that comply with the *Shariah* principles. This is parallel with the findings by Schultz et al. (2001), who use the term "corporate concern". Meanwhile, social reputation portrays the social act of the Islamic banks that are involved in philanthropic activities, which is also in line with the findings by Schultz et al. (2001) on social concern.

Schultz et al. (2001) and Neville et al. (2005) asserted that reputation is all about perception. Thus, the signal received by the stakeholders (employees and customers) from the MIICSRDi helps the particular stakeholders perceive that the reputation of the Islamic bank has increased. In addition, the signal received also helps the stakeholders perceive the financial performance based on signalling theory. The MIICSRDi is able to signal to the stakeholders to perceive management reputation and social reputation as well, where an affirmative signal leads to a positive perception.

According to signalling theory, the signaller (e.g. person, product, or organisation) sends a signal (either positive or negative communication) to the receivers (parties who observe and interpret the signal, e.g. employees, customers) who consequently utilise the signal to provide feedback to the signaller (Connelly et al., 2011). As such, Islamic banks provide the MIICSRDi as a signal to the receivers (employees and customers) from which the receivers make judgements and respond accordingly.

Besides, PLS-SEM analysis was applied to answer the research objective and hypothesis. The findings in Chapter Seven reveal that management reputation mediates the relationship between the MIICSRDi and financial performance. In fact, based on the beta result (ß = 0.178, t = 4.5681, $p < 0.01$), management reputation has a higher mediation effect compared to social reputation. Specifically, the VAF result shows that the magnitude is 63.58%. Nitzl et al. (2016) suggested that VAF between 20% and 80% can be categorised as partial mediation. Hence, the results imply that management reputation is a partial mediator in the relationship between the MIICSRDi and financial performance. The results also imply that the MIICSRDi can be signalled to the employees and customers to increase their perception towards management reputation and social reputation, which will increase the perceived financial performance of the Islamic banks.

8.3 Discussion

Firstly, it was found that there is no significant difference between the two selected representatives of internal (employees) and external (customers) stakeholders in terms of their perceptions towards the MIICSRDi, financial performance, management reputation, and social reputation. Thus, it is not necessary to conduct a separate analysis between the employees and customers. Also, there is no significant difference between the four types of Islamic banks in terms of employees' and customers' perceptions. Therefore, there is no need to conduct a separate analysis for the four types of Islamic banks.

Secondly, as discussed earlier in Chapter Three, disclosing CSR activities will enhance the business performance of Islamic banks in terms of corporate reputation and financial performance. Furthermore, the Malaysian government supports the disclosure of CSR activities, and based on the Islamic perspective, Islamic banks have an obligation to disclose their CSR activities. Nevertheless, there is an absence of an Islamic CSR framework for Islamic banks in Malaysia. Therefore, this study established the Islamic CSR framework as a reflective model for the Islamic banks in Malaysia. EFA identified 11 dimensions for the MIICSRDi that can be administered in the Islamic banking sector in Malaysia. These 11 dimensions are managing the environmental issues, Islamic business operation and strategy, employee welfare and benefits, philanthropic information, organisation's strength, good governance, financial highlights and computation, compliance and responsibilities, management of sources and charity fund, customer protection, and Islamic ethical values. Among the 11 dimensions, the Islamic business operation and strategy dimension was found to be the most important dimension based on the PLS-SEM analysis. Accordingly, this section discusses the items related to the Islamic business operation and strategy dimension.

Three items represent the Islamic business operations and strategy in this research, which are the information on the products and services of Islamic banks, the general statement that the CSR activities are in line with the *Shariah* principles, and *zakat*-related information.

The information about products and services is important for the stakeholders because it creates awareness. Shah et al. (2016) supported that public awareness regarding products and services is needed. Accordingly, Muhamad and Muwazir (2008) stressed the importance of product information to the customers whereby the information must be transparent, in line with the *Shariah* principles, and obtain the approval of the SSB. Previous empirical studies found that products and services information was disclosed in the annual report (Mallin et al., 2014; Rashid et al., 2013). Managers also perceived that it is important to disclose information on product types and features, and it falls under the category of CSR (Bani et al., 2015). Innovative product information, in particular, is disclosed by the Islamic banks in the Arabic Gulf region, Bangladesh, and Malaysia (Rashid et al., 2013). Khan (2013) stated that providing innovative products which are in line with the *Shariah* principles is important for the organisations to remain successful and competitive in the long run.

Besides, the respondents perceived that the general statement that CSR is guided by the *Shariah* principles falls under the dimension of Islamic business operations and strategy, and hence, should be included in CSR. It shows that the respondents were concerned that the operations of Islamic banks should follow the *Shariah* principles. Aribi and Gao (2010) explained that the disclosure should mention the name of *Allah* and His Prophet Muhammad (*SAW*), praise *Allah*, state the verses from the *Quran*, and commit to Islamic values and ethical conduct. These findings are consistent with the results of the study done by Lee and Ullah (2011), which found that customers preferred the Islamic banks that are guided by the *Shariah* principles. Aribi and Gao (2011) found that some of the Islamic banks disclosed such themes to show that their banks are involved or intended to be involved in CSR activities that are in compliance with the *Shariah* principles. In relation to this, Sobhani et al. (2012) found that the general statement about CSR was mainly disclosed in the annual report, but not on the corporate website of any of the Islamic banks. This shows that this item is important to be included in the annual report and depicted under the CSR construct.

Zakat-related information also falls under the Islamic business operations and strategy dimension. This is because *zakat* is one of the five pillars of Islam. The purpose of *zakat* is to redistribute wealth to the poor (Kamla & Rammal, 2013). Sairally (2013) commented that Islamic financial practitioners perceived that *zakat* should be categorised under CSR. Therefore, all *zakat*-related information should be disclosed in order to please the customers and also because it is part of the religious conviction (Muhamad et al., 2012). This disclosure is agreed by Usman, Tjiptoherijanto, Balqiah, and Agung (2017), who stated that religious information indirectly affects the selection of Islamic banks. Although the authors stated that Islamic banks should not rely on religious sentiment, any separation between the two is not possible as Islamic banks are established in accordance with the *Shariah* principles. As a result, the operations of Islamic banks need to comply with the *Shariah* principles. Parallel to this, Osman et al. (2009) found that customers preferred Islamic banks to pay *zakat*. Therefore, it shows that *zakat*-related information is important to be disclosed in the annual report. Managers of Islamic banks also assured that *zakat* is a prominent feature of CSR (Aribi & Arun, 2015).

Thirdly, in this study, the positive relationship between the MIICSRDi and financial performance as perceived by the stakeholders shows that CSR should be integrated with culture (Chaudary et al., 2016; Lee et al., 2013); stakeholders' demand should be made a priority (Chaudary et al., 2016; Lee et al., 2013; Lindgreen et al., 2009); and the belief from the Islamic perspective that Islam allows growth and purification in relation to the *tazkiyah* principle. In particular, the *tazkiyah* principle indicates that if a businessman works hard in accordance with God's rule, he will be able to accelerate the growth of the organisation.

Fourthly, this study found that the stakeholders perceived management reputation to be more important than social reputation. Therefore, Islamic banks should focus more on the internal aspects and business operations such as by offering products and services that comply with the *Shariah* principles, maintaining sustainability, showing excellent leadership, pursuing a strong prospect for future growth, and providing a positive working environment to the employees that complies with relevant laws and regulations.

In terms of showing excellent leadership and a strong prospect for future growth, Naser, Al Salem, and Nuseibeh (2013) agreed that customers choose Islamic banks due to their confidence in the Islamic banks' management and the existence of the *Shariah* Supervisory Committee. Regarding compliance with rules and regulations, customers are likely to support Islamic banks' policy that is in line with the *Shariah* principles (Muhamad et al., 2012; Naser et al., 1999). Osman et al. (2009) also agreed that customers prefer banks that follow the rules and guideline of the *Shariah* principles. It is interesting to note that customers in Malaysia prefer Islamic banks, as the banks suit their religious values and principles. In a similar vein, customers have more confidence and trust in the Islamic banks that comply with the *Shariah* principles (Naser et al. 1999). The results of this study implied that the respondents emphasised on the *Shariah* principles, which Islamic banks must comply with. Similarly, Metawa and Almossawi (1998) stated that adherence to *Shariah* principles is the main factor that influences customers to choose

Islamic banks. Therefore, it shows that Islamic banks should focus on strategizing their business operations in order to build up their reputation.

8.4 Contribution to theoretical knowledge

From the methodological perspective, this study contributes towards the measurement of each variable (MIICSRDi, financial performance, and corporate reputation) that is suitable to be applied within the context of Malaysian environment. This is because the Malaysian environment consists of a dual banking system as well as a multireligious and multiracial population. Hence, it is necessary to cater to their demands and needs especially in the establishment of the MIICSRDi so that the Islamic banks can compete with the conventional banks and sustain in the industry. Accordingly, the variables (MIICSRDi, financial performance, and corporate reputation) were validated by the expert panel, EFA, and CFA as perceived by the Malaysian stakeholders (employees and customers). Therefore, the contributions of the measurements for the MIICSRDi, financial performance, and corporate reputation are addressed in the next paragraph.

First, this study contributes to the establishment of the MIICSRDi as a reflective model for the Malaysian Islamic banks. Previous studies on conventional banks and Islamic banks did not provide empirical evidence that the Islamic CSR framework is a reflective model (e.g., see Appendix A and Table 3.2). Notably, the reflective and formative models identified previously were only focused on conventional CSR (Fortanier et al., 2011; Martı´nez et al. 2014; Mohd Isa & Reast, 2014). Therefore, this study is different from the previous studies, as this study was designed to establish an Islamic CSR framework as a reflective model for the Malaysian Islamic banks. In addition, the MIICSRDi can be used in different countries. This is because in the reflective model, changes to one item will not affect the dimension in the reflective model; hence, potential scholars can use the

MIICSRDi in their countries, e.g., Indonesia. Even if one of the MIICSRDi items is not suitable to be used in the Indonesian context, the MIICSRDi can still be applied.

In addition, it has been proven that the MIICSRDi is not only concerned with social activities but contains other information, such as Islamic business operation and strategy, employee welfare and benefits, organisation's strength, good governance, financial highlights and computation, compliance and responsibilities, customer protection, and Islamic ethical values. It consists of 11 dimensions and 47 items as perceived by the Malaysian stakeholders. The study discovered that the Islamic business operations and strategy dimension is the strongest among all the MIICSRDi dimensions as perceived by the employees and customers. The results imply that the Islamic business operations and strategy dimension, which consists of a general statement on corporate social responsibility (CSR) that is guided by the *Shariah* principles, *zakat*-related information, a brief description of products and services that are in line with *Shariah* principles, and introduction and description of new, innovative products and services that are in line with the *Shariah* principle, is crucial and needs to be included in the MIICSRDi. The findings prove that Islamic banks and conventional banks are different in terms of applying the *Shariah* principles in their operations. The MIICSRDi is enclosed in Appendix L.

Second, the questionnaire developed for the financial performance measurement can be applied in the Malaysian Islamic banks' context. This is because previous studies found that financial measurements are varied (Murphy et al., 1996; Venkatraman & Ramanujam, 1986). In addition, this study used a survey questionnaire to test the impact of the MIICSRDi on financial performance as perceived by the stakeholders. Since there is limited research that examined the impact of CSRD in the Islamic banking context (e.g., Arshad et al., 2012; Kamrujjaman & Uddin, 2015; Mallin et al., 2014; Mosaid &

Boutti, 2012; Samina, 2012; Tuhin, 2014; Wan Yusoff et al., 2013), this study took the challenge to close this research gap. Furthermore, the previous studies aforementioned were conducted using the content analysis method based on data from the annual reports. If the analysis was done solely based on secondary data without the involvement of internal and external stakeholders, it might cause inexact perceptions (Wood & Jones, 1995). Hence, this study used a different methodology which is a survey questionnaire to look at the perceptions of employees and customers of Islamic banks. In addition, the application of perceived financial performance was taken to avoid manipulation of data (Kirkos et al., 2007), to avoid difficulties in external interpretation and data aggregation (Venkatraman & Ramanujam, 1986), to focus on the strategy and entrepreneurship fields' interest in the development in the future (Carton & Hofer, 2006), and the usage of subjective measures for financial performance aims to reduce the measurement error as the independent variable (MIICSRDi) and mediator (corporate reputation) both used the survey questionnaire and accurate, objective measures are unavailable for the last item (e.g., growth) (Dess & Robinson, 1984). Consequently, the measurements used are suitable for subjective evaluation based on employees' and customers' perceptions in order to prevent stakeholder mismatch (Wood & Jones, 1995). Venkatraman and Ramanujam (1986) agreed that the survey questionnaire for financial performance can be applied to both corporate and strategic business unit levels of analysis.

Third, the EFA analysis showed that corporate reputation has two dimensions that are deemed important in the Malaysian Islamic banking sector, which are management reputation and social reputation. This is in line with the study done by Shultz et al. (2000) but in the Danish context. Consequently, this study is unique because it confirmed the corporate reputation items using the CFA conducted under PLS-SEM analysis.

From the theoretical perspective, the PLS-SEM analysis supports the integration of the theories to explain the relationship between the MIICSRDi, financial performance, and corporate reputation as perceived by the Malaysian stakeholders (employees and customers). Particularly, the establishment of the MIICSRDi and the relationship with the financial performance made reference to the stakeholder theory, *Shariah* principles (unity, equilibrium, free will, responsibility, and *tazkiyah*), and the *'urf* principle. Meanwhile, the underlying theory used to examine corporate reputation as a mediator is the signalling theory. The integration of the theories which include the Islamic worldviews implies that there are differences between the business operations of Islamic banks and conventional banks. For example, the good governance dimension is not part of CSR in conventional banking (Jain et al., 2015). However, the reference from the Islamic banking literature and *Shariah* principles agreed that good governance is categorised under CSR. Another example is the literature on conventional banking advocated that organising financial literacy programmes is part of CSR. However, the Islamic banking literature did not include organising financial literacy programme under CSR. Therefore, by referring to the stakeholder theory and *'urf* principle, the researcher considered organising financial literacy programme as part of the MIICSRDi as it is demanded by the Malaysian stakeholders, and Bursa Malaysia Berhad advocates that public listed companies in the financial sector must disclose their financial literacy programmes. Therefore, it is necessary to integrate the theories in order to establish a comprehensive MIICSRDi in the Malaysian Islamic banking context. In addition, since PLS-SEM supports the integrated theories in explaining the relationship among the variables (MIICSRDi, financial performance, and corporate reputation) in the analysis of predictive relevance (Q^2), the model can be applied in other contexts. Figure 8.1 illustrates the integration of the theories in this study. Furthermore, the MIICSRDi dimensions and items are enclosed in Appendix P.

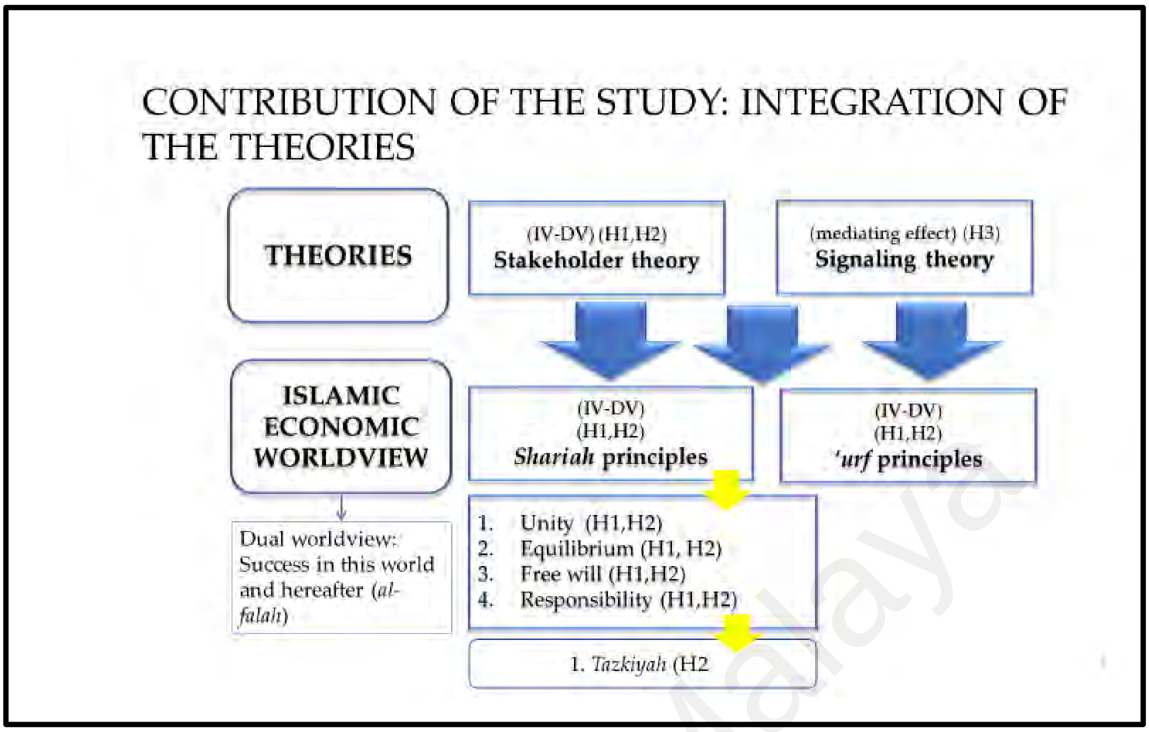


Figure 8.1: Contribution of the study- Integration of theories

8.5 Implications for practice

The MIICSRDi provides practitioners with a reliable and valid instrument that can guide organisations in the involvement in CSR activities and disclosure of such activities in the annual report. It is based on legitimate perceptions of both internal and external stakeholders. The implementation of the MIICSRDi can be used as a business strategy towards enhancing the performance of Islamic banks (Arshad et al., 2012; Qiu et al., 2016; Tuhin, 2014). Hence, the MIICSRDi can be used as a strategic tool in the operations of Islamic banks. In addition, Mohd Nor, Abdul Rahim, and Che Senik (2016) stated that social banking can be done by internalising the existing Islamic banks. For example, the existing Islamic banks can enhance economic development by incorporating the low-income earners, small-medium enterprises, ecological enterprises, and micro-enterprises and including them in the MIICSRDi. Thus, this study makes an important contribution in terms of what could be done to improve the strategy of the Islamic banking operation by taking into account the actual perceptions of employees and customers. In short, the MIICSRDi could assist both practitioners and regulators.

Besides, it is expected that the MIICSRDi will be useful to practitioners as it can be integrated with the VBI strategy (BNM, 2018a). As mentioned by BNM (2018a), VBI is one of BNM's strategies to rebrand the Islamic banking sector and to provide distinctiveness over conventional banks. One of the VBI approaches is to enhance disclosure and to provide a value-based scorecard. Specifically, the strategy to enhance disclosure will be backed by the KPIs, which means anything that has been disclosed by the Islamic banks will the backed by the KPIs. Currently, the VBI is still on a voluntary basis. Therefore, there is an opportunity to integrate the MIICSRDi with the VBI strategy, for example, by enhancing disclosure through the use of the MIICSRDi and by including the MIICSRDi in the value-based scorecard card. The integration of the MIICSRDi in the value-based scorecard could enhance the competitiveness and success of the Islamic banks, rebrand the Islamic banks, and provide distinction over the conventional banks.

Apart from this, the Islamic CSR framework will not increase Islamic banks' costs. In fact, the results show that the disclosure of the MIICSRDi in the annual report will increase the performance of Islamic banks. The *Quran* states that "*Indeed, the men who practise charity and the women who practise charity and [they who] have loaned Allah a goodly loan – it will be multiplied for them, and they will have a noble reward"* (57:18). Therefore, Islamic banks should not worry about the cost incurred as the *Quran* states that the more one gives to the community, the more one will gain. Platonova et al. (2016) suggested that a suitable CSR policy will enhance the capability of Islamic banks to handle possible negative news that the Islamic banks receive in the near future. Hence, the disclosure of CSR activities will safeguard the Islamic banks against unanticipated challenges and ensure that the Islamic banks are able to perform better (Platonova et al., 2016).

Islamic banks should also emphasise management and social reputation as they provide a mediating role in the relationship between perceived MIICSRDi and perceived financial performance. Particularly, Islamic banks should focus on maintaining their management reputation. This is because previous studies found that Islamic banks tend to imitate the conventional banking system (Khan, 2013), produce less innovative products (Smolo & Hasan, 2011), and provide less customer awareness regarding the Islamic products (Khan, 2015). Thus, it shows that reputation is essential in sustaining the operation of Islamic banks. Dusuki and Abdullah (2007) also revealed that the stakeholders perceived reputation as important for their selection of Islamic banks.

8.6 Limitations of the study

Despite the tremendous efforts and careful steps taken to ensure the study fulfils its procedures and requirements such as in the selection of the respondents and data analyses in developing the MIICSRDi and determining its influence on financial performance as well as the mediating role of corporate reputation as perceived by the stakeholders, this study cannot escape from certain limitations.

First, the measurements of the MIICSRDi, financial performance, and corporate reputation are based on "perceived MIICSRDi", "perceived financial performance", and "perceived corporate reputation". Thus, the responses represent what the respondents perceived would be facts, which may not necessarily imply their actual behaviour in facing such situations. However, the researcher has followed the sequence structure explained in Section 5.4 in order to eliminate bias. Furthermore, the analysis of outliers has been done to ensure the data are relevant (Subsection 7.3.2). In addition, the researcher has followed the research procedure and provided statistical control in order to reduce CMV (Subsection 7.3.5).

Besides, this study was conducted using a cross-sectional survey design and standardised questionnaire to obtain the data in a short period of time. This design is also known as a one-shot survey. Therefore, the answers provided by the respondents were without examining their perceptions over time through in-depth interviews. Thus, the results of this study might differ from other studies using mixed-method or longitudinal designs. Therefore, the results of this study need to be interpreted cautiously.

Furthermore, the MIICSRDi is developed and tested in the Malaysian culture only. Dimmock and Walker (2005) agreed that before adopting the theories in other cultures, the researchers must test the theories in their culture first.

8.7 Recommendations for further research

This section highlights issues that need to be tackled in future research to address the limitations discussed in Section 8.6.

First, since this study solely utilised the survey design and standardised questionnaires, the findings of the study are limited to statistical inferences. The reasons why such findings emerged are beyond the consideration of this study. Therefore, to answer the "why" questions, this study recommends that future research uses the mixed-method involving qualitative and quantitative approaches. This method would allow future researchers to answer the "why" questions arising from past studies, where the findings will be more accurate. In other words, future studies can interview the employees and customers of full-fledged Islamic banks and Islamic subsidiaries.

Besides, future research is recommended to test whether the MIICSRDi is applicable to Islamic banks in other countries. Therefore, the results of this study are useful to assist future research in establishing a valid and reliable Islamic CSR framework globally.

8.8 Conclusion

In summary, the findings of this study describe the perceived MIICSRDi that should be disclosed in the annual report and whether the selected MIICSRDi as perceived by the stakeholders (employees and customers) can enhance the business performance of Islamic banks in terms of corporate reputation and financial performance. Particularly, the MIICSRDi can be proposed to the Islamic banks in Malaysia. The MIICSRDi is a reflective model with 11 dimensions and 47 items that can be applied in the Islamic banking sector in Malaysia. In addition, the Islamic business operation and strategy dimension was found to be the strongest MIICSRDi dimension. It is also evident that based on the perceptions of stakeholders (employees and customers), the MIICSRDi would improve the financial performance of Islamic banks. Besides, corporate reputation is divided into two mediators, which are management reputation and social reputation. The stakeholders (employees and customers) perceived that management reputation has a higher partial mediation effect compared to social reputation. It is recommended that the mixed method (quantitative and qualitative) approach should be employed in future research. Also, the MIICSRDi should be integrated into the VBI strategy. Besides, the MIICSRDi should be tested and expanded to other Islamic banks in other countries. From the conclusion, as perceived by the stakeholders (employees and customers), CSRD can be used as one of the strategic tools to increase the performance of Islamic banks, which will, in turn, help the Malaysian government achieve its target of 40% financing share and market share for Islamic banks as well making Malaysia an international Islamic finance hub in 2020.

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LIST OF PUBLICATIONS AND PAPERS PRESENTED

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1) Mohd Sofian, F., N., R. & Muhamad, R. (2017). Corporate social responsibility and Islamic banks: The way forward. *International Journal of Economic Perspectives, 11*(3), 2074-2087.

2) Mohd Sofian, F. N. R., & Muhamad, R. (2019). The review of Islamic corporate social responsibility standard and literature: Future research for Malaysian Islamic banks. *Journal of Islamic, Social, Economics and Development (JISED), 4*(20), 24 -46.

3) Mohd Sofian, F. N. R., & Muhamad, R. (2020). Modified integrated Islamic CSRD index and financial performance of Malaysian Islamic banks: Stakeholders' perception. *Journal of Islamic Accounting and Business Researc*h, 1759-0817. Doi: 10.1108/JIABR-10-2018-0158

PUBLICATION IN BOOK CHAPTER

1) Mohd Sofian, F. N. R., & Muhammad, R. (2019). Corporate social responsibility practices in Islamic bank. In R. Muhamad & N. A. Mohd Salleh (Eds.), *Strategic corporate social responsibility in Malaysia* (pp.121-139). New York: Routledge.

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1) Mohd Sofian, F. N. R., & Muhammad, R. (2015). Corporate social responsibility (CSR) and Islamic banks: A synthesis of the literature review. 5th International Conference on Accounting Studies (ICAS, 2015) from 15-18 August 2015. http://icas.my/index.php/proceedings/5-icas-2016-proceedings.